

IN THE AGRICULTURAL AND SMALL SCALE INDUSTRIES SECTORS OF THE SIERRA LEONE ECONOMY

Alwin Taylor

African Center for Monetary Studies, Association of African Central Banks

1. Introduction (*)

Our interest in institutional credit for the agricultural and small scale industries' sectors of the Sierra Leone economy stems from the fact that these sectors would have to play a leading role in the development of the economy in view of the small size of the domestic market and the country's comparative advantage in land and unskilled labour. A fundamental requirement for their development, however, is the continuous flow of credit at every stage.

The study examines the existing institutional arrangement for financing the needs of the agricultural and small scale industries' sectors and argues that the present institutional arrangement was unsuited to the peculiar nature of these sectors and that a specialized institution is required to provide supervised credit for the agricultural sector while in the case of small industries an enlargement of the conception and role of the existing National Development Bank could meet their requirements.

Section 2 discusses the source and uses of aggregate funds available to all financial institutions in the country and examines the policy implications of the present pattern of resource use. In Section 3 we establish that there is a demand for credit in the agricultural and small scale industries' sectors giving the stage of development of the economy. Some comments are provided on previous assistance programmes in Section 4 and in Section 5 an attempt is made to provide some order of magnitude of the « Credit Gap ». That Section also contains our views on the type of institutional arrangement that the sectors require to aid their development.

2. Sources and Uses of Aggregate Funds

(i) *The Size of the Financial Sector*

Table 1 gives assets of all financial institutions for the years 1960-1976. This table

(*) The author hereby acknowledges the assistance he has received from the officers of the Bank of Sierra Leone and Dr. P. Obeng of the United Nations Development Institute, Dakar. The views expressed in this article are the author's only.

shows that assets of financial institutions at the end of 1976 were about eleven times what they were in 1960. Although the annual rate of growth of assets averaged 17% (current prices), the rise was particularly high in 1960-61, 1967-68 and 1972-73 when the increases were 20% and 39% and 51% respectively. The table also reveals that three institutions - namely, the Bank of Sierra Leone, the Commercial Banks and the Post Office Savings Bank, accounted for about 90% of the total assets of all financial institutions. But most of the observed growth in assets has been due to increases in the assets of the Bank of Sierra Leone and the Commercial Banks. Whereas the assets of non-bank financial institutions went up by a mere 0.2%, those of the banks rose by 16.8% indicating the relative growth of the banks in the financial structure.

Following Goldsmith¹, we use as indicator of the size of the financial sector the ratio of the assets of financial institutions to Gross National Product. This ratio varied between 26% and 62% during the years 1963-64 and 1975-76. This result suggests that Goldsmith's finding, with respect to the underdeveloped countries he studied, also holds true for Sierra Leone. The ratio of about 26% achieved by Sierra Leone in 1963 is lower than that which Goldsmith found for all countries, except Nigeria². Although there was a considerable improvement by 1976 (62%), the ratio was still lower than the ratio achieved by a number of developing countries in 1963.

(ii) *Sources of Aggregate Funds*

Table 2 gives details of the sources of funds available to all financial institutions in Sierra Leone. From this table it can be seen that the main sources of funds are deposits and currency issued by the central bank.

The household sector, defined to include individuals, noncorporate businesses, private institutions such as Fourah Bay College and charitable institutions, accounted for about 78% of the deposits mobilized by financial institutions. The deposits of the government sector (the central Government and public corporations) accounted for only 10% of total deposits. Deposits of the corporate sector were also small averaging about 12%. If we assume that institutions would hold as little currency as possible and are not likely to account for more than 10% of

1 R.W. Goldsmith, *Financial Structure and Development* (New Haven: Yale University Press, 1969).

2 R.W. Goldsmith, *op. cit.*, p. 209.

Table 1

TOTAL ASSETS/LIABILITIES OF FINANCIAL INSTITUTIONS: 1960-1976 (Le 000)

	1960	1961	1962	1963	1964	1965	1966	1967
Bank of Sierra-Leone ¹	12,068	13,924	14,414	14,632	15,023	20,454	20,732	21,414
Commercial Banks	10,986	14,230	15,750	20,744	26,079	25,716	27,744	27,914
Post Office Savings B.	3,150	3,189	3,306	3,296	3,246	3,291	3,199	3,714
Insurance Companies	534	614	675	810	930	1,115	1,154	1,814
Nat. Development Bank	—	—	—	—	—	—	—	—
Nat. Insurance Co. Ltd.	—	—	—	—	—	—	—	—
Co-operative Thrift and Credit Societies	264	402	596	707	897	1,078	981	1,014
Pensions, Provident Super-annuation Funds	823	892	1,080	1,200	1,371	1,443	1,547	1,514
National Co-operative	—	—	—	—	—	—	—	—
Bentworth Fin. Co. Ltd.	—	—	—	—	—	—	—	—
TOTAL	27,825	33,251	35,794	41,380	47,546	53,097	55,746	56,914

Note 1. As the West African Currency Board did not publish balance sheets for individual countries, we do not have assets/liabilities information for the years 1960-1964. Figures for the these years are the Bank's estimates of currency issued in Sierra Leone. Since the responsibility of the WACB was to issue and redeem currency, currency issued was its principal liability; capital and reserves (the other items on

1968	1969	1970	1971	1972	1973	1974	1975	1976
32,818	38,239	39,213	44,786	53,808	78,319	122,134	147,552	172,019
36,629	36,258	37,303	42,248	44,404	74,742	88,857	88,562	110,948
2,922	3,330	3,505	3,590	3,711	3,924	4,106	4,188	4,272
1,732	2,874	3,362	2,178	3,461	3,980	4,378	4,466	5,136
1,388	1,519	1,867	1,342	1,380	2,715	2,786	3,642	4,614
—	—	—	—	—	457	765	1,471	2,195
1,737	1,856	1,986	2,086	2,146	2,724	2,579	2,479	2,603
1,686	1,785	1,874	2,562	5,145	5,912	6,474	7,057	7,762
—	—	—	—	18	20	129	150	175
—	—	289	1,342	1,380	1,854	1,991	2,234	2,502
78,912	85,816	89,399	100,134	115,453	174,717	234,199	256,801	312,226

the liabilities side of the balance sheet) were quite small and therefore not likely to affect the total, significantly.

Sources: Annual Reports of each of the Financial institutions and information available at the Ministries of Finance, Trade and Industry and the Bank of Sierra Leone.

currency in circulation, then about 80 % of currency issued by the central bank is held by the household sector. Thus, the general conclusion on the sources of funds is that they were obtained largely through increased holdings of money by the Household sector.

Table 2 also shows that the deposits of individuals grew at an average annual rate of 9 % during the years 1960-1976. Growth of these deposits was particularly rapid between 1972-1973, 1973-1974 and 1975-1976 when the increase was 26 %, 24 % and 29 % respectively. Increases in income during the period would explain only a small proportion of the observed growth in savings since per capita real income increased by less than 1 % per annum. The main explanation for the rise has been the activities of financial institutions. During the period of study, financial institutions, especially the commercial banks, improved their branch coverage as well as embarked on advertising campaigns which emphasized the advantages of savings with financial institutions. Also, through the publicity campaigns of the National Development Bank people have become aware of the advantages of holding their savings in the form of shares ³.

(iii) *Uses of Aggregate Funds*

Table 3 shows the allocation of resources available by these institutions. From this table it can be seen that the main uses are: loans and advances for financing of the export/import trade, the holding of foreign securities and investment in Government securities.

Loans and advances have in the main, financed the export/import trade. The recipients of these loans are mainly large foreign firms which represent about 11 per cent of all customers but who receive 85 per cent of total loans made available by commercial banks. Loans to the agricultural sector have been quite small accounting for less than 5 per cent of total loans. The bulge in agricultural loans between 1967 and 1969 was not strictly a loan to the Agricultural Sector. This was a loan by the overseas office of one of the local banks to the Sierra Leone

3 Some other studies have shown that financial institutions can increase the rate of saving. See, for example, Economic Commission for Asia and the Far East, « Measures for Mobilizing Domestic Savings and Productive Investment », *Bulletin of the Economic Commission for Asia and the Far East*, Vol. 13, N. 3 (December, 1962), pp. 1-25.

Produce Marketing Board which was in serious financial difficulties in 1967. Once the loan was repaid in 1969 loans to the agricultural sector reverted to their usual level. It should also be pointed out that agricultural loans provided by the commercial banks were to relatively large well established farmers. Miscellaneous loans by commercial banks are invariable overdrafts to individuals and these would be related to consumption. Co-operative loans are made by co-operative thrift and credit societies and these are mainly to the average farmer or small scale businessman. The resources from which the societies have provided such financial assistance have been their savings together with overdraft facilities made available by the commercial banks through the Registrar of Co-operative Societies Loan Scheme. This overdraft facility has however been suspended since 1968 due to poor repayment records of the Societies ⁴.

Foreign Securities held by the Bank of Sierra Leone accounted on average for about 25% of the total assets of all financial institutions. It should be pointed out however, that the holding of foreign securities by the Bank has declined from a high of 39% of total financial assets in 1960 to only about 9% by 1976. Adding foreign assets held by other financial institutions to those of the Bank of Sierra Leone, the percentage of foreign securities to total financial assets averaged about 32%.

The holdings of Government securities by financial institutions increased substantially between 1965 and 1976. If we add « Ways and Means » advances and claims on public corporations to the holdings of Government securities, then the Government sector accounted for an average of about 18% of the resources of financial institutions during the period 1965 to 1976. There is nothing fundamentally wrong in directing resources to the Government especially as the Government plays a major role in the economy. What is important is that the resources made available in this way must have a reasonable prospect of improving the productive capacity of the economy ⁵.

(iv) *The Implications of the Pattern of Resources Use*

As our analysis has shown that during the period under review considerable credit was made available to the Government by the banking system, we examine

⁴ See section 4.

⁵ G.L. Kerr and J.S. Bangura, « Co-operatives and the Development of Credit System for Sierra Leone Agriculture », Bank of Sierra Leone, *Economic Review* Vol. 3 N. 3 (December 1968).

the significance of credit creation for the economy as a whole. For this analysis we use the Polak Model ⁶. This model was selected because its principal assumptions correspond with the structural features of the Sierra Leone economy. The basic assumptions of the model concern the velocity of money and the relationship between money and income. The assumption that the velocity of money is constant implies that changes in the income stream will always be coupled to changes in the quantity of money. The assumption of a constant ratio of money to income means that leakages such as the propensity to save and pay tax can be ignored. Let us briefly examine the extent to which these assumptions hold for the Sierra Leone economy.

The main determinants of income in the Sierra Leone are exports of mineral and agricultural produce, the principal exports being diamond and bauxite, coffee, cacao and palm kernels. On the other hand because of the absence of capital goods industries a large part of any investment goes directly on imports and as the manufacturing sector is still underdeveloped accounting for less than 6 per cent of GDP, a wide range of consumer goods also have to be imported. Furthermore, low productivity in the agricultural sector has resulted in food imports accounting for about a third of total imports ⁷. Consequently, the import drain dominates all other leakages and is the main determinant of the income multiplier.

Exports and imports both result in changes in the quantity of money. Exports lead to an increase in the money supply when the export proceeds are spent locally, while in the case of imports, local currency and deposits have to be given up to purchase the foreign exchange with which to pay for the required imports. In addition, it is clear from Table 2 that investment by the mining companies which runs into several millions of Leones has been financed by capital inflows. The Government on the other hand has relied on borrowings from the banking system and borrowings from external sources. And because of the absence of a local money and capital market Table 2 reveals that idle funds that exist are

6 J.J. Polak « Monetary Analysis of Income Formation and Payments Problems » *I.M.F. Staff Papers*, N. 6 1957-58.

7 For import figures during the periods of study see Bank of Sierra Leone, *Economic Review*, Vol. 10 N. 314, 1976, Table 24.

invested in foreign securities. Since investment in the whole depends largely on capital inflows, any change in the relationship between savings and investments will be reflected in a corresponding change in the quantity of money. Table 2 on the other hand reveals the virtual absence of financial intermediation by non-bank financial institutions as most of the savings of individuals are held in the form of currency in circulation and deposits at commercial banks.

We can therefore conclude that the main determinants of domestic expenditure in Sierra Leone are the same variables which cause changes in the money supply and that variations in the money stock are, in the main, caused by changes in their volume. Having shown that the structural features of the Sierra Leone economy are consistent with the assumptions of the model we now present the main conclusions arising from fitting the Polak Model to the Sierra Leone data ⁸.

The analysis reveals that an increase in domestic credit will result in a depletion of external reserves to the extent of 70 per cent of the volume of the additional credit within one year and that the reserves will decline by the full value of the additional credit within three years. The process is as follows:

Suppose there is an increase in domestic credit and that this loan is used to pay out as income. The level of income rises. Some of this income will be spent on domestic goods and services and some will be spent on imports. Part of the loan that is spent locally is income to those who provide the goods and services. There is a further round of income generation when the recipients also make purchases. This process continues until the resulting incomes add up to some multiple of the original expenditure and the magnitude of this multiple rise is determined by the income multiplier. The money supply also goes up as people require additional stock of money to finance the higher level of transactions. Polak assumes a constant ratio of money to income so that the extent of the increase in the money stock will be proportional to the new level of incomes. There is also a secondary expansion resulting from the activities of the commercial banks. He omits this possibility on the assumption that all incomes are spent. The effect of this credit creation giving rise to higher incomes and expenditure is

8 In the application of the Polak Model to the Sierra Leone economy, we followed the procedure adopted by in J.J. Polak and L. Boissonneault, « Monetary Analysis of Income and Imports and Its Statistical Applications », *I.M.F. Staff Papers*, April 1960 pp. 349-415; for the detailed results of the calculations see A.B. Taylor, « The Role of Financial Institutions in the Economic Development of Sierra Leone » *Ph. D Thesis*, University of Glasgow, 1973 pp. 325-346.

Table 2

SOURCES OF FUNDS AVAILABLE TO FINANCIAL INSTITUTIONS 1960-1976 (Le 000)

	1960	1961	1962	1963	1964	1965	1966	1967
<i>DEPOSITS</i>								
Bankers					223	222	220	222
Government	932	1,109	1,290	1,312	2,195	1,443	1,078	1,990
Public Corporations					915	908	1,153	620
Commercial Firms	1,610	1,916	2,229	2,268	2,716	2,693	2,006	2,270
Individuals	9,036	10,197	11,461	11,585	13,124	12,968	14,396	14,700
Pensions, Provident and Life Insurance	915	993	1,190	1,329	1,524	1,616	1,849	1,900
Co-operative Thrift and Credit Societies	95	130	161	224	314	390	528	530
Others	606	721	839	854	1,240	1,297	1,450	1,680
TOTAL DEPOSITS	13,194	15,066	17,170	17,572	22,251	21,537	22,680	24,220
<i>LOANS RECEIVED</i>								
External	590	1,300	1,612	5,810	7,021	5,702	5,912	5,170
From Government (including Government guaranteed)								
Others								
<i>SALE OF FINANCIAL LIABILITIES</i>			700	700	700	700	700	700
<i>CURRENCY ISSUED</i>	12,068	13,924	14,414	14,632	15,023	15,273	16,116	15,620
<i>ALLOCATION OF SDR's</i>								
<i>OTHER LIABILITIES INCLUDING CAP. RESERVES</i>	2,000	2,961	1,898	2,666	2,551	9,885	10,329	11,460
TOTAL	27,825	33,251	35,794	41,380	47,546	53,097	55,746	56,900

1968	1969	1970	1971	1972	1973	1974	1975	1976
217	215	329	1,771	1,351	2,309	4,783	2,811	4,551
2,283	4,347	2,274	2,360	2,223	6,718	5,415	521	5,597
809	1,257	1,172	635	1,151	2,931	2,780	1,402	4,831
2,798	3,337	3,171	4,055	4,378	5,268	7,257	8,020	9,197
17,483	20,213	19,356	21,759	24,763	31,320	39,040	40,063	51,927
2,054	3,021	3,332	2,734	5,386	6,162	6,749	7,357	7,962
763	805	900	974	1,320	1,322	1,377	1,097	1,261
5,439	5,854	7,693						
32,442	39,467	38,938	30,743	37,978	48,010	59,965	61,922	79,967
4,600	2,782	2,658	4,928	504	2,776	5,294	2,988	859
675	700	1,000	1,000	1,000	1,000	1,000	1,000	1,000
126	65	65	—	145	694	694	694	694
1,998	2,059	2,059	2,201	2,216	3,223	3,223	3,223	3,223
19,697	22,058	20,162	22,545	26,222	31,456	32,824	37,778	44,052
		2,100	4,329	6,538	—	—	—	—
19,988	19,148	23,128	30,843	38,256	79,538	124,388	149,847	177,072
78,912	85,861	89,399	100,134	115,453	174,717	234,199	256,801	312,226

Table 3

USES OF FUNDS AVAILABLE TO FINANCIAL INSTITUTIONS 1960-1976 (Le 000)

	1960	1961	1962	1963	1964	1965	1966	1967
<i>Money at call, Cash in Hand, Balance with Banks in Sierra-Leone and Head Office</i>	2,496	2,220	2,274	1,868	2,318	2,425	2,152	3,750
<i>Loans and Advances (Private Sector)</i>								
Agriculture	54	76	—	—	288	1,036	117	1,810
Mining	—	—	—	—	1	320	579	140
Manufacturing	—	—	—	—	747	933	1,282	1,100
Building/Constr.	—	—	—	—	1,002	2,108	2,254	1,260
General Commerce	5,406	6,946	9,984	13,978	10,767	8,991	6,787	9,610
Miscellaneous Loans (from comm. banks)	—	—	—	—	1,856	989	3,389	1,160
Co-operative Loans	103	103	163	238	338	453	196	190
<i>Loans and Advances (Government)</i>								
Rediscounts and Advances (Central Bank)	—	—	—	—	—	799	1,580	1,400
Claims on Public Corporations	—	—	—	—	—	—	778	1,860
<i>Purchases of Financial Assets</i>								
Government Securities (Banking System)	—	—	—	—	1,158	8,216	10,604	11,440
Foreign Securities and Foreign balances of the Bank of Sierra-Leone	10,900	9,927	11,369	11,591	13,607	15,184	13,730	13,240
Other Foreign Sec.	4,301	4,176	4,522	4,565	4,750	2,756	3,033	2,960
<i>Other Assets including fixed assets</i>	4,835	9,803	7,482	9,140	9,754	7,227	6,435	5,320
TOTAL	27,825	33,251	35,794	41,380	47,546	53,097	55,746	56,900

1968	1969	1970	1971	1972	1973	1974	1975	1976
1,165	2,295	1,715	1,771	975	2,080	4,515	2,540	4,285
5,153	6,206	4,234	4,079	3,750	6,995	10,347	8,018	13,004
1,780	1,083	125	181	350	362	335	710	679
177	415	345	525	454	1,145	714	1,151	1,768
1,090	1,158	1,739	996	2,080	1,428	2,363	1,755	1,793
1,450	1,403	613	686	666	1,124	1,405	1,889	2,406
10,420	11,170	14,006	14,476	15,855	19,110	23,132	21,547	22,970
772	812	1,780	1,466	1,875	2,970	2,978	9,138	8,150
814	810	836	754	784	824	1,347	1,382	1,410
150	1	4,254	4,856	3,526	3,188	12,147	13,351	12,509
1,773	996	50	259	91	412	1,468	556	12,509
13,126	11,050	12,682	9,540	11,952	17,201	18,681	43,797	65,199
22,901	29,484	24,645	25,413	31,593	38,326	45,756	27,642	29,093
2,842	3,833	4,367	3,428	4,519	6,040	7,173	6,108	7,223
15,299	15,149	18,008	31,704	36,983	73,512	101,838	117,225	140,643
78,912	85,861	89,399	100,134	115,453	174,717	234,199	256,801	312,226

a continuous depletion of the external reserves. First, there is loss of reserves through the direct expenditure on imports. The second source of reserve loss arises from the fact that some of the domestic expenditures are on imports. The size of the drain here is determined by the propensity to import. The depletion of the reserves ultimately equals the amount of credit created. « There will be a continuous loss of reserves which will gradually build up to an annual rate equaling the injection of credit »⁹. However, it takes time for the newly created income to be lost through imports. This time lag depends on the time it takes for earnings to be distributed as wages and salary, the time it takes individuals to respond to their increased incomes, and the time taken by producers to increase production in response to the higher level of demand. This time lag, which in fact determines the velocity of circulation of money, together with the size of the marginal propensity to import determine how quickly the incomes generated by the credit creation leak into imports.

As domestic credit creation causes serious pressure on the level of external reserves within a relatively short time, monetary policy in the Sierra Leone context must involve the management of the level and flow of external reserves¹⁰. As such an analysis would indicate the extent of possible reserves loss that the economy can withstand, policy measures can then ensure firstly, that the reserves are maintained at the predetermined level¹¹ and secondly, that the available credit is utilized productively to minimize the effect of the loss of reserves. Also since our analysis of the sources and uses of funds has revealed financial underdevelopment, monetary management must, in addition, concentrate on the development of the financial system so as to enable the system to increase substantially the proportion of investment financed from domestic sources.

9 I. Polak, *op. cit.*, p. 26.

10 H. Ezekiel, « Monetary Expansion and Economic Development », *I.M.F. Staff Papers*, Vol. 14 (1967).

11 J.O.W. Olankompo, « Monetary Management in Dependent Economies », *Economia* Vol. 1961; J. Marshall, « Advanced Deposits on Imports », *I.M.F. Staff Papers*, April 1958; A. Kafka « The Brazilian Exchange Auction System », *Review of Economics and Statistics*, Vol 38 (1956) pp. 308-322; J. Bhagwati, « Indian Balance of Payments Policy and Foreign Exchange Auctions », *Oxford Economic Papers* Vol 14 (1962), pp. 51-68.

3. The demand for credit in the agricultural and small scale industries sectors

From Table 2, loans from institutional sources to the small scale farmers and the small scale enterprises are those made by the co-operative and thrift societies. But the amount of credit provided by the co-operatives represents less than 2 per cent of total credit provided by all institutions.

The small or average farmer and the small enterprises have been singled out for this study because of their importance for the development of the Sierra Leone economy. Starting with the agricultural sector, as the country's principal resources are fertile land and largely unskilled labour the Government's development strategy gives priority to increased agricultural productivity. But the problem which follows from this is how to achieve this desired objective. One possibility is through a system of large plantations; alternatively through improvements in efficiency within the present framework of small scale labour-intensive units; or thirdly, through some combination of both.

In some studies the necessity for developing agriculture is to free labour for industrial development ¹². The implication here is the mechanisation of agriculture. In 1952 the case for plantation agriculture in Africa was given as follows ¹³: the rate of growth and fruiting of planting; it facilitates orderly planting and harvesting; it makes it possible to apply fertilizers systematically; it makes possible economies in transport and ensures regular supply of fruits; the oil is extracted more efficiently and waste products are utilized.

This approach to agricultural development is not practicable in Sierra Leone. This is because about 65 % ¹⁴ of the economically active population is engaged directly or indirectly in agriculture and given the fact that the population increases by about 1.5% to 2% per annum, then one would expect a continuous increase in the farm population for some time. At the same time, because of the size of Sierra Leone market, the industrial sector is not likely in the near future to absorb all the additions to the labour force. In these circumstances any programme which involves repla-

12 G.F. Papanek, « Development Problems Relevant to Agricultural Tax Policy » quoted by G.M. Meier in *Leading Issues in Economic Development* (New York: Oxford University Press, 1964), p. 289.

13 The United African Company - *Statistical and Economic Review*, n. 9 (March, 1952) pp. 3 and 4.

14 Central Statistics Office, *Sierra Leone's National Accounts 1963-64 to 1972-73*, Government Printer Freetown, June 1974, Table 23, p. 41.

cement of labour on a large scale, apart from being more expensive, may cause serious employment problems. For this reason, increased agricultural productivity in Sierra Leone must be sought through the existing small scale labour intensive units. A second reason why use must be made of the existing small units is the scarcity of capital which has been emphasized by a number of studies¹⁵. Most underdeveloped countries do not have all the capital they would like for the simultaneous development of all sectors of their economies. There is therefore need for economy in the use of capital wherever this is possible and it has been shown that such economies are possible in the agricultural sector. There now exists relatively simple and cheap technology which complements labour rather than substitutes labour and which has been shown to result in significant increases in agricultural productivity. The third important factor in favor of development through existing small scale units is to ensure a sustained demand for the products of the industrial sector. Incomes in the agricultural sector are currently very low and such incomes are earned only during certain months of the year because of the seasonal nature of farming. If we rule out manufacturing for the world market for the time being, then demand must come from the agricultural sector. Without this, the manufacturing sector cannot grow. It can be argued that demand can come from the manufacturing sector especially with rising incomes. But one could not rely on this source to any great extent in Sierra Leone because the industrial population is small and incomes are not particularly large.

Because of these three factors, we would expect the development strategy for agriculture in Sierra Leone to be largely labour intensive. Our analysis of the demand for credit in the agricultural sector therefore rests on this fundamental contention that the development of the agricultural sector must depend on improving the efficiency of a large number of small scale farmers and, although some amount of plantation agriculture will be inevitable, this would be the exception rather than the rule.

Since our assumption is that progress would depend on improvement of the efficiency of a large number of small scale farmers, our starting point of the analysis of the demand for agricultural credit must be with the present condition of the small

15 J. Livingstone, « Agriculture Vs. Industry », *Journal of Modern African Studies*, Vol. 6, N. 3, (October 1968); H.T. Oshima, « A Strategy for Asian Development », *Economic Development and Cultural Change*, Vol. 10, N. 3 (April 1962).

scale farmers. To begin with the method of production is by shifting cultivation involving the use of hand tools which have not changed significantly during the past 50 years. The direct consequence of this has been that agricultural production per farmer has been very small. Because he has to share his output with those who assisted in production and the extended family very small surpluses can be obtained.

A second factor and perhaps the most important affecting the condition of the farmer is the marketing arrangement. Marketing is undertaken by the Sierra Leone Produce Marketing Board (SLPMB), a statutory body. The SLPMB operates through buying agents in various parts of the country. Naturally, these agents are stationed in the main towns and large villages. The result is that between the farmer and the SLPMB's agents there may be several intermediaries. The consequence of this is that the producer prices announced by the SLPMB are not the prices received by the farmer, since each of the middlemen involved must take some return. Another aspect of the marketing arrangement is the fact that the prices paid by the SLPMB to its buying agents are far less than world prices. Studies have shown that in some years the prices fixed by the SLPMB for the two main commodities were as low as 50 % of the world market prices ¹⁶. However, even this amount is not what the farmer receives. Taking into account the fact that grades of produce are decided by the traders and others who may buy from farmers, what the farmer receives may be very small in relation to world prices.

A third important feature of the Sierra Leone agriculture is that it is seasonal, and during the rainy season when food is relatively scarce, the farmer and his family have to depend on previous savings or on crops they have stored. At the same time, he cannot supplement his income by working outside the sector since there are virtually no employment outlets elsewhere. But the amount of savings he can make depends on his income which is low; and the amount of produce he can store for the « hungry season » depends on his storage facilities. Where these do not exist, as in most cases, he would have to sell his produce at harvest. To provide his requirements for food and seeds he may have to pledge part of the next season's crops.

Fourthly, customs and traditions are very important in the rural areas. Initiation into traditional societies, marriages, funerals are so important in these areas that some farmers may be prepared to incur very large debts on the security of their farms to

16 R.G. Saylor, *The Economy of Sierra Leone*, Durham N.C.: Duke University Press, 1967.

fulfil social obligations rather than be looked down upon by others of their community.

These customs and traditions are in fact the main incentive for some of these people. This does not mean that the farmer does not try to maximize his money profits. What we are in fact suggesting is that the farmer takes into account his social and moral values in trying to maximize his money profits.

In the setting we have described consisting of traditional methods of farming, small savings and low returns to the farmer, improvement in agricultural productivity may be possible only with sufficiently attractive incentives to the farmer. This should appear surprising since it is usual to argue that agricultural development in under-developed countries needs amongst other things, education, entrepreneurship, good communication and more efficient marketing arrangements. We do not deny that such factors are important and as will be seen later, some of these are included in our conception of incentives. What we emphasize is that no matter how efficient the other factors are unless the farmer sees that he can benefit from their utilisation the results anticipated may not be realized.

Given the present situation which involves effective control over the farmer's crop by non institutional sources of credit, the provision of credit through a specialized agency will be an important incentive which is likely to yield significant increases in agricultural productivity. First, the control which non-institutional sources now exert on farmers must be broken since undue debt burdens have been shown to be a major obstacle to agricultural development ¹⁷. Second, a specialized agency for agricultural credit if properly operated will insist that credit flows to those who can use such credit productively. The credit policy of such an institution will indirectly encourage the use of new methods and high yielding seeds, since some of the credit will be specifically for these purposes. To ensure that loans are effectively used such an agency will either establish some close links with existing extension services of these Agricultural and Co-operative Department or may provide its own extension services. Fourth, to ensure that credit requirements are not only met but also that repayments are made when due, such an agency will establish links with marketing institutions such as the SLPMB and Co-operative Societies, so that, if

17 W.A. Lewis, « Developing Colonial Agriculture », *The Three Banks Review* (March, 1949).

need be, repayments are deducted at source, that is when the produce is sold. The farmer will respond positively because the use of better inputs will increase his output and hence his income. Also, the conditions for loans from such an agency will be more favorable since the rate of interest is not likely to exceed 20%. In addition, the agency could specify some form of marketing arrangement which is likely to eliminate at least some of the middlemen¹⁸. The return to the farmer will be greater still if the SLPMB can modify its pricing policy to give the farmer a larger percentage (say 70%) than at present for his produce. Thus, given proper policy mix, credit can be a sufficient condition for a breakthrough¹⁹.

It can be argued that instead of providing agricultural credit the same result can be achieved if the farmer received the full world prices (less any expenses for marketing). This may not necessarily be the case. To begin with since nothing has been done to eliminate the middlemen it is not certain that all the higher prices will go to the farmer. Some are likely to be retained by the middlemen. Also, the non-institutional sources from whom he borrows are certain to increase their charges. In addition, the farmer's productivity need not increase as the increased income need not necessarily be spent on better implements. The situation under a system of institutionalized credit should be quite different; (a) the credit will be for some inputs, (b) the hold of money lenders and other will be weakened, and (c) some of the middlemen are likely to be eliminated.

The farmer benefits by getting more income but the economy also benefits because productivity has increased. There is now sufficient evidence to show that the farmer responds positively to economic stimuli so that once he knows that by using an

18 The replaced middlemen need not necessarily be unemployed since if productivity increases sufficiently they may be attracted to farming.

19 It can be argued that increasing the percentage share of the world price given to the farmer may lead to loss of revenue to the Government. This need not happen because of the increase in productivity which is likely to follow the price and other incentives. It should be noted however that a policy of uncompetitive producer prices might increase the scale of smuggling resulting in a greater loss of revenue.

Another possible objection to increasing the percentage of the world price going to the farmer is that such a policy might tend to raise the cost in the industrial sector. As this must be a very long run possibility given the extent and nature of unemployment and the effectiveness of the labour movement, the author would not be unduly worried about the possibility.

improved variety of seed he gets more income, he will certainly continue to use the improved method even though he may not have cause to borrow from the credit agency after the first few loans have been repaid.

Turning next to small scale industries, it is also our view that supervised credit, that is, credit combined with the provision of ancillary services will be fundamental for the development of small scale industries in Sierra Leone. This is because assisted businesses will be under obligation to implement the advice and suggestions of the lending institutions. They will do so with knowledge that in cases of emergencies the lending institution will be ready to help. They will also be expected to receive inspectors from the lending institution. In contrast, those enterprises which do not receive any direct financial assistance from the lending institution are under no such obligation. Such enterprises may see no reason why they should abandon a method of production they have been accustomed to for one suggested by a lending institution and about which they are unfamiliar. On the other hand, merely providing credit without the other supporting services and without supervision is likely to result in the credit being misused. But the commitment of the enterprise to the lending institution through credit should ensure the continuous development of small industries as such assistance would be conditional on efficient methods of production being utilized, proper accounting procedure adopted and so on. It is in this sense that we consider the availability of credit an important requirement for the successful development of indigenous industries.

Like the farmer, the Sierra Leonean businessman encounters a number of problems of entrepreneurship. Two factors have limited the flow of entrepreneurs. To begin with, those who undertake business do so because they could not do anything else or have just retired from the civil service or from a commercial firm. This is the case because, in common with most with African countries, Sierra Leoneans have been educated to regard business as an inferior job and to regard the civil service and the professions as the place for the « best brains »²⁰. In addition, jobs in the civil service and the professions ensure a steady flow of income and carry with them several fringe benefits, the most important being furnished houses, for which only a nominal rent is paid, and free medical care. Also, because of the prestige of these

20 R. Dumont, *False Start in Africa* (London: Andre Deutsch, 1966), especially the introduction by T. Balogh.

jobs, even successful businessmen do not encourage their children to be involved in their enterprise so as to ensure continuity. The second factor affecting the supply of entrepreneurs is the shortage of technical skills. Manufacturing requires technical skills and this is quite apart from managerial ability. Unfortunately, technical education has not figured prominently in the educational structure of the country. The attitude of the businessman himself affects his efficiency. Not only does the Sierra Leonean businessman expect quick profits, but also these profits are invariably not used to expand or modernize the business. These profits are in fact used in conspicuous consumption to demonstrate the extent of his wealth. On the other hand, when quick profits are not forthcoming or when a sudden misfortune occurs he is likely to give up the business. He does not keep proper records so that in most cases he cannot assess the profitability of the enterprise. Another aspect of the attitude of the businessman is dishonesty both on the part of partners and employees. This has resulted in most enterprises being a one-man concern. Other factors which have also contributed to the businessman's being individualistic are tribalism and the extended family system.

The central problems of a financial nature for the indigenous businessman are centred on the following. First, indigenous enterprises are under-capitalized. In 1960, Cox-George²¹ found that the average size of African enterprises was Le 11,308 and with quite a few of the firms surveyed having capital as low as Le 200. In 1966, Host²² reported that insufficient capital was one of the major problems facing the indigenous enterprise. Similar views were expressed by Stober in June 1968²³. Initial capital for business has come from (a) past savings including gratuity from previous employment, (b) savings in the form of « osusu », (c) borrowings from friends and relatives and from (d) commercial banks.

A second source of financial difficulty for the indigenous businessman is that such enterprises invariably have to extend credit to their customers. Non-repayment or

21 N.A. Cox-George, *Report on African Participation in the Commerce of Sierra Leone* (Freetown: Government Printer, 1960).

22 R. Host, *Report on Small Industries in Sierra Leone, An Approach to a Comprehensive Programme for Industrial Development in Sierra Leone with Special Reference to Indigenous Small Industry* (Freetown: Government Printer, 1965), Chap. 6, para. 6.

23 R.I. Stober « Small Industries in Sierra Leone », Bank of Sierra Leone, *Economic Review*, Vol. 3 N. 1 June 1968.

delays in making payment can seriously affect the cash flow and since they rely on day-to-day sales for working capital such delays or non-repayment can cause very serious financial problems. In this regard, Marris²⁴ writing about traders in Kenya observed that about 90 per cent of shopkeepers have had to give credit to retain customers and many lost money in the process. This is also true of Sierra Leone. Thirdly, there are several problems in connection with obtaining and installing equipment. For example, getting the right type of equipment and getting it in time, particularly now that the frequency of shipping services to Freetown has been reduced, have been serious problems. An so too has been the problem of spares. To take one example, in 1968 and 1969 most of the buses of the Road Transport Corporation were out of service because there were no spares. A new fleet had to be ordered in 1970. If this could happen to a large organisation then it is reasonable to expect difficulties for the small operators as well.

Next, no form of industrial advisory service exists in Sierra Leone. Thus, when difficulties arise the producer has nowhere to turn to and may not have the resources to secure the service of professionals.

Finally, the size of the Sierra Leone market is very small both in terms of population and per capital income. Not only is the market small but it is also highly stratified. For example, per capita income in the agricultural sector is Le 77 per annum or less than Le 2 per week on average. This group of workers as we have seen constitutes approximately 70 % of the economically active population. In the middle stratum is a wide range of workers. These include qualified clerks who earn between Le 8 and Le 10 per week. Artisans and skilled manual workers earn between Le 4 and Le 8 per week, while labourers earn between Le 2.50 and Le 4 per week. At the upper level are graduates, politicians, senior civil servants, professionals, diplomats and businessmen. These earn Le 30 per week and over. The total number of people in this group however would not exceed a few hundreds given the educational structure. The implication is that the entrepreneur has to be alert in his assessment of market conditions and he must keep the market under constant review.

To summarize, the indigenous businessman like his counterpart in other underdeveloped countries, especially in Africa, faces a number of difficulties some of which

24 P. Marris, « Lending Money », *Journal of Modern African Studies*, Vol. 5, N. 2 1967, p. 227.

are the direct result of the nature of the economy while others may be attributed to the businessman himself. He therefore has to be assisted if he must succeed.

4. Observations on previous assistance programme

It can however be argued on the basis of previous assistance programmes that there is no effective demand for credit in the country ²⁵. The schemes in question are the Registrar of Co-operative Societies Loan Fund; the Agricultural Loans and Credit Scheme and the Fisheries Credit Scheme, in the Agricultural Sector; the Development of Industries Board (for small scale industries); and the Sierra Leone Revolving Loan Scheme for the mining sector. Sierra Leone Investment Limited, a joint venture between the Sierra Leone Government and the Colonial Development Corporation, was concerned with relatively large enterprises since its minimum investment was Le 200,000 which should not exceed 50 per cent of the total cost of the project. With the exception of the Revolving Loan Scheme for the mining sector all the other schemes have been discontinued because of poor repayment records. After a detailed examination of each of the Schemes, we have come to the conclusion that the failure of the various schemes was due to the way in which the assistance programmes were conceived, formulated and administered.

Quite often the single factor approach to the development of the small scale industries has been adopted. In this approach, the most important factor inhibiting the development of indigenous industries is ascertained or assumed and efforts are then directed towards eliminating that problem. In the West African scene, one economist ²⁶ has suggested that the basic problem is the economic environment

25 P.S. Schatz, *Development Bank Lending in Nigeria* (Ibadan: Oxford University Press, (1964). Schatz observed in his study on the Nigeria Development of Industries Board: « The idea of a capital shortage in the indigenous private sector of the economy is an illusion created by a large false demand for capital; and what really exists is not an immediate shortage of capital at all, but an immediate shortage of viable projects, i.e. projects that, all things considered, promise to be sufficiently profitable to attract private investment ».

26 S.P. Schatz, « Economic Environment and Private Enterprise in West Africa », *Economic Bulletin of Ghana* (December, 1963).

while another ²⁷ has emphasized entrepreneurship. Our analysis of the problem being encountered by indigenous businessmen, however, indicates that « any single factor approach is likely to be ineffective » ²⁸. In emphasizing the point that too much attention should not be given to a single factor Davenport says: « the development of the modern small scale factories depends not only on a more adequate capital and credit, but also on managerial training, technical advice, market information, project design, raw material supplies » ²⁹.

In the case of the schemes for the agricultural sectors the factors explaining the poor repayment record could be grouped into three broad categories: administrative problems; political influences and external factors such as world market conditions. Let us examine these turn.

The Administrative Problems of the Scheme - To begin with, the procedure for obtaining loans was rather unwieldy and involved a considerable time lag between the applications and the disbursement of the loan with the result that someone in real need would have obtained the amount required from some other source. Briefly, the procedure adopted by the Registrar of Co-operatives for loans under the Registrar of Co-operative Loans Scheme was as follows: applications are submitted to the Loans Committee of the Co-operative Societies; the loans approved by the committee were then vetted by the Co-operative Field Inspector who reduces the sizes of each loan; the application then went to the Area co-operative Officer, who after re-evaluating the applications forwarded them with his comments to the Registrar of Co-operatives in Freetown; the Registrar again evaluated the application before approval; the approved applications then went to the sub-accountant who made a cheque for the Registrar's signature; the cheque then went to the Area Officer who encashed and disbursed the amount personally or through the field officer; the co-operative society disbursed the loan to its members when the sureties had executed a bond which contained the terms and conditions for the loan.

27 P. Kilby, *Industrialization in an Open Economy: Nigeria 1945-1966* (Cambridge the University Press, 1969).

28 E. Staley, and R. Morse, *Modern Small Industry for Developing Countries* (New York: Mc Graw Hill Book Company, 1965), Quoted from Davenport, *op. cit.*, p. 11.

29 R.W. Davenport, *Financing the Small Manufacturer in Developing Countries* (New York and London: Mc Graw Hill Book Company, 1967) pp. 57-58.

Secondly, because all applicants knew that the amounts applied for would be revised downwards through the various stages of the application, they applied for an amount far in excess of their needs and in a number of cases were able to receive loans far in excess of their requirements. Also, members had been able to get excess loans for another reason. The amount of loans to each member depended on his produce turnover and the volume of produce brought to the society's warehouses. Thus a member could borrow up to 80 % of his produce turnover if the produce was taken to the society's warehouses. To improve their chances of getting more loans, members in several cases bought produce from other members and non-members and produced these to the society's warehouses as their own. At harvest they were unable to repay the loan because the yield was far less than their commitments.

Thirdly, according to the regulations, all applicants must state the purpose for which the loan is required, the duration of the loan, and all such applications must be supported by two sureties who should ensure that the loans are used for the purpose stated and from whom the loans should be recovered in cases of default. Also, the regulations require that before a loan is approved the committee and others reviewing the loans must take into account the credit-worthiness and character of the applicant, his earning capacity, his produce turnover, his past repayment discipline and the benefit that will accrue to the borrower. In practice, however, these conditions were not taken into account even at the top level and the reason advanced has been the lack of adequate staff. For example, 38 marketing societies were granted additional loans even though they had not repaid previous loans, and 29 others received medium and long term loans in addition to a number of short term loans. So that societies and members with very poor repayment records received further loans.

Fourthly, it is common knowledge³⁰ that loans are likely to be misused if the lending agencies do not have checks to ensure effective utilization. However, there have been cases in which loans for fertilizers, seeds and farm implements were disbursed in cash instead of in kind. Because of shortage of staff, the supervision and technical services envisaged under the Agricultural Credit Scheme did not materialize.

Finally, no serious attempts were made to recover the overdue loans from default-

30. Karr and Bangura, *op. cit.*, p. 8.

ters and their sureties. Under the Fisheries Scheme it is reported that a number of the recipients could no be traced but at the same time the records do not show attempts made to recover the loans from sureties.

Political influences - This has been an important factor influencing large loans under the Agricultural Credit Scheme and the Fisheries Scheme. In these two cases loans exceeding Le 2,000 are the responsibility of Ministers, and number of such large loans have remained outstanding. The political influence has affected the loan enforcement also in the case of some co-operative loans involving committee members and « big men » of the town, for which repayment has not been enforced.

External factors - The most important external factor is falling prices of cacao and coffee. The considerable fall in the world prices of cacao and coffee in the late 1950's and early 1960's affected the incomes of farmers and hence their ability to repay their loans.

Secondly, the repayment schedule in some cases was not realistic. For example, loans for lorries, tractors and hullers and iron safes were approved as short term loans and loans for buildings were classified as medium term loans.

Thirdly, the economies of some of the projects were not carefully examined. For example, loans made for tractors, lorries and large plantations were approved without examining their economic feasibility. Stores have been built in areas where storage facilities already existed and where those available have not been used. In fact, most of the stores built with Registrar of Co-operative Societies loans have not been used and some of them have had to be rented to meet repayment obligations.

Finally, in approving loans for lorries, tractors, hullers and other implements, the basic assumption was that spares and repair facilities would be available. These services were, however, not provided and most of the equipment went without service and in consequence became unproductive.

These factors account for the very unsatisfactory repayment record of the credit schemes operated by government departments. Rather than suggesting lack of demand, the poor repayment records emphasize the need for specialized institutions which will not only provide credit but also educate loan recipients on how to use credit productively.

Similarly, the DIB and SLIL were established on the assumption that finance was the only obstacle to industrial development. Secondly, the DIB was badly administered due partly to a management which lacked the necessary training and partly also to the fact that the DIB did not have a staff of its own for all the necessary feasibility and pre-investment studies, nor was it possible for the DIB to undertake any follow up once a loan had been approved. In addition, there were political influences which affected both the approval of loans and the enforcement of loan repayments.

Rather than being used as evidence of false demand, those experiences should emphasize the need for and the desirability of a more comprehensive approach. Thus Morris ³¹ writing about African entrepreneurship states that « It is perhaps even more important to create a setting in which African Businesses are being constantly encouraged through advisory services, training and credit facilities, contract, help in finding markets and in approaching suppliers ».

5. The Credit Gap and the Improvement of the Institutional Framework

Even assuming that each of the various schemes were successful their impact on the agriculture and small scale industries sectors would have been very marginal as the total sum involved was less than Le 1 million made up as follows:

Co-operative credit scheme including overdrafts from commercial banks	Le 800,000
Agricultural credit scheme	35,000
Fisheries credit scheme	13,000
Development of Industries Board	20,000

1. Agricultural sector

In 1968/69 the first ever estimate of demand for credit in the agricultural sector was computed by Moinuddin as in table 4.

³¹ Morris, *op. cit.*, p. 229.

Table 4

<i>Short Term Loans</i>	
Seeds	Le 327,000
Fertilizers	127,000
Labour Charges	2,000,000
« Hungry seasons » loans	1,547,000
Implements	285,000
Plough fees	332,800
Pesticides and insecticides	10,000
	<hr/> 4,628,800
<i>Medium Term Loans</i>	
Bush clearance and levelling of land for swampland rice cultivation	123,056
Spray pumps	83,562
Coffe hullers	35,000
Rice hullers	10,500
Sheep, goat, pig breeding and poultry	25,000
Low lift pumps	30,000
	<hr/> 307,118
<i>Long Term Loans</i>	
Plantations crops, coffee, cocoa	383,000
Citrus and oil palm	191,500
Warehouses	50,000
	<hr/> 624,500
Total Credit Needs	5,560,418

Source: S.H. Moinuddin, *Agricultural Credit in Sierra Leone*, Report prepared for the Bank of Sierra Leone (January 20th 1968), pp. 71-81.

We have since updated the Moinuddin Study to take account of the following factors:

- (i) Growth in the number of farm families. The Moinuddin calculations were based on the 1965/66 agricultural statistical survey which estimated the farm

family units at 255,000. The latest agricultural statistical survey (1970/71) estimated the farm family units at 300,000. Assuming that the annual growth rate of approximately 4.5 per cent per annum between 1965/66 and 1970/71 was maintained during the years 1971/72 to 1975/76, then in 1976 there were 357,756 farm family units.

(ii) Since the Moinuddin study, two integrated agricultural development projects financed by the IDA have been implanted in the Eastern and Northern provinces. The total credit involved in these projects is in the region of Le 300,000.

(iii) Since 1965/66 the rate of inflation has escalated and we have assumed a 35 per cent difference in prices between 1968/69 and 1975/76.

Demand for agricultural credit in 1975/76 was thus estimated as follows:

Credit needs in 1968/69 as calculated by Moinuddin	Le 5,450,418
Additional farm family units between 1965/66 and 1975/76 at Le 21.2 per family unit	2,178,427
	<hr/> 7,638,845
Add 35% for inflation	1,527,769
	<hr/> 9,166,614
Deduct Le 300,000 in respect of IDA projects	300,000
	<hr/> 8,866,614

From table 1 the total assets of all financial institutions in 1976 amounted to Le 312 millions. If we add to this amount the assets of the Sierra Leone Produce Marketing Board (since this institution also has as its objective the development of the agricultural sector) we obtain Le 320 millions. In 1976 the estimated credit needs of the agricultural sector represented about 2 per cent of the total assets of financial institutions. This implies that it should not be difficult for the existing financial institutions to provide the amount required to finance higher levels of production in the agricultural and small scale industries sectors. Such a conclusion would be misleading. In the first place, the assets of the National Develop-

ment Bank are not available for small scale agricultural or industrial enterprises because the minimum loan that the NDB can make is Le 7,500 which should not exceed 40% of the share capital of the enterprise. In the second place, the total assets of the Bank of Sierra Leone are not available for financing agriculture or small scale industries. This is because the Bank of Sierra Leone Acts requires the Bank to hold external reserves equivalent to the value of two months imports. In addition the Bank of Sierra Leone Acts stipulates that financial assistance from the Bank should be made through institutions established with the Bank's assistance. The Bank has participated in the establishment of the NDB, the Berthworth Finance Company Ltd and has provided financial assistance in the form of loans to the National Co-operative Development Bank. Of these institutions only NCDB deals with the agricultural sector. This institution is however owned by the co-operative societies which account for less than 5 per cent of farmers.

In the case of the commercial banks, their assets are not likely to be available since commercial banks of British origin are usually not enthusiastic about dealing with the agricultural sector. There is also likely to be problems of securities for loans to the agricultural sector as lands, the only securities that farmers can offer, are not acceptable because of the nature of the land tenure which precludes individual ownership of land and the restrictions imposed by the Non-Citizens (interest in land) Act. There is also the problem of lending to a large number of small borrowers. This not only increases the cost of administering loans, but also, there are increased difficulties in enforcing repayments. In addition, there is the risk of natural calamities such as droughts, floods and other disasters, as well as falling world prices, all of which may affect the capacity of the borrower to repay the loan when it becomes due. These difficulties may largely explain the lack of interest in financing agriculture on the part of commercial banks.

The total resources of the Post Office Savings Banks are just over Le 3 millions and virtually the entire amount have been invested in government securities. In the case of resources available through pensions, other trust funds and life insurance, that part which is already invested in government securities is not available for lending to the agricultural sector. For most of these funds, however, the yield is an important consideration and to the extent that the rates of interest payable on agricultural loans are sufficiently attractive resources from this source could be expected to flow to the agricultural sector. Usually, however, rates of interest on agricultural securities are not particularly attractive.

Thus, the existing institutions, without a complete reorganisation of their investment pattern, and the elimination of the legal and other constraints, are not likely to assist the agricultural sector. However, we have argued that the provision of agricultural credit involves much more than making loans available. It is now generally agreed that a private financial institution is not well suited for the difficulties connected with lending to the agricultural sector. Also, these risks make financial institutions unable to mobilize sufficient funds for lending to the agricultural sector.

Again, as we have already indicated, it will be necessary to link marketing and extension services with the provision of credit to ensure that loans are not only available but that they are used for the purposes for which they were intended and are repaid when due. Thus, what is envisaged is either a new government sponsored institution which will itself provide all three functions, namely, credit, marketing and extension services, or alternatively, a new government sponsored institution providing credit only, but working in close co-operation with the SLPMB and the co-operative societies to ensure prompt repayment, and with the agricultural department and Rice Corporation to ensure that credit is used productively.

Moinuddin, in the report already referred to, recommends the establishment of an institution which will provide all three functions. He recommended the establishment of an Agricultural Bank with the following objectives. Firstly, the provision of credit facilities for the development and improvement of agriculture. To this end, the bank should provide short, medium and long term loans. Short term loans should not exceed four months. Medium term loans should be for a period not exceeding five years while long term loans should be repayable within ten years. Secondly, the bank should provide credit for cottage industries allied to agriculture. Loans in this category should be short and medium term. Thirdly, the bank should conduct general banking business. This should enable the bank to mobilize deposits especially in the rural areas where no banking facilities exist at present and at the same time augment the resources of the bank. Fourthly, the bank should assist with the marketing of produce. The objective is to ensure that the farmer gets a reasonable price for his produce. To achieve this objective it is proposed that warehousing and storage facilities be provided. Fifthly, the bank should provide technical assistance to farmers to ensure that the farmer makes effective use of credit made available to him. Finally, the bank should engage in

projects aimed at enlarging the acreage under cultivation and the bank should also participate in the manufacture of fertilizers and agricultural implements. The bank should also supply fertilizers and seeds, importing these directly if need be. What Moinuddin thus envisages is not merely the provision of credit but also the general development of the agricultural sector with the agricultural bank becoming the instrument of this development.

While we agree with the broad principle of the Moinuddin proposals, we would suggest the following modifications: in the first place as the Sierra Leone Produce Marketing Board is responsible for the marketing of agricultural produce, it should not be necessary for the Agricultural Development Bank to be involved in marketing. All that may be required is an undertaking by the borrower to sell his produces to the SLPMB and authorizing the SLPMB to deduct the repayment due. Repayments are thus made at source and these deductions collected by the SLPMB go to the bank. This arrangement not only implies close collaboration between the proposed bank and the SLPMB but also the involvement of the SLPMB in the establishment of the Bank. The SLPMB is required, under existing legislation, to look after the welfare of the Sierra Leone farmer and since the objective of the bank is to increase agricultural productivity, the activity of the bank should be of interest to the SLPMB³². We would therefore suggest that the SLPMB take an active part in the establishment of the bank, in which case, it will not be necessary for the bank to have its own warehouses.

Secondly, the agricultural department is currently dealing with extension services. Thus we would expect this department to continue to undertake all extension work. Otherwise, there will be duplication of services and even conflict. But in view of the shortcomings associated with civil service procedures, a more appropriate arrangement would be to transfer the extension service staff of the agricultural department to the proposed agricultural bank. This is a more acceptable arrangement since the bank would then be certain that it can provide the technical service to support the loans approved.

32 The Sierra Leone Produce Marketing Board Act defines the responsibility of the SLPMB as follows: « It shall be the duty of the Board to secure the most favourable arrangements for the purchase, export and marketing of Sierra Leone produce and to assist in the development by all possible of the agricultural industry of Sierra Leone for the benefit and prosperity of the producers and the areas of production ». (Sierra Leone Produce Marketing Board Act, 1949, p. 1).

Thirdly, instead of the government providing all the share capital we would suggest that this be shared between the SLPMB, the existing co-operative bank and the government³³. In addition, 50% of the net profit of the SLPMB should be paid to the bank as ad hoc grants to assist its development.

Fourthly, it should be emphasized that a primary condition for loans must be the willingness of groups or societies to guarantee repayment of the loans; and that the liability of each member of the group is unlimited³⁴. This will be fundamental for the success of the bank as there are virtually no securities for loans in the rural areas. Unlimited liability should be an important deterrent against the recommendation of doubtful customers.

Fifthly, we do not agree with the proposals that government and semi-government bodies should be compelled to patronize the bank. Assuring the bank much business before it even begins operation may merely make the bank complacent.

It could be argued that instead of having a separate institution for agriculture, the new bank could be absorbed by an enlarged National Development Bank, with two departments, one for agriculture and one industry. We do not support such an arrangement. To start with, there is not likely to be any economy in personnel as a result of the merger since the agricultural sector requires virtually different personnel from those required by the industrial sector. Furthermore, we have suggested that the functions of the National Development Bank be enlarged to enable it to provide all types of assistance that may be necessary for the suc-

33 With the establishment of the Agricultural and Co-operative Development Bank, the present Co-operative Bank will cease operations. We do not consider it appropriate for the new bank to absorb the National Agricultural Development Authority because this institution is dealing with a specific project. But once the project has been implemented there would be a case for absorbing this institution.

34 To begin with, a financial institution may incur considerable costs in administering a large number of small loans. Also, there are no securities in the rural areas that are acceptable to a financial institution. The collective responsibility for loans not only reduces the need for securities but also shifts the responsibility for enforcing payment to the group. The co-operatives which are the most suitable bodies through which group loans can be made attracted only a small percentage of Sierra Leone farmers. But progress in increasing agricultural productivity cannot wait until co-operatives have been developed. Something has to be done in the meanwhile. However, while recognizing that there is the need to increase the flow of credit to agriculture one must also take into account the poor repayment records of past schemes and emphasize the need for financial discipline. So that, although unlimited liability may appear to be too severe, it may enable an individual to be more discreet.

cess of an enterprise. As the NDB is still trying to get off the ground it would not be seen desirable to overload such an institution. Finally, agriculture is too important to be regarded as a mere appendage to industry. This is precisely what is likely to happen if agriculture is added to the functions of the NDB as presently constituted. By having two separate institutions one increases the possibility of each sector developing to its full potential.

Moreover, through the Agricultural Development Bank people in the rural areas may see a link between their savings and development in their areas. This is likely to encourage people of the rural areas to patronize financial institutions there increasing the prospects of mobilization of domestic financial resources.

2. *Small Scale Industries*

In the case of the small scale industries it is also our view that purely financial assistance cannot ensure success, as other ancillary services such as marketing, getting supplies especially from overseas, keeping proper records and training personnel are equally important. These services are, however, not easily available and the local businessman is not likely to provide them for himself. We therefore envisage a specialized institution which will provide credit and other ancillary services to the enterprises. However, instead of creating a completely new institution we would suggest the enlargement of the role of the existing National Development Bank to include management training and business advice, the identification of viable projects, search for probable investors for such projects, and promotion of the joint stock form of business organization.

One of the problems the businessman faces is that of preparing adequate records. The NDB should be able to organize short courses in simplified bookkeeping for businessmen. There is likely to be a favorable response if the potential customers of the NDB become aware that a condition of the NDB's assistance includes conforming to some minimum standards of financial accounting. The NDB is equally well placed to provide technical information to the businessmen. This includes information about market prospects, information on where to obtain machinery and equipment. This does not of course mean that the NDB should have several experts in all the possible fields. What needs to be done is to make use of available international institutions like the International Financial Corporation, the Food and Agricultural Organization as well as other development banks. The non availability of well prepared projects in a form sui-

table for finance by a financial institution is not a problem that is peculiar to Sierra Leone. In view of this problem greater effort will have to be directed towards feasibility and pre-investment studies. The NDB is well suited for this exercise from the point of view of its contacts with international bodies and other development banks and its present contacts with local industries. Since the resources that are likely to be available for such investigation will be limited, it may be necessary to concentrate on a specific area of activity. Thus, for example, if the emphasis is on agro-based industries investigations should be concentrated in this area. Given the underdeveloped nature of the economy the cost of securing experts for such study must be borne by the Government as a public service. Here also the cost need not be prohibitive as all that may be necessary is the utilization by the Government of available technical assistance arrangements with International Institutions and friendly Governments.

Finally, what the NDB is able to achieve depends on the resources available to it. The success achieved when the bank's shares were open to the public would suggest that the NDB could raise more resources by offering additional shares. Instead of floating new shares the NDB could also consider selling out of its own portfolio thereby releasing funds for new investment. Another source of funds is through the development of the joint stock form of business organization. The NDB should encourage this development by making public participation in the shares of companies seeking its assistance a condition for such assistance. In addition, through its foreign shareholders the bank could endeavour to attract more foreign capital into the economy. Since public confidence in the NDB would be essential for success, companies whose formation NDB promotes and those whose shares it guarantees must be efficiently managed. So that the NDB would have to endeavour to strike a balance between excess caution and over enthusiasm.

6. Conclusions

We have argued that the present position of the farmer is such that unaided he could not adopt the new method and techniques which are required for increased agricultural productivity on which development of the Sierra Leone economy depends. In particular, we noted the almost complete absence of institutional sources of agricultural credit, pointed the implications, and in the light of de-

mand information, gave some order of magnitude of the agricultural credit gap. We concluded that supervised credit to be supplied by a separate Agricultural Bank could provide the necessary incentive for the development of Sierra Leone's agriculture.

In the case of the small scale industries' sector we were not able to give any evidence of unsatisfied demand for credit. However we argued that supervised credit could eliminate some of the problems which at present hinder the development of small scale enterprises and contended that the NDB with enlarged responsibilities, rather than an entirely new institution, would be adequate.

LA DEMANDE ET L'OFFRE DE CREDIT DANS LE SECTEUR AGRICOLE ET DES PETITES ENTREPRISES EN SIERRA LEONE

RESUME

L'Auteur affirme que le développement de l'économie de la Sierra Leone dépend essentiellement du secteur agricole et des petites entreprises à cause de la disponibilité du sol, du fait que la main-d'oeuvre non spécialisée est prédominante et que le marché intérieur est assez limité. Mais si le secteur agricole et le secteur des petites entreprises doivent jouer ce rôle entraînant, il est nécessaire de mettre en place des stimulants efficaces.

L'Auteur affirme encore que, pour la nature particulière de l'agriculture dans le pays, le stimulant le meilleur serait une institution de crédit spécialisé octroyant du crédit assisté. Bien que l'étude estime le besoin de crédit du secteur agricole à Le 8,9 millions et indique que l'actif total des instituts financiers a augmenté rapidement, au cours de l'étude même, de Le 27,8 millions en 1960 à Le 312,2 millions en 1976, le crédit octroyé par ces instituts au secteur agricole représente moins de 0,1% de leurs ressources. Les demandes de crédit du secteur viennent des coopératives de production et d'épargne dont les ressources sont très limitées par rapport aux besoins de crédit estimés pour le secteur. L'étude indique aussi que bien que les besoins de crédit des agriculteurs soient modestes par rapport aux ressources totales des institutions financières, ce n'est qu'à travers une réorganisation complète de leur système d'investissement et l'élimination de nombreuses contraintes, soit administratives, juridiques et autres, que ces institutions pourront augmenter le flux de crédit vers l'agriculture.

Toute tentative précédente d'octroyer du crédit au secteur agricole n'a pas réussi puisque les plans étaient mal conçus, mal formulés et mal administrés. Le mécanisme administratif était lourd et lent et le délai entre la présentation de la demande de crédit et l'octroi était toujours très long. L'influence politique pesait beaucoup, puisque les prêts supérieurs à Le 2000 étaient soumis à l'approbation du Ministère de l'Agriculture. Puisque on n'avait pas prévu aucun système de suivi, les prêts étaient parfois détournés vers d'autres investissements différents des investissements indiqués dans la demande de crédit. Il y avait aussi, pour les défaillances de paiement, des facteurs qui dépassaient le contrôle des agriculteurs: par exemple, les fluctuations à la baisse des prix dans le marché mondial. De plus, les prêts pour les machines agricoles et les transports avaient été octroyés en supposant que pièces de rechange et réparations seraient fournies aussi, tandis que ces services n'ont jamais été disponibles.

On prend ces exemples généralement comme indication qu'il n'y aurait qu'une fausse demande de crédit, alors que, d'après l'Auteur de cette étude, la faillite des programmes d'assistance précédents ne démontre que le besoin et l'opportunité d'une approche plus complète.

Dans le cas des petites entreprises, bien qu'il ne soit pas possible de donner des indications sur la mesure de la demande insatisfaite de crédit dans le secteur, l'Auteur soutient que le crédit est exigence essentielle pour le développement du secteur. Il souligne que l'assistance financière seule ne peut pas en assurer le succès, et que d'autres services auxiliaires tels que le marketing, les fournitures de l'étranger, une comptabilité plus précise et la formation du personnel sont aussi importants. Cependant, ces services ne sont pas facilement disponibles et il est improbable que les entrepreneurs locaux les développent tous seuls. L'étude donc prévoit la création d'un institut spécialisé qui octroierait le crédit et d'autres services accessoires mais très utiles aux entreprises locales. Au lieu de créer une institution nouvelle, l'étude suggère qu'on pourrait étendre le domaine dans le quel s'exerce l'action de la Banque Nationale de Développement qui pourrait couvrir aussi la formation des cadres, l'activité consultative, l'identification de projets viables et la recherche de capitaux pour les financer.
