

## **COMPARATIVE ANALYSIS OF FORMS OF CREDITS**

**Identify and analyzing other forms of credits in Sierra Leone: a case study on the position of PASACOF AAS microfinance scheme.**

**Thesis submitted in partial fulfillment for the award of the degree of Master of Science (MSc) at the Department of Social Science.**

**(July, 2008)**

**Rulle Bamie Turay**

**Supervisor: Dr. Paul Hebinck  
Chair group: Rural Development Sociology**

**Department of Social Sciences  
Wageningen Agricultural University & Research Center  
The Netherlands**

<b>Table of content</b>	<b>PAGES</b>
<b>Foreword.....</b>	<b>3</b>
<b>Acronyms.....</b>	<b>4</b>
<b>Tables.....</b>	<b>4</b>
<b>1 Brief description of research problem</b>	
<b>1.1 Introduction .....</b>	<b>5</b>
<b>1.2 Problem statement and relevance of this research.....</b>	<b>7</b>
<b>1.3 Concept.....</b>	<b>7</b>
<b>1.4 Problem definition .....</b>	<b>9</b>
<b>1.5 Research Issue .....</b>	<b>9</b>
<b>1.6 General research question.....</b>	<b>10</b>
<b>1.6.1 Sub-research questions.....</b>	<b>10</b>
<b>1.7 Conclusion.....</b>	<b>10</b>
<b>2. Research methodology</b>	
<b>2.1 Method of data collection.....</b>	<b>11</b>
<b>2.2 Area selection.....</b>	<b>12</b>
<b>2.3 Research Material.....</b>	<b>12</b>
<b>2.4 Limitations encountered.....</b>	<b>12</b>
<b>3 History of Microfinance and Informal credits in Sierra Leone</b>	
<b>3.1 Overview on history of credits in Sierra Leone.....</b>	<b>13</b>
<b>3.2 The country’s legal environment.....</b>	<b>16</b>
<b>3.3 Country’s microfinance Policy and Strategy.....</b>	<b>17</b>
<b>3.4 Semi-formal Sector and Programs.....</b>	<b>18</b>
<b>3.5 Opportunities and Constraints for Development of microfinance Sector in Sierra Leone.....</b>	<b>19</b>
<b>3.5.1 Opportunities.....</b>	<b>19</b>
<b>3.5.2 Constraints.....</b>	<b>19</b>
<b>3.6 Conclusion.....</b>	<b>21</b>
<b>4 Analysis of the credit Sector in rural Sierra Leone.....</b>	<b>21</b>
<b>4.1 Forms of credits in Sierra Leone.....</b>	<b>22</b>
<b>4.2 Evolutionary trends.....</b>	<b>28</b>
<b>4.3 Local monetization and institutional innovation.....</b>	<b>28</b>
<b>4.4 Linkage banking.....</b>	<b>30</b>
<b>4.5 Impact of Microfinance.....</b>	<b>31</b>
<b>4.6 Conclusion.....</b>	<b>33</b>

<b>5 Analyses of PASACOF AAS Organization</b>	
<b>5.1 Background of PASACOF AAS.....</b>	<b>34</b>
<b>5.2 Support provided to clients.....</b>	<b>34</b>
<b>5.3 Findings.....</b>	<b>35</b>
<b>5.3.1 Locals and project beneficiaries.....</b>	<b>36</b>
<b>5.3.2 Pasacofaas' clients Characteristics.....</b>	<b>37</b>
<b>5.3.3 Other source of income.....</b>	<b>38</b>
<b>5.3.4 Experience in micro-credit.....</b>	<b>38</b>
<b>5.4 Some cases in research area.....</b>	<b>39</b>
<b>5.5 Possible position for PASACOF AAS microfinance scheme.....</b>	<b>41</b>
<b>5.6 NGOs as promoters of good practices.....</b>	<b>43</b>
<b>5.7 Conclusion.....</b>	<b>43</b>
<b>6 Conclusions and recommendations based on lesson learnt</b>	
<b>6.1 Conclusions and Recommendations.....</b>	<b>45</b>
<b>Annex</b>	
<b>List of Persons Interviewed.....</b>	<b>51</b>
<b>List of documents &amp; reports consulted.....</b>	<b>51</b>
<b>References.....</b>	<b>52</b>

## **Foreword**

This thesis is inclined to scientific and local knowledge; I hope it leans on each lightly enough to remain accessible to the educated general reader, who may find the piece useful. Its central theme articulates scientific and local knowledge in sustainable microfinance management.

Combining the two bodies of knowledge, in finding solutions for problem of the kind investigated, may require further research, most of the arguments are straight forward enough not to necessitate their exposition to the rigor and technical apparatus which only academics can be expected to endure, let alone to enjoy.

The vastness of the subject and my somewhat unusual approach to it will ensure that specialist readers find many part of the reasoning, in need of elaboration, refinement or denial. This is all to the good, for even if I wanted to, I could not hide that my objective has been neither to provide a definitive statement nor to solicit the widest possible agreement.

I owe debts first to Associate Professor Dr. Paul Hebinck (Rural Development Sociology Group, Wageningen Agricultural University), for scrutinizing the major part of this thesis for logic, quality, consistency and clarity. It is not his fault if I persevered in some of my errors. Without his encouragement, this thesis would not have been completed. With out his advice and constructive criticisms, it would not have been as it is.

To my friends at the Baptist church in Deventer & Ede, and the Wageningen student Chaplaincy, colleagues working with PASACOF AAS, and the ministry of Trade and Industry in Sierra Leone, I couldn't imagine how best to thank them. I hope God will reward them for their kind assistance. I also commend the dynamic MAKS 22 group, especially those who gave thoughts on how to improve my research proposal before starting my thesis research; I wish you all good luck in your pursuits. I hope you will all stay well and please don't forget to stay in touch.

Expressions fall short to do justice to my feelings of gratitude to my dear wife Dorah Cecilia Turay, her passionate inspiration and love were very essential to the smooth completion of this work.

I LOVE YOU ALL

Rulle Bamie Turay

## **Acronyms**

**CBO** – Community Base Organizations  
**CCSL** – Council of Churches Sierra Leone  
**CIDA**– Canadian International Development Agency  
**FAO** – Food and Agricultural Organization  
**FSA**– Financial Service Associations  
**IFAD** – International Funds for Agricultural Development  
**IFI** – Informal Financial Institutions  
**LDC** – Least Developed Countries  
**MFI**– Microfinance institutions  
**MDG** – Millennium development goals  
**MODEP** – Ministry of Development and Economic Planning  
**MSE** – Micro and Small-scale Enterprises  
**NACSA**– National Commission for Social Change  
**NGO** – Non Governmental Organization  
**PASACOFAAS**- Pa Santigie Conteh Farmers Association  
**ROSCA**– Rotating Savings and Credit Associations  
**SAPAP**– Social Action and Poverty Alleviation  
**SHG** – Self-Help Groups  
**SRL** – sustainable rural livelihoods  
**UN** – United Nations  
**UNAMSIL** – United Nations Army Sierra Leone  
**UNDP** – United Nations Development Programs

## **Tables**

**Table 1: Illustrating the position of PASACOFAAS microfinance scheme**

**Table 2: Business undertaken by respondents**

## 1.1 Prologue

Chapter 1 is an overview of the research, with an introduction, a background to the research, the problem statement, research objective, and a main and sub-questions.

Chapter 2 is about the study design and data collection. The chapter explains how the data was collected, the research area and materials used, the structure of the thesis and an analysis of the limitation encountered.

Chapter 3 gives an investigation of the findings on the history of micro-credit in Sierra Leone with an overview on the country's legal and policy strategy, the opportunities and constraints for the development of the microfinance sector in Sierra Leone.

Chapter 4 deals with the forms of credits in Sierra Leone, with an examination of the country's informal credit sector, its evolutionary trends and the impact of microfinance in rural livelihood.

Chapter 5 gives an analysis of the organization PASACOFAS. An overview of the organization, support to local people in particular through its microfinance scheme, with some findings and case scenario with a possible position for the project's microfinance scheme.

Chapter 6 is the concluding chapter, of the findings with recommendations presented, based on lessons learnt, however much emphasis is on the problems and possibilities in the microfinance industry with regards to local people's livelihood.

Remarkably little attention is paid to savings and credit arrangements in livelihood studies, the little that has been done, is done in a biased way. Ellis (1998) for instance, displays a very limited understanding of finance, suggesting that microfinance institutions are the only meaningful providers of credit in Africa rural area, while Bryceson (2000) calling for attention to be paid on rotating credit groups (ROSCA's).

In this era of globalization, generating economic growth in developing countries while reducing poverty is a fundamental challenge. To ensure that the contribution of micro enterprises to key sub-sectors and national economies is maximized, and to ensure that the poor are not left out of market development, micro and small enterprises (MSEs) need access to finance, business services, and improved inputs; they also need a conducive enabling environment that facilitates rather than hold back their participation in markets.

The operational and financial sustainability of a microfinance institution (MFI) requires, among other things, a clear strategic vision and an organizational structure that is transparent, efficient and accepted by all the stakeholders involved. These key issues are grouped together under the concept of "governance". Governance, in the broad sense of the term, includes all stakeholders (local farmers, traders, employees, managers, elected officials, clients, donors, financial partners, shareholders, government agencies, etc.) and is not limited to the relationship between a MFI's board of directors and its managers.

The concept of governance and self-managed village savings and loan institutions is a primary concern at PASACOFAS organization, as the organization specialized in

development projects of an economic or financial nature. The microfinance scheme is formed to serve as a financial instrument for local people, specifically by playing a key role in the self development and self organization of the local population in the organization's operational coverage area. The underlying theory is that villagers can become less dependent on outside assistance and less vulnerable to economic contingencies by learning to rely more heavily on their savings capacity and their own management skills. As a result of the research area's low literacy rate, it proved difficult to identify individuals capable of managing the microfinance scheme; numerous training activities are required to transfer the skills.

However, significant advantages were found as local managers of the microfinance scheme agree to work as volunteers making personal contribution towards developing the livelihood of the local people. At PASACOF AAS, management committees are composed of 12 to 24 men and women, who represent all the affiliated groups to the organization. Selection criteria for the members of the management committees are trustworthiness, seriousness, and ability to work hard for/ in the interest of the local people. Members of the committee are rarely literate, but they are trained by the project to be able to read and write, monitor and control the activities of the scheme's management, and they regularly hold general meetings, members are elected for 2 to 3 years.

To benefit from the savings and the loan services offered by the microfinance scheme, local people must become members. This entails paying a membership fee, the amount of which varies by groups or individual capability and membership category. An inhabitant in the local community can become a member of the organization; also local people residing in the surrounding neighborhood are encouraged to join too, although there are some restrictions on the membership of those who live in the neighborhood.

Members' savings constitute the principal resource of the scheme. The credit amount to which an individual is entitled to does not depend on his or her personal savings. A member who has never deposited savings can obtain a loan, although typically he or she will eventually be asked to make an effort to generate savings after receiving the second or third loan. This rule improves access to credit for women, who generally have a low savings capacity than men due to lower income.

However, creditors request collateral for each loan and is generally in the form of radio set, nice cloths, jewelries, plantations, social group approval etc. most often the collateral holds no book value because, base on the age, the article may be already fully depreciated. However, the item has a certain market value, depending on how rare or useful it is, and it can easily be sold in the community in the event of a foreclosure. Moreover, a loss of item would have serious consequences for the owner or the groups. Cases were the social group is involved; the group members motivate the payment of the loan. The single most important factor motivating members to pay off their loans is not the physical collateral involved, but rather the social pressure applied by the group members in the community. The society is so thight that failure to pay back a loan is tantamount to theft from one's neighbors. Failing to pay off a loan would bring shame on the entire family.

Interest rates are sometimes set by the local people themselves, and are comparable to the rate applied by traditional self help groups in the area. They are well below the rates

charged by local credit providers such as, microfinance institutions and commercial banks. However the rate is higher than the one charged by families and friends. Due to the problems and constraints faced by the local people in securing credit, PASACOFASS wants to design a microfinance scheme that will take into consideration the pros and cons of other creditors and best position itself in a way that will benefit the local people and as well be able to sustain the scheme. This therefore makes the findings of this research interesting for PASACOFASS organization in particular and other microfinance institutions in Sierra Leone.

## **1.2 Problem statement and relevance of this research**

Sierra Leone has seen many years of under development since independence in 1961. The staggering 70% (SAPA paper 2003) rate of poverty in the country certainly sends devastating waves to researchers and operators of poverty alleviation schemes. In recent decades, development agencies, microfinance institutions and researchers have been putting a lot of emphasis in microfinance credits in Sierra Leone, with the aim of improving the rural livelihood of the local people. However, many of these efforts have not been very successful, probably because of lack of coordinated efforts between researchers, microfinance institutions, farmers, traders, local money lenders, non governmental organizations, government agencies and all other stakeholders in the microfinance sector, or because of lack of appropriate resources, to discover what is needed to solve poverty problems. These and some other reasons such as the role of rogue creditors, have resulted in the problem of adverse poverty, the continues financial extortion by rogue money lenders and traders is increasing poverty in the rural areas, instead of alleviating poverty.

PASACOFASS non governmental organization is one among the hundreds of local organizations operating in Sierra Leone, coming up with schemes like microfinance programs with the primary goal of alleviating the local people from poverty. However this has not proved to be working in the project operational area of PASACOFASS, as the scheme's participants are refraining from the scheme for other forms of credits, which they believed are with conditions favorable for them, as such loans most time do not have any political string attached to the loans, nor is client being committed or subjected to any rules and regulations besides that of repayment of the loan. Women in particular feel their position and activities been threaten in the society by financial institutions, sometimes even going to the extent interfering on the type of business a client must undertake, with too many meetings, workshop and other things to attend to as clients of the microfinance scheme, which most time is seen by some of the local people as inconvenient. It is in connection with these problems that I decided to investigate how PASACOFASS can best position its microfinance scheme in a sustainable way and at the same time prevent her clients from living the scheme.

The thesis research explores the views of local farmers, traders, other local concern stakeholders and the views of researchers in microfinance and local business management experts in other countries. The information will be useful for developing recommendations about how the improvement of microfinance for local people in Sierra Leone and PASACOFASS in particular can be attained.

## 1.3 Concept

### 1.3.1 Social Networking capital

The social network of a person depends on his or her opportunities to come in contact with other people as well as on personal qualities. Access to information is very important for people to sustain and enhance their livelihoods, but in the context of social capital “it is not what you know but who you know” (Woolcock and Narayan, 2000). Networking is important for obtaining a credit support from a NGO, despite possible objections raised by other members of the organization. Networking is also crucial for getting technical support from various government officials. Additionally, participation in seasonal migration and access to working for instance in most form of local business in order to satisfy household livelihood are made possible because of social network support.

Dominating the ongoing debates on microfinance are several differences (formal vs. informal finance, savings vs. credit, group vs. individual) that to a large extent also underpin the way microfinance projects are implemented in developing countries. Largely lacking, in contrast is the recognition that financial decisions do not take place in isolation, but are influenced by various socio-cultural, economic and ecological factors. In order to come at grips with the complex contexts in which financial decisions are made, we need to go beyond narrow disciplinary concepts and use integrated approaches instead (Hospes 1994).

Livelihood in this sense therefore encompasses not only making a living but also ways and styles of living (ibid.) which implied different relationships with others. This concept enables one to identify several categories within the same rural population with some what similar livelihood strategies. PASACOF AAS organization operates in the neighborhood of Freetown the capital city of Sierra Leone, the area is densely populated as the urban poor are shifting to the rural neighborhood area, this has been taking place since the implementation of the structural adjustment program, which resulted to a decline in real urban wages, culminating with the increase in urban population indeed amplified poverty with in city dwellers.

This new poor along side the borderline poor and the chronic poor, as Amis (1995) argues that the borderline or transitory poor dip in and out of poverty due to shocks and the household’s ability to cope with the shock. In this regard poverty is much more than income, in PASACOF AAS area of operation many families do not earn a regular income and their basic survival needs are met with more than just cash inputs. Livelihood being defined as the capabilities, assets including material and social resources and activities required for a means of living. A livelihood is considered to be sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the futures, while not undermining the natural resource base (Carney 1998).

Diversification is an important strategy for decreasing livelihood vulnerability or enhancing livelihood. People not only diversify or de-diversify their livelihood to cope with the adversity but also to maintain and enhance livelihood Niehof (2004). Barrett et al. (2001) noted that “diversification is widely understood as a form of self-insurance”. Ellis defines livelihood diversification as “a process by which rural families construct a diverse portfolio

of activities and social support capabilities in order to survive and to improve their standard of living” Ellis (1998). He concludes that diversification has an equalizing effect on rural economies (income and wealth) as well as the opposite effect; because there are different mechanisms involved Ellis, (2000).

Household and individual livelihood strategies might also be thought of in terms of access to different types of capital (Scoones, 1998; Bebbington, 1999). Income, expenditure and the experienced quality of life are all somehow implicit in the notion of livelihood. In their livelihood strategies, people make certain choices regarding the substitution between the different dimensions of poverty Bebbington (1999).

How people make livelihood choices depends on what development, poverty and livelihood mean to them, as well as the constraints under which they make their decisions and the power relations at play Bebbington (1999).

#### **1.4 Problem definition**

Both government and donor organizations sponsor microfinance services in Sierra Leone. Government channels its resources through NaCSA/SAPA, which in turn lends to NGOs/CBOs. These organizations then offer the services directly to the poor, who are expected to invest the loan amount in productive activities. This investment then produces revenue that the poor uses to repay the debt, and meet their own needs; thereby alleviating their own poverty. However, if the poor fail to invest, this will lead to indebtedness and more poverty, leading to clients living the project scheme, for other means that will help them satisfy their immediate livelihood needs, this is one among other effects happening with the clients of PASACOFAS.

The operational area of PASACOFAS is inhabited by people who were heavily affected during the civil war in the country. They happen to lose all they have during the war, therefore making it difficult for them to ignore satisfying their immediate needs such as repairing their homes, getting food for their family and settling down, for programs designed by project workers to be implemented and followed by the microfinance scheme clients / beneficiaries, this the local people perceive as forcing them to participate on programs they did not wish to partake in.

There is also the problem of political influence in the operations of the projects, as some of the funding is coming from the government therefore the network between government officials and the project officers must be cordial, therefore beneficiaries of the loan must be people who are supporters of the government. Women participants are with the notion that their freedom to undertake the type of business they wish is restricted by the organizations policy too.

The project scheme also has the problem of sustainability, as most of the clients perceived the loan money as grant, to help them resettle their lives after the long years of civil war. The heavy competition coming from other forms of local credits, which the local people had been practicing before the advent of microfinance schemes etc, is also threatening the position of PASACOFAS microfinance scheme. Therefore the project needs a solution on how it could best position itself in its operational area, in order for it to be trusted by the local people, genuinely contributing towards helping the local people alleviate themselves from poverty, and at the same time be sustainable.

## **1.5 Research Issue**

Designing long-term strategic plans that meet requirements and preferences for the microfinance institutions i.e. beneficiaries demand, and financial institutions requirements, by an in-depth analysis of the other forms of credits and the actual position of PASACOF AAS microfinance scheme.

### **Type of practice oriented research**

After an analysis the intervention cycle proposed by Verschuren & Dorewaard (2005), this study could be placed under the design phase due to its practical problem solving character. In other words, the goal is to set up a plan for intervention in order to reach a feasible solution to the problem. However, the actual situation will also be addressed and characterized as part of the study, as an outcome of the in-depth analysis.

## **1.6 General research question**

What is the perception of different actors about PASACOF AAS microfinance schemes and the other forms of credits, vis-à-vis the problems and constrains faced in the process of poverty alleviation in rural neighborhood of Freetown- Sierra Leone?

### **1.6.1 Sub-research questions:**

- How has the history of microfinance operations in Sierra Leone changed with respect to the economic, social and political trends?
- What are the different forms of credits for rural people in Sierra Leone and how can PASACOF AAS best position its microfinance scheme in order to be sustainable and at the same time benefit the local people?
- How do local people perceive PASACOF AAS microfinance scheme and the other forms of credits?
- How has microfinance development approach contributed in promoting the process of poverty alleviation in Sierra Leone?

## **1.8 Conclusion**

Credit capacity is the amount that any person, household, or other economic entity can borrow on a sustainable basis. Sustainable in this sense refers to the ability to service debt as envisage in the loan contract, with in an environment that rewards faithful adherence to debt contracts with the promise of continued access. Even though not all people wants to borrow all the time, however, most want to be able to borrow at any time. Taking this into consideration PASACOF AAS organization is committed in helping the local people in its operational area, with the help of international nongovernmental organization and the government of Sierra Leone, are working hard to create a sustainable, conducive and reliable microfinance credit scheme that will meet the demands and needs of the local people in the project operational area in particular, and Sierra Leone in general.

However, what ways and how these techniques can be best applied in achieving this aim is yet to be address, Therefore, making this research thesis relevant both for PASACOF AAS' microfinance scheme and other microfinance institutions policy makers in Sierra Leone.

## **2. Research methodology**

### **2.1 Method of data collection**

The research was focused on stakeholders involved in microfinance both at PASACOF AAS operational area in Sierra Leone and other countries in generating knowledge, transfer and utilization of knowledge in meeting local livelihood demand. This influence the type of questions and people interviewed both here in the Netherlands and Sierra Leone, who are the microfinance service providers and their customers in the informal and formal credits sectors.

I first wrote a letter to the director of PASACOF AAS, the ministry of trade and industry my friends and former colleagues at work about my intention, for them to help me carry out the research. They were all committed to the research and thus provided me with the assistance in collecting the primary and some secondary data in Sierra Leone. Various approaches were used by all those who assisted me during the data collection; these include interviewing, and administered the questionnaire in Sierra Leone. However, the bulk of the literature review which form part of the secondary data, the final analysis, interpretation and compilation of the findings was done by me.

The secondary data; was collected by undertaking an intensive search of documents, reviewing literatures from scientific journals, books, publications, websites, etc in libraries. Interviewing microfinance experts, visited Oikocredit foundation several times conducting interviews with staff members, also collect relevant information from some of the foundation's pamphlets. Friends and staff of the Institute for Social Studies at Den Haag were also helpful in assisting me with relevant materials related to micro financing. Library staff at the University van Amsterdam and a friend who is also from Sierra Leone studying at the university were indeed helpful in assisting me access relevant materials with information on micro financing from the university library.

PASACOF AAS documents and reports on its microfinance development scheme, with its problems and constraints of its credits scheme; together with my previous relevant work experience all of these had contributed during the documentation of this thesis.

As for the Primary data; a case study was used to collect the field data, by conducting a structured interview with the use of a questionnaire. A sample frame of 33 respondents 17 women and 16 men were involved. This was done in order to get information that enables the researcher in answering the research questions. In addition to the case study an interview with the management team of PASACOF AAS was also carried out to find out how they are supporting the local people and what new strategies could be used to support the microfinance scheme.

A purposive selection sampling technique was adopted in selecting the sampling frame so as to obtain reasonable representative data of the local people with very tiny business enterprise, farmers and including those that are not members of the project scheme but are

also undertaking business activities to satisfy their daily livelihood. Attention was paid to involve an equal representative of both women and men entrepreneurs and farmers in order to have an overview of the relevance of the microfinance scheme in their livelihood.

The questionnaire was pre-tested with four of the interviewers to make sure the right information was gathered.

## **2.2 Area selection**

The area Wellington is trapped in the semi urban-rural area of Freetown densely populated with low income earners and vulnerable population faced with inadequate supply of government facilities and structures e.g. poor water supply, electricity, road, housing etc.

The local people in this area are actively engaged in business (petty trading) and farming for their livelihood than paid jobs. The aspect of livelihood can be realized at the household level when women are empowered.

## **2.3 Research Material**

- Scientific literature (libraries)
- Interviews; this was focused on the collection of both primary and secondary data connected to the provision of microfinance at PASACOF AAS organization, local farmers, traders who are beneficiaries from the microfinance project and the local people living in the research area not connected to PASACOF AAS.
- Secondary data gathering from parties involved in micro financing, such as; Non governmental Organizations, the ministry of finance, trade and industry, banks and non-formal financial institutions, local money lenders, families, friends, beneficiaries or customers receiving loans that are local farmers and traders in particular, etc.

## **2.4 Limitations encountered**

The limitation to this study was I could not go to my country to collect data myself due to limitation of funds for traveling and other circumstances beyond my control. It is against this background that I assigned someone else to conduct the interviews on my behalf for the field study, while I had collected information from reports, previous researchers related to microfinance, other forms of credits and small scale enterprises.

Another limitation is there is not much information about the country Sierra Leone in relation to the research topic, since the country has just recovered from its ten years civil war from which the sector was devastated. Some of the available information is outdated. Therefore I made use of experiences from other countries.

Some very important information could not be got from a few of the interviewees because the environment for the interview was not conducive since some of the interviewees felt their positions were being challenged. Most of the data are secondary information due to travel constraints.

### **3 History of Microfinance and Informal credits in Sierra Leone**

#### **3.1 Overview on history of credits in Sierra Leone**

The population of Sierra Leone is estimated to be 6 million inhabitants, with an estimated 935,800 households. Estimates are that the informal sector accounts for at least two-thirds of the total labor force, and 70% of the urban labor force. More than half the population is under 20 years of age. Of the total population around 65 percent lives in rural areas. (Government of Sierra Leone, National Micro-Finance Policy, Draft, 2005)

Sierra Leone is composed of 20 ethnic groups, with Temne (30%), Mende (30%), Creole (10%) and Other (30%) making up the composition. The predominant religions are Muslim (60%), Christian (30%) and indigenous beliefs (10%). Although English is the official language, Krio serves as the lingua franca understood by 95 percent of the population. (Government of Sierra Leone, National Micro-Finance Policy, Draft, 2005)

Civil authority has been gradually restored throughout the country, after the ten year's civil war. Disarmament was completed in January 2002; the improved security situation provided through the support of UNAMSIL has facilitated the resumption of economic activities. Ten years of war resulted in a decline in social indicators putting Sierra Leone at the bottom of UNDP's Human Development Index. More than 80% of the population falls below the poverty line of \$1 per day. There is, however, renewed hope that enduring peace has returned. (Government of Sierra Leone, National Micro-Finance Policy, Draft, 2005)

In the past three decades, there has been a growing literature on informal credit in Africa James Curry (1995). Informal credit refers to loans in cash and kind provided outside the formal financial institutions such as banks. Credit in kind involved such items as rice, cassava, sweet potatoes etcetera. These studies have examined several factors, including the origins of informal credit, the different types of informal credit institutions such as the 'osusu' (rotating credit association), the social values that shape debt relations, the use of credit institutions to obtain money for consumption as well as for investments and capital accumulation.

However, the subject of how informal credit intersects with both local and national politics in Sierra Leone has received little treatment in studies on credits and banking in Sierra Leone. This study, therefore, examines this topic in Sierra Leone, which has a long history of indigenous entrepreneurship. The review examines the nature of credit in Sierra Leone, focusing on the different types of credit as well as religious role and kinship networks in credit activities. Also the interrelationship between informal credit and Sierra Leonean politics with a focus on the career of the religious businessmen-politicians Alhaji (title used by Muslim men who have made the pilgrimage to Mecca) James Curry (1995). For over three decades Alhajies, used informal credit to build broad, trans-ethnic client ties that contributed immensely to their successful national political career in post-independence Sierra Leone James Curry (1995). Credit has been an important aspect of Sierra Leone's economic, political, and social relations, especially the system of African economic history. Since the colonial period, formal credit has existed alongside informal credit in this West African country with a long history of entrepreneurship. British colonial rule, which lasted

for over a century in Sierra Leone, brought about a number of benefits, including an improvement in the economic environment through the introduction of modern banking, formal credit systems, and a uniformly accepted portable currency in both notes and coin, James Curry (1995).

In 1963, two years after Sierra Leone attained its independence from Britain, the Sierra Leone Parliament passed an Act establishing the Bank of Sierra Leone. The Bank is located in Freetown, the capital city of Sierra Leone. According to the Act, the Bank is the principal banker to the government, holding the government's main accounts and performing all the main banking and foreign exchange transactions of the government. In 1964 Parliament passed the Banking Act that provided for the regulation of banks and extended the central bank's powers of monetary control to allow for a closer contact with the banking system. Magbaily Fyle (1988).

The Bank of Sierra Leone supervises the country's banking system, controls, maintains and regulates the nation's money supply and foreign reserves. Since its founding, the Bank of Sierra Leone was headed by a British expatriate governor Gordon Hall. In 1966, a Sierra Leonean, S.B. Nicol-Cole, who had been Hall's deputy, became the first indigenous governor of the Bank. The deputy governor was another Sierra Leonean, Samuel L. Bangura. Both men were educated in Sierra Leone and in Britain, Magbaily Fyle (1988).

Formal credit in Sierra Leone was centered on private financial institutions, which include the Sierra Leone Commercial Bank, Barclays Bank, Standard Chartered Bank, the National Development Bank, and Union Trust Bank. Most of Sierra Leone's commercial banks are located in Freetown and a few major banks have branches in the Northern, Eastern, and Southern Provinces of the Sierra Leone interior. The commercial banks' activities include accepting money on deposit, operating current accounts for their customers, granting loans and advances, and dealing with foreign currencies, Sierra Leone trade journal (Freetown: Ministry of information and broadcasting).

In addition to the private banks, the Sierra Leone government also provided credit to the indigenous population to pursue commercial projects. For example, in 1961 the government set up Agricultural Credit Boards in the Northern, Eastern, and Southern Provinces, as well as the Western Area. The Boards were charged with the responsibility of reviewing applications from farmers and agricultural organizations for the provision of credit facilities and to advise the Director of Agriculture on the suitability of the applicant and on the technical feasibility and desirability of the proposed project, Martin Brownbridge and Charles Harvey (1998). Although general information is available on formal credit institutions and practices in Sierra Leone, compared to other West African countries like Ghana and Nigeria, more in-depth studies are needed to help us better understand this important sector of the Sierra Leone economy.

In general Sierra Leonean entrepreneurship is still concentrated in small-scale trading and that wholesale and retail trade was still largely in the hands of non-Sierra Leonean. The challenges facing the development of indigenous business included an educational tradition that did not encourage business as a profession among Sierra Leonean, inadequate business management training, and lack of capital. The need for governmental guarantees for

business against political uncertainties, an active and expanded role for the National Development Bank, promotion of business management training at the high school and tertiary levels, and governmental control of bribery and corruption needs improvement.

While formal credit was a key aspect of the Sierra Leone formal economy, informal credit was an integral part of the informal economy or "second economy." Cox- George N. (1969) The informal economy consists of activities that are unmeasured, unrecorded and, to some extent, outside the margins of the law. These activities deprived the state of revenue. Some of these activities break the laws; others are legitimate but are conducted in a manner that avoids taxation. Since the nineteen-eighties, the decline in the administrative capacity of the Sierra Leone state, the failure of the public sector, very low wages and salaries, and a widespread scarcity of goods have all contributed to the rapid expansion of the second economy in Sierra Leone, Cox- George N. (1969).

In this economy, entrepreneurs can trade without licenses, smuggle, evade the fees and taxes that raise the costs of legal commerce, grow crops for illegal trade, and produce goods and services to make more money than they can through the inadequate wages and salaries of formal sector employment, Cox- George N. (1969). Lack of foreign exchange in Sierra Leone is often remedied by the parallel money market, and credit is organized on the basis of mutual trust and cooperation. Personal ties form the underpinnings of Sierra Leonean entrepreneurial relations in the informal economy.

Studies of the informal economy in Sierra Leone document that it included various aspects of production and trade: agricultural goods, urban food preparation, various types of utensils, metal goods fabrication like charcoal braziers, tin lamps, machetes, axes, dress making and tailoring, services like auto repair and transportation in the push cart industry, Magbaily Fyle (1987).

Researchers determined that size was one determining factor of informal sector activities, which were usually on a smaller scale than formal sector ones. Such operations had relatively little access to formal sector capital and relied mainly on family or similar sources for venture capital. They sometimes depended on raw materials obtained cheaply or, in the case of some metal working informal sector production, acquired for free. Many were often family owned businesses, found operating from their own homes, in vacant or uncontested land areas or sometimes in meager rented spaces Magbaily Fyle (1987). Many informal sector enterprises involved operators hawking their wares, stopping temporarily to bargain and sell in unauthorized places and sometimes harassed by the police. Operations were highly labor intensive and depended on free family labor or unpaid apprentices for the bulk of that labor, Magbaily Fyle (1987).

One widespread form of informal credit that Sierra Leonean businessmen politicians capitalized on to create a broad network of political clients was rental credit, Magbaily Fyle (1987).

For many Sierra Leonean businessmen-politicians the value system underpinning informal credit was grounded in religious believes and kinship. These factors shaped not only their business transactions, but their entire social interaction. It was in the area of credit that trust based on Islamic faith was very important among Sierra Leonean Muslims, who made up about half the population of the country. Kinship networks were important in both commercial and political organization in Sierra Leone, Magbaily Fyle (1987).

There was widespread thinking that commercial decision-making regarding such issues as whom to give credit, the size of credit to customers, and where to invest business profits should be centralized and kept secret within the family or kinship group. It appears that many Sierra Leonean entrepreneurs did not grasp the need for decentralized decision-making as a means to ensure the responsiveness needed to compete in Sierra Leone's fast-changing markets. But the use of extensive family friends and kinship networks in Sierra Leonean business enterprises significantly reduced operating costs and increased profitability. For some businessmen-politicians, kinship ties dictated business alliances. But for others, political rivalry did prevent commercial cooperation in such areas as informal credit allocation, Akintola J.G. Wyse (1989).

For over three centuries, spanning the colonial and post-colonial periods, informal credit intersected with both local and national politics in Sierra Leone. Money lending and loans in kind such as rice, tubers or cattle were key issues in patron-client relations, which were common in the Sierra Leonean political landscape Akintola J.G. Wyse (1989). A patron or lender used his resources to create or sustain a group which provided in return political, economic, and domestic support. In chieftaincy or national elections, for example, clients might be expected to vote and help in canvassing among their ethnic groups. In fact, debt relations were at the core of Sierra Leone local politics. Merchants might use credit in their commercial networks to buttress their wealth and so extend their powers of patronage in business and politics. In agricultural communities, a patron might also make claims on clients' time when hiring labor for plowing a farm, Akintola J.G. Wyse (1989).

Sierra Leone has two indigenous financial mechanisms that provide access to credit. First, Osusu or rotating savings and credit associations (ROSCAs), are common throughout the country and serve as a mechanism for people to save for medical, bundu society, bride price, or school fees. Credit discipline is enforced by group members who may claim any part of a defaulter's assets. For example, members may cut a defaulter's rice at harvest. Given the low-income of most members, the amounts of funds mobilized by most ROSCAs are not sufficient to generate significant funds Gershon Collier (1970).

In addition, moneylenders are also found throughout the country, with the common terms of borrowing being a 2 for 1 system. Because borrowers often come for pressured reasons, paying a fine issued by the village chief, or during the hungry season, when they may borrow a bag of rice with 2 bags due at harvest, indebtedness can rapidly build. Repayment is also strongly enforced.

### **3.2 The country's legal environment**

The Government embarked on a comprehensive economic reform program in 1992. The structural reforms undertaken during 1992-97 focused generally on reducing the Government's role in the economy and improving the environment for the private sector. Financial sector reforms were a key component of these reforms. The reforms implemented in the financial sector included the liberalization of interest rates and the elimination of directed credits and credit ceilings. Direct controls were also replaced with indirect market-based instruments of monetary control.

The Bank of Sierra Leone Act and the Banking Acts were revised in 2000. The Other Financial Institutions Act designed to strengthen the Bank of Sierra Leone supervisory authority, over non-bank financial institutions was introduced in 2001. New banking regulations were also introduced and all banks are now required to maintain a capital adequacy ratio of 15 percent. The Bank of Sierra Leone is reviewing with the commercial banks, the possibility of setting up a Credit Bureau to improve the flow of information on current and potential bank customers (Government of Sierra Leone, National Microfinance Policy November, 2002).

### **3.3 Country's microfinance Policy and Strategy**

The Government's National Recovery Strategy (2002-03) includes microfinance as one of the four key areas of intervention for restoration of the economy, given that the 'country's large informal economy has the potential to absorb huge numbers of the working population (National Recovery Strategy, Sierra Leone, 2002-2003). The Interim Poverty Reduction Strategy Paper stresses the importance of promoting micro-enterprises, and the extension of microfinance and banking services within the context of developing the private sector to stimulate recovery and growth (Interim Poverty Reduction Strategy Paper, June 2001).

A Government Task Force developed a National Microfinance Policy that was discussed at a National Workshop during 19-20 September 2002, and subsequently approved by Cabinet (Ministry of Development and Economic Planning). The policy states that the past lack of guidelines has led to a tendency of 'undermining good initiatives in the sector', and acknowledges that the Government will therefore disengage from any direct involvement in the provision of micro-credit. It is thus necessary to clearly define the country's vision for the sector, and how it could 'be integrated within the mainstream national economy.'

The stated vision of the policy is: "To develop and integrate micro-finance into the broader financial system and facilitate the provision of viable and sustainable microfinance services to low income Sierra Leonean in a transparent and accountable manner for meaningful productive activities and thereby contribute to economic growth and reduce poverty." (Sierra Leone, National Microfinance Policy, November, 2002)

The policy describes the following key principles':

- Disciplined management;
- Transparency, with donors, government, clients and public having the right to know status;
- Reporting and accountability, with regular operational, financial and audit reports;
- Pricing, with MFIs free to set prices reflecting the prevailing market conditions and their internal costs;
- Delinquency control, capability for timely and full loan repayment;
- Appropriate techniques and products, a variety of collateral substitutes and repayment incentives can be used;
- Gender consideration, enabling the participation of women;
- Governance, sound structures suitable to the institutional type, and largely free from government and political interference.

The strategies to realize these objectives include:

- Market oriented financial and credit policy conducive for broadening and deepening of micro-financial services for effective and efficient functioning of the financial market;
- Establishment of a legal framework that promotes increased intermediation;
- Developing national capacity for sound policy review, program design, implementation, management, supervision and monitoring;
- Coordinating activities in the microfinance sector in order to avoid duplication and over-subscription and enhance fair distribution of microfinance resources available in the country (Government of Sierra Leone, National Microfinance Policy November, 2002).

The present legal and regulatory environment does not seem to pose any major constraints for the development of the microfinance sector for the coming years. The policy provides a sound initial framework within which microfinance can develop in Sierra Leone. The policy has been approved by Cabinet and is now considered operational. Implementation of the policy will require support, including reviewing current legislation, as well as amendments needed as the microfinance sector develops, and further constraints are identified. A Microfinance Coordinating Committee has been established as a successor of the Task Force, to monitor and operationalize the policy.

### **3.4 Semi-formal Sector and Programs**

The background of microfinance operations in Sierra Leone is typical of a country that has only recently come out of a long term conflict, and comparable to post conflict situations in for instance Mozambique, Angola and Cambodia. The present capacity is basic while none of the operations are yet sustainable. The outreach of microfinance is still limited.

A shift has been made recently from a relief orientation towards a business like orientation with a focus on sustainability. This shift has been accelerated by the microfinance policy that has been approved by the Government. There are around 50 to 60 microfinance NGOs, projects and programs in Sierra Leone.

Most of these microfinance operations are very small and weak with an outreach of less than 200,000 clients. The operations with the relatively highest outreach are managed by Social Action and Poverty Alleviation (SAPA), World Hope International.

Since the Sierra Leone economy is marked by the high incidence of the informal sector, the Government has identified the provision of micro-finance services to the poor, especially women, as a key mechanism to help reduce poverty. The provision of financial services (savings, insurance, loans) to low-income households is aimed at enabling them acquire capital, improve their livelihoods and generate informal sector employment. Micro financing is also regarded as a way of promoting employment and private sector development, thus having an important impact on the local and national economy.

The Government recognized that the informal sector plays a key role in economic growth and development in the country. As a result, government has identified micro finance as a key policy tool to stimulate informal sector development in order to alleviate poverty both at the rural and urban levels (Government of Sierra Leone, National Micro-Finance Policy, Draft, 2005).

The microfinance sector in Sierra Leone, on the other hand, is at a very emerging stage. This sector is composed of a mix of projects run by international NGOs with limited (but growing) expertise in microfinance, national NGOs that only recently focused on microfinance, and other organizations with limited experiences. The volume of the present supply of financial services to micro and small businesses services is less than 25 percent of the potential customers and less than 10 percent of the potential volume of demand. It is estimated that development of the microfinance sector and downscaling of the commercial banks, which would result in developing an inclusive financial sector, would have a direct impact on at least 20 percent of the total population in terms of income and employment generation in a sustainable manner Martin Kilson (1970).

### **3.5 Opportunities and Constraints for Development of Microfinance Sector in Sierra Leone**

#### **3.5.1 Opportunities**

##### **High unmet demand**

The potential demand is high in Sierra Leone. Entrepreneurial activities are wide spread and microfinance has been an inherent part of the Sierra Leone local culture through widespread ROSCA's and traditional money lenders.

##### **Supportive government**

Poverty alleviation, private sector development and employment generation are high priorities for the Government. The Government has decided to focus its support on establishing an enabling environment for the development of a financial sector that also provides access to financial services for the poor and low-income people. For this purpose, the Government has recently adopted a national policy on microfinance. This policy provides a framework which is conducive for the development of the microfinance sector and its integration into the commercial financial sector. The Government has decided to refrain from engaging in retail microfinance.

##### **Liberalized financial system**

The legal and regulatory framework is conducive for a microfinance industry to emerge and expand. Microfinance operators are allowed to operate under different legal forms. It is, for instance, not complicated to establish microfinance NGO. Collection of cash collateral from clients is allowed. Interest rates are liberalized. The Bank of Sierra Leone is supportive of developing an inclusive commercial financial system.

#### **3.5.2 Constraints**

Absence of leaders that demonstrate that microfinance is commercially viable, at present, none of the microfinance operators are commercially viable. Virtually all operators use product methodologies developed in other countries which are not yet fully adapted to the market realities of Sierra Leone. International experience shows that the emergence of market leaders that demonstrate commercial viability and substantial scale is essential for a rapid expansion of the microfinance sector. These leaders function as role models for peers

by having demonstrated that customers at the lower end of the market are bankable. At present such leaders have not yet emerged in Sierra Leone.

A major constraint is the lack of funding needed by microfinance operators to professionalize and expand their operations. Only SAPA and a few other minor donors provide limited funding. Most of these donors have not yet adapted their policies in line with the national policy on microfinance as recently approved by the Government. Most major donors have concentrated their programs on relief, rehabilitation and reintegration. Microfinance operators need financing for expansion, infrastructure and capacity building in order to be able to reach sustainability.

In the start-up and emerging phase, donors often provide grants and soft loans to help build the capacity of microfinance operations. Investment in the start-up phase is normally more risky than in later phases because of the absence of microfinance institutions that have a proven track record to be able to successfully target the lower segments of the market.

### **Capacity of operators and support infrastructure is limited**

As is common in the start-up phase of the development of the microfinance sector, the institutional, managerial, technical and financial capacities of all operators are at the early stages of development. The present capacity of operators is insufficient to allow for a considerable expansion of their operations. The Boards of virtually all operators have limited familiarity with microfinance. Virtually all staff have had limited exposure to operations of professional MFIs. In addition the supportive infrastructure for microfinance is weak at present. In addition, the capacity in microfinance is limited with most (potential) stakeholders. Capacity building of institutions and individuals in the sector is by far the most pressing and needed intervention given the developmental stage of the sector.

### **Coordination among stakeholders is limited**

Despite the limited number of donors, the lack of coordination is perceived as a constraint. Some donors do not adhere to internationally accepted best practices in microfinance by setting interest rate ceilings, providing highly subsidized interest rates and by exclusively targeting customers with predefined common characteristics.

At present there is no professional and permanent focal unit for microfinance in the Bank of Sierra Leone to ensure inclusive financial sector development. A lack of standards and transparency also hampers coordination.

Absence of regulation to integrate microfinance in the financial system

Given the early stages of the development of the microfinance sector, this is not an immediate constraint.

However, over time when the microfinance sector matures, it is important that regulations are formulated that stipulate the prudential and licensing requirements. These regulations would take into account the unique characteristics of microfinance and would allow further integration of the microfinance sector into the commercial and regulated financial sector.

### **High expectations**

Many stakeholders viewed as a potential constraint the high expectations at government level with respect to a rapid expansion of microfinance. Clearly time is needed for the sector to build the capacity to be able to expand in a sustainable manner. Some perceived a

risk that, if donors would not engage in supporting microfinance, political pressures could force the government to re-engage in microfinance, given the high priority of microfinance on the government agenda. Such development would not be (National Policy of the Government of Sierra Leone), in line with the present national policy on microfinance and would not be conducive for the development of a sustainable microfinance sector.

### **3.6 Conclusion**

Recognizing the fact that poor farmers have the weakest access to formal credit and obtain most credit through the informal market at much higher interest rates than those offered in the inaccessible formal sector and in accordance with the government's Poverty Alleviation Program, credit schemes targeting poor farmers should be catered for by formal domestic institutions. Of importance are the Commercial Banks credit schemes for the poor and the Poverty Alleviation Program of the government which is implemented through NaCSA. Since a local moneylender who lives in the same area and does a small business in the neighborhood is willing to lend poor people with/without interest, and has a very simple procedure: no collateral and only verbal agreement, hence the transactions costs are zero. Therefore, such people should be encouraged in their communities and somehow regulated to provide more funds to the poor.

There is evidence that combined delivery does not only result in significantly higher income for the clients but that it may also be possible to cover the cost of the credit from client fees. This suggests that the financial sustainability of linked approaches may not be as difficult to achieve as has often been assumed. Indeed, there are important synergies that can arise from linking services.

## **4 Analysis of the credit sector in rural Sierra Leone**

### **Overview**

Under central planning, informal financial markets in Sierra Leone were repressed and information on them was very scant. The financial liberalization in 1989 contributed to a resurgence and growth of informal financial markets. Recent studies have revealed the fact that the informal sector provides the bulk of financial intermediation.

In the Sierra Leone context, there are four types of major informal financial participation:

- Mutual lending among family members, relatives, friends and neighbors.
- Formation of self-help groups such as the one organized with the help of a NGO and/or a formal credit institution, operating in the link with that institution, and one organized by the participants themselves and operating as a rotating savings and credit association- ROSCA.
- Money lenders
- Credit buying traders

Traders in Sierra Leone can either be private or a service group in cooperatives. A trader can work both as a specialized one and a local moneylender.

The Ministry of Agriculture and Food Security's Agriculture Survey (2004), covering the entire country, between 68 and 94 percent of farm household received credit from informal sources, averaging 68.3 per cent during the preceding year. The Income and Expenditure Survey 1989/90 provides evidence of reliance of rural household on informal market: about 73 percent of the total loans of households were obtained from informal sources of which moneylenders accounted for 33 per cent while friends and relatives accounted for 40 per cent of total loans.

In a recent field work done in Lunsar, Port Loko District, it has been found that only 7 percent of the total household in the township have taken loans from the Rural Bank in Lunsar; 60 per cent from informal sources and 17 percent have been non-borrowers during the last 12 months. The survey in Lunsar indicates that total 28 household surveyed has undertaken 68 credit transactions of which 10 per cent from the Rural Bank, 22 per cent from relatives and friends and 50.1 per cent from moneylenders and traders, Sierra Leone trade journal (2005) (Freetown: Ministry of information and broadcasting).

It was also discovered that all funds in the informal market are locally mobilized and it is very hard to measure how much credit funds is mobilized. In addition, it has been revealed that many large loans (up to Le 2.5 mil) from the Rural Bank were used by traders to advance for goods bought for resale and rent.

Sierra Leone trade journal (2005) (Freetown: Ministry of information and broadcasting).

#### **4.1 Forms of local credits in Sierra Leone**

##### **NGO credit**

Initially, NGOs started working with men and later included women in their programs. As NGOs found women more committed than men, they shifted their focus and started to solely target women, which is the situation at present.

NGOs provide collateral-free loans through village-based organizations, using group cohesion as collateral for borrowing. When NGOs start their microfinance program they form a village organization of clients as members. The criteria for selecting clients differ from one NGO to another. Weekly savings are obligatory. The NGOs disburse the first loan to members after certain duration of membership. This period and the size of the first loan vary from one NGO to another. Every village organization has a group leader, who plays a key role in the disbursement process. To get a loan, every member needs the support from the leader and other members. They are held responsible for nominating the borrower for a loan in case the latter defaults. Many members cannot borrow when their economic status declines as the group leader and members do not forward them for credit, even if they had taken several loans before and have a good record of paying them back.

NGOs provide credit and training to clients for employment and income generation. Local client's access to credit and involvement in income generation activities has led to their enhanced social mobility, empowered them politically and increased legal awareness (Hashemi et al., 1996), and providing them with the ability to make decisions concerning their own future economic improvement ( Zaman, 1999). Pitt and Khandker (1998) also

found that increased income among borrowers resulted in increased household consumption and child education.

Karim (2001) reported on the intimidation of borrowers and an increase in violence against women due to repayment pressure. Poor women do report how harassment by NGO workers upon delayed or non-payment of installments forced them to give up their NGO membership. It was observed by Karim's report that men use the credit money but do not take any responsibility in the loan repayment, resulting in the women being harassed by the NGO workers.

NGOs in recent years have started requiring that men countersign (either the husband or son) when credit is disbursed to women, as we also observed, so that women do not bear the sole responsibility of the loan Rozario (2002). This gives a sense mutual obligation to men for the repayment of the loans and a sense of security for the women.

Women's involvement with NGOs gives them mobility and honor in the household, although men vigorously objected at the beginning. This anti-NGO sentiment has declined since men have found their women's involvement with NGOs to be their benefit.

### **Kin**

Kinship occupies a key position in support provision. The husband's family is more important than the wife's family in this respect, but the role of the latter cannot be ignored. The father, mother, brothers, and brothers' wives are the most important sources of support. In the past it was an obligation for parents and brothers to support their sons and brothers in sustaining their livelihood. Though this obligation is not as strong as it used to be, it is still acknowledged. The supporting role of sisters and their husbands as well as grandparents comes second, that of uncles of the husband, cousins and other in-laws third. Paternal and maternal uncles also play a crucial role in marrying off their nephews. Because of the importance of kinship relations, most people try to build their house next to that of kin or at least within the same area. However, this practice is in decline because of lack of space and physical constraints.

Support from the wife's family is especially important during the initial years of marriage and it recedes with time. The economic status of the wife's family and the physical distance between the wife's parental place of residence and that of the husband's play a crucial role in determining the amount of support. It is obligatory for a woman's family of origin to help their daughter settle in upon marriage. Support of divorced or deserted women and widows by parents, brothers, and uncles is a cultural obligation. It is also quite common for orphaned children to be raised by their maternal grandparents. In such cases, women will demand their share of the parental property that had been appropriated by their brothers. Brothers may enjoy their sisters' share to help sustain their own families but are expected to provide wholehearted support to their sister if she is in need. This gives women a sense of security.

Women in the past rarely opted to claim their share from their brothers, but nowadays they are increasingly demanding their share, which may cause a deterioration of the relationship with their brother(s). The different case studies and life histories testify to the importance

of the claim women have on their parents' property, whether these claims are cashed in or not.

Kinship relations are important for borrowing food and money, and most importantly, for seeking advice and coping with adversity. However, disputes among kin over property inheritance are also common, leading to deteriorating relationships between brothers and sisters and brothers and uncles. Such conflicts may extend to the next generation. This is a case of social capital turning sour. In the past, marriages between relatives were common, but this is now less so.

### **Neighbors**

Most of the households within research area were once related through kinship, but because of lack of space and migration people now build houses in new areas and have to live with people who are not kin. The cases studied reveal that neighbors play a crucial role in the support system. There is some divergence in the importance attached to kin versus neighbors with respect to support. Kin are more important to some while neighbors are more important to others. This varies from person to person and depends on the relationship with the neighbors and with the kin group. In situations where the relationship with the kin group is disturbed, neighbors really matter.

People try to maintain good relations because of religious as well as social obligations. Still, disputes arise with neighbors, especially about borders. This can cause complicated situations. Sometimes a person is barred from walking past the neighbor's house. People mostly borrow food and usable goods from their neighbors, and borrowing small amounts of money is also common. When poor households have exhausted the support from their kin because of regular borrowing from them, neighbors may fill the gap.

### **Rotating Savings and Credit Associations**

Rotating Savings and Credit Associations (ROSCAs) are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. Thus, a member will lend money to other members through his regular monthly contributions. After having received the lump sum amount when it is his turn (i.e. borrowed from the group), he then pays back the amount in regular/further monthly contributions. This explains the name rotating savings and credit associations for such groups, Bouman (1979). Depending on the cycle in which a member receives his/her lump sum, members alternate between being lenders and borrowers. That is, there is a mutual give-and-take involved in ROSCAs.

While the above description explains the principles behind a ROSCA, they however vary considerably in their functioning and organization. Typical variations include:

#### ***Membership:***

Members participating in a ROSCA are selected by the organizer based on ethnic lines or geographical limitations. ROSCAs are organized for members of the same ethnic background, same place of origin, same native language speaking persons etc. It may also be organized on the basis of a street in a settlement, or the settlement as a whole.

***Contribution amount:***

The amount to be contributed in each cycle is decided based on the number of participating members, the total winning amount that each member can get, and other socio-economic factors. Contributions can also be in the form of shares thus allowing a member to have more than one share or contribution in a particular cycle - increasing his chances of winning the lump sum, but also increasing the regular contributions he has to make.

***Cycle period:***

Cycle periods - frequency with which contributions has to be made in each cycle. This can be daily, weekly, biweekly, monthly and half-yearly, depending on the amount to be contributed, usually the smaller the amount, shorter the cycle period.

***Mode of selecting winner***

The basis of deciding the winner of the lump sum is decided in any one of three ways:

- Consensus, where by common agreement between members, the amount is usually given to a member who is in most need for finance.
- Lots, where a lottery determines who gets the lump sum in a particular cycle. Members who have received the lump sum do not participate in subsequent lotteries, but continue to make their contributions.
- Bidding, where the lump sum amount is bid for by the members during each cycle, thus the member who wins the bid will receive the lump sum minus the bid amount; other members pay their contributions minus their share of the bid amount.

ROSCAs can be seen in almost every society around the world, and have been in existence for a considerable period of time. They are flexible and adapt themselves easily to rural and urban peculiarities as well as existing community patterns of grouping/organizing. This flexibility is one reason for their worldwide popularity.

**Advantages of ROSCAs**

The basic advantage of the ROSCA is that it offers an opportunity for members to save, and at the same time keep such savings fairly liquid and maximizing return.

It facilitates the availability of a lump sum of money, which allows for higher investment to be made earlier than accumulation of savings.

Most ROSCAs are organized along democratic lines, where operating procedures and other details are decided/ agreed upon by its members.

Profits (in the form of bid amounts, for example) and other returns on accumulated contributions are equally distributed to all members.

Risk of default is shared by all members and therefore sets up peer pressure to ensure that all members make their contributions on time (Bouman, 1979 Geertz, 1962).

**Disadvantages of ROSCAs**

There is a risk of mismanagement, fraud and bankruptcy by the organizer where he absconds with the accumulated contributions.

Timing of the receipt of funds by a member may not necessarily coincide with his need for finance.

The cyclical timing also applies to savings, where a member cannot save when he has surplus funds, but has to wait for the ROSCA meetings.

### **Key Implications of ROSCAs:**

The ROSCA provides a means for the utilization of surplus funds and savings of low income households an easy and local savings mechanism.

The ROSCA employs democratic (in most types) to decide the organizational and operational aspects, and thus encourages community interaction, involvement of community in interaction and participation.

It respects existing community leadership patterns and decision making processes, use of community patterns in designing savings and credit programmes.

### **Pawn Brokers**

Pawn brokers, as the name suggests, lend money by using marketable assets such as gold, jewelry, household articles etc as collateral or security. Borrowers in need of money pawn an asset or article as security or pledge and receive a loan which is lower in proportion to the value of the pawned article this is usually 40 to 50 percent of the value of the item.

A pawn ticket is issued to the borrower as a transaction record. On repayment of the loan plus interest, the pawned article is returned to the borrower. The pawn ticket usually records name and address of the pawn broker and the borrower, loan amount and its terms and conditions, detailed description of the pawned article etc.

Pawn broking has been in vogue from ancient times with households holding their assets primarily in gold and jewelry assets that can be transported easily in times of unrest and pawned in times of financial need. Thus pawn broking has its attractive points for the lender (the pawn broker) as well as the borrower (the pledger or pawner). The pledger sells his pawn for a certain sum below the going (appraised) market value and retains the right to buy it back within a specified time by returning the original sum plus interest. If he does not, he will lose his property, but no further debt exists and hence no ever-ending debts load.

### **Advantages of pawn brokers**

No spiraling debt cycle is created by loans from pawn brokers as a defaulting loan is recovered by the pawn broker from the pawned item costs of lending is covered by providing loans that are lower than the cost of the pawned item. Collateralized/ pawned item is usually a movable asset, as against immovable/fixed assets such as land, houses etc. Lengthy procedure for establishing credit worthiness is avoided as it is established by the value of assets pawned.

### **Disadvantages of pawn brokers**

If for some reason, the borrower is unable to repay the loan amount, he loses his right to redeem his pawned article. This is a loss, since the amount he received as a loan is less than the value of the article pawned. Pawn Brokers auction or sell off articles that are not redeemed by the borrowers and usually make a profit from the sale, which is not passed on to the article's original owner/ borrower.

### **Key Implications of Pawn Brokers:**

While establishing credit worthiness of a borrower, in absence of viable information, and a steady income, alternate means of collateralizing may have to be used in special cases. This in effect further reduces transaction costs of loans as the costs of assembling information is eliminated, alternate types of collateral used for guarantees, including recommendations. Loan transaction methodologies have to take into account existing patterns of asset creation among low income households assets based on income cycles, long term savings plans etcetera (Bouman, 1988 GoK, 1962, Newsweek, 1985).

### **Friends and Relatives as Credit Suppliers**

The studies reveal that the support of friends is especially important in a situation of adversity when friends provide both moral and monetary support. They are also important for getting a job or work. When people leave the area for seasonal migration they mostly do so with friends.

Friends and relatives as lenders and borrowers represent the simplest form of an informal credit transaction. An individual in need of finance approaches a friend or relative and requests for funds. The fact that both lender and borrower are well known to each other dispenses the need for most, if not all, traditional terms and conditions for a transaction: ensuring repayability or credit worthiness, fixed and predetermined repayment amounts and schedules, collateral and guarantees etc. Such lenders are of course, single individual who provide loans on a need-based manner. Credit given by them is loosely transacted on a one-to-one basis, without the involvement of any third parties. It is considered a favor made for a future reciprocation. There is close physical/ psychological proximity between the lender and borrower.

### **Advantages of friends and relatives**

Terms and conditions imposed on the borrower are very few, if none at all usually with no interest payments or regular repayment schedules and transaction records are not made. While loans from friends and relatives imply an obligation, it is aligned along traditional community links and personal networks.

### **Disadvantages of friends, relatives and neighbors**

The supply of loans is irregular and not always available. That is, only when surplus funds are available with the individual or only when requested by a close friend/relative/neighbor, is the loan made.

### **Key Implications of friends and relatives**

Simple terms and conditions that are understood by both lender and borrower reduced paperwork, less procedural needs for establishing credit worthiness etc.

Respect for existing community linkages, organizing patterns and networks in designing savings and credit programmes. This includes incorporating existing personal information and knowledge available at the community level into such programs.

## **4.2 Evolutionary trends**

From labor to credit, substantial changes have occurred in recent decades. Although with no predetermined pattern, these changes have tended to be in the following directions:

- From labor, kind or premonitory currency, to cash,
- From non-financial to financial groups,
- From rotating to non-rotating patterns,
- From short-lived to permanent groups,
- From savings only to savings-driven credit.

Groups and processes of change have been open and flexible, adapting to varying circumstances, as appropriate. For example, in a first phase, a rotating work group may offer its services for a wage and allocate the total to one member at a time.

In a second phase, it may abandon the rotating pattern by keeping the income in a joint savings fund for emergencies, joint activities or distribution at the end of the year.

In a third phase, it may turn itself into a credit association, using the savings as a permanent fund for providing loans to members.

In a fourth phase, as the financial volume increases, the lending becomes commercialized as indicated by high interest rates and insistence on collateral. In this phase, income interest payments become the main form of internal savings mobilization, (Seibel & Massing 1974), a term which at best evoked the interest of anthropologists.

During the 1970s, technical assistance agencies rediscovered these organizations under an old name used by Raiffeisen a hundred years earlier, self-help groups (Seibel & Damachi 1982). In the mid-1980s, they changed into informal financial institutions (Seibel & Marx 1987). Finally, in 1990, inspired by the 1989 World Bank Conference on Micro-enterprises, this new term reflects the fact that it becomes increasingly difficult to clearly distinguish between formal and non-formal origins and practices Seibel (1996).

## **4.3 Local monetization and institutional innovation**

The most important innovation has been the evolution from a non-rotating group saving in labor, livestock, commodities, and pre-monetary means of payment or hard cash to a non-rotating credit institution which mobilizes its own savings for the purpose of building up a credit fund. In Sierra Leone, Liberia, etc. for example, this process started with the opening of the Firestone plantations in the 1930s and reached virtually all ethnic groups towards the end of the 1960s (Seibel 1970; Seibel & Massing 1974). The single most important factor which led to the emergence of IFIs, their transformation into non-rotating microfinance institutions and their continuous growth, appears to have been the monetization of a local economy. In severely under monetized economies, as, for example, in rural Laos (Kunkel & Seibel 1997), IFIs are virtually absent.

### **Daily deposit collection**

Institutional innovation also pertains to the local emergence of entirely new informal financial institutions. Daily deposit collection is a financial institution on West African markets and one can trace this back to about fifty years ago. It is called ajo among the

Yoruba of Nigeria, anago Susu in Ghana, nago in Ivory Coast, nago or anago in Nigerian, yes in Southern Togo, jojuma among the Kotokoli in central Togo. The deposit collector may serve anything between 200 and 600 clients a day (Seibel & Marx 1987).

From each he collects a fixed amount which is then registered on a printed card. By the end of the month he returns the total, keeping the amount of one daily deposit as a collector's fee. The efficiency of the anago osusu is far beyond the possibilities of even the most advanced modern bank.

In the mid 1980s, the deposit collectors in Accra formed the Greater Accra Susu Collectors Association, which was registered and planned to set up its own bank, but the authorities were not favorable (Seibel & Marx 1987). Today the Ghana Cooperative osusu Collectors Association, with over 397 members out of an estimated total of 1040 osusu collectors, covers all of Ghana (Seibel & Marx 1987).

**Financial Service Associations (FSAs):** an option pioneered by IFAD

The concept and development of Financial Service Associations (FSAs) are an IFAD innovations built on the principles of indigenous non-rotating savings and credit associations: proximity, local financial intermediation, ownership and self-management by the poor, self-reliance, and sustainability.

With a view to promoting cost-effective delivery of financial services at the village level in areas devoid of banking facilities, IFAD first introduced this model in the Republic of South Africa in 1994, followed by the Republic of Congo in 1996, and in the Republics of Guinea and Benin in 1997 (The World Bank & IFAD 2000, Working Paper).

The FSA model avoids use of external funds by mobilizing local savings in the form of equity and transforming them into small loans to shareholders for quick turnaround activities. The salient features of the FSA model are as follows (The World Bank & IFAD 2000, Working Paper):

- Proximity; An FSA is a joint stock company with a variable capital that is owned and operated by shareholders, who are local residents.
- Savings; Mobilization of local savings is as equity or stock, rather than demand deposits. Local resource accumulation and security of savings are major incentives for buying shares.
- Accounting; Record keeping, including the annual closing of accounts, is done locally by the FSA itself. Accounting and administrative procedures are simplified and transparent and are based on local practices and experience.
- Management Autonomy; All decisions are taken and carried out by shareholders themselves including creditworthiness examinations. There is no ceiling on the number of shares held by a member;
- Controls; The mechanisms for internal and external controls constitute a coherent whole that facilitates the rapid attainment of autonomy and self-regulation.
- Profitability; the shareholders themselves define the FSA's strategy for profit generation; concern for profitability is an integral part of all decision-making.
- Lending Operations; FSA mobilizes financial resources in the form of equity from within its area of operations for investment back into the area. The main financial product of the FSA is represented by small very short-term loans that can foster the socio-economic promotion of at least 80% of the membership. Its offer of financial services may be expanded but only after participatory analysis both of the costs of

- credit and of ways to attain an acceptable trade-off between the financial health of the FSA and the profitability to borrowers.
- Sustainability; The members define their own strategies for risk management, for constituting reserves, for remunerating capital and for making allocations for operating costs, bad debt provisioning and the preservation of the value of capital against inflation.
  - Networking; the creation of FSAs is able to stimulate the emergence of local institutions and networks providing central services to the FSAs. As intermediaries, FSAs are able to facilitate access by formal financial institutions to the rural markets.

Thus, the FSA concept is a flexible microfinance model for delivery of low-cost financial services to rural areas by establishing village-level financial structures that are initiated, owned, and operated by villagers themselves. It represents yet another solution to the lack of interaction between formal and informal financial entities. (The World Bank & IFAD 2000, Working Paper)

#### **4.4 Linkage banking**

At their own initiative, informal financial institutions have entered into numerous linkages, mostly depositing savings in cooperatives and banks. But being informal, these institutions had great difficulty in accessing credit from those banks or cooperatives.

This is where APRACA, a Bangkok-based association of central and rural-agricultural banks in Asia and the Pacific, intervened. An increasing number of member institutions, such as Bank Indonesia, Landbank in the Philippines, NABARD in India and BAAC in Thailand, have encouraged banks and NGOs to cooperate on the commercial terms of existing financial self-help groups (Ghate 1992; Kropp et al. 1989; Seibel & Parhusip 1992; Seibel 1996), thereby reducing the transaction costs of lenders and borrowers as well as deposit takers and depositors.

This has worked well in Asian countries where policy frameworks have favored financial innovations, cost-covering interest rates and institutional viability. In Africa, where policy environments are unfavorable or less stable, as in Nigeria, APRACA's sister organization AFRACA found it more difficult to promote linkage banking. However, some of its member institutions, such as CNCA in Burkina Faso, AFC in Zimbabwe, and the Central Bank of Nigeria, have taken promising initiatives.

In Ghana, the World Bank, IFAD and the African Development Bank are preparing a new initiative of linking indigenous savings and credit associations, the so called osusu clubs, and daily deposit collectors to banks.

They should stay informal if the policy environment is repressive, enforcing interest rate regulation, submitting institutions to inappropriate supervisory agencies, or simply barring institutions from sound practices. In many countries, equity capital requirements are such that banking status is beyond the reach of local MFIs; and the only way for IFIs to register and thereby turn into semiformal MFIs is under the Societies Act, as non-stock, non-profit corporations, private or public trusts, or cooperatives.

Upgrading to some legal status may enable the institutions to substantially increase their assets and continue building them up instead of redistributing them periodically among the members, as is done by most IFIs.

An example is the Lumbung Pitih Nagari (LPN) among the Minangkabau in West Sumatra, Indonesia. They have evolved from two informal institutional: the communal rice store, lumbung pitih, and the rotating savings group, julo-julo (Seibel 1989). As money was substituted for rice, according to Seibel about 500 LPN turned into semiformal financial institutions owned by their members and registered with the provincial government. With the creation of a new provincial law during the 1970s, this does not come under the national banking law, legal upgrading followed institutional evolution, Seibel (1989). An increasing number of LPN has taken advantage of this option in recent years, with substantial up scaling effects on their operations.

#### **4.5 Impact of Microfinance**

However, there are fundamental differences between NGOs and practitioners on whether microfinance has worked for the poorest. There are those who believe that lack of financial resources is the main contributing factor leading to poverty, while others believe that poverty is a result of marginalization, social exclusion, deprivation and vulnerability.

Moreover, the research carried out by Paul Mosley and David Hulme (1998) has resonance with that carried out by Burra, Deshmukh-Ranadive and Murthy, *ibid*. Mosley and Hulme found that loans to the not so poor had more of a positive impact on income than loans to the very poor. Hulme and Mosley had in fact, already shown in their previous work *Finance Against Poverty* (Routledge: London, 1996), that the increase in income of micro-credit borrowers is directly proportional to their starting level of income, the poorer they were to start with, the less the impact of the loan.

What was really troubling was that a vast majority of those who's starting income was below the poverty line actually ended up with less incremental income after getting a micro-loan, as compared to a control group which did not get the loan. This led them to advise that converts should desist from offering micro-credit as the solution for poverty eradication, since it seems to do more harm than good to the poorest.

The wealth ranking exercise carried out with 83 Self-Help Groups (SHGs) in the SAPAP area suggests that women themselves perceive a substantial reduction in member households' poverty compared to their condition before group formation. 69% of the members reported that their poverty had reduced since they joined the group. Significantly, while 48% of the members were very poor before group formation, this proportion had reduced to 18% afterwards. However, both the project team and the women recognized that this was due to a multiple of factors apart from access to micro-credit.

Access to and control over land was one of the major strategies of the three 'Women in Agriculture' projects. Rural women's struggle to get land rights was not an easy one. Availability of resources to release/purchase or lease lands was a major issue. Even where land was mortgaged to money-lenders, many men preferred to leave them there rather than face the 'humiliation' of transferring the land in women's names. (This was part of the conditionality for the use of project funds for releasing lands from moneylenders). Land

defines power and social status both within the family and in the village. However, many women reported that access to land and inputs to increase productivity of this land had many spin-off effects. For one thing, there was a notable reduction in domestic violence. There were of course, many women who did not want to challenge the patriarchal values of who should be the rightful “owner” of the land as they had internalized patriarchal values themselves. These women did not insist in lands being transferred in their names. The cases of lands being transferred in the names of women were fewer than cases of joint holdings in the name of husband and wife. (Neera Burra 2004).

Social mobilization is an essential ingredient for entitlements to become a reality. On the other hand, even if the legal and regulatory frameworks are not in place, as is the case with inheritance of agricultural lands by women, proactive NGOs with a strong right framework can start a process of change at the grassroots which can over a period of time lead to large scale changes. There are a number of issues over which women’s groups have been able to lobby successfully leading to progressive programmes and policies that favor women’s empowerment (Neera Burra 2004).

Martin Ravallion underlines this when he says that “the evidence on performance of these schemes in reducing poverty is still fragmentary. Even the better microfinance schemes have had limited impact on the poorest who are often risk averse, and often lack the capability (in education or health) to take advantage of credit for self-employment activities. Sound program design can often enhance an intervention's effect on poverty. But this type of intervention (credit) seems unlikely to be the main route out of poverty” (Martin Ravallion, World Bank 1996, cited in Jacob Yaron, McDonald Benjamin and Gerda Piprek *Rural Finance: Issues, Design, and Best Practices*. Washington, D.C.: Agriculture and Natural Resources Department, World Bank, (Second Revised Edition, February), 1997.

In Andhra Pradesh, Maharashtra, UNDP supported an NGO, Swayam Shikshan Prayog (SSP). Their approach towards micro-credit activities is through a dual-pronged approach: improvement in livelihoods of women and their families through savings and credit activity on the one hand, and creation of women centered institutional spaces to address women’s strategic needs for agency and negotiation on the other.

There are differing views on the issue of women being empowered by micro-credit interventions, A. Goetz and R. Gupta, exploring micro-credit programmes in Bangladesh, in their work *Who takes the credit?: gender, power and control over loan use in rural credit programs in Bangladesh*, World Development Vol. 24: 1996, show that credit institutions have dramatically increased the credit available to poor rural women since the mid-1980s.

However, though they are intended to contribute to women’s empowerment, few evaluations of loan use investigate whether women actually control this credit. The authors also consider whether women’s continued high demand for loans and their manifest high propensity to repay is often taken as a proxy indicator for control and empowerment.

This assumption is challenged by exploring variations in the degree to which women borrowers control their loans directly, using recent research findings which reveal that a

significant proportion of women's loans are controlled by male relatives. A contrary viewpoint is put forward in an ethnographic study on Pakistan in (Nighat Said Khan 1984), cited in 'The Role of Micro-credit in Poverty Reduction and Promoting Gender Equity. A Discussion Paper', by Norman MacIsaac for the Strategic Policy and Planning Division, Asia Branch, Canadian International Development Agency (CIDA), June 12, 1997.

Khan suggests that in many cases however, micro-credit can contribute to changes in attitude about women's contribution to and role in economic and social development. Specifically, micro-credit can result in increased recognition of women's productive role. A Pakistani entrepreneur says cited from Khan that "Earning our own money allows us to do what we want with it. It also brings honor or respect because the money "proves" our contribution. Otherwise, we work like animals, we are never given credit for our contribution and even our own men say that we do not work. When we have our own money we are no longer dependent to the point of being at the other person's mercy. The word is often used for the physically disabled".  
<http://www.womensenews.org/article.cfm/dyn/aid/1239/context/cover/>

#### **4.6 Conclusion**

Credits market fails if poor people are unable to borrow for socially beneficial projects that are projects with an excess of social benefits over social costs.

Lenders can not normally know borrowers' intentions about paying back loans. Binswanger and Sillers (1983) note, "the lower the mobility of borrowers, the easier it is to trace them and attach their assets and the more easily information about their default can be transmitted to other potential lenders".

Lenders may fail to lend for some projects because they are socially beneficial but not privately profitable. Two important reasons where this may occur are; a discrepancy between market price and security prices and secondly the inability of lenders to recapture the financial value of benefits which they confer by means of training, research or the provision of information about borrowers to other lenders.

An absolutely crucial determinant of the effectiveness of bank lending on the frontier is how they affect the operation of the local financial market as a whole. The first question is how they affect the operation of the local financial market as a whole, The second question is how far beyond the existing financial frontier they manage to penetrate, whether in other words they succeed in lending to new customers too poor to have been able to borrow before, or simply end up competing with existing banking institutions for their market. Supposing that they are able to penetrate into new pasture, however, the next question is what influence they have on the informal moneylenders who represent poor unsecured individuals' main alternative source of credit. The outcome clearly has an important bearing on the overall access to the capital market available to borrowers, and thence on output, employment and poverty overall.

From the range of samples of cases the consensus was that the volume of lending from traditional sources had expanded since the advent of competition even though its price had gone down. The likelihood must be that this improvement in access to informal credit by the poor is largely due to the arrival of non-traditional lending institutions.

Ideological battle has raged around the head of the hapless rural money lender for nearly a century.

The emerging view is that money lenders generally perform a legitimate economic function. They supply services desired by their clients without the costly apparatus of buildings, papers and staff, and they do this at low cost to borrowers because of proximity, their quick response to request, and the flexibility they permit in payment. Their operations are frequently more cost effective and useful to the poor than those of the specialized farm credit institutions, cooperatives and commercial banks that governments use to replace moneylenders. Because of the substantial transactions or access costs imposed on loan applicants, poor farmers and traders often prefer to borrow from the informal lender rather than the formal institution.

### **5.1 Background of PASACOFAAS**

The organization PASACOFAAS is a registered national NGO, which has been in operation since 1984. It started as an umbrella organization of mushroom farmers associations in the Makari Gbanti chieftdom in the Bombali District. Because of its gradual laudable achievement, many associations in other chieftdoms decided to come to its fold of membership, thus stretching the activities of the organization far and wide. It became a registered non-governmental organization (NGO) with the Ministry of Development and Economic Planning (MODEP) in 1995 due to an increase in its membership, activities and operational areas. Originally the organization's focus was on food production but has now expanded to cater for the ever-increasing needs of the communities it serves.

Pasacofaas has been stepping-up its activities to support war-affected farmers and others with relevant training, micro credit support, farming inputs, and infrastructure. These programs have been supported by some national and international organizations such as Cordaid, FAO, CCSL and CARE etc. (Source: Pasacofaas brochure & Strategic Plan Document 2007)

### **5.2 Support provided to clients**

Pasacofaas provide the following support to its clients: Credit, savings and training.

#### **Credit**

The credit scheme is based on group lending in order to reduce risk for repayment; there is a process of filling an application form and interviews conducted during scrutiny. Upon satisfying the conditions some of which are listed in the policies, then an agreement is signed. Two weeks after the money is disbursed to the clients in groups in a general meeting. All group members should be present. All groups receive the same amount. The current interest rate on all loans is 20 per cent. The repayment rate on loans is said to be high 80 - 90 percent due to group pressure and self-interest evoked earlier, as well as motivation of borrowers. Records are kept by the staff; clients are free to check on their records at any time. Receipts are issued to the groups during each installment payment and these receipts are kept by the leaders.

#### **Savings scheme**

Due to the rigorous rules and obligations to be satisfied before being accepted to participate in the microfinance scheme of the organization, most of the local people either they are not

qualified for participation or preferred not to participate in the scheme, are therefore involve in other forms of informal credits saving group such as “osusu” where members contribute every day or weekly as agreed by all members a fix amount. At the end of the month the money collected is handed over to one person. This process rotates until each member of the group is service in turns. Another type of savings is every day members will give their earning for safe keeping to an individual collector who comes to their stall (mostly men). A certain amount is fixed which they give and at the end of the month the savings is handed over to the saver, deducting one day payment which is for the collector.

This practice had been helpful; however, problems do occurs, especially with the “osusu” as sometime members cannot meet their obligations of contributing to the rotating group fund after collecting contributions from their colleagues, either due to unforeseen problems such as bad business, death of family members or theft etc. For the individual collector, sometimes they make false report that they got attacked by thieves, and sometimes some will ran away to unknown destination with capitals contributed by their group members. In order to help prevent such mishaps from the local people, PASACOF AAS has created a saving scheme for clients in collaboration with the Sierra Leone commercial bank. The process was not easy to accomplish because client had never had dealings with bank and never want to use the bank.

### **Provision of Training**

PASACOF AAS organize trainings on microfinance and business development for its clients. The trainings are compulsory for all clients of the organization. Facilitators are hired from outside the organization to give trainings in different topics relating to business enterprise. Such as management, simple bookkeeping, marketing techniques. Since 75% of the beneficiaries are illiterate and some with only primary education, the language for trainings is the common language spoken by all ‘Krio’.

Attention is paid in addressing those affecting the client’s enterprise. Capacity building of staff through transfer of knowledge on the use of appropriate impact indicators to measure the performance of entrepreneurs (often when clients repay their loan, it is assumed that they are better off and have improved in wellbeing), the program coordinator of the project said “it is not always true that when they repay their loan means they are well off or had improve on their situation”.

### **5.3 Findings**

The microfinance loan scheme run by PASACOF AAS has created some kind of impact on some client’s livelihoods especially women beneficiaries, but for most members no impact has yet been created on their livelihood; this together with some other problems can be attributed to some members pulling out of the scheme. Despite the fact that the loans are very small as report by the beneficiaries and the organization members, never the less it has helped few women in various ways such as: paying school fees for their children, health care services, housing rent, feeding and other domestic costs. Some beneficiaries express concerns that they have not been wealthy but the loan scheme is among the very few microfinance schemes in the country that have benefited them, enabling them meet their

daily needs. Microfinance helped clients to diversify their source of income as a result of this they could acquire productive and household assets.

Participating in training and meetings enhance the knowledge and skills of clients in managing their enterprise, and creating confidence in decision making. The microfinance scheme realized a few successes due to the organized training workshops, regular monitoring and seeking beneficiaries' welfare interest when problems arise. The beneficiaries were impressed with trainings that have equipped them with more knowledge and skills to manage their business and record keeping even though some cannot read and write. Adult education and training program provide invaluable information, technical expertise and guidance to the members of the organization. Training assistance for skills development on microfinance activities is one of the priorities of PASACOF AAS.

Clients have participated in social activities as mention above, some of the clients confirmed changes that had taken place in connection with their livelihood, after becoming members of the loan scheme. These are not only about access to credit, but support provided by the organization for e.g. lobbying, participating in training, networking with other organization, awareness raising, creating leadership positions, some of the clients claim that they now have better decision making regarding their microfinance activities.

From the findings, the organization has not paid much emphasis on gender issues affecting disability especially regarding women with disabilities. Most of the problems and constraint identified are centered on gender inequality which affects women's control, mobility, marketing, management, etc. No matter how much credit, management skill is provided, if gender issues are not addressed it will be hard for women to over come other barriers. This is evident from the fact that 80% of Pasacofaas clients are married, and base on patriarchy, society especially in third world countries where Sierra Leone belong, women are expected to subdue to their husbands with many restrictions. Therefore the attitude, ideologies, perceptions of both men and women needs to change over time, in order to achieve the goals of sustainable rural economic development.

### **5.3.1 Locals and project beneficiaries**

The total number of respondents was 33, 17 female and 16 male local farmers, traders, pasacofaas beneficiaries and non beneficiaries. Of the 17 female, 7 have small business and the other 7 are farmers, 3 were neither traders nor farmers they render service to people with skills on hair dressing and tailoring. The 7 female entrepreneurs 4 are beneficiaries of the PASACOF AAS micro credit scheme, while 3 are not, 2 of the three were at one time members of the microfinance but decide to drop out from the scheme. One of them now has a son living and working in England. Women are in the majority engaged in the microfinance scheme of the project in the research areas.

The 16 male respondents 5 had small business when compared to the female enterprise theirs are bigger. Three of these men are clients of PASACOF AAS microfinance scheme while the other 2 are not clients. 11 of the men are farmers, 8 are clients of

PASACOFSAAS, while 3 are not client. The 3 who are not members of PASACOFSAAS are members of a ROSCA group.

Fifteen (15) of the women interviewees were married with children and an average family size of 5 to 9 members. It seems that the economic needs of the families of the sample beneficiaries after their marriage have increased leading them to opt for some kind of micro enterprise as a means to improve their social and economic status. Nevertheless there are 2 unmarried among the women. Where as for the men there were 2 singles. According to the definitions of medium and large scale enterprise, none of the women entrepreneurs interviewed had a medium or large business.

Women and men undertake different business intervention. Businesses are designed and established in relation to the sex of entrepreneurs being male or female. However, there are few enterprises that are undertaken by both men and women without consideration of their sex. The majority of the men in the area of research concentrate on farming and off farm activities after the harvest season, while the women concentrate on petty trading the year round more or less, than the men. Table 2 illustrates the businesses undertaken by the locals in the research area; the out come is from the result of the questioner administered.

**Table 2: Business undertaken by respondents**

Men	Women
Used clothing	Cookery
Food (Rice, cassava & potatoes)	Hair dressing
Rubber shoes	Vegetables (cooking condiments)
fruits	fish
Building materials	greens
	fruits
	Rice
	Cereals (millet, beans
	Soaping
	Rubber shoes

### 5.3.2 Pasacofsaas' clients Characteristics

#### Gender

On average, the microfinance scheme has more female participant than males. Female participation in micro and small businesses is predominantly the selling of agricultural produce, food stuff, hair dressing, and soap making, etc. their participation is lowest in Business Services such as: manufacturing, construction, carpentry, transport and other services, men are more involved in such businesses and farming.

#### Age

The most common age is 30-50 and those of the aged 50-59 and over 60 are few, according to a staff member of PASACOFSAAS, this is because clients with the age range 30-50 are reliable as most of them are settled down, married with children. Besides they are active in business and are very productive in the process of satisfying their household livelihood.

## **Education**

75% of the beneficiaries covered under PASACOF AAS schemes are mainly either illiterate or educated up to primary level. For the respondents of this study, among the women entrepreneurs, 7 with primary education and 3 with secondary education, 7 are illiterate. For the male entrepreneurs, 4 are illiterate, 7 with primary education and 5 with secondary education. But it was found out that some have acquired skills either in the type of venture chosen or on some of the related activities provided or sponsored by PASACOF AAS, as training for the project beneficiaries.

## **Ethnicity**

Over half of the interviewees are Temnes who originate from the Northern Province of Sierra Leone. They are the majority found in different types of micro and small scale enterprises. While the other tribes are in other services providing sector such as manufacturing, construction, carpentry, transport etcetera. This can be attributed to the educational level of citizens from the different regions. Locals from the Northern Province are less educated compared to those in the east and south. Therefore they have not much option but to engage themselves either in petty trading or farming for their survival.

### **5.3.3 Other source of income**

Some 70 % of the respondents said they get their income besides PASACOF AAS microfinance scheme, for their living from proceeds of their business enterprises and farming, and while 30 % said they get income from their husbands and sometimes family members working and living in the cities or overseas. Other than the mention sources they find it difficult to earn income from other sources such as paid job. In difficult situations 50 % said they borrow from friends. Where as for the men interviewed said when it is difficult with business profit and farming they go in for service jobs such as manufacturing, construction, carpentry, transport, office messengers, cleaners etcetera.

### **5.3.4 Experience in micro-credit**

Twenty (20) out of the 33 participants interviewed said they had close relative, such as a parent or guardian, who owned a business. During their childhood age, they had been helping their relatives in carrying out their business activities. For e.g. some women gave their stories that after school they help in selling around the market place in small quantities, while the parent or relation sits at the stall. In the afternoon the adult will go home to prepare food while the child waits at the stall and is supervised by the other business friends within the same locality.

Respondents were asked about who influenced them within their families to undertake such venture, most of the respondents (men & women) said they have been self-driven and self motivated. Only 2 married women respondents reported that they have been influenced most and motivated by their husbands. None of them did mention PASACOF AAS project as a motivation organization in building their experience with respect to micro financing. Even though PASACOF AAS is working hard on skill training, some of the respondent when ask about the experience so far achieved from the project scheme, the response was that the project has it own standards, which are geared towards making it possible for them

to be able to pay their loan to the project scheme, not what will actually sustain them in a way that they will not request loan from the project scheme in the future.

#### **5.4 Some cases in research area**

From the view point of basic economics, the need for microfinance is somewhat surprising. One of the first lessons in introductory economics is the principle of diminishing marginal returns to capital, which says that enterprises with relatively little capital should be able to earn higher returns on their investments than enterprises with a great deal of capital. Poorer enterprises should thus be able to pay banks higher interest rates than richer enterprises. Money should flow from rich depositors to poor entrepreneurs.

The diminishing returns principle is derived from the assumed concavity of production functions, concavity is a product of the very plausible assumption that when an enterprise invest more i.e., using more capital, it should expect to produce more output, but each additional unit of capital will bring smaller and smaller incremental gains. For example a PASACOF AAS customer Ya Marie said “when she first join the microfinance scheme of PASACOF AAS, she took a loan equivalent to \$100 or ( 70 euros) in today money, and started buying fish from the fishermen within a month her profit together with her capital after paying her monthly debt to the project was \$140 in dollars equivalent. Then she said she decided to increase her credit loan to a 100% after four months of business, she use the loan money to expand her business by buying more baskets, and other trading gears and expand her coverage area, this also means that her tax, transport cost, time spent on the business increases, with less profit as compared to when she started her business, after one month the profit was not even enough to pay her monthly due to the project”.

The case of Mr. Foday Bangura, a local trader who borrow money from a local money lender to start cola-nut business, Mr. Foday said the money lender Mr. Jalloh a business man who happen to be his neighbor and they had been friends for many years, he admired Mr. Jalloh’s growing business, and decided to ask Mr. Jalloh for a loan, so that he too could start up business along side his farming activity. His first credit request was a \$50 equivalent from Mr. Jalloh, he started buying cola-nuts from cola-nut farmers, he had to spend a lot of labor processing the cola-nut, bagging it and transporting it to the city for sale to retailers. After two months he realizes a profit of \$30 excluding all other cost and capital. In six months he had made a profit of \$200, then he decided to increase his business, by buying cola-nut plantations during the hungry raining season, paying workers to process the nuts, do the bagging and he increases his cost by hiring a truck to distribute the cola-nuts to his customers, in order to achieve his expansion goal he had to increase his loan to \$200. Together with the profit he had already made plus his previous capital adds up his total capital was \$400 equivalent, his interest rate to the money lender increases because of the increase in his loan.

According to him “his friend was jealous because he is now making a lot of money in profit, he now compete with him in the area”. After two months Mr. Foday Bangura said he could not make profit that will enable him pay back his loan. He had to stop the business as he is to pay back his loan, and interest, he has to sell every thing he had both in asset and capital in order to pay the money lender to prevent police intervention. According to him,

he took the decision in order to prevent being molested by his creditor, which is disgraceful in the community for him and his family. He had again returned to his farming profession, he said “where he and his family has peace of mind, even though not rich but live peacefully with his family” he concluded.

The case of Ramatu Koroma a rotating savings and credit associations (ROSCA) participant who for six months had been participating in ROSCA with some other local business colleagues, every week paying almost half of what she made as profit for the week to the head of the ROSCA group. With the hope that after six months she will raise enough money that she could use to improve her business, unfortunately, her expectation were never met.

According to her, it was her turn to receive the bulk of the monthly contributions when the collector disappeared after collecting the money from her group members. The situation became more difficult as there was no way, the police could immediately intervene, as the group’s activities was not registered. Making it much more difficult for police investigation is that the collector ran away together with his wife and children, further more the association hasn’t insurance coverage.

Ramatu Koroma was so discourage that she was crying when talking to me on phone. Mean while, I send her 50 euros, as she said she could not send her child back to school after being driven from school because of school fees. She concluded by saying “she will never join ROSCA and would always advice people about her experience”.

These are some of the issues motivating PASACOFAS to find a lasting solution that will help combat the vulnerable situation of the local people, by coming up with a microfinance scheme, that will seek the interest of local people, and help them improve their livelihood in a much more sustainable, reliable and trust worthy way.

Lending by money lenders is an activity that antedates contemporary banking system from ancient times. They have been organized in the form of family or individual business. They vary in their size from small petty money lenders to substantial indigenous bankers whose businesses at times have exceeded that of commercial banks.

In Sierra Leone, as in India for example, historically, money lenders have had a prominent position in the capital and credit markets. They are usually aligned along ethnic lines in different parts of the country.

Money lenders lend money; they act as money changers and finance loan trade by means of bills of exchange. They usually use working capital of their own, and do not generally get deposits or solicit savings from the public. They grant loans on personnel recommendation and guarantee to persons well-known to them. They also sometimes grant loans against securities such as gold, jewelry, land, promissory notes etc Iqbal (1988). Money lenders usually do not have contact with other suppliers/institutions as they usually depend on their own funds. But they do borrow from joint stock banks and other financial institutions in times of high demand, thus creating a channel where formal funds are channeled to the informal sector.

### 5.5 A possible position for PASACOF AAS microfinance scheme

Considering the problems identified in the findings and many more not included in this thesis report, are difficult encounters faced by the local people in connection with credits, and sustainable livelihood, resulted to the analysis of a possible position for PASACOF AAS microfinance scheme as illustrated by table1 bellow, a possible position that will be helpful to the local people if maintained by the organization.

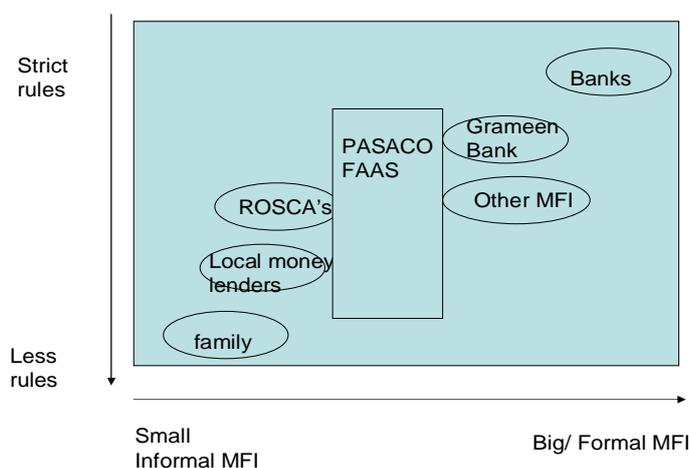


Table1 Illustrating the position of PASACOF AAS microfinance scheme

Source author

In the case of PASACOF AAS the study is seeing the organization's operations to be an in between system as illustrated in table1, that is operating with not too strict rules and regulations, and not too formal but at the same time implementing some form of stringent rules especially in; documentation, debt repayment, training etceteras when compared to a family loan, where there is no form of documentation or any other service to the debtor, other than the loan money. As illustrated in table1 the vertical line depict the different between strict rules and no rules at all, while the horizontal axis denotes the difference between informal and formal financial institutions in a typical credit transaction in Sierra Leone. Between the vertical and horizontal axis are formal and informal financial institutions local people can possibly get credits from.

The studies reveal that the support of family and friends is especially important in a situation of adversity when friends provide both moral and monetary support. They are also important for getting a job or work. When people leave the area for seasonal migration they mostly do so with friends.

Local money lenders and borrowers represent the simplest form of an informal credit transaction. An individual in need of finance approaches a lender and requests for funds. The fact that both lender and borrower are well known to each other dispenses the need for most, if not all, traditional terms and conditions for a transaction: ensuring repayment or credit worthiness, fixed and predetermined repayment amounts and schedules, collateral

and guarantees etc. Such lenders are of course, single individual who provide loans on a need-based manner. Credit given by them is loosely transacted on a one-to-one basis, without the involvement of any third parties. It is considered a favor made for a future reciprocation. There is close physical/ psychological proximity between the lender and borrower.

However, credit has often been used as a tool to help the poor and stimulate economic growth. From the beginning of the development era year's back, governments and international donors have tried to deliver subsidized credit to small farmers in many developing countries, but this failed. The failure of subsidized credit to reach the poor encourage the development of an other financial tool that is micro-credit, aimed at giving poor people access to financial capital on a more sustainable basis. In 1976, the Grameen Bank of Bangladesh introduces micro-credit as a financial service delivery system for the poor. This idea spread over developing countries, organizations in Sierra Leone were encouraged by international donors to emulate the idea of micro-credit. PASACOF AAS in 2003 officially started it micro-credit scheme, with the assistance of government and international donor aid, giving small collateral free loans to jointly liable group members. This system is seen as an effective tool to achieve sustainable and equitable development and alleviate poverty.

Poverty reduction through pro-poor growth has become a central concern to policy makers and a focus of development of bilateral and multilateral agencies. Microfinance is generally considered to be an efficient tool for reaching the poor and stimulating the transformation of the vicious circle of poverty into a vicious circle of economic development. The objective of microfinance which is to alleviate poverty, yet the only indicators used by donors and practitioners to measure the impact of microfinance on poverty are outreach Lont and Hospes (2004) number of client served by lending institutions and profitability. In other words, client payback = client perception of value = client satisfaction = positive impact.

The priority given to financial sustainability has promoted an emphasis on institutional performance indicators at the expense of client level impact assessment (Suzy and Reed 1999); this is true in the PASACOF AAS project case this the organization has to take into consideration for amendment in other to create more possibilities for less fortunate people. It is commonly assumed that supporting microfinance projects will reduce poverty; however the empirical evidence of the impact studies does not support this assumption. The assumptions that microfinance can have positive effects on the poor, in the case of PASACOF AAS the impacts are insignificant for now. Therefore the study on how to position Pasacofaas microfinance scheme, in a way that it will be sustainable, and at the same time create a positive impact to its beneficiaries, is significant to the organization's microfinance scheme.

Because consensus among donors is that, the microfinance sector is worth promoting, and that there is a massive unmet demand for financial services for the poor in developing countries is a strength the organization can make use of in raising funds, and at the same time built trust for the scheme. To meet this needs microfinance institutions in developing countries will have to work with new customer-centered product and methodologies and

provide a wide variety of financial services such as savings, insurance, consumer loans, instead of only micro-enterprise investment credit (Woller 2002).

## **5.6 NGOs as promoters of good practices**

Nongovernmental organizations (NGOs) can have a special role to play in the promotion of sound microfinance institutions. They can disseminate information and organize exposure training programs such as the one provided by PASACOF AAS. Through training, they can assist small institutions to improve their viability and upgrade their legal status, as required. They can also initiate financial operations which, in many countries, preclude deposit collection. But if they are seriously interested in financial operations, they should register as a rural or commercial bank, finance company or savings and credit cooperative.

Among those that have successfully embarked on this road are, to name but a few: BancoSol in Bolivia, Bank Purba Danarta and numerous other NGO banks in Indonesia, and CARD Rural Bank in the Philippines (Seibel & Torres 1999).

NGOs may propagate good microfinance practices (but not best practices, which evoke notions of universally valid optimal solutions). Good practices are crucial to the sustainability of microfinance services. They may comprise the mobilization of internal resources for institutional self-reliance through savings collection, higher interest rates on loans, share capital, profits and insurance premiums (Seibel & Torres 1999);

- the promotion of micro-savings as a source of micro-enterprise or farm household self financing, including voluntary withdraw able savings, time deposits, mandatory regular savings, lottery savings, and daily savings collection on doorsteps
- appropriate micro-credit products with small loan sizes growing according to repayment performance and absorptive capacity, mostly short maturities and installments micro-insurance products contributing to loan security, such as life, health, cattle insurance
- product reciprocity, tying credit to savings and insurance to enhance financial discipline and bankability
- collection reciprocity as a means of arrears prevention, combining savings and loan installment collection or financial and commodity transactions
- customer-oriented microfinance procedures and services set by financial institutions rather than government, including sound financial management, convenient collection and deposit facilities, appropriate loan processing, adequate risk management, timely repayment collection, monitoring and effective information gathering
- Terms and conditions which benefit from the experience of formal and non-formal institutions and serve the interests of both the institution and its customers.

## **5.7 Conclusion**

Women and men have different problems and constraints. They do share some common problems but the degree of effect varies.

Although women clients had proven to have experiences in carrying out their day to day business activities, Management skills such as: book keeping, simple accounting, are inadequate for running their micro-credit businesses.

In most of the findings women are faced with gender related problems such as mobility, control, division of labor, decision making and marketing for which they are restricted by their husbands and families. Particularly for married women, culture and tradition, patriarchy system contributes in making issues very difficult for them in order to expand their business enterprise. Their movements are restricted, less power in decision making, less time to take part in social and educative functions. All these hinder their business activities.

Networking is a very important aspect for micro-credit development and growth. Women are very good in networking but they are confronted with societal problems of misinterpretation and sometimes accused as prostitutes by their male counterpart. Time is another factor affecting women networking because they need time to attend and meet with outsiders during which lobbying could take place. Sometimes decisions are taken in informal setting, women are hardly found in public gathering were they are not dominated by their male counterpart.

Finally some amount of employment has been created through micro and small scale enterprises. However, the majority of these new businesses tends to be very small in size and is considered supplementary to the main family income. The main reasons for this is that in addition to experiencing the problems common to all small-scale entrepreneurs, women frequently face a gender bias in the socio-economic environment, and have additional social, cultural, educational and technological barriers to establishing and developing their own enterprises. Locals in the research area as in most societies carry the added burden of family and domestic responsibilities which may constrain them from establishing successful and efficient businesses that will even enable them pay back their loans.

Lack of access to credit is almost universally indicated as a key problem for MSEs. This affects set-up, expansion and sustainability.

Entrepreneurs express the difficulties of accessing credit. The conditions attached to banks are not favorable for them because they do not have collateral. Also as a result of their educational background they find it hard with the procedures of obtaining loan from the bank. With some MFIs, the interest rate, conditions of payment are unfavorable for the local people to comply. For some women who manage to comply they may not be able to pay at the end, and become more indebted. The amount borrowed out was also reported to be very small for which some investments like savings, insurance, renting a premise for market purpose could not be undertaken.

The local clients lack knowledge and understanding of the prevailing tax system. The payment of market dues on a daily basis affect their business, they prefer to pay monthly for which they would have enough sales and profit accumulated.

Registration of business enterprise was another issue that creates difficulty for clients to register and license their business enterprises. The procedures are so rigorous and complicating to the local people that they cannot withstand them.

Provision of government infrastructure is a crucial issue. There are no production premises, information network centers, transportation facilities, electricity and water supply, poor road infrastructure in business areas, lack of common service facilities among others.

The marketing problems faced by clients members mostly relates to low volume of sales, competition, seasonal fluctuation, pressure of credit sales, difficulty in locating a suitable market place etc.

Women entrepreneurs are sometimes face with hard competition when the same types of goods are sold to a regular customer. They are therefore confronted with quality, quantity, price and other service like delivery, packaging etc. Another market problem is they may find an institution or restaurant to supply their produce but there is a problem of meeting the quantity needed which sometime leads them out of the contract because they cannot meet the constant supply.

Market information; most of the clients lack market information since they are confronted with difficulties in access to the means of communication, less networking, leading to their failure in getting updated information about market prices and other information regarding their business activities.

## **6 Conclusions and recommendations**

### **6.1 Conclusions and lessons learnt**

Microfinance is a term that describes the provisions of financial services to poor and low-income people at the lower segments of the market. In the broadest sense, microfinance targets customers that are not served by the existing financial systems. In Sierra Leone as in many other developing countries the financial sector does not provide financial services to the lower end of the market. Rather the financial systems in these countries are mainly developed to exclusively provide services to the wealthiest segments in the market, and this contributes in creating poverty especially at local level.

This shows that poverty is created by the economic and social system that has been designed for the world, mostly the free market system. Notwithstanding the fact that developments in the microfinance industry worldwide over the past decade are said to be encouraging, as today there is a general consensus that microfinance should be provided in a sustainable manner in order to ensure outreach and lasting impact on poverty reduction.

PASACOFAS management must be aware with the fact that microfinance is geared towards removing the limitations placed by poverty trap. This trap is what has been referred to as the “Vicious Cycle of Poverty” by most microfinance researchers. Low income leads to low savings; this in turn leads to low investment and small amount of capital formation; hence low productivity leading back to low income, thus completing the cycle. This implies that as long as per capita income is low, savings and hence investment will be low and escape from the trap will be virtually impossible in the absence of proper microfinance management.

However, while microfinance has already had a positive impact on the household budgets and quality of life for some very few people in Sierra Leone, the majority of the poor in the country still lack access to financial services, including credit, savings and insurance, that can significantly raise their standard of living and better equip them to manage their lives. Filling the massive gap between microfinance supply and demand is a steep challenge. Financial service providers, central banks, governments and donors can meet the challenge by working together to integrate sustainable microfinance into the broader financial sector. Their collective efforts will be a significant contribution to achieving the Millennium Development Goals.

The provision of financial services to low income households is aimed at enabling them acquire capital, improve their livelihoods and generate informal sector employment. Micro financing is also regarded as a way of promoting employment generation, import substitution and private sector development, thus having an important impact on the local and national economy.

In 1997, a microfinance summit was held in Washington D.C, which adopted a goal to reach 100 million poorest families with micro-credit and other financial services, preferably through the women in those families, by 2005 (World Bank 2000).

Moreover, in recent years, increased emphasis has been placed on microfinance institutions operating on a commercial basis. As governments have made commitments to achieve the millennium development goals (MDGs), including cutting absolute poverty in half by 2015 mobilizing the financial resources needed to meet these commitments will require a focus on the development of the microfinance sector as an integral part of the financial sector.

In this regard, the UN in November 2004 declared 2005 as the International Year of Microfinance. This declaration was made with the view to provide a unique opportunity to improving awareness, sharing knowledge, as well as best practices and lessons in microfinance among countries. This is a good idea that PASACOF AAS should take into consideration as part of its management commitment in participating in the sharing of knowledge with other countries.

It has been pointed out that experience of the Least Developed Countries (LDCs) show that microfinance is an effective tool for poverty eradication and empowerment of particularly women (World Bank & IFAD, 2000). Although one could conclude that microfinance could be an effective tool for increasing the productivity of people in economic flows, promoting local and national growth, creating jobs and employment opportunities, yet one should not be oblivious of the enormous challenges faced by Microfinance in trying to achieve such aspirations, especially in countries such as Sierra Leone and others where there is high illiteracy rate, corruption and poor accountability by government.

In all cases studied, there is evidence of significant female- male (gender) gap occurring, indicating the unequal economic and social relations between women and men. Giving women access to credit, it has been argued, is a means by which both their economic standing within the household and social position within society can be improved. This argument has been particularly significant in Bangladesh (Hamidul. H. 2000) and other developing countries, where women's position is so poor, and where female participation

in credit schemes has now reached very high levels. PASACOF AAS can as well make use of the advantage of allowing and protecting the participation of women in its microfinance scheme without fear of domestic violence or cultural perception on women participating in public activities, by lobbying to local government and other authorities on the protection of women and their freedom.

In connection with isolation, there is a strong case that credit programmes can reduce the relative isolation of women. Anyone who has witnessed the village level meetings of PASACOF AAS and other local agencies, can be impressed by the bringing together of large groups of locals. In these regular meetings locals conduct their savings and loans activities and have an opportunity to share information and discuss ideas. Such opportunities previously did not exist. Measuring the result of such association was beyond the limits of this study but the creation of a regular forum at which large numbers of poor clients can meet and talk represents a kind of breakthrough in the social norms of rural people.

From cases studied, institutions have extended the reach of the formal financial sector into upper and middle income poor households; they have been relatively ineffective in reaching the poorest. Several factors have frustrated such efforts. First and foremost is the emphasis on credit delivery by many institutions, for the poorest people and households the opportunities for credit financed self employment are very limited, and the risks are unreasonably high. As Stuart Rutherford (1993) argues from his research with the very poor in Bangladesh, the poorest commonly practice self-exclusion from income generating credit initiatives which they do not perceive as a solution to their livelihood problems.

None of the case study institutions was observed to provide proper services for people with significant disabilities; this should not be a surprise as the emphasis on self employment in low. High competition in the markets for goods and services made many programmes irrelevant in terms of the opportunities available to the disabled. Removing the need for collateral makes little difference to the disabled who face many more obstacles. Interestingly financial institutions has a physically fitness criterion for access which ensures that the physically disable are screened out.

The point of the above observations is not to argue that innovative financial institutions should served the needs of the disabled or infirm but rather it is to point out that explicit and implicit claim that such programmes reach the poorest of the poor is despicable.

There is the need for the designers of financial services for poor people to recognize that the poor are not a homogeneous group with broadly similarities. The emphasis which has been on a promotional model of poverty alleviation through loan financed enterprise expansion. Such a model is valid for middle and upper poor households, with members who have entrepreneurial flair, but is inappropriate for the poorest households, those with a high degree of income insecurity and the disable.

Recognizing the heterogeneity of the poor clearly complicate matters for scheme designers because potentially numerous groups and sub-groups could be distinguished. For analytical purpose it is appropriate at least to conceptualized two main groups with in the poor; the

core poor who have not crossed a minimum economic threshold and whose needs are essentially for financial services that are protected, and those above this threshold who may have a demand for promotional credit. The distinction between the poor and the core poor must be applied to both women and men, as simply targeting activities on women is too crude a device to help the poorest. The Grameen example which currently dominates the field of institutional design must not be seen as the only approach, given their model's clear problems with working with the core poor.

Most contemporary schemes are less effective than they might be because they treat the poor as an undifferentiated group, and they focus largely on a promotional strategy for poverty reduction involving a rigid loan disbursement regime rather than more diverse credit and savings services. As a consequence the poorest people have little access to those schemes, are likely to take on unreasonable risks if they do participate and the benefits are most likely to accrue to middle and upper income poor, who had crossed an economic threshold that means a major part of their income is secure.

Meanwhile, a positive approach to sustainable investment has emerged in recent years, in many cases using best-in-class or best in sector as criteria. This pragmatic approach involves evaluating the organization with the highest market capitalization in each sector in terms of compliance with various sustainability related criteria. Organizations scoring above average on these aspects qualify for inclusion in the pool of potential investments, from which the financial analysts and fund managers make the final selection in the normal way.

However, revolutionaries are not noted for the modesty of their aims, or their claims. Nevertheless, it is certainly true that microfinance i.e. the provision of very small loans and deposit services to predominantly poor, under served, rural, mostly women borrowers and savers has captured the imagination of policy makers, development practitioners, and researchers in ways that few other programs have. Aid grants and financing have flowed to support microfinance programs, NGOs have incorporated microfinance in their health or education or gender equity programs, Bangladesh's Grameen Bank is now almost as famous as the World Bank, and the UN General Assembly has declared 2005 as the international year of micro-credits.

Meanwhile, the overall economic performance of Sierra Leone remains unimpressive. Despite fifteen years of adjustment, the Sierra Leone economy is still defined by macroeconomic imbalances manifested in slow growth, rising unemployment, high inflation and huge external imbalances. It is my conviction that the time has come for a new approach and commitment to macroeconomic policy design and management, if rural Sierra Leone is to grow out of its current weak performance. This model calls for the use of modern techniques of economic analysis and policy formulation such as financial programming.

In an economy marked by the high incidence of the informal sector, the Government of Sierra Leone has identified the provision of microfinance services to the poor, especially women, as a key mechanism to help reduce poverty. The provision of financial services

(savings, insurance, loans) to low-income households is aimed at enabling them to acquire capital, improve their livelihoods and generate informal sector employment. Micro financing is regarded as a way of promoting employment generation, import substitution and private sector development, thus having an important impact on the local and national economy.

Finally, PASACOF AAS organization in particular and other agencies supporting microfinance development in Sierra Leone must take the following into consideration in the process of positioning its microfinance scheme, this will not only help in sustaining the project scheme, but also build trust and confidence with the local people regarding its operations, besides delinking its activities from political interference the organization's management must also consider the following;

- Increase entrepreneur's skills in management and other related activities by providing more regular trainings. Special trainings should be organized for those who are new in business and those wanting to start.
- Creating awareness for both men and women on gender issues. Consideration should be given to those affecting women and provide them with the necessary support to overcome such problems by breaking through some of the cultural traditions.
- Strengthen women networking skills by giving them more confidence and support network issues and partners through the provision of information and changing the perceptions of men and women by organizing public debate, and special platform to speak on gender and microfinance issues.
- Create credit access for local clients in order to increase their business capital, by introducing them to banks, business partners and other financial institution, with no political string attached.
- Lobby to the government on behalf of clients for reduction of taxes and method of payment, in a very neutral and systematic way, with the interest of the local people at heart.
- Represent and negotiate with policy makers and local authorities for favorable operational conditions and environment taking into consideration changes in historical trends of micro-credit, especially in creating a situation where other forms of creditors can share ideas and cooperate with the organization in the interest of helping the local people alleviate themselves from poverty.
- PASACOF AAS should consider assisting its clients with the provision of some basic facilities for entrepreneurs such as assets i.e. (refrigerators for cooling, storage facilities, generators, technology saving equipment for processing etc) and the provision of transport at a minimal cost to deliver bulky goods at the right place and right time.

- Help in identifying local & international markets and prices for the local people, with the help of advance communication technologies such as mobile phone, internet, radio and television facilities for the management and if possible for clients too. Especially for local farmers and traders dealing with cereals, vegetable, fruit, and handicrafts, tie and dye products etc. this will greatly contribute to wards the economic and social development of the local people. Rogue traders will no longer cheat the local people in price while paying for their local produce as the local farmers and traders will be aware of the price of their product at national and international market.
- Provide more support other than credit such as educating clients on the importance of savings, insurance and encourage adult education especially on the use of appropriate technology like mobile phone, internet etc.
- PASACOFAAS should consider recruiting staff with experience in the business enterprise sector and build on the capacity of existing staff on business know how and give them technical support, especially in the field of marketing and simple bookkeeping .

## **ANNEX**

### **List of Persons Interviewed**

Alimamy Bangura, Senior Economist, Economic Policy and Research Unit, Ministry of Finance

Ms. Kenyeh Barlay, former Director, Social Action & Poverty Alleviation (SAPA Programme) National Commission for Social Action (NaCSA)

Alphonso Campbell, MSSP Expert, Social Action & Poverty Alleviation (SAPA Programme) National Commission for Social Action (NaCSA)

Shirlene Carew, Director, PRIMED, Promoting Initiatives for Micro-enterprises Development

Daniel Kamara, Senior Banking Officer, Bank of Sierra Leone

David Kamara, Credit Manager, Association for Rural Development

Momodu L. Kargbo, National Co-Operative Development Bank, Ltd

Mabel N.S. Kartusche, National Organization for Women

Mrs. Esther Smith, Head, Microfinance Division, Bank of Sierra Leone

Mohamed M. Turay, Managing Director, National Development Bank, Ltd.

Mr. Craig Feinberg Chief of Party; Microfinance Investment and Technical Assistance Facility-Sierra Leone

Mr. Andrew Conteh and staff; Director and staff of Pa Santigi Conteh Farmers Association (PASACOFAAS) - Sierra Leone

Dr. A. van Tilburg, Lecturer and member micro-finance, marketing and consumer behavior group  
Wageningen University

Hon. Alimamy. P. Koroma - Minister of Trade and Industry- Sierra Leone

Mr. Osman Bangura- Permanent secretary at the ministry of Trade and Industry- Sierra Leone

### **List of documents & reports consulted**

Annual Financial Statements, 2002, Sierra Leone Commercial Bank

Annual Report 2001, National Co-Operative Development Bank Ltd

Annual Report & Accounts, 2002, ROKEL Commercial Bank

Annual Report & Accounts, 2002, Standard Chartered

Annual Report and Statements of Accounts, 2002, Bank of Sierra Leone

Banking Act, May 2000

Business Plan (draft) Association for Rural Development, 2003-2007

Business Plan Finance Salone, 2002 –2007

Business Plan Promoting Initiatives for Micro-Enterprise Development (PRIMED), May2003

National Policy of the Government of Sierra Leone, November 2002

Draft Pre-appraisal report for the design of a microfinance support programme for Sierra Leone for Kredit Anstalt fur Wiederaufbau (KfW), Robert Cater, 2003

Interim Poverty Reduction Strategy Paper, June 2001.

Memorandum and Articles of Association of Yoni Community Bank Limited (2003), under the Companies Act (CAP) 249 A Company Limited by Guarantee and Having a Share Capital

Microfinance Policy Review Sierra Leone (draft) June 2002, submitted to the Consultative Group to Assist the Poor (CGAP) and World Bank, by Mayada El-Zoghbi, Microfinance Consultant

Minutes meetings of Microfinance Forum, 16 October 2002 – 16 April 2003

National Commission for Privitisation Act, August 2002

National Co-operative Development Bank, Ltd. Annual Report 2001

National Micro-Finance Policy Workshop Minutes, September 19-20, 2003  
National Recovery Strategy, Sierra Leone 2002 – 2003  
The Other Financial Services Act, 2001  
Report of the Evaluation of the Microfinance Programme of the Association for Rural Development (ARD), March 2002  
Report on National Co-Operative Bank containing Information on Transformation and Request for Funding  
Report on National Micro-Finance Policy Workshop held on September 19-20, 2002  
Technical Assistance for Establishment of a Microfinance Department for Sierra Leone Commercial Bank, CoEn Consulting ltd, 2002.

## References

Adams, D. W, and D. A. Fitchett, eds. 1992. *Informal finance in low-income countries*. Boulder, Colo., U.S.A.: Westview Press.

Adams, D. W., and R. Vogel. 1979. Rural financial markets in low-income countries: Recent controversies and lessons. *World Development* 14

Adams, D. W, and J. R. Ladman. 1979. Lending to rural poor through informal groups: A promising financial innovation?. *Savings and Development*

ADEMCOL (2001). Asociación para el Desarrollo Microempresarial Colombiano and Women's Opportunity Fund: Bundling microfinance and business development services. A case study from ADEMCOL in Colombia, Microenterprise Best Practices. United States Agency for International Development, Washington, DC.

Akintola J.G. Wyse (1989), The Krio of Sierra Leone

Aminur Rahman 1999, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', *World Development* Vol. 27, No. 1, pp. 67-82;

Andrew Weiss (1981), "Credit Rationing in Markets with Imperfect Information," *American Economic Review* 71, pp. 393-410.

Thaiss, Gustav, "The Bazaar as a Case Study of Religion and Social Change," in Yar-Shater eds. *Iran Faces the Seventies*. (New York : Praeger Publishers, 1971) pp. 45-75.

Anne-Marie Goetz and R.S. Gupta, 'Who takes credit? Gender, power and control over loan use in rural credit programmes in Bangladesh', *IDS Working Paper No. 8*. Brighton: IDS, University of Sussex, 1994.

Arbnor, I.; Bjerke, B. (1997) *Methodology for creating Business Knowledge*. 2nd ed. Sage Publications. 548p.

- Arce, A. & Long, N. 2000, Reconfiguring modernity and development from an anthropology perspective, in anthropology, development and modernities;
- Adams Dale W. and Delbert A. Fichett eds. Informal Finance in Low-Income Countries (Boulder: Westview Press, 1992).
- Braverman, Avishay, and Joseph E. Stiglitz “Credit Rationing, Tenancy, Productivity and the Dynamics of Inequality,” in Pranab Bardhan, eds, The Economic Theory of Agrarian Institutions (Clarendon : Press Oxford, 1989)
- Basseer, Potkin A., The Role of Financial Intermediaries in Economic Development : The Case of Iran, 1888-1978 (Saint Louis : The George Washington University 1981).
- Benedick, Richard, E., Industrial Finance in Iran (Cambridge Massachusetts : Harvard University Press, 1964).
- Courtney, H.; Kirkland, J.; Viguerie, P. (November-December 1997) Strategy under uncertainty. Harvard Business Review. p67-79
- Berdal, M. and Malone, D. (eds.) (2000) Greed and Grievance: Economic Agendas in Civil Wars. Boulder, London, Lynne Rienner
- Berger and Luckman (1967). The social construction of reality. A treatise in the sociology of knowledge. Anchor books, New York.
- Bouman, F J A (1989) Small, Short and Unsecured: Informal Rural Finance in India, Delhi: Oxford University Press  
N S Sisodia , Secretary (Financial Sector) Government of India, New Delhi
- Bhatt, V. V. 1988. On financial innovations and credit market evolution. *World Development* 16 (2): 281-292.
- Bratton, M. 1986. Financing smallholder production: A comparison of individual and group credit schemes in Zimbabwe. *Public Administration and Development*
- Braverman, A., and J. L. Guasch. 1986. Rural credit markets and institutions in developing countries: Lessons for policy analysis from practice and modern theory. *World Development* 14: 1253-1267.

- Binswanger, H., J. McIntire, and C. Udry. 1989. Production relations in semi-arid African agriculture. In *The economic theory of agrarian institutions*, ed. P. Bardhan. Oxford: Clarendon Press.
- Burgess, Robin and Pande, Rohini (2003). "Do Rural Banks Matter? Evidence from Indian Social Banking Experiment," BREAD Working Paper No.037
- Bell, C., T.N. Srinivasan, and C. Udry. 1997. "Rationing, Spillover, and Interlinking in Credit Markets: The Case of Rural Punjab," *Oxford Economic Papers* 49: 557-585.
- Cartwright, J. (1970) *Politics in Sierra Leone: 1947-67*. Toronto, University of Toronto Press.
- Clapham, C. (ed.) (1982) *Private Patronage and Public Power: Political Clientelism in the Modern State*. London, Frances Pinter.
- Chambers, R et al., (1989) and Jiggins, J. *Agriculture research for resource poor farmers: a parsimonious paradigm*. Brighton (Sussex): IDS discussion paper 220.
- Chung, I. 1995. "Market Choice and Effective Demand for Credit: Roles of Borrower Transaction Costs and Rationing Constraints," *Journal of Economic Development*. 20(2): 23-44
- Cox- George N. (1969), report of the working party on capital availability and Sierra Leone Entrepreneurship (Freetown: Bank of Sierra Leone).
- Conning, J. 1996. "Financial contracting and intermediary structures in a rural credit market in Chile: a theoretical and empirical analysis" PhD dissertation, Yale University
- Dale W. and Delbert A. Fichett eds. *Informal Finance in Low-Income Countries* (Westview Press : Boulder, 1992).
- Diamond, Douglas, W., "Reputation Acquisition in Debt Markets," *Journal of Political Economy*, 97(4), 1989, pp.828-861.
- D. W. Adams & D.A. Fitchett, eds., *Informal Finance in Low-Income Countries*. Boulder CO, Westview -, & H. Schrader, 1999:
- Dhikuti Revisited: From RoSCA to Finance Company. *Savings and Development* (Milan) 33/1:47-55 -, & D. Torres, 1999: Are Grameen Replicators Sustainable,

and do they reach the Poor? The Case of CARD Rural Bank in the Philippines. *The Journal of Microfinance* 1/1:117-130

Decron, S. (2002). Income risk, coping strategies and safety nets. Discussion Paper No. 2002/22. World Institute for Development Economics Research (WIDER), New York: United Nations University.

Dunford, C. (2001) Building better lives: Sustainable linkage of microcredit and education in health, family planning and HIV/AIDS prevention for the poorest entrepreneurs. Paper prepared for the Microcredit Summit Campaign, Washington, DC.

E. Rhyne and R.P. Christen, Microfinance enters the marketplace, United States Agency for International Development, Washington, DC (1999).

Ellis F., 2000, Rural Livelihoods and Diversity in Developing countries, Oxford University Press Experience, "World Development, 20(6), 1992 pp. 859-872.

Fisher, T., & Sriram, M. S. (2002). Beyond micro-credit: Putting development back into micro-finance. New Delhi: Vistaar Publications & Oxford: Oxfam and New Economics Foundation.

Folstar, P. (2005) integration of innovation in the corporate strategy of agri-food companies. In: Jongen, W.M.F.; Meulenbergh, M.T.G. (eds.) Innovation in Agri-food systems. Wageningen Academic Publishers.

Fisher T., Sriram .M.S, 2002, *Beyond Micro-Credit, Putting Development Back into Micro-Finance*, Oxfam, Oxford, UK

Fisher. T. , M.S. Sriram; *Beyond micro-credit: putting development back into Micro-finance*. With contribution from: Malcom Hamper, Ajit Kanitkar, Frances Sinah, Mathew Titus. Vistaar Publisher, New Delhi.

Floor, W.M.(1979) "The bankers (sarrafs) in Qajar Iran," *Zeitschrift der Deutschen Morganlandischen Gesellschaft* 129, 2, pp. 263-81.

Floro, Sagrario L. and Pan A. Yotopoulos, Informal Credit Markets and the New Institutional Economics : The Case of Philippine Agriculture (Boulder : Westview Press, 1991).

Foray, C.P. (9 September 1988) "The Road to One-Party State: The Sierra Leone Experience." Africanus Horton Memorial Lecture delivered at the Centre of African Studies, University of Edinburgh.

Floro, Sagrario L. and Debarj Ray (1996) "Vertical Links between Formal and Informal Financial Institutions,". Unpublished.

Fourth annual BDS Seminar, Turin, Italy, 2003, by Alexandra O. Miehlabradt and Mary McVay

Giddins, A. (1990) *the return of grand theory in the human science*. Cambridge University press, Cambridge.

Gershon Collier, *Sierra Leone: Experiment in Democracy in an African Nation* (New York; New York University Press, 1970);

Geertz, Clifford. "The Bazaar Economy: Information and Search in Peasant Marketing," *American Economic Review*, 68, 1978, pp. 28-32.

Ghate, P.B. (1992) "Interaction Between the Formal and Informal Financial Sectors: The Asian

Ghate, P., 1992: *Informal Finance*. Manila, Asian Development Bank & Oxford University Press

Graham, Robert. *Iran: The Illusion of Power* (New York: St. Martin's Press, 1980).

Grant, R.M. (1998) Foreword. In: Segal-Horn, S. (ed.) *The strategy Reader*. Blackwell Publishers. p 7-9.

Hamidul. H. 2000, *people's livelihood in people's hands*- Thesis Wageningen

Halder S.R. BRAC's business development services—do they pay?, *Small Enterprise Development* 14 (2) (2003), pp. 26–35.

Huies, J. Marilyn, and Charles T. Thompson "Peasant and Bazaar Marketing Systems as Distinct Types," *Anthropological Quarterly*, 41, 1968) pp. 218-27.

Hossain, M. 1988. *Credit for alleviation of rural poverty: The Grameen Bank in Bangladesh*. Research Report 65. Washington, D.C.: International Food Policy Research Institute.

Huppi, M., and G. Feder. 1990. The role of groups and credit cooperatives in rural lending. *The World Bank Research Observer* 5 (2): 187-204.

Iran Almanac 1968 and Book of Facts (Teheran: Echo of Iran, 1968).

ILO (2002). Start and Improve Your Business linkages to finance program: The Zimbabwe case. Project Report. International Labour Office—SIYB Regional Project Office, Harare.

James Curry (1995), History of West Africa community

J. Copestake, S. Bhalotra and S. Johnson, Assessing the impact of microcredit: A Zambian case study', *Journal of Development Studies* 37 (4) (2001), pp. 81–100. Cited By in Scopus (11)

Kabeer, N. (2001) Conflicts over credit: re-evaluating the empowerment potential of loans to women in rural Bangladesh. *World Development* 29(1): 63-84.

Karlan, D., & Valdivia, M. (2006). Teaching entrepreneurship: Impact of business training on microfinance clients and institutions. *Innovations for Poverty Action* (program), Yale University, April 3rd, mimeo.

Khalatbari, Firouzeh (1993), "The Underground Economy of Iran," Central Bank of the Islamic Republic of Iran.

King, Robert G. and Levine, Ross (1993) Finance and Growth: Schumpeter Might Be Right. – *Quarterly Journal of Economics* CVIII.

Kimball, R. (2001). Bundling microfinance and BDS: The operational difficulties faced by PRIDE/Finance (Guinea). Annex 3 to a case study of ADEMCOL in Colombia, *Microenterprise Best Practices*. United States Agency for International Development, Washington, DC.

Kiyuna, I.; Angelo J.A.; Coelho, P.J.; Assumpção, R. de. (2005) Floricultura: desempenho do comércio exterior em 2004. Instituto de Economia Agrícola. Omta, O.;

Kochar, A. 1997. "An Empirical Investigation of Rationing Constraints in Rural Credit Markets in India," *Journal of Development Economics* 53: 339-371.

Kropp, E., M.Th. Marx, B. Pamod, B.R. Quinones, H.D. Seibel, 1989: *Linking Self-help Groups and Banks in Developing Countries*. Eschborn, GTZ, & APRACA, Bangkok

Kunkel, C. R., & H. D. Seibel, 1997: *Microfinance in Laos*. APRACA, Bangkok

Le Billon, P. (2000) *The Political Economy of War: What Relief Workers Need to Know*. ODI, Relief and Rehabilitation Network.

Lemarchand, R. and Legg, K. (1972) "Political Clientelism and Development,"  
*Comparative Politics* 4.2: 149-178

Goldmark L. *Beyond finance: Microfinance and business development services.*

Long .N., 1977, *An introduction to the sociology of rural development*: London  
and New York: Tavistock Publications.

Magbaily Fyle (2002), "Indigenous Values and organization of Informal Sector  
Business in West Africa,"

Magbaily Fyle (1987), *Culture Technology and Policy in the Informal sector:  
Attention to Endogenous Development*, in Sierra Leone

Magbaily Fyle (1988), "Indigenous Commerce and Entrepreneurship: The  
Sierra Leone Hinterland in the Nineteenth Century" in *history and socio-  
economic development in Sierra Leone*

Martin Kilson, *Political change in a West African state: A study of the  
modernization process in Sierra Leone*

McKernan S. M., *The impact of microcredit programs on self-employment  
profits: Do noncredit program aspects matter?*, *Review of Economics and  
Statistics* 84 (1) (2002), pp. 93–115. Cited By in Scopus (9)

Miller, M. Berger and L. Goldmark, Editors, *The Latin American model of  
microfinance*, Intern-American Development Bank, Washington, DC (2006),  
pp. 1–27.]

Moll, H.A.J., A.van Tilburg and M.D'Haese (2006). *Microfinance and  
marketing in Developing Countries*

McKinnon, R. I., (1973), *Money and Capital in Economic Development*  
(Washington, D.C. : Brookings Institutions, 1973).

Mowlana, Hamid, (1979), "Technology versus Tradition: Communication in the  
Iranian Revolution," *Journal of Communication* 29, pp 107-112.

Najafbagy, Reza. *Employee-Supervision Attitudes in Banks : A Comparative  
Study Between The Netherlands and Iran* (Leiden: E.J.Brill, 1970).

Nighat Said Khan (1984) 'Income Generating Activities for Women in  
Pakistan: Why some succeed, Why some fail', Article prepared for "Ideas and  
Action" (FHCC/Action for Development), 1984;  
[www.womensenews.org/article.cfm/dyn/aid/1239/context/cover/](http://www.womensenews.org/article.cfm/dyn/aid/1239/context/cover/)

Nisttahusz, S. Montaña Hernandez G. and M. Lavayén, La importancia de los servicios de desarrollo empresarial en el desarrollo de la micro y pequeña empresa y su relación con las microfinanzas, Funda-Pro, La Paz, Bolivia (2002)

Parsa, Misagh, Social Origins of the Iranian Revolution (New Brunswick and London: Rutgers University Press, 1989).

Roling N.G. (1992)[ facilitating sustainable agriculture changes policy models. Paper IDS workshop. Beyond farmers first: rural people's knowledge, agricultural research and extension practice. University of Sussex, Brighton, October 27-29.

Reno, W. (1995) Corruption and State Politics in Sierra Leone. Cambridge, Cambridge University Press

Reno, W. (1997) Humanitarian Emergencies and Warlord Economies in Liberia and Sierra Leone. Helsinki, World Institute for Development and Economic Research

Reno, W. (1998) Warlord Politics and African States. Boulder, CO, London, Lynne Rienner

Rotblat, Howard J. Stability and Change in an Iranian Provincial Bazaar (Chicago :The University of Chicago, 1971).

Stiglitz, J. E., and A. Weiss. 1981. Credit rationing in markets with imperfect information. *American Economic Review* 71 (3): 393-410.

Sylvia Chant 1991 Women and Survival in Mexican Cities: Perspectives on Gender, Labor Markets and Low-Income Households. Manchester, UK: Manchester University Press.

(S.M. Hashemi, R.Schuler, and A.P. Riley), 'Rural Credit Programs and Women's Empowerment in Bangladesh', *World Development*, Vol. 24, Number 4, April 1996, pp.635-653.09).

TJP (2003). Tkwin Jdid Performance Report, March–December 2002, and, Final Report, Implementation Grant Program, United States Agency for International Development, unpublished.

Udry, C. (1990). Credit markets in northern Nigeria: Credits as insurance in a rural economy. *World Bank Economic Review* 4: 251-269.

Shaw, Edward S. Financial Deepening in Economic Development (New York : Oxford Press, 1973).

Sierra Leone trade journal (Freetown: Ministry of information and broadcasting)

Stiglitz Joseph E., "Government, Financial Markets, and Economic Development," NBER Working Paper 1991.

Tordoff, W. (1997) Government and Politics in Africa. London, Macmillan 3rd Edition.

The World Bank & IFAD, 2000: Rural Financial Services Project. Washington DC & Rome

The World Bank Group: Sierra Leone: 1980-2000. Retrieved on 3 August 2003 from <http://www.worldbank.org/data/countrydata.html>

Urbach Alan D. and Jurgen Pumpuen (1978), "Currency Trading in the Bazaar: Iran's Amazing Parallel Market," *Euromoney* June, pp. 115-117.

United Nations Development Programme (2004) Human Development Report: Cultural Liberty in Today's Diverse World. Retrieved on August 2, 2004 from [http://hdr.undp.org/reports/global/2004/pdf/hdr04\\_HDI.pdf](http://hdr.undp.org/reports/global/2004/pdf/hdr04_HDI.pdf)

Van der Ploeg ( 1991) Landbouw als mensenwerk continho, Muiderberg, the Netherlands.

Wai U Tun, "What have we learned about informal finance in three decades?" in Adams

Warren *et al.*, (1991).indegenous knowledge systems:the culture dimensions of development. Kegan Paul International, London.

Yar-Shater, Ehsan, eds., Encyclopedia Iranica volume IV (New York : Routledge and Kegan Paul, 1990).

Zeller, M., Sharma, M., Ahmed, A.U. and Rashid, S. (2001). Group-based financial institutions for the rural poor in Bangladesh. An institutional- and household-level analysis. Research Report No. 120. Washington DC: International Food Policy Research Institute.

Web site of enterprising solution ([mitaf.esglobal.com](http://mitaf.esglobal.com)), visited September 2007

Web site of Food and Agriculture Organization ([www.fao.org](http://www.fao.org))

Web site of the national commission for social change (NACSA), [www.nacsa-sl.org](http://www.nacsa-sl.org)

Web site of The Bank of Sierra Leone (BoSL), [bankofsierraleone.org](http://bankofsierraleone.org)

<http://www.networking-knowledge.com/basics4.html>

<http://www.womensenews.org/article.cfm/dyn/aid/1239/context/cover>