

Chapter VI.

THE DEMAND FOR CREDIT IN THE AGRICULTURAL AND SMALL-SCALE INDUSTRIES SECTORS

In the previous chapters we have examined the sources and uses of funds from institutional sources as well as in the unorganized sector. The main conclusion was that the agricultural and small-scale industries sectors did not have access to institutional sources of credit and as such relied on the unorganized sector. This chapter therefore attempts to establish that there is evidence of demand for credit in these sectors. As an introduction to this analysis we first examine the sources and uses of aggregate funds.

1. THE GROWTH OF THE FINANCIAL SECTOR

Table 41 gives the assets of all financial institutions for the years 1960-1976. This table shows that assets of financial institutions at the end of 1976 were about eleven times what they were in 1960. Although the annual rate of growth of assets averaged 17 per cent (current prices), the rise was particularly high in 1960/61, 1967/68 and 1972/73 when the increases were 20, 39 and 51 per cent respectively. The table also reveals that three institutions — namely, the Bank of Sierra Leone, the commercial banks and the Post Office Savings Bank accounted for about 90 per cent of the total as-

TABLE 41

TOTAL ASSETS AND LIABILITIES
(thousand)

Institutions	1960	1961	1962	1963	1964	1965	1966
Bank of Sierra Leone	12,068	13,924	14,414	14,623	15,023	20,454	21,032
Commercial banks	10,986	14,230	15,750	20,744	26,079	25,716	27,744
Post Office Savings Bank	3,150	3,189	3,306	3,296	3,246	3,291	3,288
Insurance companies	534	614	675	810	930	1,115	1,154
National Development Bank	—	—	—	—	—	—	—
National Insurance Co. Ltd.	—	—	—	—	—	—	—
Co-operative thrift and credit societies	264	402	569	707	897	1,078	981
Pensions, provident and superannuation funds	823	892	1,030	1,200	1,371	1,443	1,547
National co-operatives	—	—	—	—	—	—	—
Bentworth Finance Co. Ltd.	—	—	—	—	—	—	—
TOTAL	27,825	33,251	35,794	41,380	47,546	53,097	55,746

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

OF FINANCIAL INSTITUTIONS
(Le)

1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
21,459	32,818	38,239	39,213	44,786	53,808	78,319	122,134	142,552	172,019
27,900	36,629	36,258	37,303	42,248	44,404	74,742	88,857	88,562	110,948
3,186	2,922	3,330	3,505	3,590	3,711	3,924	4,106	4,188	4,272
1,804	1,732	2,874	3,362	2,178	3,461	3,980	4,378	4,466	5,136
—	1,388	1,519	1,867	1,342	1,380	2,715	2,786	3,642	4,614
—	—	—	—	—	—	457	765	1,471	2,195
1,002	1,737	1,856	1,986	2,086	2,146	2,724	2,579	2,479	2,603
1,552	1,686	1,785	1,874	2,562	5,145	5,982	6,474	7,057	7,762
—	—	—	—	—	18	20	129	150	175
—	—	—	289	1,342	1,380	1,854	1,991	2,234	2,502
56,903	78,912	85,861	89,399	100,134	115,453	174,717	234,199	256,801	312,226

reserves (the other items on the liabilities side of the balance sheet) were quite small and therefore not likely to affect the total significantly.

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

sets of all financial institutions. But most of the observed growth in assets has been due to increases in the assets of the Bank of Sierra Leone and commercial banks. Whereas the assets of non-bank financial institutions went up by a mere 0.2 per cent, those of commercial banks rose by 16.3 per cent indicating the relative growth of the banks in the financial structure.

Following Goldsmith,¹ we use as indicator of the size of the financial sector, the ratio of the assets of financial institutions to Gross Domestic Product.² This ratio varied between 26 and 62 per cent during the years 1963/64 and 1975/'76. This result suggests that Goldsmith's finding, with respect to the underdeveloped countries he studies, is also true of Sierra Leone. He observes: "The absolute value of the ratio of financial institutions' assets to domestic product in less developed countries in 1963 is still below the ratio observed in developed countries in 1880".³ The ratio of about 26 per cent achieved by Sierra Leone in 1963 is lower than that which Goldsmith found for all countries, except Nigeria, that year.⁴

Although there was a considerable improvement by 1976 (62 per cent) the ratio was still lower than that achieved by a number of developing countries in 1963.

¹ R.W. Goldsmith, *Financial Structure and Development*, New Haven, Yale University Press, 1969. Goldsmith's method of analysis consisted of the identification of factors which describe the financial sector and the expression of these in a number of equations. The Financial Interrelation Ratio (FIR) and its equivalent in flow dimension, the Aggregate New Issue Ratio (ANIR), describe the financial sector. The financial interrelation ratio is the broadest measure of the relative size of the financial system and is defined as the value of all financial assets divided by the value of all tangible assets. ANIR measures the issues of financial institutions.

² GDP figures for Sierra Leone are available only for the years 1963/64 to 1969/70. For our calculations, 1963/64 = 1963.

³ Goldsmith, *op. cit.*, p. 390.

⁴ *Ibid.*, p. 209.

Sources of aggregate funds

Table 42 gives details of the sources of funds discussed in Chapters III and IV. From this table it can be seen that the main sources of funds are deposits and currency issued by the central bank.

The household sector, defined to include individuals, non-corporate businesses, private institutions such as Fourah Bay College and charitable institutions, accounted for about 78 per cent of the deposits mobilized by financial institutions. Deposits from the government sector (the central government and public corporations) accounted for only 10 per cent of total deposits. Deposits of the corporate sector were also small averaging about 12 per cent. If we assume that institutions would hold as little currency as possible and are not likely to account for more than 10 per cent of the currency in circulation, then about 80 per cent of the currency issued by the central bank is held by the household sector. Thus, the general conclusion on the sources of funds is that they were obtained largely through increased holdings of money by the household sector.

Table 42 also shows that deposits of individuals grew at an average annual rate of 9 per cent during the years 1960-1976. Growth of these deposits was particularly rapid between 1972/73, 1973/74 and 1975/76 when the increase was 26, 24 and 29 per cent respectively. Increases in income during the period would explain only a small proportion of the observed growth in savings, since per capita real income increased by less than 1 per cent per annum. The main explanation for the rise has been the activities of financial institutions. We have shown in the previous chapters that, during the period of study, financial institutions, especially commercial banks, improved their branch coverage as well as embarked on advertising campaigns which emphasized the advantages of savings with financial institutions. Also, through the

TABLE 42

SOURCES OF FUNDS AVAILABLE
(thousand)

Sources	1960	1961	1962	1963	1964	1965	1966
<i>DEPOSITS</i>							
Bankers	—	—	—	—	223	222	220
Government	932	1,109	1,290	1,312	2,195	1,443	1,078
Public corporations	—	—	—	—	915	908	1,153
Commercial firms	1,610	1,916	2,239	2,268	2,716	2,693	2,006
Individuals	9,036	10,197	11,461	11,585	13,124	12,968	14,396
Pensions, provident and life insurance	915	993	1,190	1,329	1,524	1,616	1,849
Co-operative thrift and credit societies	95	130	161	224	314	390	528
Others	606	721	839	854	1,240	1,297	1,450
TOTAL DEPOSITS	13,194	15,066	17,170	17,572	22,251	21,537	22,680
<i>LOANS RECEIVED</i>							
External	590	1,300	1,612	5,810	7,021	5,702	5,921
From government (including government-guaranteed)	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Sale of financial liabilities	—	—	700	700	700	700	700
Currency issued	12,041	13,924	14,414	14,632	15,023	15,273	16,116
Allocation of SDR's	—	—	—	—	—	—	—
Other liabilities including capital reserves	2,000	2,961	1,898	2,666	2,551	9,885	55,746
TOTAL	27,825	33,251	35,794	41,380	47,546	53,097	55,746

TO FINANCIAL INSTITUTIONS

Le)

1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
221	217	215	329	1,771	1,351	2,309	4,783	2,811	4,551
1,996	2,283	4,347	2,274	2,360	2,223	6,718	5,415	521	5,597
624	809	1,257	1,172	635	1,151	2,931	2,780	1,402	4,831
2,271	2,798	3,337	3,171	4,055	4,378	5,268	7,257	8,020	9,197
14,704	17,483	20,213	19,356	21,759	24,763	31,320	39,040	40,063	51,927
1,905	2,054	3,021	3,332	2,734	5,386	6,162	6,749	7,357	7,962
536	763	805	900	974	1,320	1,322	1,377	1,097	1,261
1,681	5,439	5,854	7,693	—	—	—	—	—	—
23,938	31,846	39,049	38,227	34,288	40,572	56,030	67,401	61,271	85,326
5,171	4,600	2,782	2,658	4,928	504	2,776	5,294	2,988	859
—	675	700	1,000	1,000	1,000	1,000	1,000	1,000	1,000
—	126	65	65	—	145	694	694	694	694
700	1,998	2,059	2,059	2,201	2,216	3,223	3,223	3,223	3,223
15,627	19,679	22,058	20,162	22,545	26,222	31,456	32,224	37,778	44,052
—	—	—	2,100	4,329	6,538	—	—	—	—
11,467	19,988	19,148	23,128	30,843	38,256	79,538	124,363	149,847	177,072
56,903	78,912	85,861	89,399	100,134	115,453	174,717	234,199	256,801	312,226

publicity campaigns of the National Development Bank, people have become aware of the advantages of holding their savings in the form of shares.⁵

We pointed out in Chapter II that outside the mining sector, domestic capital formation has been mainly in residential and non-residential buildings. In these circumstances, although the rise in assets of financial institutions indicates success in channelling resources through financial institutions, there is still a considerable scope for further mobilization.

Uses of aggregate funds

An important contribution of financial institutions in the development process is their influence on the allocation of resources. Generally, the existence of financial institutions should improve the allocation of resources for the following reasons. There are a number of projects which by their nature are too large and involve considerable financial resources which a single individual or group of individuals may not be able to finance. Through these institutions, the necessary funds are made available for such projects. Also financial institutions are able to appraise alternative forms of

⁵ Some other studies have shown that financial institutions can increase the rate of saving. See, for example, Economic Commission for Asia and the Far East, "Measures for Mobilizing Domestic Savings and Productive Investment", *Bulletin of the Economic Commission for Asia and the Far East*, No. 3, December 1962, pp. 1-25. This study found a positive association between the rate of total household saving and the structure of this saving which is measured by the ratio of saving in financial assets to the ratio of saving in tangible assets. To show the relationship between the structure of household saving to its rate, a scatter diagram measuring this relationship was used. This diagram showed a cluster of the observations around a positively sloped straight line trend, the implication being that countries with a high rate of saving tend to have high ratios of financial/tangible assets in saving and vice versa. It was suggested that this relationship held within individual countries, implying that in years when the rate of household saving increased, the ratio of saving in financial/tangible assets also rose.

investment to ensure that the most profitable ventures are financed. In addition, they diversify their investments in order to reduce risks. Finally, because of difference in ability, attitude towards risks and uncertainty, not all individuals can be successful entrepreneurs. Hence, if each economic unit invested its own savings there is likely to be inefficiency in the allocation of resources.

In order to give some indication of the extent to which financial institutions in Sierra Leone have contributed to improving the allocation of domestic financial resources, we summarize in Table 43 the allocation of resources available to them. From this table it can be seen that the main uses are: The holding of foreign securities, loans and advances to finance the export/import trade, and investment in government securities.

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

Loans and advances have, in the main, financed the export/import trade. We have shown in Chapter IV that 11 per cent of all customers in the category Le 10,000 and over, received 85 per cent of total loans available from commercial banks which have provided most of the loans to the private sector. The recipients of these loans are foreign firms as only a few Sierra Leonean enterprises are likely to require financial assistance on such a scale. Loans and advances for productive purposes (that is, all loans to the private sector excluding miscellaneous loans) averaged 24 per cent of total financial assets. Assuming that loans in the miscellaneous category, loans from co-operative thrift and credit societies, and "other loans" have gone entirely to Sierra Leoneans,

TABLE 43

USES OF FUNDS AVAILABLE
(thousand)

Uses	1960	1961	1962	1963	1964	1965	1966
Money at call	—	—	—	—	960	1,660	2,830
Cash in hand, balance with banks in Sierra Leone and head office	2,496	2,220	2,274	1,868	2,318	2,425	2,152
<i>Loans and advances (private sector)</i>							
Agriculture	54	76	—	—	288	1,036	117
Mining	—	—	—	—	1	320	579
Manufacturing	—	—	—	—	747	933	1,282
Building/Construction	—	—	—	—	1,002	2,108	2,254
General commerce	5,406	6,946	9,934	13,978	10,767	8,991	6,787
Miscellaneous loans (from commercial banks)	—	—	—	—	1,856	989	3,389
Co-operative loans	103	103	163	238	338	453	196
<i>Loans and advances (government)</i>							
Rediscounts and advances (central bank)	—	—	—	—	—	799	1,580
Claims on public corporations	—	—	—	—	—	—	778
<i>Purchases of financial assets</i>							
Government securities (banking system)	—	—	—	—	1,158	8,216	10,604
Foreign securities and foreign balances of the Bank of Sierra Leone	10,900	9,927	11,369	11,591	13,607	15,184	13,730
Other foreign securities	4,031	4,176	4,522	4,565	4,750	2,756	3,033
Other assets including fixed assets	4,835	9,803	7,482	9,140	9,754	7,227	6,435
TOTAL	27,825	33,251	35,794	41,380	47,546	53,097	55,746

TO FINANCIAL INSTITUTIONS
Le)

1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
1,490	1,165	2,295	1,715	1,771	975	2,080	4,515	2,540	4,285
3,759	5,153	6,206	4,234	4,079	3,750	6,995	10,347	8,018	13,004
1,810	1,780	1,083	125	181	350	362	335	710	679
143	177	415	345	525	454	1,145	714	1,151	1,768
1,101	1,090	1,158	1,739	996	2,080	1,428	2,363	1,755	1,793
1,265	1,450	1,403	613	686	666	1,124	1,405	1,881	2,406
9,615	10,420	11,170	14,006	14,476	15,855	19,110	23,132	21,547	22,970
1,266	772	8 12	1,780	1,466	1,875	2,970	2,978	9,138	8,150
191	814	810	836	754	784	824	1,347	1,382	1,410
1,401	150	1	4,254	4,856	3,526	3,188	12,147	13,351	12,509
1,862	1,773	996	50	259	91	412	1,468	556	1,194
11,449	13,126	11,050	12,682	9,540	11,952	17,201	18,681	43,797	65,199
13,247	22,901	29,480	24,645	25,413	31,593	38,326	45,756	27,642	29,093
2,983	2,842	3, 833	4,367	3,428	4,519	6,040	7,173	6,108	7,223
5,321	15,299	15,149	18,008	31,704	36,983	73,512	101,838	117,225	140,643
56,903	78,912	85,861	89,399	100,134	115,453	174,717	234,199	256,801	312,226

then loans to nationals averaged less than 10 per cent of total loans from financial institutions. Loans to the agricultural sector on the other hand accounted for less than 5 per cent of the total.

Holdings of government securities by financial institutions increased substantially between 1965 and 1976. If we add ways and means advances and loans to the government to holdings of government securities, then the government sector accounted for an average of about 18 per cent of the resources of financial institutions during 1964-1976. There is nothing fundamentally wrong in directing resources to the government especially as the government plays a major role in the economy. What is important is that the resources made available in this way must have a reasonable prospect of enhancing the productive capacity of the economy.⁶

The evidence at hand seems on the contrary to suggest that resources made available to the government through the purchase of government securities have not financed productive investment.

Government's total expenditure as a percentage of GDP for the years 1963/64 to 1974/75, for which this information is available, was as follows:

	1963/64	1967/68	1970/71	1971/72	1972/73	1973/74	1974/75
Total expenditure	19.2	18.1	16.1	17.6	19.8	19.3	22.8
of which Capital expenditure	3.4	1.9	1.6	1.5	2.5	1.6	3.3

⁶ Ahmad, for example, has shown that the increase in the rate of government investment in Ghana during the years 1960-1965 was accompanied by a declining rate of growth in the economy because of the preponderance of less productive investment. N. Ahmad, *Deficit Financing, Inflation and Capital Formation: The Ghanaian Experience, 1960-1965*, Munich, Weltform Verlag, 1970, pp. 111-118.

These figures indicate that the government's capital expenditure has represented a declining proportion of GDP.

Furthermore, whereas in 1963/64 the government accounted for 34.9 per cent of gross domestic capital formation, by 1967/68 its share had dropped to only 13 per cent. Although the percentage improved somewhat in the 1970's, at the end of 1974/75 the government's share of gross domestic capital formation at 28.7 per cent was still below the level attained in 1963/64.

Implications in the patterns of resource uses

As our analysis has shown that in the period under review considerable credit was made available to the government by the banking system, we therefore decide to examine the significance of credit creation for the economy as a whole. For this analysis we use the Polak Model.⁷

This model was selected because its principal assumptions correspond to the structural features of the Sierra Leone economy. The basic assumptions of the model concern the velocity of money and the relationship between money and income.

The assumption that the velocity of money is constant implies that changes in the income stream will always lead to changes in the quantity of money. The assumption of a constant ratio of money to income means that leakages such as the propensity to save and pay tax can be ignored. Let us briefly examine the extent to which these assumptions hold for the Sierra Leone economy.

The main determinants of income in Sierra Leone as we have

⁷ J. J. Polak, "Monetary Analysis of Income Formation and Payments Problems", *International Monetary Fund Staff Papers*. The objective of the model is to study the effect of credit policy on income and the balance of payments. Basically, he is interested in questions such as the quantitative implications of, say, a certain rate of credit creation on real economic variables and the process by which newly created money income gives rise to imports and thus affects the payments position of the country.

seen are exports of mineral and agricultural produce, the principal exports being diamonds, iron and bauxite, coffee, cocoa and palm kernels.

On the other hand, because of the absence of capital goods industries, a large part of any investment goes directly on imports, and as the manufacturing sector is still underdeveloped, accounting for less than 6 per cent of GDP, a wide range of consumer goods also have to be imported. Furthermore, low productivity in the agricultural sector has resulted in food imports accounting for about a fifth of total imports.⁸

Consequently, the import drain dominates all the other leaks and is the main determinant of the income multiplier. Exports and imports both result in changes in the quantity of money. Exports lead to an increase in the money supply when the export proceeds are expended locally, while in the case of imports, local currency and deposits have to be given up to purchase the foreign exchange with which to pay for the required imports.

Furthermore, we have seen that investments by the mining companies are financed by capital inflows. Small businesses on the other hand rely on retained profits. Because of the absence of a local money and capital market, idle funds that exist are invested in foreign securities. But, because investment as a whole depends largely on capital inflows, any change in the relationship between savings and investment will be reflected in a corresponding change in the quantity of money.

Also, we have noted that the government has incurred large budget deficits during the period of our study. These deficits as we have seen were financed by borrowings from external sources and

⁸ For import figures during the periods of study see Bank of Sierra Leone, *Economic Review*, No. 314, December 1976, Table 24.

from the banking system, which affect the quantity of money through their effects on external reserves.

Finally, our conclusion on non-bank financial institutions revealed the virtual absence of financial intermediation by these institutions. The importance of intermediation by non-bank financial institutions is that they economize in the use of money thereby allowing a given stock of money to finance a large volume of transactions. The virtual absence of assets of these institutions implies the absence of indirect influences on the money supply.

We can thus conclude that the main determinants of domestic expenditure in Sierra Leone are the same variables which cause changes in the money supply, and that variations in the money stock are not the result of alterations in the velocity of circulation but rather are caused by changes in the absolute volume.

Having shown that the structural feature of the Sierra Leone economy is consistent with the assumptions of the model, we now present the main conclusions arising from fitting the Polak Model to the Sierra Leone data.⁹

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

Suppose there is an increase in domestic credit and that this loan is used to be paid out as income. The level of income rises. Some of this income will be spent on domestic goods and services

⁹ In the application of the Polak Model to the Sierra Leone economy, we followed the procedure adopted by J. J. Polak and Lorette Boissonneault, "Monetary Analysis of Income and Imports and its Statistical Applications", *International Monetary Fund Staff Papers*, Vol. 7, April 1960, pp. 349-415; for the detailed results of the calculations see A.B. Taylor, "The Role of Financial Institutions in the Economic Development of Sierra Leone", *op. cit.*, pp. 325-346.

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

The effect of this credit creation giving rise to higher incomes and expenditures is a continuous depletion of external reserves. First, there is loss of reserves through the direct expenditure on imports. The second source of reserve loss arises from the fact that some of the domestic expenditures are on imports. The size of the drain here is determined by the propensity to import. The depletion of the reserves ultimately equals the amount of credit created. There will be a continuous loss of reserves which will gradually build up to an annual rate equalling the injection of credit. However, it takes time for the newly created income to be lost through imports. This lag depends on the time it takes for earnings to be distributed as wages and salary, the time it takes individuals to respond to their increased incomes, and the time taken by producers to increase production in response to the higher level of demand. This time lag which in fact determines the velocity of circulation of money together with the size of the marginal propensity to import determines how quickly incomes generated by the credit leak into imports.¹⁰ This result is quite con-

¹⁰ Polak, *op. cit.*, p. 26.

sistent with the observed behaviour of the money supply discussed in Chapter III.

As domestic credit creation causes serious pressure on the level of external reserves within a relatively short time, the monetary policy in the Sierra Leone context must involve the management of the level and flow of external reserves.¹¹ As such an analysis would indicate the extent of possible reserve loss that the economy can withstand; policy measures can then ensure, firstly, that the reserves are maintained at the predetermined level¹² and, secondly, that the available credit is utilized productively to minimize the effect of the loss of reserves.

Also, since our analyses of the source and use of funds have revealed financial underdevelopment, monetary management must, in addition, concentrate on the development of the financial system so as to enable it to increase substantially the proportion of investment financed from domestic sources.

2. THE DEMAND FOR CREDIT

From Table 43, we have seen that loans given from institutional sources to the small-scale farmer and small-scale enterprises are those by co-operative and thrift societies. But the amount of credit provided by co-operatives represents less than 1 per cent of the total credit provided by all institutions.

¹¹ Hannah Ezeckiel, "Monetary Expansion and Economic Development", *International Monetary Fund Staff Papers*, Vol. 14, 1967.

¹² J.O.W. Olankampo, "Monetary Management in Dependent Economies", *op. cit.*; J. Marshall, "Advanced Deposits on Imports", *op. cit.*; Alexander Kafka, "The Brazilian Exchange Auction System", *Review of Economics and Statistics*, Vol. 38, 1956, pp. 308-322; J. Bhagwati, "Indian Balance of Payments Policy and Foreign Exchange Auctions", *Oxford Economic Papers*, Vol. 14, 1962, pp. 51-68.

The small or average farmer and the small enterprises have been singled out for this study because of their importance for the development of the Sierra Leone economy. Starting with the agricultural sector, as the country's principal resources are fertile land and largely unskilled labour, the government development strategy gives priority to increased agricultural productivity. But the problem which follows from this is how to achieve this desired objective.

One possibility is through a system of large plantations; alternatively through improvements in efficiency within the present framework of small-scale labour-intensive units; or thirdly, through some combination of both.

In some studies the necessity for developing agriculture is to free labour for industrial development.¹³ The implication here is the mechanisation of agriculture. In 1952 the case for plantation agriculture in Africa was given as the rate of growth and fruiting of planting;¹⁴ it would facilitate orderly planting and harvesting; would make it possible to apply fertilizers systematically; would enable economies in transport and ensure regular supply of fruits; oil would be extracted more efficiently and waste products utilized.

This approach to agricultural development is not practicable in Sierra Leone. This is because about 65 per cent¹⁵ of the economically active population is engaged directly or indirectly in agriculture; given the fact that the population increases by about 1.5 to 2 per cent per annum, one would expect a continuous increase in the farm population for some time. At the same time, because

¹³ Gustav F. Papanek, "Development Problems Relevant to Agricultural Tax Policy", quoted by G.M. Meier, *Leading Issues in Economic Development*, New York, Oxford University Press, 1964, p. 289.

¹⁴ United Africa Company, *Statistical and Economic Review*, No. 9, March 1952, pp. 3-4.

¹⁵ Central Statistics Office, *Sierra Leone's National Accounts 1963/64 to 1972/73*, Freetown, Government Printer, June 1974, Table 23, p. 41.

of the size of the Sierra Leone market, the industrial sector is not likely in the near future to absorb all the additions to the labour force. In these circumstances any programme which involves replacement of labour on a large scale, apart from being more expensive, may cause serious employment problems. For this reason, increased agricultural productivity in Sierra Leone must be sought through the existing small-scale labour-intensive units. A second reason why use must be made of the existing small units is the scarcity of capital which has been emphasized by a number of studies.¹⁶ Most underdeveloped countries do not have all the capital they would like for the simultaneous development of all sectors of their economies. There is therefore need for economy in the use of capital wherever this is possible, and it has been shown that such economies are possible in the agricultural sector. There now exists a relatively simple and cheap technology which complements labour rather than substitutes labour and which has been shown to result in significant increases in agricultural productivity.¹⁷

The third important factor in favour of development through existing small-scale units is to ensure a sustained demand for the products of the industrial sector. Incomes in the agricultural sector are currently very low and they are earned only during certain months of the year because of the seasonal nature of farming. If we rule out manufacturing for the world market for the time being, then demand must come from the agricultural sector. It can be argued that demand can come from the manufacturing sector

¹⁶ J. Livingstone, "Agriculture Vs. Industry", *Journal of Modern African Studies*, No. 3, October 1968; Harry T. Oshima, "A Strategy for Asian Development", *Economic Development and Cultural Change*, No. 3, April 1962.

¹⁷ In this context the author is aware that the so-called "Green Revolution" which was meant to transform the countryside at virtually no cost has been found to be expensive in terms of the large import content. Even so, examples exist of successful attempts to control nature through a relatively simple technology made largely of local materials.

especially with rising incomes. But one could not rely on this source to any great extent in Sierra Leone because the industrial population is small and incomes are not particularly large.

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

Since our assumption is that progress would depend on improving the efficiency of a large number of small-scale farmers, the starting point of our analysis of the demand for agricultural credit must be the present conditions of small-scale farmers. It would be recalled from Chapter II that the method of production is by shifting cultivation involving the use of hard tools which have not changed significantly during the past 50 years. The direct consequence of this has been that agricultural production per farmer has been very small. Because he has to share his output with those who assisted in production and because of the extended family system, only very small surpluses have resulted.

A second factor and perhaps the most important affecting the condition of the farmer is the marketing arrangements. Marketing is undertaken by the Sierra Leone Produce Marketing Board, a statutory body. The SLPMB operates through buying agents in various parts of the country.

Naturally, these agents are stationed in the main towns and large villages. The result is that between the farmer and the SLPMB's agents there may be several intermediaries. The consequence of this is that producer prices announced by the SLPMB

are not those received by the farmer, since each of the middlemen involved must take some return. Another aspect of the marketing arrangement is the fact that the prices paid by the SLPMB to its buying agents are far less than world prices. Studies have shown that in some years the prices fixed by the SLPMB for the two main export commodities were as low as 50 per cent of the world market prices.¹⁸ However, even this amount is not what the farmer receives. Taking into account the fact that grades of produce are decided by the traders and others who may buy from farmers, what the farmer actually receives may be very small in relation to world prices.

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

Fourthly, customs and traditions are very important in the rural areas. Initiation into traditional societies, marriages and funerals are so important in these areas that some farmers may be prepared to incur very large debts on the security of their farms to fulfil social obligations rather than be looked down upon by other members of their community. These customs and traditions are in fact the main incentive for some of these people. This does

¹⁸ R.S. Saylor, *The Economy of Sierra Leone*, *op. cit.*.

not mean that the farmer does not try to maximize his money profits. What we are in fact suggesting is that the farmer takes into account his social and moral values in trying to maximize his profits.

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

Given the present situation which involves an effective control over the farmer's crop by non-institutional sources of credit, the provision of credit through a specialized agency will be an important incentive which is likely to yield significant increases in agricultural productivity. First, the control which non-institutional sources now exert on farmers must be broken since undue debt burdens have been shown to be a major obstacle to agricultural development.¹⁹ Second, a specialized agency for agricultural credit if properly operated will insist that credit flows to those who can use such credit productively. The credit policy of such an institution will indirectly encourage the use of new methods and high yielding seeds, since some of the credit will be specifically for these purposes. Third, to ensure that loans are effectively used, such an

¹⁹ W. Arthur Lewis, "Developing Colonial Agriculture", *The Three Banks Review*, March 1949.

agency will either establish some close links with existing extension services of the Agricultural and Co-operative Department or may provide its own extension services. Fourth, to ensure that credit requirements are not only met but also that repayments are made when due, such an agency will establish links with marketing institutions such as the Sierra Leone Produce Marketing Board and co-operative societies, so that, if need be, repayments are deducted at source, that is, when the produce is sold.

The farmer will respond positively because the use of better inputs will increase his output and hence his income. Also, the conditions for loans from such an agency will be more favourable since the rate of interest is not likely to exceed 20 per cent. In addition, the agency is likely to specify some form of marketing arrangements. This is likely to eliminate at least some of the middlemen and some of the exploitation.²⁰ The returns to the farmer will be greater still if the Sierra Leone Produce Marketing Board can modify its pricing policy to give the farmer a larger percentage (say 70 per cent) than at present for his produce. Thus, given a proper policy mix, credit can be a sufficient condition for a breakthrough.²¹

It can be argued that instead of providing agricultural credit the same result could be achieved if the farmer received the full world prices (less any expenses for marketing). This may not necessarily be the case. To begin with since nothing has been done to eliminate the middlemen it is not certain that all of the higher price would go to the farmer. Some is likely to be retained by the middle-

²⁰ The replaced middlemen need not necessarily be unemployed since if productivity increases sufficiently they may be attracted to farming.

²¹ It can be argued that increasing the percentage share of the world price to the farmer may lead to a loss of revenue for the government. This need not happen thanks to the increase in productivity which is likely to follow the price rise and other incentives. It should be noted however that a policy of uncompetitive producer prices might increase the scale of smuggling resulting in a greater loss of revenue.

men. Also, the non-institutional sources from whom he borrows are certain to increase their charges. In addition, the farmers' productivity need not increase as the increased income need not necessarily be spent on better implements. The situation under a system of institutionalized credit should be quite different: (a) the credit will be for some inputs, (b) the hold of money-lenders and others will be weakened, and (c) some of the middlemen are likely to be eliminated.

The farmer benefits by getting more income but the economy also benefits because productivity has increased. There is now sufficient evidence to show that farmers respond positively²² to economic stimuli so that once he knows that by using an improved variety of seeds he gets more income, he will certainly continue to use the improved method even though he may not have cause to borrow from the credit agency after the first few loans have been repaid.

Turning next to small-scale industries, it is also our view that supervised credit, that is, credit combined with the provision of ancillary services will be fundamental for small-scale industries in Sierra Leone. This is because assisted businesses will be under obligation to implement the advice and suggestions of the lending institutions. They will do so with the knowledge that in cases of emergency the lending institution will be ready to help. They will also be expected to receive inspectors from the lending institution. In contrast, those enterprises which do not receive any direct financial assistance from the lending institution are under no such obli-

²² On this issue see: Robert M. Stern, "The Price Responsiveness of Primary Producers", *Review of Economics and Statistics*, Vol. 48, May 1962; S. Clayton, *Agrarian Development in Peasant Economics*, London, Pergamon Press, 1964; P.S. Schultz, *Economic Crises in World Agriculture*, Ann Arbor, University of Michigan Press, 1965; G. L. F. Beckford, "Agricultural Development in Traditional and Peasant Economies: Review Article", *Social and Economic Studies*, Vol. 15, 1966; Saylor, *op. cit.*, pp. 65-74.

gation. Such enterprises may see no reason why they should abandon a method of production they have been accustomed to for one suggested by a lending institution and about which they are unfamiliar. On the other hand, merely providing credit without the other supporting services and without supervision is likely to result in the credit being misused. But the commitment of the enterprise to the lending institution through credit should ensure the continuous development of small industries as such assistance would be conditional on efficient methods of production being utilized, proper accounting procedure adopted and so on. It is in this sense that we consider the availability of credit an important requirement for the successful development of indigenous industries.

Quite often the single factor approach to the development of small-scale industries has been adopted. In this approach, the most important factor inhibiting the development of indigenous industries is ascertained or assumed, and efforts are then directed towards eliminating that problem. Thus, for example, governments of underdeveloped countries have concentrated on schemes for making credit available to small-scale enterprises. In the West African scene, one economist²³ has suggested that the basic problem is the economic environment while another²⁴ has emphasized entrepreneurship. Our analysis of the problems being encountered by indigenous businessmen, however, indicates that "any single factor

²³ S.P. Schatz, "Economic Environment and Private Enterprise in West Africa", *Economic Bulletin of Ghana*, December 1963. He observed that West African entrepreneurs encounter difficulties in getting equipment ordered, in installing it and keeping it in working order. Also, the life expectancy of equipment is shorter because of the humid climate and the lack of experienced and skilled operators. Other problems over which the businessman has no control include the locking up of large parts of the resources in raw materials to ensure continuous supplies; the market size; the availability of essential services such as electricity which may not be guaranteed.

²⁴ P. Kilby, *Industrialization in an Open Economy: Nigeria, 1945-1966*, Cambridge, University Press, 1969.

approach is likely to be ineffective".²⁵ In emphasizing the point that too much attention should not be given to a single factor Davenport says: "the development of the modern small-scale factories depends not only on more adequate capital and credit, but also on managerial training, technical advice, market information, project design, raw material supplies".²⁶

Like the farmer, the Sierra Leonean businessman encounters a number of problems. First is the problem of entrepreneurship. Two factors have limited the flow of entrepreneurs. To begin with, those who undertake business do so because they could not do anything else or have just retired from the civil service or from a commercial firm. This is the case because, in common with most African countries, Sierra Leoneans have been educated to regard business as an inferior work and to regard the civil service and the professions as the place for the "best brains".²⁷ In addition, jobs in the civil service and the professions ensure a steady flow of income and carry with them several fringe benefits, the most important being furnished houses, for which only a nominal rent is paid, and free medical care. Also, because of the prestige of these jobs, even successful businessmen do not encourage their children to be involved in their enterprise so as to ensure continuity.

The second factor affecting the supply of entrepreneurs is the shortage of technical skills. Manufacturing requires technical skills and this is quite apart from managerial ability. Unfortunately,

²⁵ E. Stanley and Richard Morse, *Modern Small Industry for Developing Countries*, New York, McGraw Hill Book Company 1965, quoted from R. W. Davenport, *Financing the Small Manufacturer in Developing Countries*, New York and London, McGraw-Hill Book Company, 1967, p. 11.

²⁶ Davenport, *op. cit.*, pp. 57-58.

²⁷ R. Dumnot, *False Start in Africa*, London, André Deutsch, 1966 especially the introduction by Thomas Balogh.

technical education has not played an important part in the school structure.

The attitude of the businessman himself affects his efficiency. Not only does the Sierra Leonean businessman expects quick profits, but also, these profits are invariably not used to expand or modernize the business. They are in fact used in conspicuous consumption to demonstrate the extent of one's wealth. On the other hand, when quick profits are not forthcoming or when a sudden misfortune occurs he is likely to give up the business. He does not keep proper records so that in most cases he cannot assess the profitability of the enterprise. Another aspect of the attitude of the businessman is dishonesty both on the part of partners and employees. This has resulted in most enterprises being a one-man concern. Other factors which have also contributed to the businessman's being individualistic are tribalism and the extended family system.

The central problems of a financial nature for the indigenous businessman are centred on the following. First, indigenous enterprises are under-capitalized. In 1960 Cox-George²⁸ found that the average size of African enterprises was Le 11,308, with quite a few of the firms surveyed having capital as low as Le 200. In 1966 Host²⁹ reported that insufficient capital was one of the major problems facing the indigenous enterprise. Similar views were expressed by Stober in June 1968.³⁰ This has been the case because

²⁸ N.A. Cox-George, *Report on African Participation in the Commerce of Sierra Leone*, *op. cit.*

²⁹ P. Host, *Report on Small Industries in Sierra Leone. An Approach to a Comprehensive Programme for Industrial Development in Sierra Leone with Special Reference to Indigenous Small Industry*, Freetown, Government Printer, 1965, Chap. 6 para. 6.

³⁰ R.I. Stober, "Small Industries in Sierra Leone", *Economic Review of the Bank of Sierra Leone*, No. 1, June 1968.

of the sources of capital available to it. Initial capital for business has come from (a) past savings including gratuity from previous employment, (b) savings in the form of "csusu", (c) borrowings from friends and relatives and (d) from commercial banks.

A second source of financial difficulty for the indigenous businessman is that such enterprises invariably have to extend credit to their customers. Non-repayments or delays in making payment can seriously affect the cash flow and since they rely on day-to-day sales for working capital such delays or non-repayments can cause very serious financial problems. In this regard, Marris³¹ writing about traders in Kenya observed that about 90 per cent of shopkeepers have had to give credit to retain customers and many lost money in the process. This is also true of Sierra Leone.

Thirdly, there are several problems in connection with obtaining and installing equipment. For example, getting the right type of equipment and getting it in time, particularly now that the frequency of shipping services to Freetown has been reduced, have been serious problems. And so too has been the problem of spares. To take one example, in 1968 and 1969 most of the buses of the Road Transport Corporation were out of service because there were no spares. A new fleet had to be ordered in 1970. If this could happen to a large organisation then it is reasonable to expect difficulties for the small operators as well. We saw in the case of the agricultural sector that equipment became unproductive because no spares were available and because there were no repair facilities.

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

³¹ P. Marris, "Lending Money", *Journal of Modern African Studies*, No. 2, 1967, p. 227.

Finally, the size of the Sierra Leone market is very small both in terms of population and per capita income. Not only is the market small but it is also highly stratified. For example, per capita income in the agricultural sector is Le 77 per annum or less than Le 2 per week on average. This group of workers, as we have seen, constitutes approximately 65 to 70 per cent of the economically active population. In the middle stratum is a wide range of workers. These include qualified clerks who earn between Le 8 and Le 10 per week, artisans and skilled manual workers who earn between Le 4 and Le 8 per week, and labourers who earn between Le 2.5 and Le 4 per week. At the upper level are graduates, politicians, senior civil servants, professionals, diplomats and businessmen. These earn Le 30 per week and over. The total number of people in this group however would not exceed a few hundreds given the educational structure. The implication is that the entrepreneur has to be alert in his assessment of market conditions and he must keep the market under constant review.

To summarize, the indigenous businessman like his counterpart in other underdeveloped countries, especially in Africa, faces a number of difficulties, some of which are the direct result of the nature of the economy while others may be attributed to the businessman himself. He therefore has to be assisted if he must succeed.

3. OBSERVATIONS ON PREVIOUS ASSISTANCE PROGRAMMES

A number of government-sponsored programmes have been introduced to improve the flow of credit to the agricultural and small-scale industries sectors. The first of these was the Development of Industries Board established in 1946. This Board received an annual allocation of Le 20,000 from which loans were to be made to farmers and small-scale entrepreneurs. The scheme was

discontinued in 1964. Total loans disbursed were Le 113,538 of which arrears amounted to 53 per cent.

In 1960, to augment the resources of co-operative societies the government arranged an overdraft facility with the commercial banks. Under the arrangement the banks provided overdraft facilities to the Registrar of Co-operatives and any such overdrafts were guaranteed by the government. In June 1968 when the scheme was suspended the overdrafts outstanding amounted to Le 800,000.

The Fisheries Loans and Credit Scheme was established in 1961. This was intended to be a revolving fund and was administered by the Chief Fisheries Officer of the Ministry of Trade and Industry. But all loans exceeding Le 2,000 required the approval of the Minister of Trade and Industry. A total of Le 85,306 was disbursed between 1962 and 1969 to 114 individuals. When this scheme was suspended in 1969, outstanding obligations represented about 55 per cent of loans disbursed.

The Agricultural Loans and Credit Scheme introduced in 1962 had as its objective to increase agricultural productivity by providing long term financial as well as technical assistance to those who are likely to make the most use of such credit. As in the case of the Fisheries Scheme all loans above Le 2,000 require the approval of the Minister of Agriculture. The total disbursement under this scheme was Le 132,524 by 1966/67 on 296 individual projects and overdue loans, by the end of December 1969 when the scheme was suspended, amounted to Le 37,138.

Sierra Leone Investments Ltd. (SLIL), a joint venture between the Sierra Leone government and the Colonial Development Corporation was established in 1961. Four-sevenths of its capital of Le 700,000 were provided by the Colonial Development Corporation and three-sevenths by the Sierra Leone government. In addition to its contribution the government advanced the company an interest-free loan of Le 60,000 repayable in five equal annual instalments of Le 12,000 each.

It was hoped that SLIL would invest in the share capital of enterprises, and underwrite securities, as well as provide loans of various forms. The minimum investment SLIL was authorised to make was Le 200,000 but this was later reduced to Le 6,000. On any one project in which the government is a participant, SLIL could provide up to 65 per cent of the total cost. Only one of the schemes financed by SLIL can be described as a success and that is the Paramount Hotel.

It can however be argued on the basis of these programmes that there is no effective demand for credit in the country.³²

After a detailed examination of each of the schemes, we have come to the conclusion that the failure of the various schemes was due to the way in which the assistance programmes were conceived, formulated and administered.

In the case of the schemes for the agricultural sector the factors explaining the poor repayment record can be grouped into three broad categories. Administrative problems, political influences and external factors such as world market conditions. Let us examine them in turn.

Administration of the scheme - To begin with, the procedure for obtaining loans was rather unwise and involved a considerable time lag between the application and the disbursement of the loan with the result that someone in real need would obtain the amount required from some other sources. Briefly, the procedure adopted by the Registrar of Co-operatives for loans under the Registrar of Co-operative Loans Scheme was as follows: applications were submitted to the Loans Committee of the Co-operative Societies. The

³² P.S. Schatz, *Development Bank Lending in Nigeria*, Ibadan, Oxford University Press, 1964. Schatz observed in his study on the Nigeria Development of Industries Board: "The idea of a capital shortage means nothing at all, but an immediate shortage of viable projects, i.e. projects that, all things considered, promise to be sufficiently profitable to attract private investment".

loans approved by the committee were then vetted by the co-operative field inspector who reduced the size of each loan. The applications then went to the area co-operative officer, who after re-evaluating the applications forwarded them with his comments to the Registrar of Co-operatives in Freetown. The Registrar again evaluated the applications before approval. The approved applications then went to the sub-accountant who made a cheque for the Registrar's signature. The cheque then went to the area officer who cashed and disbursed the amount personally or through the field officer. The co-operative society disbursed the loan to its members when the sureties had executed a bond which contained the terms and conditions for the loan.

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

Thirdly, according to the regulations, all applicants must state the purpose for which the loan is required, the duration of the loan, and all such applications must be supported by two sureties who should ensure that the loans are used for the purpose stated and from whom the loans should be recovered in cases of default. Also, the regulations require that before a loan is approved the

committee and others reviewing the loans must take into account the credit-worthiness and character of the applicant, his earning capacity, his produce turnover, his past repayment record and the benefit that will accrue to the borrower. In practice, however, these conditions were not taken into account even at the top level and the reason advanced has been the lack of adequate staff. For example, 38 marketing societies were granted additional loans even though they had not repaid previous loans, and 29 others received medium and long term loans in addition to a number of short term loans. So that societies and members with very poor repayment records received further loans.

Fifthly, it is common knowledge³³ that loans are likely to be misused if the lending agencies do not have checks to ensure an effective utilization. However, there have been cases in which loans for fertilizers, seeds and farm implements were disbursed in cash instead of in kind. Because of shortage of staff, the supervision and technical services envisaged under the Agricultural Credit Scheme did not materialize.

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

Political influences - This has been an important factor influencing large loans under the Agricultural Credit Scheme and the Fisheries Scheme. In these two cases loans exceeding Le 2,000 are the responsibility of ministers, and a number of such large loans have remained outstanding. The political influence has affected the loan enforcement too, as in the case of some co-operative loans in-

³³ Bangura, *op. cit.*, p. 8.

volving committee members and "big men" of the town, repayment has not been enforced.

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

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

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

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

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

In addition, there were political influences which affected both the approval of loans and the enforcement of loan repayments.³⁴

Rather than being used as evidence of false demand, these experiences should emphasize the need for and the desirability of a more comprehensive approach. Thus Marris³⁵ writing about African entrepreneurship states that: "It is perhaps even more important to create a setting in which African businesses are being constantly encouraged through advisory services, training and credit facilities, contracts, help in finding markets and in approaching suppliers".

4. THE AGRICULTURAL CREDIT GAP

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

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

³⁴ The following examples illustrate our point. The day-to-day management of DIB was the responsibility of a secretary who was of the rank of an administrative officer at a salary of Le 1,128 per annum. In contrast, the secretary of the Hotels and Tourist Board earns Le 5,000 per annum. The reason for the vast difference in salary is the difference in training and experience. Not only is the secretary of the DIB not trained; he does not have the trained officials for the necessary feasibility studies, pre-investment studies, and post-investment supervision. In addition, although it started operations in 1947 it was not until 1957 that DIB actually defined criteria on which loans were to be granted.

³⁵ Marris, *op. cit.*, p. 229.

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

Short term loans

Seeds	Le 327,000
Fertilizers	127,000
Labour charges	2,000,000
"Hungry season" loans	1,547,000
Implements	285,000
Plough fees	332,800
Pesticides and insecticides	10,000
	<hr/> 4,628,800

Medium term loans

Bush clearance and levelling of land for swamp and rice; cultivation	Le 123,056
Spray pumps	83,526
Coffee hullers	35,000
Rice hullers	10,500
Sheep, goat, pig breeding and poultry	25,000
Low lift pumps	30,000
	<hr/> 307,082

Long term loans

Plantation crops, coffee, cocoa	Le 383,000
Citrus and oil palm	191,500
Warehouses	50,000
	<hr/> 624,500

Total credit needs	Le 5,560,382
--------------------	--------------

Source: S.H. Moinuddin, *Agricultural Credit in Sierra Leone, op. cit.*, pp. 71-81.

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

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

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

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

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

Credit needs in 1968/69 as calculated by Moinuddin	Le 5,560,382
Additional farm family unit between 1965/66 and 1975/76 at Le 21.2 per family unit	<u>2,178,427</u>
	7,738,809
Add 35 per cent for inflation	<u>2,708,583</u>
	10,447,392
Deduct Le 300,000 in respect of IDA projects	<u>300,000</u>
Demand for credit in 1975/76	Le 10,147,392

From Table 41 we could see that total assets of all financial institutions in 1976 amounted to Le 312 million. If we add to this amount the assets of the Sierra Leone Produce Marketing Board (since this institution also has as its objective the development of the agricultural sector) we obtain Le 320 million. In 1976 the estimated credit needs of the agricultural sector represented about 2 per cent of total assets of financial institutions. This implies that it should not be difficult for the existing financial institutions to provide the amount required to finance higher levels of production in the agricultural and small-scale industries sectors. Such a conclusion would be misleading.

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

In the case of commercial banks, their assets are not likely to be available since commercial banks of British origin are usually not enthusiastic about dealing with the agricultural sector. There is also likely to be problems of securities for loans to the agricultural sector as land, the only security that farmers can offer, is

not acceptable because of the nature of the land tenure which precludes individual ownership of land and the restrictions imposed by the Non-Citizens (Interest in Land) Act. There is also the problem of lending to a large number of small borrowers. This not only increases the cost of administering loans, but also, there are increased difficulties in enforcing repayments. In addition, there is the risk of natural calamities such as droughts, floods and other disasters, as well as falling world prices, all of which may affect the capacity of the borrower to repay the loan when it becomes due. These difficulties may largely explain the lack of interest in financing agriculture on the part of commercial banks.

The Sierra Leone Produce Marketing Board has at least two thirds of its total resources of Le 7 million locked up in property, plants, stocks, stores and government securities, since it needs some resources for its buying operations; only a small fraction of it might be regarded as "free resources" and is available for agricultural development.

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

Thus, the existing institutions, without a complete reorganization of their investment pattern and the elimination of the legal and other constraints, are not likely to assist the agricultural sector. However, we have argued that the provision of agricultural credit involves much more than making loans available. It is now

generally agreed that a private financial institution is not well suited for the difficulties connected with lending to the agricultural sector. Also, these risks make financial institutions unable to mobilize sufficient funds for lending to the agricultural sector.

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

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

is proposed that warehousing and storage facilities be provided. Fifthly, the bank should provide technical assistance to farmers to ensure that the farmer makes effective use of the credit made available to him. Finally, the bank should engage in projects aimed at enlarging the acreage under cultivation and the bank should also participate in the manufacture of fertilizers and agricultural implements. The bank should also supply fertilizers and seeds, importing them directly if need be. What Moinuddin thus envisages is not merely the provision of credit but also the general development of the agricultural sector with the agricultural bank becoming the instrument of this development.

While we agree with the broad principles of the Moinuddin proposal, we would suggest the following modifications: in the first place as the Sierra Leone Produce Marketing Board is responsible for the marketing of agricultural produce, it should not be necessary for the Agricultural Development Bank to be involved in marketing. All that may be required is an undertaking by the borrower to sell his produce to the SLPMB and authorizing the SLPMB to deduct the repayment due. Repayments are thus made at the source and the deductions collected by the SLPMB go to the bank. This arrangement not only implies close collaboration between the proposed bank and the SLPMB but also the involvement of the SLPMB in the establishment of the bank. The SLPMB is required, under existing legislation, to look after the welfare of the Sierra Leone farmer and since the objective of the bank is to increase agricultural productivity, the activity of the bank should be of interest to the SLPMB.³⁶ We would therefore suggest that the

³⁶ The Sierra Leone Produce Marketing Board Act defines the responsibility of the SLPMB as follows: "It shall be the duty of the Board to secure the most favourable arrangements for the purchase, export and marketing of Sierra Leone produce and to assist in the development by all possible means of the agricultural industry of Sierra Leone for the benefit and prosperity of the producers and the areas of production". Sierra Leone Produce Marketing Board Act, 1949, p. 1.

SLPMB takes an active part in the establishment of the bank, in which case, it will not be necessary for the bank to have its new warehouses.

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

Thirdly, instead of the government providing all the share capital we would suggest that this be shared between the SLPMB, the existing Co-operative Bank and the government.³⁷ In addition, 50 per cent of the net profit of the SLPMB should be paid to the bank as *ad hoc* grants.

Fourthly, it should be emphasized that a primary condition for loans must be the willingness of groups or societies to guarantee the repayment of the loans; and that the liability of each member of the group is unlimited.³⁸ This will be fundamental for the success of the bank as there are virtually no securities for loans in the rural areas. Unlimited liability should be an important deterrent against the recommendation of doubtful customers.

³⁷ With the establishment of an Agricultural Development Bank, the present Co-operative Bank will cease operations. We do not consider it appropriate for the new bank to absorb the National Agricultural Development Authority because this institution is dealing with a specific project. But once the project has been implemented there would be a case for absorbing this institution too.

³⁸ To begin with, a financial institution may incur considerable costs in administering a large number of small loans. Also, there are no securities in the rural areas that are acceptable to a financial institution. The collective responsibility for

Fifthly, we do not agree with the proposal that government and semi-government bodies should be compelled to patronize the bank; by assuring the bank much business before it even begins operations may merely make the bank complacent.

It could be argued that instead of having a separate institution for agriculture, the new bank could be absorbed by an enlarged National Development Bank, with two departments, one each for agriculture and industry. We do not support such an arrangement. To start with, there is not likely to be any economy in personnel as a result of the merger since the agricultural sector requires virtually different personnel from those required by the industrial sector. Furthermore, we have suggested below that the functions of the National Development Bank be enlarged to enable it to provide all types of assistance that may be necessary for the success of an enterprise. As the NDB is still trying to get off the ground it would not be desirable to overload an unproved institution. Finally, agriculture is too important to be regarded as a mere appendix to industry. This is precisely what is likely to happen if agriculture is added to the functions of the NDB as presently constituted. By having two separate institutions one increases the possibility of each sector developing to its full potential.

Moreover, through the Agricultural Development Bank people in the rural areas may see a link between their savings and devel-

loans not only reduces the need for securities but also shifts the responsibility for enforcing payment to the group. The co-operatives which are the most suitable bodies through which group loans can be made have attracted only a small percentage of Sierra Leone farmers. But progress in increasing agricultural productivity cannot wait until co-operatives have been developed. Something has to be done in the meanwhile. However, while recognizing that there is a need to increase the flow of credit to agriculture, one must also take into account the poor repayment records of past schemes and emphasize the need for financial discipline. So that, although unlimited liability may appear to be too severe it may enable an individual to be more discrete.

opment in their areas. This is likely to encourage people of the rural areas to patronize financial institutions there by increasing the prospects of mobilization of domestic financial resources.

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

One of the problems we suggested as being faced by the businessman is that of preparing adequate records. The NDB should be able to organize short courses in simplified bookkeeping for businessmen. There is likely to be a favourable response if the potential customers of the NDB become aware that a condition of the NDB's assistance includes conforming to some minimum standards of financial accounting.

The NDB is equally well placed to offer technical information to the businessman. This includes information about market prospects, information on where to obtain machinery and equipment. This does not of course mean that the NDB should have several experts in all possible fields. What needs to be done is to make use of available international institutions like the International Financial Corporation, the Food and Agricultural Organization as well as other development banks.

The non-availability of well prepared projects in a form suitable for financing by a financial institution is not a problem that is peculiar to Sierra Leone. In view of this problem greater efforts will have to be directed towards feasibility and pre-investment studies. The NDB is well suited for this exercise from the point of view of its contacts with international bodies and other development banks and its present contacts with local industries. Since the resources that are likely to be available for such investigation will be limited, it may be necessary to concentrate on a specific area of activity. Thus, for example, if the emphasis is on agro-based industries, investigations should be concentrated in this area.

Given the underdeveloped nature of the economy the cost of securing experts for such a study must be borne by the government as a public service. Here also the cost need not be prohibitive as all that may be necessary is the utilization by the government of the available technical assistance arrangements with international institutions and friendly governments.

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

have to endeavour to strike a balance between excessive caution and over-enthusiasm.

5. CONCLUSIONS

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

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