

Chapter V.

NON-BANK FINANCIAL INSTITUTIONS AND THE UNORGANIZED SECTOR

1. THE POST OFFICE SAVINGS BANK

Next to the central bank and the commercial banks, the Post Office Savings Bank (POSB) is the third largest financial institution in the country and was established with the objective of providing a "ready means for the deposit of savings in order to encourage thrift". Unlike all other financial institutions which have maintained branches only in the principal towns, the POSB has branches throughout the country. But whereas other financial institutions gained deposits during the period of our study, the POSB lost deposits throughout. Amongst the probable explanations for the continuous loss of deposits we tested the hypothesis that the decline may have been due to a switch from the POSB to commercial banks.

Sources of funds

The first Post Office Savings Bank offices were opened in Freetown and Bonthe on 1st December 1896. Seven more offices of the savings bank were opened between 1901 and the outbreak of the first world war. No office was established between 1914 and 1922, but between 1922 and the outbreak of the second world war

twenty-one offices were opened to the public. Since 1949 a further fourteen offices have been established, the most recent being that at Lungi which was opened on 1st January 1961. At the end of June 1976 there were forty-four offices of the savings bank throughout the country. The geographical distribution of these offices is given in Table 25.

TABLE 25

POST OFFICE SAVINGS BANK: FINANCIAL DATA

Areas	No. of Post Office Savings Bank branches	No. of depositors on 30.6.76	Percentage of total depositors	Total amount credited on 30.6.76 (thousand Le)	Percentage of total amount
Eastern Province	11	6,829	7.4	237.0	7.1
Northern Province	13	6,902	7.5	169.7	5.1
Southern Province	11	10,959	12.0	293.5	8.9
Western Area	9	66,997	73.1	2,612.5	78.9
TOTAL	44	91,687	100.0	3,312.7	100.0

Source: Post Office Savings Bank, *Annual Report 1975/76*, unpublished.

The total number of depositors grew steadily from 1896 and was 36,000 in 1946. Ten years later depositors numbered 63,000 and were 70,931 at the beginning of our period. The rise in the number of depositors continued throughout the 1960's and totalled 91,647 in 1976.

The minimum deposit acceptable at the savings bank is 10 cents compared with Le 10 by the commercial banks. In consequence, the savings bank has a large number of very small accounts with the result that a growth in the number of depositors need not mean spectacular increases in deposits. In other words, significant

gains in the number of depositors may produce only marginal increases in total deposits.

A feature of the Post Office Savings Bank is that deposits and withdrawals can take place at any office of the savings bank throughout the country. Thus a depositor with a pass-book issued in Bo can make a deposit into his account while he is at, say, Freetown. Consequently, figures appearing for deposits under Freetown, for example, may not necessarily mean that those deposits were actually lodged at that office but may include credits from other offices. To illustrate, total deposits for the Freetown office for June 1969, were Le 35,059 but the deposits actually collected in Freetown were Le 31,091. The difference of Le 3,960 was credited from other offices.

From Table 26, we may infer that the five offices of the Post Office Saving Bank in Freetown accounted for a very large pro-

TABLE 26

DEPOSITS IN SEVEN TOWNS WITH POPULATION
OF OVER 10,000 INHABITANTS

TOWNS	No. of Post Office Savings Bank branches	No. of depositors on 30.6.76	Percentage of total depositors	Total amount credited on 30.6.76 (thousand Le)	Percentage of total amount
Bo	1	3,825	4.2	85.3	2.6
Freetown	5	63,331	69.1	2,540.0	76.6
Kenema	1	1,521	1.7	95.6	2.9
Magburaka	1	1,130	1.2	29.5	0.9
Makeni	1	1,194	1.3	12.7	0.4
Moyamba	1	1,168	1.3	35.3	1.1
Port Loko	1	1,023	1.1	27.5	0.8
TOTAL	11	73,192	79.9	2,825.9	85.3

Source: Post Office Savings Bank, *Annual Report 1975/76*, unpublished.

portion of total deposits as well as the total number of depositors. The main Freetown office alone accounted for over 60 per cent of the total cumulative deposits at the end of June 1976. About 63 per cent of the number of depositors at that date held accounts in this office. The table shows moreover that eleven offices of the Post Office Savings Bank in seven towns process about 85 per cent of the cumulative deposits and about 80 per cent of the total number of depositors. The considerable size of the Freetown office in relation to the other offices explains why the Western Area is so prominent in Table 25.

The trend in deposits as can be seen from Chart 3 has been downward throughout the 1960's. The only exception was in 1964 especially between June and December of that year when deposits increased substantially. Deposits dropped from a monthly average of Le 77,000 in 1960 to Le 67,000 by 1976 while the annual total fell from Le 928,000 in 1960 to Le 802,000 by 1976.

With withdrawals exceeding deposits, cumulative deposits at the Post Office Savings Bank have declined from Le 3.2 million in December 1960 to Le 2.8 million by December 1967. Although there were some gains between 1968 and 1976, at the end of 1976 at Le 3.3 million net deposits at the Post Office Savings Bank were only Le 0.1 million higher than similar deposits in 1960. In contrast, deposits for earlier years show significant increases. For example, deposits at the Post Office Savings Bank totalled Le 2 million in 1946 and by 1956 they amounted to Le 3.1 million.¹

The general downward trend which has characterized post office savings in the 1960's is largely the result of higher levels of withdrawals in relation to deposits and a drop in the number of transactions.

¹ For figures relating to the period 1940-1946, see N.A. Cox-George, *Finance and Development in West Africa: The Sierra Leone Experience*, *op. cit.*, p. 233. For figures relating to the period 1945-1960, see Loyes, *op. cit.*, p. 29.

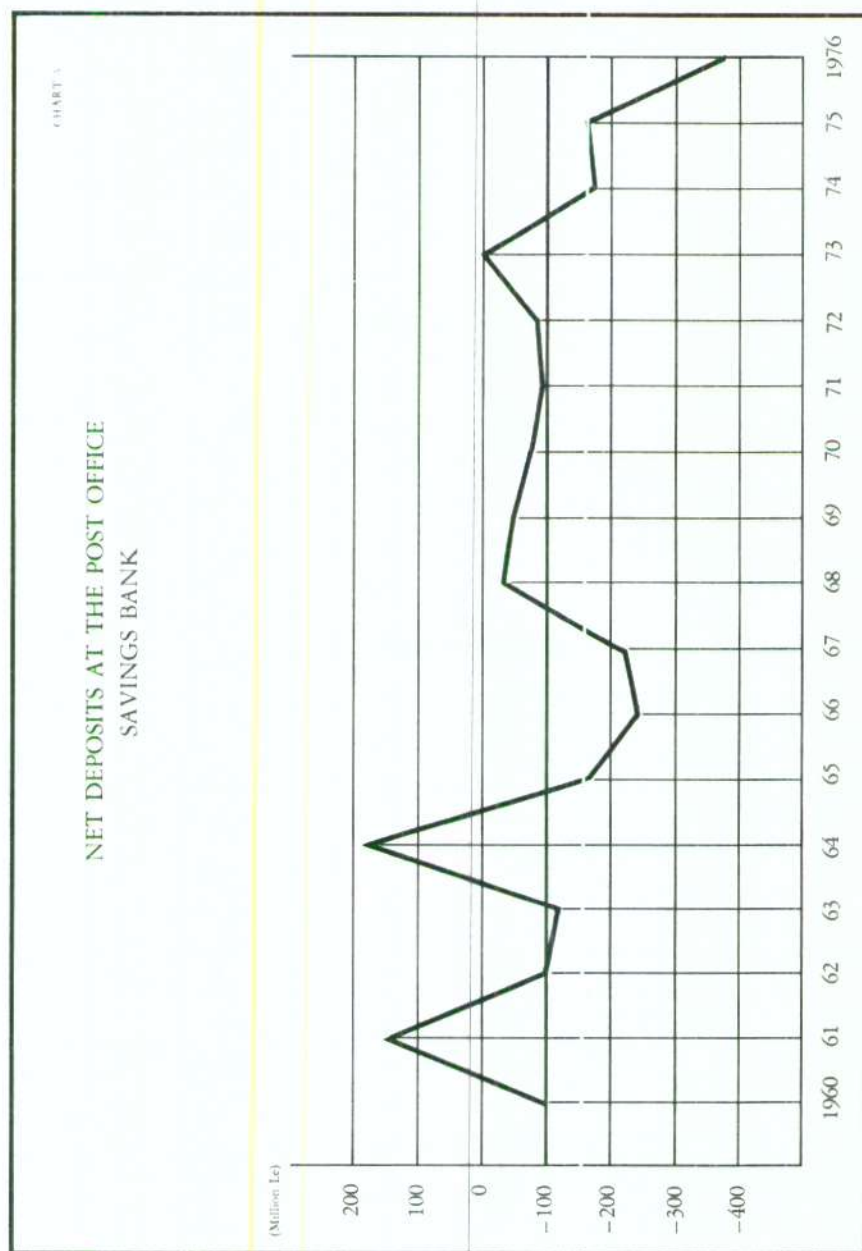
At the end of 1960 total withdrawals were just over Le 1 million, and although throughout the 1960's withdrawals did not exceed this level they however remained high. There was a 26 per cent decline between 1960 and 1961 but withdrawals went up again in 1962 by 23 per cent. Only in 1968 was the total amount withdrawn less than Le 580,000. In all other years withdrawals exceeded Le 600,000 and in five out of sixteen years exceeded Le 800,000. Whereas the range of withdrawals up to 1965 was between Le 760,000 and Le 1.1 million, between 1965 and 1973 it narrowed to between Le 579,000 and Le 688,000. Withdrawals were particularly large between 1974 and 1976. In 1974 they went up by Le 330,000 and stood at Le 919,000. There was a further rise of Le 29,000 in the level of withdrawals during 1975. In 1976 they were exceptionally large and totalled Le 1.2 million for the year.

This high level of withdrawals has been a feature of all the main offices of the savings bank. However, they were particularly noticeable at the Freetown office: Throughout the 1960's withdrawals were larger than deposits there. In 1962, 1963 and 1964 withdrawals exceeded Le 700,000 and only in 1968 was the total amount withdrawn at the Freetown office less than Le 500,000.

Because withdrawals exceeded deposits throughout the 1960's net deposits were negative, as can be seen from Chart 3.

The possible explanations for the high level of withdrawals, and in consequence the downward trend in deposits, are:

(a) *The level of economic activities* - The financial collapse of the Sierra Leone Produce Marketing Board and the financial difficulties of the government during the years 1965/66 and 1966/67 necessitated some austerity measures, the effects of which were to reduce the level of economic activity with consequences for the level of income and the volume of savings.



Source: Post Office Savings Bank, *Annual Reports*.

We have argued in Chapter II that during the period 1965/66 to 1967/68 both the central government and the Sierra Leone Produce Marketing Board were in financial difficulties. For most depositors the financial difficulties resulting in the government being unable to pay salaries in time meant that their deposits in the Post Office Savings Bank, a government institution, were no longer safe. This lack of confidence explained at least some of the withdrawals between 1965 and 1967. Lack of confidence was particularly important, as can be seen from the following ratios:

	1964/65	1965/66	1966/67	1967/68	1968/69
Savings and time deposits at commercial banks	100	114.5	129.0	131.9	168.1
Post office savings	100	96.9	87.5	81.3	81.3

Source: Central Statistics Office, *Sierra Leone's National Accounts*, Freetown, Government Printer, June 1970, Table 1.

The fall in economic activity, following the introduction of the Stabilization Programme, resulted in higher levels of unemployment (as a number of projects had to be abandoned) and lower incomes for a number of people. The lower level of income was the result of the indirect taxes, introduced to raise the level of government revenue. Some of the commodities on which people with low incomes spend their money and which were effected by the budgetary measures include: beer, cigarettes, matches, umbrellas, postal charges, school fees, transport fares, and clothing. Table 27 gives some indication of the price changes that occurred after the budgetary changes. While the entire price changes shown in Table 27

may not necessarily be due to the budget, there is no doubt that the new taxes contributed to them.

TABLE 27

SELECTED PRICE CHANGES IN 1967

Commodities	1st quarter 1967 (cents)	3rd quarter 1967 (cents)
Fresh fish	5.24	7.09
Ladies' umbrellas (each)	1.87	2.08
Umbrellas (black cotton)	1.40	1.80
Men's khaki shorts (locally made)	43.33	76.67
Men's cotton shirts (each)	1.42	1.50
Air letter (U.K.) (each)	7.00	9.50
Transport fare - Congo/Cline Town (1 adult ride)	7.00	8.00
School fees, class 1 (per term)	44.00	64.00

Source: Bank of Sierra Leone, *Annual Report 1967*, Table 9.

In these circumstances, withdrawals were unavoidable.

The decline in economic activities was worsened by the difficulties of the SLPMB. The Board's financial collapse meant that those with deposits had to make withdrawals in order to meet normal expenditures. At the same time, agricultural exports were lower as farmers did not consider it worth their while to take produce to the Board, which could not pay cash for such produce. The combined effect was a lower level of deposits.

(b) *Shift to commercial banks* - We have argued, and our tables show, that the decline in savings at the Post Office Savings Bank was a feature of the 1960's. The economic and financial difficulties of the government and the Sierra Leone Produce Marketing

Board which covered only the period 1966 to the early part of 1968 could not therefore have accounted for all the decline.

Another possible explanation is that a shift has taken place from the savings bank to commercial banks. This is likely for the following reasons: In the first place, the Post Office Savings Bank is part of the Ministry of Transport and Communications and is administered by civil servants. It does not operate on strictly commercial principles. Secondly, withdrawals are governed by strict rules. For example, those in excess of Le 4 require a week's notice and only one withdrawal is allowed in any one week. More than four withdrawals per month are possible, but this is only with the approval of the head office in Freetown. The important fact is that most of the users of the Post Office Savings Bank are people with very small incomes, who could hardly afford to wait too long when unexpected demands on their savings arise. In other words, the Post Office Savings Bank cannot guarantee that depositors will have access to their savings as and when the necessity arises. It may happen that the depositor needs to make more than four withdrawals, only to find out that this is not possible, or that several days must elapse. Thirdly, the Post Office Savings Bank does not provide overdraft facilities. This may be an added attraction in favour of commercial banks. Finally, as such banks are private institutions they are preferred to a government institution because depositors have the mistaken notion that once their savings are known to the government, such savings are likely to be taxed.

From an examination of figures relating to deposits in towns with no commercial banking offices it can be argued that no shift has occurred, since the trend in twenty-one out of the twenty-eight of the offices of the Post Office Savings Bank has been downwards. However, one cannot reject the possibility of a shift on this basis alone because in the first place, the offices in question account for less than 10 per cent of total savings through the Post Office

Savings Bank. Secondly, most of these towns are on the rail route. With the decline in rail traffic culminating in the decision to phase out the railway, trade and other activities made possible by the railway declined also. Hence, the loss of deposits in some of these towns may be due to the shift in centres of economic activities caused by the change from rail to road traffic. Thus the possibility of a shift does exist.

(c) *Investment in Sierra Leone Treasury bills* - We do not think that this possibility is particularly significant since the minimum investment in Treasury bills is Le 500.

During the 1960's there was an average of eight offices in which monthly deposits exceeded Le 500. In addition, deposits per individual account are quite small with the result that the average level of deposits at each office is well below Le 500. The average level of deposits in the main offices of the POSB is: Kenema, Le 109; Port Loko, Le 58; Moyamba, Le 56; and Freetown, Le 35. The conclusion is that not much is likely from this source.

(d) *The cost of living* - The possibility here is that prices grow faster than income with the result that not only is saving impossible but, in addition, expenditure has to be sustained by some withdrawals. The evidence suggests that during the period of study prices grew faster than income. The price index, which is based on the expenditure of small income earners, rose from 96 (1961 = 100) in 1960 to 245 by December 1976. During this period there have been only marginal increases in wages (see Chapter II). In addition, there has not been any significant increase in the producer prices of the main agricultural produce, palm kernels and cocoa. For example, in 1960 the producer price per ton of palm kernels was Le 63. It rose to Le 74 in 1967 but by 1969 was still Le 78. In the case of cocoa the producer price per ton was Le 374

in 1960. It fell to Le 275 by 1967, rose to Le 372 by 1969 and was Le 672 in 1974.²

Thus, whereas the price index shows substantial increases, the rise in the level of income has not been too noticeable, especially in the period 1965-1967.³ The net result would obviously be smaller saving.

At the same time, the level of private consumption expenditure rose substantially during the 1960's as can be seen from the following figures:

	1963/64	1965/66	1967/68	1970/71	1975/76
At current prices (million Le)	173.0	208.1	231.7	267.7	529.8
At 1963/64 prices (million Le)	173.0	195.9	212.0	223.7	305.1

Source: Central Statistics Office, *Sierra Leone's National Accounts*, Freetown, Government Printer, June 1977.

This rise in the level of expenditure also explains some of the decline in savings.

(e) *Investment by farmers* - Since farmers and small-scale operators do not have access to commercial banks' funds it could well be that these people run down their deposits in order to invest in their farms or businesses.⁴ However, from the figures given in our

² R.G. Saylor, *The Economy of Sierra Leone*, *op. cit.*, p. 114. Also *Annual Reports of the Bank of Sierra Leone*, 1968 to 1974.

³ Per capita income with 1964/65 = 100 was as follows: 1965/66, 104; 1966/67, 106; 1967/68, 109; 1968/69, 120.

⁴ S.H. Moinuddin, "Sources of Agricultural Credit in Sierra Leone", *Economic Review of the Bank of Sierra Leone*, No. 1, June 1969, pp. 11, 12 and 21.

discussion on 'Investment in Sierra Leone Treasury bills' it is clear that funds from this source could not have financed any significant investment in agriculture.

(f) *State Lottery sales*⁵ - State Lottery sales are also likely to affect the level of post office savings because of the following: The price per ticket is 40 cents for the "Ordinary" draw and 60 cents for the "Anniversary" draw. It is therefore likely that those making small savings may decide to purchase a state lottery ticket instead of making a deposit. Secondly, state lottery tickets can be purchased from the post office, and the post office has accounted for an average of 7 per cent of all sales. The possibility is that some of those who are likely to make small savings are encouraged to purchase state lottery tickets. Thirdly, an average of 55 per cent of state lottery tickets have been sold in Freetown; it should be noted that 63 per cent of all deposits at the Post Office Savings Bank are in Freetown and that losses of deposits from the Freetown offices have been particularly large during the period.

However, throughout the same period the state lottery sales declined from Le 378,965 in 1963 to less than Le 200,000 in 1976. Consequently while the explanatory variable may account for the decline in POSB deposits, the decline in state lottery sales would suggest that this variable is not a contributory factor. POSB deposits were found to be positively correlated with state lottery sales when one would have expected a negative correlation. The

⁵ The State Lottery Ltd. was incorporated under the Companies' Ordinance as a company limited by guarantee on 10th December 1962. The principal objectives of the company are defined by the Memorandum of Association as: "(a) The carrying on of a national lottery by selling tickets at a price fixed by the Board of Directors at such intervals as the Board shall think fit; and (b) To contribute its profits to the Consolidated Revenue Fund for transfer to the Development Fund to be invested only in hospitals and schools in Sierra Leone".

positive correlation must have resulted from the fact that both variables moved in the same direction during the period of study.

Factors explaining the trends in post office savings - A statistical analysis

Of all possible explanations for the continuous decline in the level of POSB deposits we consider two factors very important: The level of savings plus time deposits at commercial banks and the rate of change of prices. We also think that non-quantitative factors such as uncertainty and especially the financial difficulties of the government and the SLPMB are equally important. We do not however introduce these factors into our model. Our model is:

$$\text{Post office savings deposits} = F \left\{ \begin{array}{l} \text{Savings plus} \\ \text{time deposits at} \\ \text{commercial banks} \end{array} + \begin{array}{l} \text{Rate of} \\ \text{change} \\ \text{of prices} \end{array} \right\}$$

The relationship between these variables and the level of post office savings deposits was tested under the following functional forms: (a) Linear; (b) Double log. It was considered more appropriate to take first difference to eliminate any possible trend between the variables. The equations are as follows:

$$SP_t = a_1 + a_2 QM_t + a_3 \frac{dP}{dt} + e_{1t}$$

$$\text{Log } SP_t = b_1 + b_2 \text{ Log } QM_t + b_3 \text{ Log } \frac{dP}{dt} + e_{2t}$$

where:

SP Level of Post Office Savings Bank deposits at constant prices at time t .

QM Level of savings and time deposits at commercial banks at time t (at constant prices).

$\frac{dP}{dt}$ Rate of change of consumer prices calculated from the Freetown consumer price index, as the bulk of post office savings deposits are in Freetown and its vicinity.

Deflator - The deflator used is computed as follows: The consumer price index for Freetown with 1960 = 100 is converted into a series with June 1964 equal to 1.

Assumptions - Conform to the usual least squares ones. Our best results are given in Table 28.

TABLE 28

REGRESSION RESULTS: POST OFFICE SAVINGS DEPOSITS

Dependent variable	Constant	Coefficients of explanatory variables			Durbin-Watson statistic	DF
		Log QM	Log $\frac{dP}{dt}$	R^2		
Log SP_t	-0.1125	0.1953 (1.7431) (*)		0.1213	2.4105	22
Log SP_t	-0.8279		-0.4149 (-5.2504) (**)	0.5561	1.0428	22
Log SP_t	-0.9627	0.1188 (1.52026) (*)	-0.3920 (-5.0042) (**)	0.5992	1.3056	22

Source: *Economic Review of the Bank of Sierra Leone*, No. 4, March 1972, Tables 9 and 32.

Notes: Figures in parentheses are the t ratios.

* Significant at the 5 per cent significance level.

** Significant at the 1 per cent significance level.

DF are degrees of freedom.

We have used the log specification here not necessarily because it gives a better fit to the data, but to give some uniformity to the interpretation of the coefficients as the independent variables are measured in different units.

This result suggests that the rate of price change has been an important explanatory variable. Although variable QM is significant at the 5 per cent significance level and explains about 12 per cent of R^2 , we cannot conclude that there has been a shift from the Post Office Savings Bank to commercial banks because of the positive sign. These results do not support the hypothesis that a shift to commercial banks is a factor explaining the decline in post office savings during the period of study.

The results suggest that non-quantitative factors explain some of the loss in deposits which the Post Office Savings Bank has experienced during the 1960's.

It could be argued that raising the rate of interest substantially may increase the rate of saving through the Post Office Savings Bank. But while this may be generally true in view of the continuous rise in the consumer price index, the volume of savings through this institution cannot change much if the cause of the decline is lack of confidence in the institution.

Uses of funds

The Post Office Savings Bank Ordinance restricted investment of deposits mobilized by the POSB to British and other securities of the Commonwealth and colonial governments. Thus there was no local investment while this legislation was in operation. Table 29 on the balance sheet of the Post Office Savings Bank shows that the resources of the POSB were in the main invested abroad up to 1965.

The major change in the investment policy of the POSB took place in 1965 when the earlier restriction on local investment was abolished by the repeal of the Post Office Savings Bank Ordinance. Beginning from 1966, a number of securities were realized and the proceeds invested in Sierra Leone government securities. Since

TABLE 29

BALANCE SHEET OF THE POST OFFICE SAVINGS BANK
(thousand Le)

Years	Balance due to depositors	Other liabilities	Total liabilities	Investments at market value	Local investments (*)	Capital account deficit	Cash with general accountant	Cash and money at call	Other assets	Total assets
1959/60	3,140	10	3,150	2,872	—	255	23	—	—	3,150
1960/61	3,179	10	3,189	2,673	—	265	251	—	—	3,189
1961/62	3,295	11	3,306	2,679	—	225	402	—	—	3,306
1962/63	3,279	17	3,296	2,777	—	121	386	—	12	3,296
1963/64	3,235	11	3,246	2,567	—	12	635	—	32	3,246
1964/65	3,199	92	3,291	2,485	—	—	801	—	5	3,291
1965/66	3,121	78	3,199	356	1,633	—	186	34	990	3,199
1966/67	2,949	177	3,126	328	1,406	—	469	35	888	3,126
1967/68	2,586	335	2,921	312	1,924	—	456	31	198	2,921
1968/69	3,078	302	3,380	209	2,497	—	85	24	565	3,380
1969/70	3,112	393	3,505	207	2,639	—	138	52	469	3,505
1970/71	3,099	491	3,590	177	2,633	—	292	18	470	3,590
1971/72	3,114	597	3,711	160	2,895	—	124	22	510	3,711
1972/73	3,268	657	3,925	123	3,739	—	—	63	—	3,925
1973/74	3,396	720	4,116	104	3,717	—	84	106	105	4,116
1974/75	3,349	829	4,178	113	3,451	—	373	126	115	4,178
1975/76	3,313	990	4,303	97	3,709	—	275	107	115	4,303

Notes: 1959/60 - 1963/64: Financial year ending 31st March; 1964/65 - 1975/76: Financial year ending 30th June.

* Local investments comprise government securities and loans to the government of Le 0.4 million made in 1965/66.

1966, therefore, the POSB funds have been deployed locally, mainly by the government.

2. OTHER NON-BANK FINANCIAL INSTITUTIONS

Non-bank financial institutions differ from banks in that the liabilities of the banks act as media of exchange while those of non-bank financial institutions do not. These non-bank institutions, however, make an important contribution to economic development. They are able to supply loanable funds to deficit units by using their own resources and by mobilizing additional resources directly from the public. When the resources available to non-bank institutions are used to finance productive investment, these institutions assist the development process. However, they will not contribute to economic development if the funds that are available to them are utilized to build up their cash reserves or invested outside the economy. Thus it is not enough for non-bank financial institutions to mobilize previously idle balances; what they do with the resources is also important.

Aside from the Post Office Savings Bank which was discussed in the previous section, the non-bank financial institutions examined in this section are insurance companies, National Development Bank, thrift and credit societies, pensions and other trust funds, Bentworth Finance Company, the National Insurance Company and the National Co-operative Development Bank.

Insurance companies

(i) Sources of funds

Insurance business in Sierra Leone is carried on by fifteen companies from the United Kingdom (10), the United States (3), India (1) and Trinidad (1).

The companies provide five broad categories of insurance, namely, life, fire, motor, marine and miscellaneous. Of the life companies, only three deal exclusively with life insurance. Out of ten companies transacting motor insurance business, only one deals exclusively in motor insurance. Thus four companies are specialized while the others transact the various types of insurance businesses. One company which specializes in underwriting began operations in 1970.

Each of the insurance companies is a branch of a foreign company and up to the end of 1976 these local branches had not published separate balance sheets in respect of their operations in Sierra Leone. The only available information relates to premiums collected. We have therefore used this information as an indication of the resources available to insurance companies in Sierra Leone. The premiums generated during 1960-1976 are given in Table 30.

Claims against insurance companies vary greatly depending on the class of insurance. During the years 1965-1974, for which this information is available, claims as a percentage of premiums collected averaged 52 per cent for fire, 82 per cent for marine, 50 per cent for motor and 64 per cent for miscellaneous.

(ii) Uses of funds

In deciding whether to invest their surplus funds locally or overseas, the insurance company may be influenced by a number of factors. One factor is the need and desirability to spread risks; this consideration may lead the flow of resources to the head office for the pooling of contingency funds and re-insurance. Another factor is the availability of local investment outlets; if there are no suitable outlets locally, then funds will flow overseas. In addition, the existence of legislation regulating the activities of insurance companies is also an important consideration. In the absence of such a legislation it is possible that local investment outlets may exist, but funds may continue to flow abroad out of habit or because of

TABLE 30

PREMIUMS COLLECTED
(thousand Le)

Years	Non-life premiums				Total	Life premiums	Life plus non-life
	Fire	Marine	Motor	Miscellaneous			
1960	—	—	—	—	434	100	534
1961	—	—	—	—	504	110	614
1962	—	—	—	—	555	120	675
1963	—	—	—	—	670	140	810
1964	—	—	—	—	765	165	930
1965	165	58	542	177	942	173	1,115
1966	197	65	744	190	1,196	347	1,543
1967	193	87	926	244	1,450	354	1,804
1968	203	63	844	254	1,364	368	1,732
1969	246	76	1,011	305	1,638	1,236	2,874
1970	265	147	1,121	383	1,916	1,446	3,362
1971	271	139	1,188	408	2,006	172	2,178
1972	541	241	1,807	631	3,220	241	3,461
1973	550	167	2,267	746	3,730	250	3,980
1974	615	369	2,298	821	4,103	275	4,378
1975	624	334	2,375	833	4,166	300	4,466
1976	740	445	2,764	987	4,936	200	5,136

Source: For the years 1965-1976, the unpublished data are available at the Ministry of Finance. Information for the years 1960-1964 are our own estimates made with the help of the Insurance Officer at the Ministry of Finance. It was assumed that the average rate of growth of fire insurance premiums which was 10 per cent for the years 1965-1969 held for the period 1960-1964. On this assumption we obtained Le 82,000 as the estimated premiums for 1960. In the case of motor insurance we applied the percentage rate of growth of new vehicles registered which was 61 per cent between 1960 and 1964. On this basis, motor insurance premiums in 1960 amounted to Le 213,000. In the case of life insurance it was assumed that premiums would not have exceeded Le 100,000. Marine insurance was estimated at Le 40,000 while miscellaneous insurance was thought to be about Le 100,000. Hence we arrived at a gross premium for 1960 of Le 534,000.

higher profit expectations. These factors would tend to result in a large proportion of non-life premiums flowing abroad in view of the high proportion of claims. In the case of life insurance which is relatively new in Sierra Leone, claims are likely to be lower and therefore life funds are more suitable for longer term investments. Consequently, such funds need not flow out of the economy.

Insurance companies in Sierra Leone have invested within the country only since 1966, and then only in government securities. Whereas in 1966 local investment by insurance companies amounted to Le 125,000, by 1976 their local investment exceeded Le 3 million.

The substantial increase in local investment especially since 1973 was due to the Insurance Act of that year which stipulated that all life funds plus 40 per cent of gross premiums collected should be invested within the country.

National Development Bank Limited

(i) Sources of funds

National Development Bank Ltd. (NDB) was incorporated on 9th March 1968 as a public limited company. Its authorized capital is Le 1 million, of which Le 0.7 million had been paid up by the end of 1970. There are two categories of shareholders: "A" shareholders consist of Sierra Leonean subscribers, international and regional agencies, such as the African Development Bank Ltd.; "B" shareholders are foreigners. Both classes of shareholders, however, have the same rights and privileges.⁶

⁶ The main shareholders of NDB include: African Development Bank Ltd., the Bank of Sierra Leone, Bank für Gemeinwirtschaft Aktiengesellschaft of West Germany, Templesman and Sons of New York, Sierra Leone Selection Trust Ltd., Degremont, the Forest Industries Corporation, commercial banks and two leading commercial firms.

In addition to its paid-up capital, the Sierra Leone government provided a long term interest-free loan which amounted to Le 1 million at the end of 1976. Also, over-subscribed "B" shares were retained by NDB as a short term loan pending the issue of additional "A" shares. Added to these, NDB can borrow up to three times the sum of its issued capital and reserves (including the Le 1 million interest-free loan from the government). The total resources available to NDB at the end of 1976 amounted to Le 2.67 million made up as follows: Paid-up capital Le 0.89 million; reserves Le 0.14 million; borrowing Le 0.64 million and a Le 1 million interest-free loan from the Sierra Leone government.

(ii) Uses of funds

The objectives of NDB are defined as follows: "To carry on the business of assisting enterprises engaged in industry, commerce, agriculture and the exploitation of natural resources in Sierra Leone with a view to contributing to the economic development of Sierra Leone".⁷ NDB's financial participation is limited to a minimum of Le 7,500 and a maximum of Le 150,000; it cannot underwrite more than 25 per cent of the share of any enterprise and its loan and equity in a project cannot exceed 50 per cent of total investment.⁸

⁷ National Development Bank, *Memorandum and Articles of Association*, p. 1. The securities acceptable by NDB include:

- (a) First legal mortgage of fixed assets which must relate to the project being financed;
- (b) Floating charges on other assets;
- (c) Guarantee given by reputable banks or parent companies;
- (d) Pledge of government securities and marketable securities;
- (e) Standing order for regular payment of principal and interest.

National Development Bank, *Objectives and Functions*, Freetown, 1968, p. 5.

⁸ Prior to 1971 the maximum was Le 60,000 and it was raised in order to allow NDB to participate in bigger ventures. National Development Bank, *Annual Report*, 1971, p. 6.

Of the total number of 219 applications during 1968-1976, 87 were for agriculture including fishing, 65 for manufacturing while services and commerce had 47. Of these, NDB had approved 58 by the end of 1976. NDB's commitments in respect of these projects are given in Table 31. The main explanation for this is the lack of viable projects. The problem of the availability of economically and technically viable projects is not peculiar to Sierra Leone. The shortage of projects qualifying for bank finance has been found to be the most serious problem in other countries. With respect to Nigeria, for example, Schatz concludes that "... the real deficiency is not a shortage of capital funds. The main weakness in the policy of promoting development, by making capital available to indigenous business, lies in the scarcity of potentially profitable undertakings".⁹ Other studies in various parts of Africa have supported this view.¹⁰

Because of the absence of viable projects, and given the size of the Sierra Leone market, one would expect NDB to undertake promotional activities without which it would continue to have difficulties in securing business. The Working Party on "Capital Availability and Sierra Leonean Entrepreneurship" observes that although NDB is doing some feasibility studies, "... its depart-

⁹ Sayre P. Schatz, "Government Lending to African Business: Inept Incentive", *Journal of Modern African Studies*, No. 4, 1968, p. 520.

¹⁰ "The lack of commercially viable projects turns out to be the fundamental problem in country after country, which has tried to promote development by providing capital to indigenous businessmen. This has been the case in Uganda, where more than one investigation has found more capital available to help industrial entrepreneurs than can at present be efficiently used and that the difficulty lies in finding worthwhile schemes of finance". *Ibid.*, p. 521.

"The Industrial Development Bank of Sudan could find in its first year only three small projects which it could support with loans". *Ibid.*, p. 521.

"Even more than capital Africa needs enterprise or management". N.A. Cox-George, *Report on African Participation in the Commerce of Sierra Leone*, *op. cit.*, p. 40.

ment on project evaluation is as yet ill — or inadequately equipped; and this together with the mounting pressure on it is seriously affecting its elasticity, and there is the danger that it will soon degenerate into an inflexible and inefficient bureaucracy if it is not improved".¹¹ Because of this deficiency, the Working Party recommended either the enlargement of NDB or the establishment of a new institution.¹²

In our view, the responsibility for pre-investment studies as well as promotional activities should be NDB's. This is not expecting too much from an essentially private development bank as the following quotation shows:

"Most development bankers that I interviewed concur with Dr. Outierrez that the promotional function of a private development bank is vital. Skilled project implementors must be encouraged, and, in their absence, institutions such as private development banks must be willing to intercede by taking the steps necessary to create some projects, and encourage entrepreneurs to enter them".¹³

In its 1971 annual report, NDB says: "There is certainly no dearth of projects for development if proper feasibility studies

¹¹ N. A. Cox-George, *Report of the Working Party on Capital Availability and Sierra Leonean Entrepreneurship*, op. cit., p. 24.

¹² The Working Party recommends that the new institution undertake the following functions:

"(a) To identify economically viable projects and offer financial and technical assistance for their realisation;
(b) to evaluate the economic viability and technical feasibility of projects presented to it and to discourage the promotion of objectively unworthy projects;
(c) to explore the possibilities of new avenues for investments and to assist in the evaluation and reorganisation of existing small businesses the owners of which may not be in a position to perform such tasks themselves".

¹³ Philip Perera, *Development Finance*, New York, Frederick A. Praeger Publishers, 1968, p. 230.

TABLE 31
COMMITMENTS OF NATIONAL DEVELOPMENT BANK AS AT 31st DECEMBER 1976 (Le)

PROJECTS SANCTIONED	Amount sanctioned					Amount disbursed
	Preference shares	Equity	Loan	Guarantee	Total	
A. Industrial sector						
WESTERN AREA						
1. Atlantic Printers Limited	—	12,350	55,000	—	67,350	67,350
2. United Paper Company (S.L.) Ltd. (UNIPAC)	—	8,000	23,000	—	31,000	31,000
3. Salt Manufacturing Company Limited	—	15,000	40,000	—	55,000	55,000
4. Adenor's Metal Works Limited	—	—	18,000	—	18,000	18,000
5. Sierra Leone Industrial Bestments Company Limited (SIVCO)	50,000	—	100,000	—	150,000	150,000
6. Hamilton Quarries Limited	—	—	18,000	—	18,000	18,000
7. Johan Michael Motors	—	—	115,500	—	115,500	115,500
8. Danafo (S.L.) Ltd	—	24,000	40,000	—	64,000	—
9. Chanrai Chemicals Limited	—	50,000	250,000	—	300,000	300,000
10. Foam Manufacturing Company Limited	30,000	—	78,000	—	108,000	108,000
11. Kunick (W.A.) Limited	—	60,000	—	—	60,000	—
12. International Furniture Company Ltd.	—	47,640	199,790	—	247,430	247,430
13. Juba Ice Cream	—	—	15,303	—	15,303	15,303
14. Dutch Ice Cream Manufac. Co. Ltd.	—	—	20,000	—	20,000	18,818
15. R.D. Industries Limited	—	—	45,000	—	45,000	10,000
16. Wellington Distilleries Ltd.	—	—	45,000	—	45,000	45,000

NORTHERN PROVINCE						
No project						
SOUTHERN PROVINCE						
17.	Sucin Salt Manufacturing Co. Ltd.	—	7,688	—	7,688	7,688
EASTERN PROVINCE						
18.	Forest Industries Corporation	—	780,000	—	780,000	780,000
19.	Timber Industries Limited	—	20,000	—	20,000	20,000
20.	Simba Woodworks Industries	—	10,000	—	10,000	10,000
SUB TOTAL.		80,000	216,990	1,880,281	2,177,271	2,017,089
B. Agricultural sector						
WESTERN AREA						
21.	Jui Poultry Farm	—	17,000	—	17,000	17,000
22.	S. Leone Joint Stock Fisheries Ltd.	10,000	223,500	4,000	237,500	202,500
23.	Rokel Piggery	—	11,000	—	11,000	11,000
24.	Okeky Fishing	—	30,000	—	30,000	27,738
25.	Carew Fishing	—	81,790	44,000	125,790	102,790
26.	Mahera Mixed Farm	—	31,000	—	31,000	31,000
27.	Sierra Fishing Company Ltd.	—	—	100,000	100,000	—
NORTHERN PROVINCE						
28.	Yele Poultry Farm	—	15,000	—	15,000	15,000
29.	Tongodi Rice Farm	—	60,000	—	60,000	60,000
30.	Komrabai Mamilla Rice Farm	—	40,000	—	40,000	40,000
31.	Rokel Leaf Tobacco Devel. Co. Ltd.	—	—	80,000	80,000	80,000
32.	Adan & Adel Mullah Fishing Enterprise	—	26,800	—	26,800	26,800
33.	Kamakwie Cattle Ranch	—	20,000	—	20,000	20,000
34.	Kasiri Rice Farm	—	20,000	—	20,000	18,657
35.	Tonlolili Rice Farm	—	30,000	—	30,000	30,000

PROJECTS SANCTIONED	Amount sanctioned					Amount disbursed
	Preference shares	Equity	Loan	Guarantee	Total	
36. Masanissi Rice Farm	—	—	26,237	—	26,237	26,237
37. Madina-Malainkay Rice Farm	—	—	27,000	—	27,000	7,500
38. Mayankay Rice Farm	—	—	30,000	—	30,000	28,000
39. Makundi Rice Farm	—	—	30,000	—	30,000	—
40. Thalayen Rice Farm	—	—	30,000	—	30,000	30,000
41. Kalamba Plantation	—	—	14,550	—	14,550	13,854
SOUTHERN PROVINCE						
42. Gbap Mech. Rice Cultivation	—	—	57,935	—	57,935	57,935
43. Hilton Rubber Estate	—	—	30,000	—	30,000	30,000
44. Sherbo Farmers Enterprise	—	—	60,000	—	60,000	60,000
45. Mogbaseke Swamp Rice Farm	—	—	20,000	—	20,000	10,993
46. Faiam Rubber Estate	—	—	40,000	—	40,000	40,000
47. Kalawa Farming Enterprises	—	—	20,000	—	20,000	11,370
48. Bandajuma Piggery	—	—	16,000	—	16,000	7,626
49. Upper Bambara Piggery	—	—	130,000	—	130,000	59,714
EASTERN PROVINCE						
50. Dambayama Rice & Vegetable Farm	—	—	8,000	—	8,000	—
51. Blama Swamp Rice Farm	—	—	20,000	—	20,000	59,714
52. Koïdu Piggery	—	—	20,000	—	20,000	—
SUB TOTAL	10,000	180,000	1,185,812	48,000	1,423,762	1,078,114
C. Commercial sector						
WESTERN AREA						
53. Morgan Pharmacies Limited	—	21,000	—	—	21,000	21,000

54.	National Trading Company Limited	—	90,000	100,000	—	190,000	190,000
55.	African Commercial & Agricultural Enterprises Limited (ACAE)	—	25,000	125,000	—	150,000	150,000
56.	National Co-operative Development Bank I Limited	—	—	44,000	—	44,000	—
57.	National Co-operative Development Bank II Limited	—	—	200,000	—	200,000	—
58.	Central Pharmacy	—	—	30,000	—	30,000	30,000
59.	Fulbe Trading Company	—	—	30,000	—	30,000	30,000
60.	Hoeks (S.L.) Limited	50,000	—	60,000	—	110,000	110,000
61.	Guard Street Produce Processing	—	—	16,000	—	16,000	16,000
62.	Bombay Street Rice Processing	—	—	12,000	—	12,000	—
63.	Wilberforce Supermarket	—	—	50,000	20,000	70,000	70,000
NORTHERN PROVINCE							
64.	Kambia Produce Trading & Processing	—	—	20,000	—	20,000	20,000
65.	Madina Rice Processing	—	—	6,200	—	6,200	6,200
66.	Binkilo Rice Processing	—	—	10,000	—	10,000	10,000
SOUTHERN PROVINCE							
67.	Nancy Nicholas Stores	—	—	17,000	—	17,000	17,000
68.	Njala Consumer Co-operative Society	—	—	15,000	—	15,000	15,000
69.	Kawa Trading Store	—	—	30,000	—	30,000	27,500
EASTERN PROVINCE							
70.	Matroka & Kono Rice Processing & Trading	—	—	15,000	—	15,000	15,000
71.	Wonde Rice Processing	—	—	12,000	—	12,000	850
SUB TOTAL		50,000	136,000	792,200	20,000	998,200	728,550
D. Service sector							
WESTERN AREA							
72.	Brewo Motors Limited	5,000	—	—	—	5,000	5,000

PROJECTS SANCTIONED	Amount sanctioned					Amount disbursed
	Preference shares	Equity	Loan	Guarantee	Total	
73. Bentworth Finance Limited I	60,000	—	—	—	60,000	60,000
74. Bentworth Finance Limited II	—	—	300,000	—	300,000	—
75. Cape Sierra Hotel Limited	—	—	60,000	—	60,000	60,000
76. Surena Rewinding Garage	—	—	10,000	—	10,000	10,000
77. Express Laundry & Dry Cleaning Ltd.	—	—	10,000	—	10,000	10,000
78. Planza Night Club	—	—	8,000	—	8,000	8,000
79. Provilac Restaurant	—	—	25,000	—	25,000	25,000
80. Ajami Transportation	—	—	55,670	—	55,670	55,670
81. Dabo Hotel	—	—	48,000	—	48,000	45,966
82. Sayenu Tailoring	—	—	30,000	—	30,000	22,400
83. United Restaurants Limited	—	45,000	140,000	—	185,000	185,000
NORTHERN PROVINCE						
No projects						
SOUTHERN PROVINCE						
84. Bo Motors Limited	—	—	25,000	—	25,000	25,000
85. Conteh Bo Tailoring	—	—	20,000	—	20,000	18,367
EASTERN PROVINCE						
86. Prosperity Garage	—	—	8,000	—	8,000	8,000
87. Koidu Garage	—	—	42,000	—	42,000	41,000
88. Gbongbotoh Hotel	—	—	44,390	—	44,390	39,967
SUB TOTAL	65,000	45,000	826,060	—	936,060	619,370
GRAND TOTAL	205,000	577,990	4,684,353	68,000	5,535,293	4,443,123

Source: National Development Bank, *Annual Report*, 1976.

are carried out".¹⁴ What appears to be the limiting factor is having the qualified personnel. "As the staff in the management and professional levels improve in strength we should be able to undertake more promotional work".¹⁵ Because the availability of viable projects is fundamental for the bank's success we have argued in the concluding chapter that the government should make the services of experts available to NDB out of public funds. We have also argued in that chapter that the responsibilities of NDB should be enlarged to include preinvestment and feasibility studies, promotional activities, and the provision of certain ancillary services which are important for the successful development of enterprises.

Co-operative thrift and credit societies.

(i) Sources of funds

The main source of funds are the deposits of their members. Membership of individual societies varies greatly ranging from a few members to several hundreds with a total membership of 27,560 in 1975/76. Table 32 shows that membership increased by 13,674 between 1961/62 and 1975/76, inspite of a considerable decline between 1964/65 and 1968/69. Although these societies are widely dispersed throughout the country, they tend to be concentrated in Bo, Moyamba, and Kenema. The minimum deposit payable per member is 50 cents but members usually deposit more. From Table 32, it can be seen that deposits of members rose from slightly less than Le 0.2 million in 1961/62 to about Le 1 million by 1975/76. Adding reserves to their deposits their total resources amounted to Le 1.3 million in 1975/76.

In addition to their own resources, thrift and credit societies can obtain additional funds from the Co-operative Societies'

¹⁴ National Development Bank, *Annual Report*, 1971, p. 7.

¹⁵ *Ibid.*

TABLE 32

THRIFT AND CREDIT SOCIETIES: MEMBERSHIP, DEPOSITS AND LOANS

Years	Number of societies	Memberships of societies	Deposits/savings and stores (thousand Le)	Reserves (thousand Le)	Marketing/turnover (thousand Le)	Member loans issued (thousand Le)	R.C.S. loans issued (thousand Le)	Total loans repaid (thousand Le)	Total loans outstanding (thousand Le)
1961/62	269	13,886	150	11	8	171	n.a.	120	163
1962/63	362	17,248	209	15	9	219	23	144	238
1963/64	419	22,116	291	23	n.a.	321	36	221	338
1964/65	489	21,694	357	33	2	398	51	283	453
1965/66	591	27,843	478	50	8	150	145	99	196
1966/67	617	28,983	485	51	1	145	140	94	191
1967/68	652	30,454	688	75	2	818	32	418	814
1968/69	647	29,353	729	76	99	497	29	425	810
1969/70	726	33,375	781	119	n.a.	436	nil	410	836
1970/71	661	29,056	826	148	nil	286	nil	201	754
1971/72	655	28,101	992	310	nil	300	nil	245	784
1972/73	680	28,303	1,000	322	0.1	315	nil	255	824
1973/74	731	28,505	982	395	1.5	449	nil	357	1,347
1974/75	754	26,382	961	136	nil	458	nil	360	1,382
1975/76	762	27,560	970	226	nil	462	nil	365	1,407

Source: Ministry of Trade and Industry, Co-operative Department and NCDB.

Loan Fund, established in 1950, and made up of overdraft facilities from two commercial banks. However, thrift and credit societies rely mostly on their own resources with the result that only 54 such societies out of a total of 647 in 1969 borrowed from the Co-operative Societies' Loan Fund.

(ii) Uses of funds

In general, co-operative thrift and credit societies provide three categories of loans: those repayable within twelve months, those repayable after one year but within three years, and those repayable after three years but within six years. Loans repayable within a year are mainly consumption loans, especially during the 'hungry season', but some of them have also been used to improve production, especially for the purchase of seeds. Loans repayable within three years have been mainly for buildings, including renovation, and for rice haulers. Those recoverable within six years have been advanced for the purchase of lorries and iron safes.

At the end of the 1975/76 financial year the societies had about 10,000 individual loans totalling Le 1.4 million. These loans are mainly character loans and in consequence repayment and recovery have been reasonably good. The repayment of loans by 54 societies from the Co-operative Societies' Loan Fund has however not been completely satisfactory. Of the total sum of Le 83,062 made available to these societies, Le 47,583 were outstanding at the end of June 1969 when the scheme was suspended.

Co-operative thrift and credit societies should be able to mobilize savings in the rural areas because of their location and the spirit of co-operation which is at their basis. Incomes in these areas are not only low but also flow at irregular intervals, and this type of income pattern is conducive to co-operative-type institutions. Also, thrift and credit societies are within easy reach of people in the areas. In spite of these advantages there has been

no spectacular rise in the volume of small savings mobilized by these institutions. Because of the limited resources available to these societies, they have not been able to meet all the needs of their members. This in turn has affected the societies' ability to mobilize additional savings. Members of co-operatives, not being able to obtain financial assistance from their societies, have had to find other sources with a consequent retardation in the expansion of the resources of the societies. Non-members, on the other hand, are not attracted to the societies because they are aware that financial assistance cannot be guaranteed in time of need. Also, as the resources available to these societies are quite small, they have concentrated in building up their deposits. Furthermore, the co-operatives have incurred additional expenses by accepting responsibilities to process applications, disburse and enforce loan repayments (for loans from the Co-operative Societies' Loan Fund).¹⁶

To meet these costs a rate of interest higher than the rate of borrowed funds has been charged but, in addition, members contribute in the form of levies.¹⁷ The main disadvantage is that such levies make marketing through the co-operatives more expensive and the result is that farmers use channels other than the co-operatives for the marketing of their produce.

Pensions, provident and superannuation funds

(i) Sources of funds

In general there are two categories of provident funds now

¹⁶ These additional costs include the cost of assessment, the keeping of records in connection with loan repayment, the cost of marketing arrangements, and the cost of default.

¹⁷ It could be argued that the levies made are not as high as the charges of money lenders and traders (discussed later). But the important difference is that most charges of money lenders and traders are concealed either in the prices of provision or other goods credited or in the price the trader pays for the farmer's crops. With the co-operatives it is a direct charge which is explicitly shown.

in operation in Sierra Leone. In the first category both the employee and the employer contribute an equal amount, while in the second the employer's contribution is more than the employee's. An example of the first group is the Road Transport Corporation.¹⁸ Here the employee's contribution is 5 per cent of his assessable earnings, subject to a maximum of Le 60 per month. The corporation contributes an equal percentage. For assessable earnings below Le 22 per month, the contributions are given in Table 33.

TABLE 33

SIERRA LEONE ROAD TRANSPORT CORPORATION:
PROVIDENT FUND CONTRIBUTIONS FOR EARNINGS BELOW Le 22

Monthly pay	Total contribution	Employer's (corporation) share	Employee's share
Le 22	Le 2.20	Le 1.10	Le 1.10
21	2.10	1.30	0.80
20	2.00	1.50	0.50
19	1.90	1.70	0.20
18	1.80	1.80	—
Below Le 18	10 %	10 %	—

Source: Sierra Leone Road Transport Corporation.

The right to benefit is subject to the accomplishment of a qualifying period of sixty contributions paid on a monthly basis.

The Sierra Leone Selection Trust Ltd. is an example of the second group. Here, the company's contribution is 10 per cent and the employee's contribution is 7.5 per cent. Should a member

¹⁸ The corporation came into being in 1965 taking over the functions of the former Road Transport Department.

resign or leave the services of the company, he is entitled to a refund of all his contributions plus interest at 3 per cent. The number of years of service with the company determines the percentage of the company's contributions payable to an employee.

The value of all pensions and provident funds which amounted to Le 823,000 in 1960 exceeded Le 1 million two years later and was Le 1.5 million by 1965. Between 1965 and 1970 the value of pensions and provident funds went up by Le 400,000 and amounted to Le 1.9 million by 1970. These funds grew rapidly between 1971 and 1976 rising from Le 2.6 million to Le 7.8 million by the end of 1976. The main explanations for the growth have been increases in incomes, higher level of contributions especially by the employer and the fact that some firms which previously did not have any such schemes have established one.¹⁹

(ii) Uses of funds

Public and private pensions, provident and trust funds have in the main invested overseas. Their investment in Sierra Leone has been confined to government securities. These investments are given in Table 34.

The investments of pensions, provident and other trust funds overseas, especially before 1964, have been due to the virtual absence of local investment outlets. It should be noted that Sierra Leone government securities became available to the public only since 1964. However, an important consideration for the continuing overseas investment of these funds after 1964 is the yield. To illustrate, in 1969 the rate of interest on Sierra Leone Treasury bills was currently 5.5 per cent, while the rate of interest on Sierra Leone government stock ranged between 6.5 and 8.5 per cent. In

¹⁹ For information on sources and the breakdown of these funds see A.B. Taylor, "The Role of Financial Institutions in the Economic Development of Sierra Leone", *op. cit.*, p. 155.

TABLE 34

INVESTMENTS OF PENSIONS AND PROVIDENT FUNDS
IN SIERRA LEONE GOVERNMENT SECURITIES
(thousand Le)

Years	Investment in Sierra Leone Treasury bills	Investment in Sierra Leone government stock	Total Treasury bills and government stock
1964	24	—	24
1965	23	—	23
1966	89	—	89
1967	176	314	490
1968	241	404	645
1969	331	526	857
1970	137	746	883
1971	290	1,418	1,708
1972	260	3,170	3,430
1973	248	3,625	3,873
1974	265	4,056	4,321
1975	260	n.a.	—
1976	927	n.a.	—

contrast, investment on the London money and capital markets earned more than 12 per cent on average during the years 1968/69.²⁰

The higher level of investment in government securities since

²⁰ Some of the securities held by the board of trustees of the Sierra Leone Produce Marketing Board Provident Fund in 1969 were:

7.5 per cent National Savings Certificates;

7.5 per cent British Savings Bonds;

8.5 per cent Treasury Stock 1980/82.

See Sierra Leone Produce Marketing Board Provident Fund, *Annual Statement of Accounts*, Freetown, 1969.

1972 was the direct result of the 1971 Insurance Act which required life funds to be invested locally.

Bentworth Finance Company (Sierra Leone) Ltd.

(i) Sources of funds

Bentworth Finance Company (Sierra Leone) Ltd. was incorporated in Freetown on 23rd February 1970 and began operations on 1st August 1970.²¹ The resources available to the company are as follows. The paid-up capital, which amounts to Le 300,000, is held by: the Sierra Leone government, Le 30,000; the Bank of Sierra Leone, Le 30,000; the National Development Bank Ltd., Le 60,000; Barclays Bank Overseas Development Corporation, Le 60,000; Royal Exchange Assurance, Le 30,000; and Hambros Bank Ltd., Le 90,000. In addition, the company enjoys overdraft facilities of up to Le 800,000 from a local bank, and the National Development Bank Ltd. has undertaken to keep Le 150,000 in a fixed deposit account with the company. Bentworth can also borrow from both local and external sources to the equivalent of six times the sum of its paid-up capital and reserves.

(ii) Uses of funds

The company undertakes the following categories of business: A car loan scheme for members of Parliament, civil servants, employees of public corporations and government-employed school teachers. The loan is repayable within four years and carries interest at 8.5 per cent. Another category of business consists of

²¹ The company is administered by a board of directors consisting of six members, which are responsible for general policy; day-to-day operations are the responsibility of the general manager. In addition, the company has entered into an agreement with Hambros Management Corporation Ltd., for advisory services for which it pays a services fee of 2 per cent of the turnover with a minimum fee of Le 9,000 per annum.

commercial hire-purchase transactions for motor vehicles, plant, machinery and equipment. Unlike the first group which requires no down-payment, here a deposit ranging from 33.5 to 45 per cent of the cost price is required. In the case of commercial hire-purchase, the hirer buys the vehicle from the dealer and signs a hire-purchase agreement with him. This agreement is then forwarded to Bentworth for acceptance. The terms and conditions for a commercial hire-purchase are the following:

Category	Deposit rates	Charged rates	Repayment period
Private cars	33.5	12.0	18 months
Taxis	40	13.2	7 months
Mini buses	40	13.2	12 months
Light commercial vehicles	35	13.2	10 months
Heavy commercial vehicles	33.5	13.2	12 months

A third category of business is comprehensive of private car insurance purchased under the car loan scheme. The insurance loan is repayable within 12 months and carries interest at 8.5 per cent. Finally, the company also does block discounting.

At the end of April 1971, total advances by the company amounted to Le 820,889, involving 517 hire-purchase agreements. Of these, 47 per cent were for private cars, 25 per cent were for taxis, 23 per cent were for commercial vehicles, and the remainder was for block discounting and insurance.

Table 35 on the balance sheet of the company shows that Bentworth incurred losses on its operations up to the end of December 1971. The reason for this is that company did not attract the volume of business anticipated. It was estimated that the turnover during the first year of operation would amount to about Le 2 million, with gross charges totalling Le 381,756 and an es-

TABLE 35

BALANCE SHEET OF BENTWORTH FINANCE COMPANY (SIERRA LEONE) LTD.
September 1970 - December 1976 (Le)

Items	Sept. 1970	Sept. 1971	Dec. 1971	Dec. 1972	Dec. 1973	Dec. 1974	Dec. 1975	Dec. 1976
Fixed assets	13,328	9,764	7,681	7,434	3,959	10,431	6,926	9,143
Current assets	321,958	1,176,000	1,333,958	1,372,635	1,850,216	2,222,597	2,246,414	2,533,375
Total assets	335,286	1,185,704	1,341,639	1,380,069	1,854,175	2,233,028	2,253,340	2,542,518
Current liabilities	46,006	775,606	899,896	952,163	1,328,956	1,542,437	1,442,350	1,640,347
Net assets	289,280	410,098	441,743	427,906	525,219	690,591	810,990	902,171
Issued capital	300,000	300,000	300,000	300,000	300,000	300,000	450,000	450,000
Profit and loss account	(53,155)	(50,379)	(33,534)	1,226	86,739	172,279	138,291	163,840
Deferred income	246,845	249,621	266,466	301,226	386,739	472,279	588,291	613,840
	42,435	160,477	175,277	126,680	138,480	218,312	222,699	288,331
	289,280	410,098	441,743	427,906	525,219	690,591	810,990	902,171

Source: Bentworth Finance Company (Sierra Leone) Ltd.

timated profit of Le 20,158. The volume of business transacted from its incorporation in February 1970 to the end of February 1971 was on the contrary as follows (thousand Le):

	Advances	Gross charges
Government and other loan schemes	304	97
Insurance	30	3
Commercial vehicles	282	32
Block discounting	261	10
	877	142

These figures reveal that the volume of business transacted was less than half of what was forecast for the first year. It was hoped that the company would handle all the car purchases of the government and semi-government bodies as well as public corporations and various educational institutions. This did not materialize during the first year probably due to the company's charges. The government had previously charged 5 per cent under its car purchase scheme and some public corporations charged as low as 3 per cent. Also, the traditional motor dealers who, in the main, did not have hire-purchase arrangements of their own, had lost their command over the distribution of cars since about 1965, and most of the new car distributors, to improve sales, offered customers hire-purchase arrangements which they financed partly from their own resources but mainly from commercial bank loans. By December 1972 the company realized a small profit of Le 1,226 which rose to Le 163,840 by the end of December 1976. The growth in the company's profit was due to the fact that business under its commercial hire-purchase scheme had grown significantly.

Official encouragement in the form of Sierra Leone government and Bank of Sierra Leone participation in the company can

be justified on the ground of economic development since the company has merely duplicated a service that was already available. On the other hand, the contribution to economic development would be quite significant if the emphasis were on financing the purchase of equipment for productive purposes, such as agriculture.

We have pointed out that the government's development strategy aims at improving the productivity of the agricultural sector and we point out in Chapter VI that a contributory factor to the present low agricultural productivity is the primitive nature of some of the implements used. In these circumstances, an institution providing equipment loans would be making an important contribution to agricultural development. This is because a small agricultural producer who has learnt about the achievement of a piece of equipment may not be able to ascertain whether it is suitable for West African conditions, but a large institution should be able to do so. Also, ordering an equipment at long distances can cause serious problems for a small producer; but these are difficulties which an institution like Bentworth with its external connections should be able to avoid. A large institution would also be able to store spare parts. Further, an institution specializing in equipment loans is likely to have technical staff to demonstrate the right use of equipments. This may be crucial in a situation in which technical education is not generally available; showing people the correct use of machinery improves the efficiency and life of the equipment. Also, securities for loans present a serious constraint in the agricultural areas. In these areas, land is all that a farmer can offer and under the Native Law, although he has the use of the land, he does not own it. Equipment loans, in such a situation, may to a large extent deal with the problem of securities as the equipment becomes the collateral for the loan. In addition, since the emphasis is on increased productivity, equipment loans are not only likely to achieve this

result, but also ensure that the loans are used for the purposes for which they are intended.

An equipment loan scheme is already in existence in Sierra Leone. This is the Sierra Leone Revolving Loan Scheme of the Mines Department. The scheme was established in 1960 by a free grant of Le 100,000 from American Aid Funds released to British Territories in Africa.²²

The purpose of the scheme is to assist alluvial diamond miners with the purchase of equipment aimed at improving productivity. Under this scheme, the Mines Department uses part of the grant to purchase mining equipment such as pumps, pump spares, screening for washing diamond gravel. Miners in turn obtain this equipment from the Mines Department. In the case of small items, the customer pays the full cost of the equipment. In the case of other items, a deposit equivalent to 50 per cent of the total cost is required. The balance is repayable within six months. The Mines Department does not stock heavy machinery. This is ordered when the customer deposits 50 per cent of the cost. Freight and insurance are added to the remaining balance and this constitutes the loan which must be repaid within twelve months. A hire-purchase agreement is executed before the delivery of the equipment. The rate of interest charged is 1 per cent above the British bank rate. Under the agreement all equipment is to be repossessed if repayments are not made on the due dates. During the life time of the agreement, the customer is obliged to make the machinery available for inspection by the Mines Department.

²² Briefly, the objectives of the scheme are: (a) To improve the efficiency of mining and washing of diamonds mined under the Alluvial Diamond Mining Scheme by using efficient equipment; (b) To make this equipment available to the ordinary miner who normally would not be able to pay full cost; (c) To reduce the prices of this equipment by eliminating commercial firms and private traders.

During the years 1960 to 1976 sales under the scheme ranged between Le 50,000 and Le 80,000 per annum. In 1964 however they amounted to only Le 35,000, while in 1969 sales were Le 163,000. Total sales during the period 1960 to 1976 were approximately Le 1 million.

Apart from providing the machinery, the Mines Department also maintains area superintendents who hold occasional exhibitions to demonstrate the correct use and maintenance of the equipment.²³

To contribute to the economic development of the country, Bentworth would need to investigate this type of activity.

The National Insurance Company

The Sierra Leone government in March 1969 appointed a National Committee on Insurance to examine the possibilities of establishing a national insurance company and of introducing a comprehensive legislation for the control of insurance business in Sierra Leone.²⁴

The committee was assisted by two experts provided by the government of Pakistan and they reported on the feasibility of setting up a national insurance company and matters relating to the drafting of insurance legislation. Mr. Najmul Hasan who reported on the feasibility of establishing a national insurance company con-

²³ A part of the total fund under the scheme is managed by Crown Agents. At the end of 1969 investments managed by them totaled Le 100,944. In addition, the chief inspector of mines is required to remit to Crown Agents all surplus funds held locally for investment.

²⁴ The terms of reference of the committee were (a) to study the situation in Sierra Leone with respect to all types of insurance; (b) to make proposals to the government for the control and operation of insurance companies in Sierra Leone; (c) to make recommendations to the government on the establishment, structure and operations of a national insurance company; and (d) to submit a report on (a) to (c) to the Minister of Finance. S.L. Bangura (Chairman), *Report of the National Committee on Insurance*, Freetown, June 1970.

cluded that such an institution would be economically viable.²⁵ He believed that the National Insurance Company would be able to secure business from the following sources during the first year of its operation:

- (a) 75 per cent of public sector motor insurance business and 50 per cent of public sector fire, marine and miscellaneous insurance business;
- (b) 20 per cent of private sector motor insurance business and 10 per cent of private sector fire, marine and miscellaneous business.

Applying these percentages to the 1968 premiums collected, he obtained an estimated premium income for the new company of Le 314,864. This premium income was expected to increase by 10 per cent per annum. Commission was estimated at 15 per cent, claims at 57 per cent, and expenses at 16 per cent. On these calculations, he expected profits to range between 10 and 40 per cent. Estimated profits rose to between 20 and 70 per cent when claims were 48 per cent of total premiums. Estimated profits would be higher still if more premiums were collected or if the claims were reduced. In the case of life insurance, he estimated that 70 per cent of the premiums arose from Sierra Leonean policies. He expected that with industrialization and the growth of a middle class there would be a rising demand for life insurance. A second source of life insurance business, he suggested, was from superannuation funds and other insured schemes, especially those in which the government was involved. On this matter, he expected

²⁵ Najmul Hasan, *Report on the Feasibility of Setting up a National Insurance Company or Corporation*, submitted to the Minister of Finance on 27th May 1970. Mr. Hasan is the Manager of the Pakistan Insurance Corporation.

the contributions of employers and employees to be paid directly to the insurance company which would then assume responsibility for paying pensions to employees when they retire.

Hasan's calculations for the success of the national company are based on patronage from statutory corporations, the companies the government has supported and invested in. This approach is realistic, since trade and commerce are mainly foreign enterprises and are not likely to be enthusiastic about a new local company. As most private cars are owned by Sierra Leoneans and since all cars must be insured, an appeal to patriotism should attract some of this business away from foreign firms to the new company. At the same time, the demand for cars is likely to rise with a rising standard of living. With efficient management and a well planned and executed advertising campaign, the National Insurance Company could be assured of success. In short: Hasan's reasoning regarding the performance of the National Insurance Company is basically sound.

The insurance legislation prepared by Mr. Khalfe²⁶ which was enacted in July 1971, has two important provisions. First, each insurance company should have a paid-up capital of Le 50,000 or Le 100,000 for both life and motor insurance and Le 200,000 for other classes of insurance, whether done singly or not. Second, all life funds should be invested within Sierra Leone while companies transacting non-life business are required to invest 40 per cent of their gross premiums in local assets.

A major problem which requires consideration concerns the local assets into which insurance funds can be invested. In the case of non-life business which requires fairly liquid investment for easy realization to meet unexpected claims, Treasury bills are available

²⁶ A.M. Khalfe, *Report on Matters Relating to the Drafting of an Insurance Legislation*, Freetown, May 1970. Mr. Khalfe was Controller of Insurance for the government of Pakistan.

and these can be rediscounted at any time at the Bank of Sierra Leone. There may be a problem about the yield as Treasury bills earn only 5.5 per cent. In the case of life funds which are more suitable to medium and long term investment, they can be invested in Sierra Leone government stocks. Even if it may be argued that such stocks are not now available, these funds can be invested in Treasury bills pending the introduction of new stocks. To deal with any liquidity emergencies that might arise, there should be some provisions in the Bank of Sierra Leone Act which will make it possible for an insurance company unable to sell government stocks to be assisted by the Bank.

Another outlet for insurance funds is investment in office and residential buildings which have a very high demand at present. There is, however, at present an obstacle because the Non-Citizens (Interest in Land) Act of 1966 forbids foreigners from acquiring any freehold in land, and unless this Act is amended this type of investment is not possible for foreign-owned insurance companies.

A third outlet for local investment is the purchase of shares of joint-stock companies. But virtually all the large companies operating in the country are branches of large international concerns, and consequently their shares are not quoted locally but in their countries of origin. Also, there is no local stock market. And up to the end of December 1976, less than ten companies have been publicly issued. Hence, the number of companies in whose equity the insurance companies can participate is quite small. In addition, because there is no stock market there may be difficulties in disposing of stocks when such sales become necessary.

The National Insurance Company Ltd. established in 1972 with a paid-up capital of Le 250,000 subscribed by the Sierra Leone government was the outcome of the recommendations of the National Committee on Insurance discussed earlier.

During its first year of operations total net premiums collected amounted to Le 236,526. These were made up as follows: motor

60 per cent; life 11 per cent; fire 11 per cent; marine 3 per cent; miscellaneous 25 per cent. As claims were also very high, during 1972 the company made a loss of Le 97,000 on its operations.

Largely as a result of improvements in the loss ratio, a small profit of Le 287 was realized in 1973. The most significant development in 1973 however was a major increase in its life business. By the end of December 1973, the company had issued 273 life policies for an assured sum of Le 1.2 million.

Total net premiums collected in 1974 amounted to Le 623,312 which was 164 per cent higher than the level attained in 1973.

The loss ratio of each category of insurance showed a marked improvement in 1974 thereby resulting in a gross profit of Le 129,715.

In 1975 net premiums collected amounted to Le 727,524 while gross profit went up by 10 per cent and stood at Le 142,446. To strengthen the financial position of the company a general reserve fund was created in 1975 with the sum of Le 50,000 transferred from profits.

Largely as a result of improvements in all classes of business transacted by the company, net premiums went up by 3.4 per cent and amounted to Le 990,856 while a gross profit of Le 415,227 was realized in 1976. A further sum of Le 50,000 was transferred to the general reserve fund in 1976. In addition, the government received its first dividend as a shareholder of the company.

From the balance sheet of the company given in Table 36 we can see that investment of resources mobilized by the National Insurance Company Ltd. has been mainly in Sierra Leone government securities. At the end of 1973 government securities held by the company amounted to Le 128,633. A year later, that is by December 1974, its holdings amounted to Le 365,241 while at the end of 1975 they had reached Le 587,172. There was a 10 per cent decline to Le 452,433 in 1976.

TABLE 36

BALANCE SHEET OF THE NATIONAL INSURANCE COMPANY LTD.

<i>Liabilities</i>	1973	1974	1975	1976
Issued capital	250,000	250,000	250,000	250,000
Balances of funds				
Ordinary life fund	28,925	142,262	329,839	583,333
Fire insurance reserve	10,817	11,691	32,759	36,679
Marine insurance reserve	2,682	17,838	11,969	10,838
Motor insurance reserve	36,915	110,882	210,259	272,591
Miscellaneous insurance reserve	24,207	22,327	40,023	37,000
General reserve fund	—	—	50,000	100,000
Undistributed profits	—	—	39,072	88,763
Estimated liabilities in respect of outstanding claims	50,464	93,275	181,848	258,558
Amounts due to other insurance companies	28,261	98,810	196,986	6,751
Agents' balances	—	3,318	6,630	6,204
Amounts due for service and supplies	3,106	—	3,730	2,165
Outstanding premiums, credit balance	—	—	29,056	94,047
Other creditors	1,246	—	60,537	108,821
TOTAL	456,623	750,403	1,442,708	1,855,750
<i>Assets</i>				
Investments				
Government securities	128,633	365,241	587,172	452,433
Ordinary shares in joint-stock companies	14,000	32,145	32,145	45,375
Real estates	—	22,781	91,165	465,745
Others	9,960	23,765	30,634	50,199
Amounts due from insurance companies	—	10,359	143,207	70,430
Outstanding premiums	9,296	121,216	332,168	324,814
Liquid assets				
Cash in hand	4,785	114	163	47
Cash at central bank	92,748	73,387	101,200	408,350
Fixed assets	33,945	38,654	30,470	38,357
Other assets	163,256	62,741	94,384	—
TOTAL	456,623	750,403	1,442,708	1,855,750

The other investment outlet so far utilized by the company is through the acquisition of ordinary shares in local and foreign companies. Here however the amounts involved are not very large amounting to Le 14,000 in 1973, Le 32,145 in 1974 and 1975 and Le 45,375 in 1976.

The National Co-operative Development Bank

The National Co-operative Development Bank was established in July 1971. The main objectives of the NCDB are: (a) To operate as the apex financial society of the co-operative movement; (b) to provide a central source of credit for the movement; (c) to mobilize rural savings and accept deposits, savings and other funds from non-members and provide mobile banking services in the rural areas; (d) to provide advice to societies and individuals on the proper use of credit; and (e) to provide a central body for the channelling of finance to the co-operative movement from sources external to the movement. In common with other co-operative-type banks, it was not registered under the Banking Act but as a co-operative society under the Co-operative Societies Act. Any registered co-operative society can subscribe to the shares of the NCDB. The minimum amount of shares that can be purchased by a society is Le 2 per member and the maximum is limited to 20 per cent of the total shares. Similarly, the liabilities of any society to the NCDB are also limited, the ceiling being twenty times the value of the paid-up capital.

It was anticipated that the following resources would be available to the NCDB: (i) Probable paid-up capital, Le 50,000, based on the minimum contribution of Le 2 per member; (ii) cash balance from the government, Le 40,000; (iii) recovery of loans under the Co-operative Societies Loan Fund, Le 200,000;²⁷ (iv) reserve funds

²⁷ Local loans outstanding under the Fund are Le 400,000 and it is estimated that half of this outstanding amount could be recovered.

of co-operative societies, Le 50,000; and (v) surplus funds of societies which were likely to be deposited with the NCDB, Le 100,000. The NCDB also expected to borrow up to Le 2 million in the early stages through the issue of debentures and co-operative savings bonds.

Unfortunately these resources have not been forthcoming. During 1971/72, the first year of co-operative bank's operations, only 150 societies out of 903 took up shares valued at Le 14,033.26 while the total resources of the Bank were only Le 18,323.19. Even at the end of June 1976 only 263 societies had taken up shares.

The resources improved significantly during 1972/73 rising from about Le 18,000 in June 1972 to just over Le 90,000 by June 1973, due primarily to a loan of Le 40,000 from the Development Credit Fund of the Bank of Sierra Leone and a loan of Le 8,697 from the Co-operative Federation. At the end of the period under review resources of the Bank amounted to Le 128,798.

Most of the Bank's resources have been used to finance the marketing of produce. In 1971/72 the Bank handled 227 tons of coffee and cocoa valued at Le 78,000 and had a turnover in rice of Le 12,000. In 1972/73 produce handled by the Bank amounted to Le 276,000 while in 1973/74 a sales turnover of almost Le 400,000 was realized. Because of the unreliability of transport contractors to convey produce from the Bank's six branches to Freetown, the Bank during 1973/74 established its own transport section with a fleet of three lorries and one Land Rover.

The contribution of the NCDB to the provision of agricultural credit has been limited and this has been the result of the size of the resources available to the NCDB. Until further funds are made available to it through an increase in share participation or through

loans from other financial institutions both local and external, the credit activities of the NCDB will remain small.

It is our view that the NCDB can mobilize more domestic resources. To begin with, the total membership of the 903 societies at the end of June 1976 was 51,136. With such a membership the share capital could rise to over Le 200,000. The NCDB must not only put greater emphasis on getting societies interested in itself but also get them to participate in its share capital. Further, in the past the NCDB has been able to obtain overdraft facilities as well as receive loans from local financial institutions. The extent to which it can continue to do so will depend on how regularly these loans are serviced. Desperate efforts therefore have to be made to maintain the creditworthiness of the NCDB.

A loan application was submitted by the NCDB to the British Ministry of Overseas Development during 1973/74 for financial assistance. Although the outcome of the request was not known by the end of June 1974, the expert from the British Ministry of Overseas Development who visited Sierra Leone to assess the request did indicate that some financial assistance may be forthcoming. It is our view that other paths could be explored.

In conclusion, with a greater drive on the NCDB to improve available resources, its contribution to the provision of agricultural credit will be significantly improved.

3. THE UNORGANIZED SECTOR

The emphasis of this section is on the volume of borrowing and the sources of funds. Our analysis of the sources and uses of funds available to financial institutions has revealed that only a very small fraction of the resources of these institutions flows to the agricultural and small-scale industries sectors. This section argues

that the credit requirements of farmers and small-scale businessmen have been provided by the unorganized sector.

The volume of borrowing and lending

We include in the unorganized sector all non-institutional sources of capital and credit. As in the case of institutional sources, our concern is with the sources and uses of funds. Information on the size of the sector is quite scanty and we have therefore used indirect indicators to give some order of magnitude to the volume of business in this sector. One such indicator is the "Income Expenditure Survey", carried out during the period 1966 to 1968. Only two of the survey reports have been published. For the purpose of presentation of the survey results, the Western Area was divided into three groups: Freetown proper; other urban areas; and rural areas. The size of the sample was 3,071 households made up as follows: Freetown, 2,106; urban areas, 760; rural areas, 205. For the income and expenditure information, however, only one tenth of this sample was used. In the case of the Southern Province, the sample size was 1,268 households in 1,188 dwelling units. This was made up as follows: Bo, 597; Moyamba, 172; Pujehun, 82; Bonthe, 97; Mano, 90; Baoma/Jerihun, 75; Gbangbatoke/Mokanji, 155. For the income and expenditure survey, 400 households were interviewed.

Broadly it could be argued that the demand for the services of financial institutions tends to arise from urban areas, while rural areas tend to rely on the unorganized sector. However, the income and expenditure pattern suggests that a large section of the urban areas make use of the services of institutions in the unorganized sector.

From Table 37 where we combine the results of the two surveys, it can be seen that in all the areas more than 60 per cent earn

TABLE 37

INCOME RANGES IN THE URBAN AND RURAL AREAS
(per cent)

Income range	Western Province urban areas	Freetown	Southern Province urban areas	Western Province rural areas
No income reported	6.0	10.9	16.5	7.9
Less than Le 10	9.9	4.6	7.0	26.0
Le 10.00 - Le 19.99	18.9	12.9	14.8	23.9
Le 20.00 - Le 29.99	22.2	21.2	17.5	15.6
Le 30.00 - Le 39.99	13.2	15.6	18.0	11.5
<i>Less than Le 40.00</i>	70.2	65.2	73.8	84.9
Le 40.00 - Le 59.99	12.8	15.1	13.6	5.7
Le 60.00 - Le 79.99	6.2	7.6	6.9	1.6
Le 80.00 - Le 99.99	4.3	3.4	4.0	1.1
<i>Le 40.000 - Le 99.99</i>	23.3	26.1	24.5	8.4
Le 100.00 - Le 199.99	4.5	6.8	1.7	4.9
Le 200.00 and over	2.0	1.9	—	1.8
<i>Le 100.00 and over</i>	6.5	8.7	1.7	6.7
TOTAL	100.0	100.0	100.0	100.0

Source: Central Statistics Office, *Household Survey of the Western Area, November 1966 - January 1968: Final Report*, Freetown, Government Printer, July 1968; and *Household Survey of the Southern Province Urban Areas, March 1968 - December 1969: Final Report*, Freetown, Government Printer, May 1971.

Average monthly expenditures in these areas are shown in Table 38.

TABLE 38

AVERAGE MONTHLY EXPENDITURE IN THE URBAN AND RURAL AREAS
(Le)

Expenditures	Western Area urban areas	Freetown	Southern Province urban areas	Western Province rural areas
Food and beverages	25.66	26.73	16.49	19.18
Alcoholic drinks	1.26	1.21	1.40	0.79
Tobacco and kolanuts	1.48	1.68	0.89	0.82
Transportation	2.43	2.24	3.07	0.48
Fuel and light	2.52	2.66	2.32	1.11
Medical care	1.40	1.57	2.95	0.64
Clothing and shoes	4.23	5.06	10.30	1.09
Housing	6.99	7.85	3.91	1.75
Miscellaneous	4.64	5.62	7.70	0.54
TOTAL	50.61	54.62	49.03	26.40

Source: As for Table 37.

less than Le 40 per month. Average incomes in the various areas are:

Western Area

Western Province	Le 44.37
Freetown	46.57
Urban areas	44.85
Rural areas	23.13

Southern Province

Southern Province	40.90
Mining areas	40.15

Since average expenditures exceed Le 40, one would expect borrowing on a fairly large scale. Given the size of their incomes, however, most of those who need to borrow are likely to use the unorganized institutions. In the rural areas, on the other hand, more than 90 per cent earn less than Le 40, but even though average income is as low as Le 23.13 more than 60 per cent earn less than this amount. This also gives some indication of the possible reliance on institutions in the unorganized sector to meet borrowing needs.

Our next indication of the extent of lending and borrowing is from surveys which were undertaken to find out borrowing habits and sources of credit for farmers, retailers of staple food and individuals. Two surveys are important in this regard. These are the Moinuddin survey of October and November 1968, and the agricultural survey of 1971. The Moinuddin survey was carried out in the villages and townships of Bonthe, Kamelia, Makeni, Mambolo, Port Loko and Kenema.²⁸ The farm-holders selected for the survey were largely those who had previously been interviewed in connection with the agricultural statistical survey of 1965/66. The main findings of the survey were the following.

Approximately 20 per cent of the farmers interviewed did not borrow whereas the remaining 80 per cent borrowed from the

²⁸ Mr. Moinuddin, an agricultural credit expert, was seconded to the Bank of Sierra Leone from Pakistan under the central banking service of the International Monetary Fund.

following sources:

Lenders	Percentage of total farmers	Percentage from each source
Relatives and friends	50	45
African traders	19	19
Non-African traders	3	2
Co-operatives	8	11
African farmers	19	10
Agricultural Credit Scheme	1	13
TOTAL	100	100

Source: S.H. Moinuddin, "Sources of Agricultural Credit in Sierra Leone", *op. cit.*, pp. 3-8.

The purposes for which loans were borrowed were as follows:

Items	Percentage of total number of borrowers	Percentage of total amount borrowed
Seeds and fertilizers	8	3
Labour	13	11
'Hungry season'	40	33
Social and religious purposes	13	10
Ploughing fees	8	2
Litigation	6	7
Maintenance of plantation, construction and repairs to homestead	4	8
Plantation crops	4	21
Others	4	5
TOTAL	100	100

The main conclusion that can be drawn from the Moinuddin survey is that borrowings are largely from "relatives and friends" and from "traders", and that less than 50 per cent of the loans received were used for agricultural purposes.

The agricultural survey was carried out during the period January to April 1971. This survey gives some indication of the extent of borrowing and the sources and uses of the funds borrowed. For the purpose of the survey, 1,575 farmers were selected from 12,558 farmers in 105 enumeration areas throughout the country. Unlike the Moinuddin survey which was restricted to certain areas of the country, the 1971 survey included all the twelve districts as well as the Western Area. The survey revealed that about 30 per cent of the farmers surveyed did not borrow at all. The total amount borrowed by the remaining farmers amounted to Le 30,079, of which Le 24,861 were borrowed in cash and Le 5,218 were in kind.²⁹ The details of these borrowings are shown in Table 39.

The purposes for which the loans were borrowed were as follows (in percentage share):

Farming (seeds, fertilizers, labour, etc.)	42
Businesses other than farming	23
Domestic purposes	35

It should be noted that the loans classified as "domestic" are personal and are in respect of the "hungry season". The conclusion

²⁹ The survey revealed that the duration of the loans was for short periods. Thus, although the survey sought information on indebtedness, for the period 1966 to 1971, it was found that 95 per cent of the debts were contracted in 1970 and were repayable as follows (in percentage share):

Less than three months	8
Three months but less than six months	24
Six months but less than one year	59
More than one year	9

TABLE 39

NUMBER OF FARMERS REPORTING LOANS, AMOUNTS BORROWED
AND REPAYMENT OF THESE LOANS BY TYPE OF LENDER

Type of lender	Farmers reporting loans		Amount borrowed in cash		Amount borrowed in kind		Repayment		Kind
	Number	%	Le	%	Le	%	Le	%	Le
Paramount chief	22	2	746	3	8	—	393	2	102
Relatives/friends	689	68	15,016	60	3,105	60	13,136	58	13,300
Banks	6	1	1,028	4	84	2	495	2	231
African traders	187	18	2,639	11	1,466	28	3,362	15	2,312
Non-African traders	30	3	1,022	4	506	9	1,278	6	516
Co-operatives	39	4	3,185	13	30	1	3,102	14	18
Agriculture department	5	1	40	—	—	—	35	—	—
Any other organization	31	3	1,139	5	19	—	745	3	23
TOTAL	1,009		24,815		5,218		22,546		16,502

Source: Compiled from information available at the Central Statistics Office, Freetown.

that can be drawn from this survey is that it largely supports the broad conclusions of the Moinuddin survey, i.e., that most farmers need to borrow, that most of the loans come from "relatives and friends" and "traders", and more than half of the loans are used for purposes other than farming.

Some indication of the magnitude of credit extended to retailers of staple food is contained in a survey carried out by Njala University College in 1968. The findings of that survey are summarized in Table 40.

TABLE 40

PERCENTAGE OF RETAILERS OF STAPLE FOOD
WHO EXTENDED SOME CREDIT

Staple food commodity handled	Percentage extending credit	Number of weeks credit was extended		
		Less than one	One or two	Three or four
Shelled groundnuts	20	—	—	20
Rice	48	13	6	29
Cassava	60	60	—	—
Fofofo	72	25	22	25
Pounded groundnuts	80	50	10	20
Palm oil	84	10	26	48
All staples	69	25	15	29

Source: R. J. Mutti and D. N. Atere-Roberts, *Marketing Staple Crops in Sierra Leone*, Washington, D.C., AID, 1968, Table 6.

The table shows the percentage of retailers of staple food who extended credit and the duration of this credit. In this case, however, only 10 per cent of the total retailers interviewed received a part of their purchases on credit.

From the surveys quoted above, the principal sources of credit in the unorganized sector are "relatives and friends" and "traders". At first sight it would seem rather surprising that the money-lender does not play any significant role in the credit structure of the unorganized market. However, the money-lender is in fact concealed in both groups. The reason for this is that the law requires money-lenders to obtain a licence before commencing their business. The main provision of the Money-Lenders' Act of 1941, under which everyone operating as a money-lender must register, is the following: The money-lender is required to take out annually a licence in respect of every address at which he carries on his business. Obtaining the licence is not particularly easy. He must first obtain a certificate from the Money-Lenders' Licencing Board, whose chairman is the police magistrate of the area in which he intends to set up his business. Before this application he is also required to give notice of his intention by registered letter to both the magistrate and the commissioner of police; and at the hearing of his application, the commissioner of police can be present and object to the application being granted. Next, he goes to the local authority with his certificate and obtains the licence. In the case of Freetown, for example, he presents the certificate to the town clerk and obtains the licence on the payment of the sum of Le 30 per annum or Le 16 half yearly. He cannot, however, obtain the licence from the town clerk's office without the certificate from the magistrate. Further, the law requires that the money-lender should within seven days of signing the contract for a loan deliver a certified copy of the same to the borrower. Such a contract must contain the date on which the loan was made, the amount of the principal and the rate of interest. The rates of interest which the law allows are as follows:

(a) Where the loan is secured by a first charge on any real or personal property, or by indemnity or personal guarantee, the

rate should be 15 per cent (simple interest) for the first Le 1,000 or part thereof and 12.5 per cent for all sums in excess of this amount;

(b) Where the loan is secured by a second charge the rate of interest should be 17.5 per cent for the first Le 1,000 and 15 per cent for all other amounts;

(c) Where the loan is unsecured the rate of interest is 48 per cent (simple interest) per annum;

(d) Where no rate of interest is stated and repayments are in equal instalments the following formula should be used to calculate the rate of interest:

$$\frac{100 \times I \times 24}{N - I \times P \times L}$$

where I total interest payment

P principal

L number of calendar months in the intervals between instalments

N number of instalments

In addition the money-lender is required to keep a securely bounded book in which he should enter particulars of loans including the rate of interest on such loans. This provision is important as any proceedings under the Act require a detailed statement of account.

However, not many money-lenders are registered. In the Free-town area for example, registration was less than 10 throughout the 1960's. Given the main provisions of the Money-Lenders' Ordinance it is not difficult to see why money-lenders do not register. In the first place, they do not register in order to avoid the payment of the annual fee, which is currently Le 30, and the payment of taxes. Secondly, because most money-lenders deal with persons well-known to them, they consider it unnecessary to have

detailed records and consider the paper work involved costly, particularly so as this extra work on their part does not necessarily guarantee additional business. Another probable reason is the fact that the protection which the law offers is not particularly important as transactions are invariably between people who are well-known to each other. But perhaps of considerable importance is the fact that under Native Law and Custom all debts are recoverable whether or not there is a written agreement. As long as the debt is acknowledged, the Native Courts enforce judgement irrespective of whether or not the complainant has a licence to operate as a money-lender. Since most borrowers do not seek — indeed may avoid — the protection of the law, the rates of interest fixed by the Ordinance do not bear any relationship to what actually happens in practice.

Generally there are three groups of money-lenders. In the first group are traders. These combine their retail trading with money-lending. In this case the loan may be in kind as well as in cash, and repayment may also be in kind or cash. In the second group are those who acquired the resources for their business while at commercial firms or in the civil service. These begin business as money-lenders on their retirement. We found that those who have registered in Freetown and in the other cities are in this group. In the third group are individuals who are not full-time money-lenders but combine money-lending with other activities. They operate on a very small scale and use their past savings or income from present employment or business. This type of money-lending is common amongst the lower-paid workers. However, the money-lender need not be a single person. Three or four people could agree to pool their resources to start such a business. In one case known to us, four people established a fund which was used as the basis of the business. To obtain a loan from this fund, the applicant must be recommended by one of the participants and the

participant making the recommendation must be ready to guarantee repayment.

Those who use the money-lender can also be classified into three broad categories: The lower-paid workers apply to them especially at the beginning of each school year for books, uniforms, and in some cases for part of the school fees. They also use the money-lender for social commitments such as funerals and marriages. This group of people includes junior clerks, messengers, and daily wage workers. Farmers who are also in the low-income group use the money-lender during the "hungry season" and in some cases for equipments required for their farms, such as seeds. Those in the middle and upper income groups use the money-lender in special circumstances such as litigation, medical care or when a sudden misfortune occurs as, for example, an unexpected death.

The rate of interest

On average, the rate of interest charged varies between 20 and 25 per cent per month. In Freetown, the rate of interest is fairly uniform, being payment of 50 cents for each Le 2 borrowed per month, that is 25 per cent per month. In a few cases the rate charged is 40 cents on Le 2 per month. When the borrower is unable to repay both principal and interest he is allowed to repay the interest only, leaving the principal outstanding. On an annual basis, the rate of interest is 300 per cent per annum. Another indication of the rate of interest payable in the rural sector is given in the Moinuddin study as follows:³⁰

³⁰ Other estimates of the rates of interest in the unorganized sector are as follows: "In the rainy season there is no limit, it may reach 200 per cent; even in some cases it may be as high as 400 per cent per year. For example, in the planting period one bushel of rice may be advanced to the farmer for sowing in August on condition that the returns double this amount after harvesting in October". M.A. Soliman, *Report on Agricultural Credit in Sierra Leone*, Freetown, United Nations

Items	Percentage of total amount borrowed
<i>Relatives and friends</i>	
Interest free	29
5 % - 75 % p.a.	38
100 % p.a. and over	33
<i>African traders</i>	
Interest free	13
13 % - 70 % p.a.	8
100 % p.a. and over	77
<i>African farmers</i>	
Interest free	4
12 % - 50 % p.a.	10
100 % p.a. and over	86
<i>Non-African traders</i>	
100 % p.a. and over	100

Source: S.H. Moinuddin, *Agricultural Credit in Sierra Leone*, Freetown, Bank of Sierra Leone, January 1969, pp. 68-69 (unpublished report prepared for the Bank of Sierra Leone).

Office, July 1969. Mr. Soliman, an agricultural credit expert of the Food and Agricultural Organisation of the United Nations, prepared this report at the request of the Ministry of Agriculture and Natural Resources.

"... There is always a condition attached that produce should be sold to that trader, and this is usually upon such disadvantageous terms as to amount in effect to an interest of 100 per cent per annum or even more. Individual men or groups of men also frequently make loans; and in such cases the loans are usually for a month or little more, and the interest is 25 per cent on the transactions". N. A. Cox-George, *Report on African Participation in the Commerce of Sierra Leone*, *op. cit.*, p. 27.

He revealed that in the case of borrowings from traders and farmers, a condition for loans was that the crops were to be sold to the lender at prices about 50-60 per cent below the prevailing ones.

These rates are no doubt very high in comparison with those charged in the organized sector or with those laid down by the Money-Lenders' Ordinance. To explain these high rates requires an examination of the conditions in the unorganized market for loanable funds. The underlying factors in this market are the virtual monopoly of those who provide the loans and the high risks involved in lending in this sector, which is due to its nature.

Lenders in the rural areas are in a monopolistic position because of the controls which they are able to exert on borrowers. Effective controls over the farmer have taken a number of forms. To begin with, the farmer is aware that no other source of credit is available to him. The importance of this is that he realizes that unless he meets his obligations to his creditors there would be no one willing to help him in case of real emergency. Hence, the farmer always makes sure that the creditor has first claims on his produce at harvest. Being in the same locality as the farmer, the lender knows the scale of operation of the farmer, the type of crops he produces and his financial position. He also knows when crops are harvested and therefore the moment when to claim produce. This knowledge enables him to approve or reject a loan request on the day it is made, or at most within a few days. Next, the lender, as already indicated, is invariably a trader or a merchant with stocks of almost everything the farmer is likely to need, including seeds, provisions and implements. This explains why many loans are in kind. Because of this, it is possible to conceal the rate of interest in the price of the provisions or seeds. Also, control is effected through the marketing arrangements.

The farmer cannot provide his own warehouse nor does he have the means of transporting his produce from his farm to the

nearest agent of the Sierra Leone Produce Marketing Board who may be miles away. Because he is poor he requires immediate payment. Consequently, at harvest, he has to dispose of his produce. Since the buyer is the interpreter of the rules of the Marketing Board, what the farmer receives depends on the grading of the buyer and if he is already indebted to the buyer he has no alternative but to accept his decision. Finally, control is effected indirectly. A lender may deliberately leave balances uncollected only to request payment at an awkward moment when he knows the farmer would not be able to repay. But by agreeing to postpone payment to a later date the farmer feels the lender has done him a good turn which he must not forget in future.

The other factors which help to explain the high interest rates include the following: Those who use the unorganized sector do so because the securities they can offer for the loans are not acceptable anywhere else. Besides, banks are not likely to provide loans for consumption and for social obligations on the scale on which these are required by farmers. However, such loans are vital to the farmer. For example, loans are required to meet social obligations such as funerals and marriages as well as to tide people over the "hungry season".³¹

Then there is the administrative cumbersomeness which borrowers in the modern sector cannot avoid. Forms must be filled, detailed explanations are required and in a number of cases investigations have to be made. All of these are time-consuming but are necessary from the lender's point of view to ensure that the money loaned is repayed at due dates. Most of these are avoided in the unorganized market. Transactions are invariably verbal with

³¹ In Chapter III we have discussed the farmer's method of production, marketing arrangements, the social set-up and other factors which affect his productivity and his income. It is the economic and social conditions under which he operates that make it necessary for him to borrow on the scale he does.

the lender relying on his personal knowledge of the borrower and on customs and traditions of his locality. Thus, the rates in the unorganized sector are high because risks are greater due to the fact that there may be no collateral and such securities that exist are not acceptable elsewhere and because of the nature of the operations which rely heavily on personal knowledge, customs and moral obligations.³²

Although the high rates of interest reflect supply and demand conditions, we must nevertheless point out that the existing high rates tend to inhibit improvements in agricultural productivity. This is the case because a large part of total lending is for purposes which do not directly improve the farmers capacity to earn more income. He has to borrow on this scale for non-productive purposes as the returns on his farm are not large enough to sustain him and his family until the next harvest. Next, the fact that he is constantly in debt implies that he cannot accumulate cash savings. In addition, the relatively high rate of interest that obtains in the unorganized sector significantly increases his cost of production.³³

³² On rates of interest in the unorganized sector of underdeveloped economies, see the following: Anthony Bottomley, "Monopoly Profits as a Determinant of Interest in Underdeveloped Rural Areas", *Oxford Economic Papers*, No. 3, November 1964, pp. 431-439. Also by the same Author "The Cost of Administering Private Loans in Underdeveloped Rural Areas", *Oxford Economic Papers*, No. 2, July 1963, pp. 154-163 and "The Premium for Risk as a Determinant of Interest Rates in Underdeveloped Rural Areas", *Quarterly Journal of Economics*, No. 4, November, 1963, pp. 637-647. Millard Long, "Interest Rates and the Structure of Agricultural Credit Markets", *Oxford Economic Papers*, No. 2, July 1968, pp. 275-287. Albert Levenson, "Interest Rates and Cost Differentials in Bank Lending to Small and Large Businesses", *Review of Economics and Statistics*, No. 2, 1962, pp. 190-197.

³³ The repayment record has been good, especially because of the control which the lender has over the borrower. If necessary he also puts pressure on the relatives and friends of the lender. In some cases he may even threaten to report

Personal savings

Those businessmen who do not use the money-lenders because of high interest rates and who at the same time cannot obtain funds from financial institutions in the organized sector have to rely on their own savings. The Njala University College study, already referred to, found that wholesalers in villages and towns operated mainly on their own funds. That study observes "nearly all bulkers in villages, towns and cities reported that the major source of funds for their operations came from their own savings".³⁴ Also, we have pointed out that only 10 per cent of all retailers of staple foodstuffs obtain credit of some sort, so that 90 per cent of these retailers too rely on their own savings. One means by which such savings can be accumulated is through an institution known locally as "osusu".

The "osusu" is a system of rotating credit in which a lump sum composed of fixed contributions by a number of people is distributed as a whole to each member of the group in turn. Thus, if there are seven members and the monthly contribution is Le 2 from each participant, each receives Le 14 in rotation. The "osusu" is automatically dissolved when the last participant receives payment. It may start all over again if the participants so agree. The number of participants varies widely, but where the contributions are monthly the number does not exceed twelve. There are no for-

non-payment to the borrower's employers. This is very effective since most employees would not wish their bosses to know about such transactions. In our investigations during the summer of 1970 we were informed of two employees of a certain bank who lost their jobs because the bank was notified that they had not honoured their debts to a lender. Furthermore, the money-lender can threaten to resort to the "Juju-man" or "Witch-Doctor" whom, it is generally believed, has the power of ill or good luck as well as life or death.

³⁴ Mutti and Atere-Roberts, *op. cit.*, p. 65.

malities to be observed. The participants simply come together and agree among themselves to contribute a stated sum regularly. Sometimes an elder may be in charge but in a large number of cases the agreement between the participants is that the organisation rotates as well. That is, the member whose turn it is to receive the fund collects the contributions from the other participants. The order of rotation is decided by the participants before the first payment or by the organizer. Defaults are virtually nil, since the participants are invariably well-known to each other and in most cases may be close friends or associates.

Apart from using such savings for business purposes, people also participate in "osusu" for other reasons, notably for anticipated consumption and social expenditures. For example, someone who wants a radiogram or a refrigerator and who does not have the initial deposit may participate in an "osusu" in order to acquire it. Again, someone may participate in an "osusu" in order to accumulate funds which may be required to celebrate the wedding of a relative. "Osusu" could also be a source of insurance for unexpected expenditure, such as sudden illness, death or floods. In such a case, the person distressed persuades other members to allow him to receive the fund out of turn.

While most "osusu" are very small there are a few large ones. Contributions in the large group exceed Le 10. The largest known to us was organized by the senior staff of a large company. Here the contribution was Le 60 per month. Most of the members used the savings accumulated to purchase durable consumer goods and two used theirs together with other resources to purchase land. The smallest known to us was organized amongst the market women in one of the large markets in Freetown. Here the contribution was 10 cents payable on each market day, that is, Tuesday, Thursday and Saturday. Through this institution, the habit of thrift is encouraged even amongst people with very low incomes.

But from the point of view of economic development it is not the thrift aspect that is important (as the amounts involved may be quite small). The "osusu" encourages the use of money in the rural areas and hence facilitates the monetization of the economy. From the point of view of economic development the "osusu" can be looked upon as a transactional stage in the process of acquainting people to financial assets.

The availability of development capital

A rough indication of the volume of business handled by the sector can be obtained from the Agricultural Survey of 1971 and the Moinuddin Pilot Survey of 1968. The unorganized sector covers, it is generally believed, about two-thirds of the population (including parts of the urban areas); given a population of 3 million in 1974, about 2 million would be considered to be in the unorganized sector.³⁵ On the basis of the volume of borrowing revealed by the 1971 Agricultural Survey, we estimate total borrowings at about Le 6.5 million. The Moinuddin Pilot Survey estimated farmers' borrowing requirements for the 1968/69 planting season to be Le 5.5 million. Allowing for borrowing by non-farmers, which his survey did not take account of, a figure of about Le 6.5 million would be the likely order of magnitude.

This volume of credit is quite small in relation to total assets of all financial institutions, or even the volume of lending by commercial banks, and yet the organized sector cannot meet these requirements. Hence, the unorganized sector becomes significant.

In order to improve the lot of the farmers their dependence on institutional sources of credit must be increased. The problem

³⁵ There are no reliable data on this, but the above-mentioned order of magnitude conforms to the generally held view.

therefore is how to increase the flow of financial resources to borrowers who now depend entirely on the unorganized sector. A solution to the problem may be achieved through the integration of the organized with the unorganized sector.

(i) Integration with the organized sector

It may be possible to arrive at a real integration of the two sectors if a new institution specializing in the requirements of the rural areas is established. In view of our observations in Chapter VII, such an institution should combine the provision of credit with marketing and the provision of ancillary services so as to ensure that credit made available increases the productive capacity of the recipients. If such a result was achieved, then it should be possible for small producers to reduce their dependence on loans and they would probably be able to increase their own savings. To the extent that such an institution attained the desired objective, the relative importance of the money-lenders and traders as sources of agricultural credit would be likely to be reduced.

Integration of the unorganized with the organized sector may also be achieved through the rate of interest policy. As we have seen, the rate of interest charged in the unorganized sector is several times higher than that prevailing in the modern banking sector. The reason we have suggested for the high rates is that such rates reflected supply and demand conditions. But as explained in Chapter III, lending rates in the organized sector do not entirely depend upon factors within the economy. We have pointed out that commercial banks which are the main financial institutions have borrowed extensively from their head offices. Thus, their lending rates would have to take into account rates prevailing in London where these offices are situated. Also, investments are largely financed by inflows of foreign capital and therefore are influenced by external interest rates. In addition, we have seen that resources flow out of the economy in search of investment outlets. Because of

these external influences rates of interest prevailing in the organized sector reflect conditions outside the economy. Suppose that interest rates on savings deposits were raised to give a positive rate in real terms, for example, reaching 10 per cent. The probable result of such a rise would be to reduce the flow of financial resources to the unorganized sector and to channel more resources through financial institutions. Farmers indeed benefit when some of the additional resources flow to the new institutions established to deal with the problems of agricultural credit. The interest rate policy of the central bank in this regard was discussed in Chapter III.

A fundamental requirement for the integration of the two sectors is the registration of all dealers in the unorganized sector. There must also be a constant flow of resources between the two sectors. To facilitate such registration, it may be necessary to eliminate all the charges now payable under the Money-Lenders' Ordinance. Also, the Native Court Act would have to be amended to require the production of a registration certificate as a condition for examining suits involving debts. A third possibility in order to encourage registration is through publicity campaigns aimed at emphasizing the possible advantages of registration. Also, the procedures for registration must be simpler than those contained in the Money-Lenders' Ordinance. Assuming that it is possible to have most of them registered, the central bank would be able to have some insight into money-lenders' operations and it should then be possible to regulate their activities.

The question of communication between the two sectors poses a problem, namely, what are the appropriate institutions in the organized sector through which the money-lenders could be brought into the organized one? The problem becomes relatively easier, if a specialized institution were to be established to deal with the problems of agricultural credit. In such an event, the number of money-lenders would be smaller. If we assume that the remaining ones would not be concerned with agricultural credit, then the most

appropriate channel of communication between money-lenders and the organized sector should be the re-organized National Commercial Bank discussed in Chapter VII. We argue in that chapter that the new bank should undertake mixed banking and deal with businesses which are too small for the National Development Bank. A department of that bank could deal with money-lenders. In which case, the legislation requiring registration should stipulate registration with the National Commercial Bank and regulation of their activities could then be achieved through that bank. Also, any loan requirements of money-lenders could be provided by that institution.

(ii) The relative importance of the unorganized sector

The integration of the organized sector with the unorganized one should not imply destruction of the latter. This is because the uniqueness of unorganized institutions make it questionable whether a reduction in their size or their complete destruction is desirable. To illustrate, through the "osusu" system, the habit of thrift is encouraged even amongst people with very low incomes. The question which should be raised is whether the integration of the two sectors would lead to a net increase in domestic savings. In other words, will those people who previously used the "osusu" as an incentive to save necessarily use commercial banks? The possibilities are that savings through the banks need not necessarily arise. In the first place, people use the institutions in the unorganized sector for a variety of reasons. Some do so because of the informal nature of the transactions. Also, most of the people in the rural areas are not literate in English, hence there is the problem of filling forms. There is the problem too of giving answers to questions which may be considered an unnecessary probing into their private affairs. In addition, there is the mistaken belief that by using institutional sources their savings are likely to be known by the government who may then tax them. Such people are not

likely to be attracted to financial institutions. In the absence of institutions in the unorganized sector, they are on the contrary likely to spend all their incomes.

Furthermore, transactions in the unorganized sector involve a large number of individuals with very small incomes. For the financial institutions, the cost of administration may be too large in relation to the income to be earned. The informal arrangement of money-lenders, as contended earlier, avoids such costs. Another aspect of the cost problem is the fact institutions in the unorganized sector are within easy reach. A commercial bank, for example, will be located in specific areas as the cost of establishing a large number of small branches throughout the rural areas may be considerable. The fact that formal institutions may be some distance away from savers implies that some savings will be missed completely as people may not consider it worth their while to cover the distance just to make a deposit.

Also, the opportunity to borrow is in itself an important incentive to production in the rural areas. In those regions, incomes are low and at the same time one needs to recall the importance attached to social obligations and the close association between social and productive activities in rural areas. Hence as already indicated, a large part of the borrowings in the sector are for purposes which are not directly connected with increased productivity. And the fact that people are able to borrow to meet social commitments encourages production since borrowers would have to increase their output in order to honour their debts. But financial institutions in the organized sector make relatively few loans for social purposes so that with the elimination of the unorganized institutions an important incentive to production may be lost.

Undoubtedly, the volume of savings mobilized in the unorganized sector has been small and has been used mainly for consumption. However, it must be borne in mind that the institutions in the unorganized sector emerged in response to the social

and economic circumstances of the localities and were not established with the view of aiding the development of the country. Even so, they make two significant contributions to development. In the first place, institutions in the unorganized sector have a comparative advantage in administering small loans and this in addition to the fact that they are the only source of credit for most people in the rural areas. Secondly, the habit of thrift which they encourage is an indispensable step in the process of introducing people to financial assets. This is because once people have been accustomed to making small savings, they are likely to be attracted to financial assets when their incomes increase.

But granted that these institutions were not originally intended as instruments of economic development, the question which arises is how to get them to make a contribution to the development process. The problem in fact amounts to how to influence the activities of these unorganized institutions and is complicated by the fact that like most mutual institutions, those in the unorganized sector have no clearly defined aims but have grown without any specifically defined objectives. There is a further difficulty in regulating the interests of depositors and borrowers bearing in mind that they may be one and the same individual.

The desired results can however be achieved through the establishment of the specialized institution previously discussed. This institution, apart from providing credit, will also make available ancillary services which will ensure the productive utilization of credit. Allocation of resources is improved as ancillary services ensure that the available credit is used productively. And through increased productivity made possible by supervised credit, farmers and others may be able to save more. For those people in the rural areas who may not have access to this specialized institution, we suggest in the concluding chapter incentives which may be appropriate to attract their savings.

4. CONCLUSIONS

The main finding on the Post Office Savings Bank is that this institution lost deposits during the period of study. To improve its efficiency we argue in the concluding chapter that it should be reorganized and hived off the Department of Posts and Telecommunications.

Our discussion of the individual institutions has shown that their assets/liabilities increased throughout the 1960's. However, not all institutions have been successful in mobilising domestic savings. We have pointed out that thrift and credit societies should be able to mobilize rural savings because they are geared to that kind of activity. But we have observed that the deposits mobilized were not particularly large, especially in relation to the growth in membership of these societies. On the other hand, institutions such as Bentworth Finance Company and the National Agricultural Development Authority do not solicit deposits from the public, whereas the National Co-operative Development Bank had only begun operations by the end of the period covered by our study. The National Development Bank has mobilized some domestic financial resources by encouraging public participation in the share capital of companies. Resources have also been mobilized through life insurance. Although the total value of life insurance premiums of about Le 4.5 million in 1974 is small, the premiums collected more than doubled between 1966 and 1974.

The importance of these non-bank financial institutions does not lie entirely in their ability to mobilize domestic financial resources, but in the use made of the resources available to them. Given the importance of achieving rapid economic development, the basic problems with which these institutions should be concerned with are how to increase the flow of financial resources to the agricultural and small-scale industries sectors, and how to ensure that the available credit is utilized to improve the productive

capacity of the farmer and the small-scale businessman. This therefore involves not only the provision of finance but also the availability of ancillary services for the effective utilization of credit. The consequence of neglect of these basic issues explains the virtual absence of institutional sources of finance to the agricultural and small-scale industries' sectors.

The result of this pattern of resource allocation is that the unorganized sector is the only source of credit available to most farmers and small-scale businesses. The money-lenders and traders who provide such credit should not however be blamed for the prevailing high rates of interest as the rates charged merely reflect supply and demand conditions in the unorganized sector. And it would seem that money-lenders and traders will continue to be important in this sector until such time as alternative sources of credit are made available. Similarly, the flow of resources to the unorganized sector would continue until other equally attractive ways of holding savings become available.

While high rates may be justified in terms of conditions prevailing in the sector, nevertheless the credit structure impedes improvements in the productive capacity of the farmers. But any new scheme aimed at reducing the size of the unorganized sector would need to recognize that there are very few equally attractive ways of holding savings; that, apart from production credit, some consumption credit may be equally important; that the rates of interest payable on deposits in financial institutions are low and have been negative in real terms; and finally, it must incorporate some of the features which have accounted for the good repayment record in the sector.