

Chapter VII.

CONCLUSIONS AND FINAL RECOMMENDATIONS

This study has been concerned with the monetary and financial institutions in Sierra Leone and in particular with the relevant resource allocation in the economy.

We recognize that no amount of modification of the monetary and financial mechanism can, by itself, ensure rapid economic development as, for example, good financial institutions need not make more entrepreneurs available. But a more efficient financial system is likely to increase the volume of financial flows and probably also lead to a higher level of savings and investment. Furthermore, a more efficient financial system should result in a better allocation of financial resources.¹

Our study postulates that for the monetary and financial system to contribute to economic development, the system must:

- (a) Mobilize more domestic financial resources, and
- (b) Ensure that available resources are used for productive investment, especially in the agricultural and small-scale industries sectors.

Our discussion in Chapters III to VI revealed that the monetary and financial system achieved some degree of success in mo-

¹ J.G. Gurley and E.S. Shaw, *op. cit.*, Chaps. II and III.

bilizing domestic savings. It was however pointed out that the ratio of financial assets to GNP was only 62 per cent in 1976 as compared with about 80 per cent achieved in 1963 by some other underdeveloped countries. Besides, our findings show that these savings were mainly held in the form of money and near-money liabilities of the banking system.

It was shown that of the total resources available to financial institutions, only about 37 per cent could be classified as productive investments. Of these, about 19 per cent have been used for the financing of the export/import trade and 18 per cent have been made available to the government. But it was revealed that resources placed at the disposal of the government largely increased consumption expenditure, so that the percentage of productive investment was overstated.

The virtual absence of institutional sources of credit to agriculture and small-scale industries was seen to arise not because of a lack of demand but was due rather to the nature of operations within these sectors, the absence of securities acceptable to financial institutions, and the prevalent behaviour of financial institutions — for example, in the past and still today, commercial banks of British origin have not been enthusiastic in financing agriculture. Hence, as was discussed in Chapter VI, the bulk of the credit to agriculture and small-scale industries had to be provided through non-institutional sources.

Attempts by the government to increase the flow of financial resources to agriculture and small-scale industries by establishing special schemes have not been successful because inadequate consideration was given to the problem of lending to a large number of farmers and small-scale enterprises and insufficient provision was made for ancillary services which, in the Sierra Leone situation, are essential for the efficient utilization of resources.

Given the economic situation that existed after independence, a central bank had to be unorthodox in the sense of performing

functions which its counterpart in an economically advanced country could entrust to specialized institutions. But we observed in Chapter IV that the broad objective of the Bank of Sierra Leone was too narrowly defined with emphasis on the control of the money supply and the banking system. That chapter pointed out, however, that the main determinants of the money supply were outside the direct control of the central bank. In addition, Chapter IV emphasized that the supply function of commercial banks' loans and advances depended largely on the banks' conception of credit-worthiness and the availability of conventional securities. It was argued that if the banks were satisfied on these issues, they were willing and able to provide as many loans as were required. Their continuous borrowings from their head offices through the 1960's supported this contention.

This access to external funds reduced considerably the significance of the liquidity ratio as a controlling instrument. Also, variables such as excess reserves which have considerable influence in the determination of bank lending in the economically developed countries have had relatively little significance in the Sierra Leone context. These factors together with the openness of the economy imply that it was futile to concentrate on the control of the money supply or to be preoccupied with monetary stability. The basic requirement of the economy was (and continues to be) the mobilization of domestic financial resources to increase the relative importance of domestic sources of investment and to channel these funds for productive investment. It was in this sense that the central bank had to be unorthodox. The emphasis of the central bank in these circumstances should be on the appropriate development of the financial system.

The National Development Bank has not been as effective as one would have liked because, given the size of the Sierra Leone economy and the shortage of entrepreneurs, the NDB should concentrate on feasibility and pre-investment studies, and thereby pre-

pare projects in forms suitable for financing by institutional sources, as well as the provision of ancillary services to businessmen.

The Bentworth Finance Company, established to provide funds for commercial hire-purchase, has concentrated on the financing of commercial vehicles. It was maintained in Chapter V that this institution could have made a significant contribution to economic development if the emphasis had instead been on the procurement of equipment for productive investment since finance for commercial vehicles was already available.

The Co-operative Development Bank, only recently established, is unlikely to substantially affect the flow of credit to the agricultural sector because of the limited resources available to it. Furthermore, the co-operative movement as a whole accounts for less than 5 per cent of all the farmers in Sierra Leone.

Since we have argued that more resources can be mobilized from domestic sources, our first set of recommendations relate to how this can be achieved.

1. POLICY MEASURES FOR THE MOBILIZATION OF VOLUNTARY DOMESTIC SAVINGS

Those with savings may decide to hold financial assets, real assets or make loans to those requiring funds especially in the unorganized sector. As economic development is aided by channelling savings through financial institutions, the question which therefore arises is what incentives may be required to increase the flow of domestic savings through these institutions? To devise the most appropriate incentives presupposes knowledge of the motives which influence people to save. These factors include the need for security, the desire for self improvement, anticipated future consump-

tion, financial prudence and the opportunity of increasing earnings.²

Incentives to savers

For most people the primary motive for saving is the security motive, that is, the desire to finance predictable long term needs. For example, some save so as to make adequate provision for their old age or for sickness. Others may want to acquire their own homes. The security motive for saving is quite important in a country such as Sierra Leone where there are no officially sponsored social security arrangements.

Another motive for saving is what Keynes refers to as "a common instinct to look forward to a gradually improving standard of life".³ This may be significant in Sierra Leone because the standard of living is very low. The desire for self improvement leads people to save for the education of their children or to enable them to acquire some skills which will improve their earning potential.

For some people, the main reason for saving is to enable them to acquire a durable consumer good. Also, marriages, the birth of a child, initiation into exclusive societies or the death of an elder are occasions for special ceremonies. People save for such anticipated expenditure.

The motive of financial prudence mainly affects enterprises. Businesses save so as to provide for the future replacement of equipment. They also save to ensure the availability of liquid resources for emergencies. Furthermore, the retained profits of businesses have been one of the main sources of finance for the expan-

² For a general treatment of the factors affecting savings (or the counterpart, consumption) see G. Ackley, *Macroeconomic Theory*, New York, The Macmillan Company, 1961, Chaps. 10-12.

³ Keynes, *op. cit.*, p. 108.

sion of enterprises. In the case of small-scale businessmen and farmers, an added reason for saving is the knowledge that they are not likely to secure financial accommodation from financial institutions.

Finally, there are those who save because of the returns on savings. We suggested in Chapter V that resources flow into the unorganized sector because of the high rates of interest which can be obtained in that sector. People may be induced to save to take advantage of the higher interest rates to be earned in that sector.

From the foregoing discussion it can be deduced that those who can be persuaded to make use of financial institutions are those whose savings currently flow into the unorganized sector and those whose saving decisions are influenced by the security motive or the desire for self improvement. Such savers seek to hold long term financial assets because such assets ensure the growth of their income and provide a ready conversion into cash in case of emergency. For these people, the rate of interest is an important incentive. For the rate of interest to be a significant inducement for people to hold their savings in the form of financial assets as opposed to physical assets or other forms of holding savings, the interest rate policy cannot ignore the increase in prices in recent years, the rates of interest payable on other financial investment as well as the rates that could be obtained outside the country.

Between 1966 and 1968, the rate of interest on Treasury bills in Sierra Leone was 6 per cent and since March 1969, the rate of interest has been 5.5 per cent. During the 1960's time deposits at commercial banks earned interest of 5 per cent, while the rate on savings deposits was 4 per cent. On the other hand, with the British bank rate at 7.5 per cent during 1969/70, investment in London could fetch at least 8.5 per cent whereas the rate of interest on Sierra Leone government stock ranged between 5.5 and 6.5 per cent. Only one stock has been issued at 7 per cent. To en-

courage the holding of long-term financial assets more attractive rates of interest are required.⁴

One difficulty about ensuring that the rate of interest reflects the scarcity of capital funds is the fact that such a policy would raise the cost of government borrowing. However, because the rate of interest has been low, the holders of government securities have, in the main, been government and semi-government bodies, and the commercial banks. But if the rate of interest is sufficiently attractive, then it should be possible to have a wider participation. Therefore, while the cost of borrowing for the government may rise in the short run, the long term effect would be the increased ability of the government to borrow more from the general public.

Incentive to savers may also take the form of bonuses. The bonus might take the form of a lottery. Another form of bonus is a scheme which entitles the saver to borrow after saving regularly over a specified period. One such scheme, in operation in Denmark, entitles the saver after saving regularly for twelve months to receive a loan equalling the amount saved, after two years savings twice the amount saved, and so on.⁵ This would be more appro-

⁴ An example of a successful interest rate policy in mobilizing domestic savings is provided by the experience of South East Asia. See Delano P. Villanueva, "A Survey of the Financial System and the Saving-Investment Process in Korea and the Philippines", *Finance and Development*, No. 2, June 1971, pp. 16-19, and Anand G. Chandwarkar, "Some Aspects of Interest Rates Policies in Less Developed Economies; The Experience of Selected Asian Countries", *International Monetary Fund Staff Papers*, Vol. 18, 1971, pp. 48-110. One device which has been used to protect the returns from savings against inflation is known as indexing or value linking. Under this policy real interest to be paid on a bond or the nominal value of the bond or both are linked to the cost of living index or any other appropriately designed index. See Sanja Lal, "Countering Inflation: The Role of Value Linking", *Finance and Development*, No. 2, June 1969, pp. 10-15.

⁵ United Nations, *Report of the International Seminar on the Mobilization of Personal Savings in Developing Countries*, Stockholm, Sweden, 2-11 August 1971, p. 30.

priate for encouraging the small saver to leave his savings with the financial institution for a longer period than he normally would.

Incentives can take the form of tax concessions. Here, the government indirectly increases the returns on savings by exempting from direct taxation either some groups of savers or certain types of savings. For example, at present, earnings from Treasury bills investment are tax exempt, and this facility could be extended to government stock.

Specifically, with respect to rural savings, a provision of lending facilities is a crucial element in any major successful mobilization scheme. This is so because, as we have seen, people in the rural areas are generally unable to borrow from the organized financial institutions and therefore they do not see the advantage to them of depositing their surplus savings with these institutions. Also, to the extent that people in rural areas can see direct results from the use of their savings they are likely to increase the volume of savings. This possibility exists because, in most of these areas, there has been virtually no significant development over several years. If somehow the savings are linked with a specific project in the rural areas, the people in those areas see a positive result and they may be more willing to save through financial institutions.

There is evidence of demand for securities with long maturities. An indication of this is the fact that shares which have been made available to the public have been over-subscribed.⁶ In addition to the shares of the National Development Bank and those

⁶ Over-subscription may not necessarily indicate excess demand and can be the result of the pricing policy adopted. It may also reflect the fact that investors expect rates of interest to fall in the near future; but in a country like Sierra Leone this may not be an important factor since the number of speculative investors is extremely small. People have become aware of the advantages of holding their savings in the form of shares because of the publicity campaign organized by the National Development Bank. Hence over-subscription shows some increase in popularity for this form of investment.

of Browo Motors which have been over-subscribed, *West Africa* reported as follows: "Applications for shares in Barclays Bank (Sierra Leone) Ltd. far exceed the number available. 80,000 shares were offered but applications were received for almost 150,000".⁷

Additional evidence of demand for long term securities can be obtained from the holdings of government securities by private institutions and individuals. The share of individuals in this category was quite significant, accounting for an average of 54 per cent between 1966 and 1976.

Further evidence of people's willingness to hold non-cash assets can be obtained by observing the behaviour of currency and savings and time deposits. As savings and time deposits are more likely to serve the store of value function of money than currency, the ratio of currency to savings and time deposits gives some indication of asset preference. In 1960, the ratio of currency to savings and time deposits was 3.34, but by 1970 this ratio had declined to only 1.32. The ratio continually declined throughout the 1960's.

Years	Ratio of currency in circulation to savings and time deposits	Years	Ratio of currency in circulation to savings and time deposits
1960	3.343	1969	1.444
1961	3.165	1970	1.315
1962	2.804	1971	1.346
1963	2.356	1972	1.410
1964	1.938	1973	1.293
1965	1.805	1974	1.105
1966	1.619	1975	1.049
1967	1.579	1976	1.081
1968	1.542		

⁷ "Overseas Newspapers Agencies", *West Africa*, London, 23rd June 1972, p. 808.

Further, purchases of Treasury bills in recent years also show the public's increasing preference for holding financial assets. Purchases of Treasury bills by individuals which in 1964 amounted to only Le 0.1 million, by 1976 totalled Le 0.5 million.

We can therefore conclude that if sufficiently attractive securities are made available to the public it may be possible to mobilize resources through financial mediation. The different kinds of new securities as well as the instruments for introducing them are discussed below.

Publicity campaigns

The previous section has been concerned with diverting existing savings through financial institutions, but there is evidence to suggest that the volume of savings can actually be raised. Per capita income, which was Le 83.3 in 1963/64, rose to Le 150.2 in 1975/76 (at current prices). This income, though low, was higher than the per capita income in some other underdeveloped countries.⁸

Aside from the size of income, its distribution may affect the volume of savings. Sierra Leone's very long history of university education has resulted in a large group of professionals (in respect to other underdeveloped countries of similar size). Since professionals and those in the middle income category tend to save more, this income distribution should enhance the country's savings potential.

The form in which savings are held can have a considerable impact on saving habits. In the rural areas, for example, savings are held in the form of physical assets. To the extent that a switch to financial assets is made the amount of savings may be expected

⁸ United Nations, *Year Book of National Accounts Statistics*, 1971, New York, United Nations, 1973, Vol. III, Table 1b, pp. 8-12.

to be stimulated since, as people become more aware of the advantages of holding financial assets, they are likely to attempt to increase their savings. As a United Nations Report observes, people "... would save more if there were better savings institutions ... if these institutions were more widespread, and if more persons were employed by governments to organize them, and to urge people to save".⁹

The first step in the process of getting people to save more is to make them aware of the benefits to be derived from saving. This calls for a properly planned publicity campaign, but to be successful such a campaign must be based on an analysis of the motives that prompt people to save and the factors which inhibit holdings of financial assets. The objective of the campaign would be to eliminate the hidden fears and misconceptions which people have, especially about financial institutions. Equally important, the campaign must lay emphasis on the advantages both to the individual saver and the country. An example of this is one of the slogans used sometime ago by the Sierra Leone State Lottery, which ran: "You have a chance to win Le 1,000; the proceeds contribute to the building of a hospital". In other words, people must be made to see the positive consequences of increased savings.¹⁰

Since such campaigns must aim at reaching as large an audience as possible, the regular market days afford an appropriate opportunity for a savings drive. Broadcasting time could also be allocated for such campaigns. In addition, the usual advertising chan-

⁹ United Nations, *Measures for the Economic Development of Underdeveloped Countries*, New York, United Nations, 1951, p. 36. See also Arthur Lewis, *The Theory of Economic Growth*, London, George Allen and Unwin Ltd., 1955, p. 229.

¹⁰ In some countries, especially in Latin America, they have attempted to convey the idea that savings institutions are in fact owned by the people, the objective being to encourage them to patronize such institutions calling them "bancos populares" or "people's banks".

nels can be made use of, that is, in cinemas, newspapers and outdoor publicity posters.¹¹

An experience during the second world war is suggestive in this connection. The Post Office Savings Bank organized a savings drive which culminated each year in a "Victory Savings Week". This campaign resulted in a considerable expansion in the level of Post Office Savings Bank deposits.¹²

While efforts are concentrated on the mobilization of available resources in the urban and rural areas, special attempts should be made to develop the savings habit amongst the young so that when they become adults or their income increases they will be able to save naturally. In fact, through the young, parents may become convinced about the advantages of saving. Several such savings schemes are already in existence in many parts of the world. Australia, for example, observes a "Youth Savings Week" during the last week in October. During that week children are taken to savings banks to deposit their own savings. The savings banks not only use the opportunity to familiarize their visitors with the work of the banks but they also organize several social activities for the children. Sweden has a scheme under which young persons between the ages of 16 and 25 undertake to save 10 per cent of

¹¹ For example, one form which these savings campaigns took was by means of a slide film on the activities of the Swaziland Credit and Savings Bank and this was shown at the Agricultural Show of that country.

¹² N.A. Cox-George, *Finance and Development in West Africa: The Sierra Leone Experience*, op. cit., p. 257: "Apart from the general and continuous growth in Post Office Savings Bank deposits throughout the war years the result of these campaigns shows:

1941	Le 31,600 saved
1942	90,480 "
1943	84,000 "
1944	101,600 "

the average weekly savings pre-war being Le 278 net".

their salary regularly. The amount is deducted on each pay day and paid into a special wage-savings account and no withdrawal, except in cases of extreme emergency, is possible until the participant is 25. Egypt encourages savings amongst school children. In this case, children deposit an agreed small amount regularly. These are collected by the teachers, and once a month, the officials of the savings banks collect the deposits from each school. These and similar schemes may only increase the volume of future savings.

Instruments and institutions for the mobilization of voluntary domestic savings

The main instrument which can be used to mobilize savings for long term investment is through the issue of government stock. As the emphasis is on long term finance, maturity of such stock should vary between five and ten years, since it will be extremely difficult to convince people who have not been accustomed to holding such securities to have stock with maturities exceeding ten years. One factor which can influence the public's participation in these issues is the ability of the government to service the debt. If the funds mobilized are tied to viable projects such loans will be self-financing and there should be no problems. But if the resources made available to the government through the sale of securities merely increase the government's current expenditures, then there will be difficulties in servicing the debt. It is essential therefore that a larger proportion of resources mobilized through the issue of stock should be invested productively.

Through the issue of premium bonds it should be possible to attract the savings of the small investor. A 50 cents premium development bond repayable after, say, five years can be issued for the purpose. To encourage participation, it can incorporate the lottery element. This implies that each premium bond becomes eli-

gible for a draw either once or twice a year. In this regard, the progress of the State Lottery suggests that such a scheme could succeed.

Investment funds can also be mobilized through the development of an equity market. There are three possible approaches. To begin with, the government is a shareholder in a number of manufacturing companies. A start in the development of such a market can be made by the government selling its holdings to the public. With such sales to the public, resources become available immediately for economic development. Also, we have noted that some foreign companies have sold some of their shares to the Sierra Leone public. It is quite possible to persuade others to do the same. The difficulty here, however, is that the resources released to the firms may be invested abroad. But with exchange controls such funds will be retained in the economy. Resources can also be mobilized by encouraging small enterprises to form joint-stock companies.

Through the establishment of a national provident fund, additional resources can be raised for development. Such a fund should not only embrace the existing pension, provident and superannuation funds discussed in Chapter VI but also be extended to include all workers. Let us assume that the scheme embraces all workers in establishments employing six or more workers, that is, all firms, companies, public corporations and institutions now making regular returns to the Labour Division of the Ministry of Lands, Mines and Labour. Estimated wages and salaries paid by bodies employing twenty persons and over were Le 20 million at the end of 1970. If we assume that employers and employees each contribute 5 per cent, the total contribution will amount to Le 2 million. The suggested 5 per cent contribution is quite realistic since contributions under existing schemes exceed this percentage.

Closely associated with these types of instruments is the institution that will be the most appropriate medium for the mobilization of domestic savings. Three possible alternatives can be considered. The various stocks and bonds can be issued by the Bank

of Sierra Leone. If this is done, the amounts mobilized can be paid into the Development Credit Fund discussed in Chapter IV. There are several advantages here. In the first place the size of the Fund would no longer be limited by what the Bank can make available from its own resources. Secondly, because of the Bank's reputation in the country, its stocks are likely to be preferred to government stocks. Thirdly, there may be no difficulties about rediscounting these stocks at the Bank. Fourthly, this access to additional resources increases the Bank's ability to influence the system directly. The resources mobilized can then be made available to institutions such as the National Development Bank or the Agricultural Development Bank. Alternatively an entirely new institution can be established for the purpose. One institution which may be suitable for Sierra Leone is the Latin-American-type finance corporation "financiera". Such a corporation issues several types of securities including participation certificates, finance bonds which could be purchased by individuals or by institutions. The yield on the instruments issued by these finance corporations is generally higher than the returns offered by commercial banks and mortgage banks.¹³ Thirdly, the job of issuing the new medium and long term securities for development could be assigned to the National Development Bank.

Given the size of the Sierra Leone economy, we do not think that there will be a large enough business for an entirely new institution. We are thus left with the Bank of Sierra Leone and the National Development Bank. The Bank of Sierra Leone's role in the development of the financial system should be to fill the gaps in the system and where necessary providing services which are

¹³ The new institution can also take the form of an investment trust. An example of a successful investment trust in an underdeveloped country is the National Investment Trust of Pakistan.

not available. Since the National Development Bank is already making financial assets available to the public, we believe that it is the most appropriate institution for the purpose.

The primary objective of mobilizing domestic resources is to make them available for productive investment. However, we have given examples of cases in which resources have been wasted due to lapses in management. Hence, to the extent that managerial deficiencies can be remedied, this in itself is a significant contribution to the efficient utilization of scarce resources. But in view of the low priority given to commercial and technical education, management training and business advice must be linked with the provision of finance.

Some of the special characteristics of good management may probably be attributed to entrepreneurial talent; however, most of the skills can be acquired through properly organized courses. For example, short courses can be organized to train businessmen in elementary bookkeeping as well as in the general management of an enterprise. Through such courses and their own every day practical experiences, businessmen can acquire some of the skills of management. But there does not exist in Sierra Leone any institution or agency which provides practical down-to-earth training to suit the experiences and needs of small-scale entrepreneurs. A Sierra Leone Institute of Management was established in 1968, with emphasis on middle and top management.

Apart from training facilities, there is a need also for some advisory services. The following example can illustrate the types of problems which can arise. "A Nigerian manufacturer of rubber-soled shoes started business in 1959 with the latest kind of plant and equipment. The market for his product was already good. The government felt sure that a firm of this nature could be successful. However, a crippling hold-up occurred when the factory started operations because the raw material imports were unsatisfactory and

the firm suffered from a protracted curtailment of production".¹⁴ Some institution or agency should be able to advise and give assistance when such emergencies arise.

This responsibility for management training and business advice can be assigned either to the Sierra Leone Institute of Management or the National Development Bank which, we have argued, should be entrusted with responsibility of mobilizing domestic savings. The main difficulty about assigning responsibility for management training to the Sierra Leone Institute of Management is that such an institution may not be able to provide courses that are suitable to small-scale enterprises. The experiences of Ghana and Kenya can illustrate the problem.¹⁵ In both these countries, the management training and advisory centres were established with the assistance of the International Labour Office and the United Nations Development Institute in Dakar. These international bodies also provided experts for the management centres. It has been found that the ILO experts in Kenya were not able to adapt the content of their courses, as well as the teaching methods, to suit the requirements of small-scale African enterprises. This was also the experience of the Management Development and Productivity In-

¹⁴ The following are other examples to illustrate the need for business advice. "One large indigenous firm, for example, found after ten costly months that the engineer they brought from Germany to set up their German equipment was incapable of doing the job and hence they had to find other technical personnel to do the installation". "During one of my visits to a successful Nigerian mattress producer, the shop was completely idle except for a few women combing out coir fibre by hand. The workers were there (and were drawing pay); the demand for the products of the firm was sufficient; the equipment was in good working order. The trouble was that the stock of a seemingly insignificant ribbon which was used to bind the seams of the mattresses had run out". S.P. Schatz, "Economic Environment and Private Enterprise in West Africa", *Economic Bulletin of Ghana*, December 1963, p. 13.

¹⁵ John C. de Wilde, *Report on the Development of African Private Enterprise*, Washington, D.C., IBRD, 1971, Vol. II, Chaps. IV, VI and VIII.

stitute of Ghana. Realizing that the courses were too sophisticated for the needs of small-scale enterprises, the Institute in 1971 established a Ghanaian Business Bureau to deal with the special requirements of the small businessman. We are therefore not in favour of assigning responsibility for management training and business advice to the Sierra Leone Institute of Management so as not to repeat the experiences quoted.

The National Development Bank appears to be the most appropriate institution for two main reasons. In the first place, the NDB is already in contact with businesses so that it is aware of the types of problems being encountered. The educational background of the businessmen is known to the NDB, hence, the NDB is more likely to provide the type of courses that are relevant to the ability and requirements of small-scale enterprises. Secondly, the NDB is already helping some of its clients to improve their accounting records. What is therefore required is an enlargement of its scope to include all businesses requiring the service. It is not enough for the NDB to deal only with those who applied for its assistance. We believe that the importance of efficient management is so crucial for the development of small-scale industries that we would expect the NDB to literally "chase" firms with this service.

2. PROPOSALS FOR INSTITUTIONAL REFORM

A development bank with a larger role

From our observations on the National Development Bank in Chapter VI and in the light of our conclusions from the previous section of this chapter, the National Development Bank must undertake the following functions: Its first task is in the field of mobilization of medium and long term savings. It should mobilize savings by issuing securities of varying yields and maturities. To enable the National Development Bank to do this, it should be

given the necessary statutory powers. It should also mobilize savings by encouraging the formation of joint-stock companies and offering their shares or bonds to the public. To encourage this development, a condition for the NDB's assistance must be that companies or individuals seeking financial assistance from the NDB should be prepared to sell shares to the public. If the NDB succeeds in getting more public participation in the shares of companies it will not only be mobilizing more domestic savings but will at the same time be dealing with one of the problems of small-scale industries.

A third aspect of the NDB's activity in mobilizing resources is that the NDB must be ready to sell investments from its own portfolio, thereby increasing the supply of marketable securities and releasing its own funds to new investments. Since the NDB has shareholders from outside the country, it should also endeavour to attract foreign capital into the economy. This can be done by selling its obligations abroad and providing potential investors with details about investment opportunities in the country.

The second major responsibility of the NDB must be the identification of economically and financially viable projects. The NDB has argued that the scarcity of economically viable projects has been a limiting factor inhibiting its activity. This problem is not peculiar to Sierra Leone as we have argued that this has been the conclusion reached by a number of economists who have dealt with the problem. In view of this dearth of viable projects, greater effort will have to be directed towards feasibility and pre-investment studies. The NDB is the best place, at present, in which such investigations can take place from the point of view of its contacts with international bodies and other development banks and its contact with local industries. The amount that may be available for such investigations will be limited and so are the experts that may be required. This being the case, it will be necessary to concentrate on a specific area of activity. Thus, for example, if the emphasis is

on agro-based industries, research activities will be concentrated in that area. A change of emphasis could then be made as and when this is considered appropriate.

However, a private development bank cannot be expected to meet the cost of investigating and promoting the development of economically viable projects from its own resources. The costs involved should be borne by the government as a public service in view of the underdeveloped nature of the Sierra Leone economy. Through technical assistance with the various governments or through the World Bank and the International Finance Corporation the government can secure the services of the experts required. This should, however, be regarded as only a temporary solution while steps are taken to get Sierra Leoneans qualified in the techniques of project evaluation.

The main criticism against this arrangement would be the possibility of inefficiency if the same institution investigates and ultimately finances a project. This may be a serious danger for a government-sponsored development bank but need not be a problem for an institution such as the NDB. No doubt the NDB too may be subjected to various pressures, political and otherwise, as a government institution. The fundamental difference however is that the NDB is also answerable to international bodies such as the African Development Bank and other external shareholders. Hence, in the case of the NDB there is a countervailing force which a government-sponsored institution does not have. The effect of this countervailing influence is to reduce the number of politically inspired projects and increase the possibility of decisions being based more on economic and financial realities.¹⁶

The third responsibility of the NDB should be the provision

¹⁶ The assumption is that there will be investors who will be willing to take advantage of the opportunities, once more viable projects become available. But this may not happen and, in such a case, efforts could be directed towards getting the

of ancillary services especially offering facilities for management training and furnishing technical and administrative advice. By keeping in close touch with the borrowers, the NDB can detect difficulties in their early stages. One of the problems we suggested that the businessman faces is that of preparing adequate records. This is an important service which the NDB should be equipped to provide. There is likely to be a favourable response if potential customers of the NDB become aware that a condition of the NDB's assistance includes conforming to some minimum standards of financial accounting.

Another service which the NDB must be able to provide is technical information. This includes information about market prospects and information on where to get machinery and assistance in obtaining such equipments. This does not mean that the NDB should have several experts in all the possible fields. What needs to be done is to make use of available international institutions, like the International Finance Corporation, the Food and Agricultural Organization and the World Bank as well as other development banks. In effect, our conception of the NDB is an institution which provides the businessman with all the services, including credit, he needs for the success of the enterprise.

Finally, what the NDB is able to do depends on its efforts in mobilizing resources. It is essential therefore that the public must have confidence in the institution. This being the case, the companies whose formation the NDB promotes and those whose shares it guarantees must be efficiently managed. So that the NDB must endeavour to strike a balance between excess caution and over-enthusiasm.

public interested through the joint-stock form of business organization. One experiment which has been tried in Kenya and which can be explored is to get Syrians, Lebanese and Indians out of retail trade into industries. Also, the NDB can publicize available viable projects abroad through the NDB's foreign shareholders.

An agricultural and co-operative development bank

Because of the peculiarities of the agricultural sector, we would recommend the establishment of a separate institution for this sector. We noted in Chapter V that Moinuddin recommended the establishment of such an institution.

Our recommendation for the agricultural and co-operative development bank is an amendment of the Moinuddin proposal. What Moinuddin envisages is not an institution that provides credit only, but also an institution concerned with the general development of the agricultural sector, with an agricultural bank becoming the instrument for effecting this development. While we accept the broad principles, we would suggest the modifications listed in Chapter VI (pages 285-290).

Re-organization of the Post Office Savings Bank

In order to improve the efficiency of the Post Office Savings Bank, we would hive it off the Post and Telecommunications Department and make it an entirely new commercial and savings bank. This new bank should absorb all the staff and existing branches of the POSB. This alternative has suggested itself because the POSB already has a large number of branches scattered throughout the country. What appears to be lacking at present is initiative and drive which a new management with commercial banking experience can provide. The National Savings and Credit Bank of Ghana is one example of the possible outcome of what can be achieved.

The capital of the bank should be provided entirely by the public. Government's contribution could take the form of an interest-free loan to the bank and periodic loans, should this become necessary. This suggestion is prompted by the experiences of the Nigerian indigenous banks. A number of official inquiries have revealed that their lending policies were influenced by political decisions and most of their loans went to enterprises belonging to

politicians. This was the case because these banks, with the exception of one, are owned by the regional governments. Commenting on the future success of these indigenous banks Brown observed as follows: "Indigenous banks cannot fulfil a useful role in the economy until they gain the confidence of the Nigerian public. They will not be able to gain this confidence until they can demonstrate that indigenous banking business is run on sound lines, for Nigerians are aware that their savings are secure in expatriate banks".¹⁷ These conditions are also necessary for the success of the new commercial bank.

We observed in Chapter VI that loans under the Agricultural and Fisheries Loans Schemes, the Registrar of Co-operative Societies Loans Scheme, the Development of Industries Board have all experienced very poor repayment records because the approval of the loans was politically inspired while political influences have also prevented effective action to enforce repayment. But we showed in Chapter V that while the Post Office Savings Bank was losing deposits during the periods of financial crises, the commercial banks were gaining deposits, demonstrating confidence in the foreign institutions. Hence, a pre-requisite for success is that purely commercial considerations should influence the decisions of the new bank. Without such confidence, it may be extremely difficult to mobilize deposits.

As the new bank will be taking over the assets and liabilities of the POSB the government may not have to make any loans available to the bank for some time. For its immediate requirements the bank should take over the cash balances of the POSB which is now held by the Treasury, and in addition, rediscount some of the Treasury bills now held on behalf of the POSB. The sub-

¹⁷ Brown, *op. cit.*, pp. 189-90.

scription to the shares of the new bank is another source of funds that is immediately available to it. The bank should also take over the operations of the Revolving Loans Scheme of the Mines Department discussed in Chapter V. For additional investment funds which may be necessary at a later stage, the bank may have to seek the assistance of the National Development Bank as well as depend on deposits that it may be able to mobilize.

The success of the new bank would require that loans must go to projects or enterprises that are potentially and commercially viable. This is essential for its reputation and in order to maintain the confidence of the public. This being the case, the bank must endeavour to avoid the twin dangers of giving credit to people who are unlikely to repay and to those who will not use the credit for the purpose for which it is intended. It will therefore be desirable for the new bank to examine the problems of lending to Sierra Leoneans carefully from the outset, otherwise there may be disappointments all around.¹⁸

One suggestion for dealing with this problem which was proposed in 1965 is the establishment of a 'Loans Advisory Scheme' aimed at improving the volume of credit available to Sierra Leoneans.¹⁹ The scheme is expected to act as a co-ordinating agency for all sources of credit. In addition, it should collect information and give technical assistance. The type of information to be assembled includes information about debtors, so that it should not be possible for a bad debtor of a commercial bank or any other credit agency to obtain credit from another institution, information on the type of

¹⁸ The experiences of the Development of Industries Board, the Agricultural and Fisheries Loans and Credit Schemes provide ample evidence of the types of problems. The Audit Report on the Development of Industries Board for 1961 cited several cases in which loans became unrecoverable because of worthless securities and also because some of the guarantors turned out to be persons without means.

¹⁹ C.V. Brown, *Measures of Increasing Credit to Sierra Leonean Enterprises, A Report Prepared for the Bank of Sierra Leone*, Freetown, August 1968.

projects being frequently undertaken, and information on the most suitable pieces of equipment for various projects.

The problem of securities for loans however remains. New local securities have to be investigated. There are three possibilities to be considered. The first is land and since the new bank would be a local institution it will not be affected by the provisions of the Non-Citizens (Interest in Land) Act. But there is a problem about land ownership outside the Western Area where land is not individually owned. One approach to this problem is to adopt the arrangement used for loans under the Agricultural Loans and Credit Scheme.²⁰ The introduction of bearer bonds would enable many to borrow for consumption as well as assist in the mobilization of domestic savings. The bank would have to go in for more equipment loans in which case the equipment becomes the securities for the loans.

Finally, consideration should be given to the introduction of inland bills of exchange specified in Section 29.i(e) of the Bank of Sierra Leone (Amendment) Act of 1970.²¹ In this connection, an investigation of the Nigerian and Ghanaian Bill Finance Schemes (which have been in operation for over five years) might indicate the best way of bringing inland bills of exchange into circulation.

It can be argued that there is the probability of the Bank becoming illiquid as it may not be relying on the conventional type of securities. This should not happen for the following reasons. If

²⁰ Under that scheme land is accepted as a security once the chief or tribal Authority confirms that the applicant has a right to the use of the land. In the case of default, the land is allocated by the tribal authority to someone else who makes use of it until the loan is repaid.

²¹ "(e) Purchase, sell discount and rediscount inland bills of exchange and promissory notes bearing two or more good signatures, one of which shall be that of a bank, drawn or issued for the purpose of financing economic activities related to agriculture, forestry, fishing or mining, and maturing within fifteen months, exclusive of days of grace from the date of their acquisition by the bank". Bank of Sierra Leone (Amendment) Act, 1970.

inland bills of exchange come into circulation, by holding assets which can be discounted at the central bank, liquidity is assured. Also, term loans and even consumer loans have assured liquidity because of the borrowers' sale proceeds or anticipated income. Furthermore, long term loans are not necessarily illiquid if they are repaid by instalments. Much therefore depends on what the bank does and how carefully loans are processed. Hence our emphasis on equipment loans.

The new commercial bank must move in the direction of mixed banking because of the existence of a credit gap within the economy. Mixed banking implies the provision of long term finance in addition to the usual short term loans. In our analysis of loans and advances from commercial banks it was observed that the volume of loans to Sierra Leonean enterprises was small. In the case of the NDB, its minimum investment is Le 7,500 and its total investment in any one project is limited to 50 per cent of the total investment on that project. Hence, the NDB must invest in a project whose total investment exceeds Le 15,000. Yet the size of the economy is such as to suggest that small-scale businesses will continue to dominate the industrial scene for some time. The new bank should therefore be concerned with assisting all enterprises which are too small for consideration by the NDB.

Since we have advocated that the NDB should provide a number of ancillary services, it will not be necessary for the new bank to provide a wide range of ancillary services but only those which may be specific to small-scale enterprises.

In conclusion, the new commercial bank must follow the example of the 19th century German commercial banks, for only then will it be making a contribution to the development of the financial structure.²²

²² R. Cameron and others, *Banking in the Early Stages of Industrialization*, London, Oxford University Press, 1967, pp. 177-179.

From our study it is evident that the financial system can make a valuable contribution to economic development if appropriate measures are taken, given the balance of payments constraint: (a) to mobilize more domestic resources; (b) to deal with the problem of securities for loans and the special problem of lending to a large number of small operators in the agricultural and small-scale industries sectors; and (c) to improve the quality of investment so as to increase the productive capacity of the economy.

We have argued that more domestic resources could be mobilized and have suggested instruments as well as incentives that might be required for that purpose. The switch from money and near-money liabilities to less liquid instruments which this development entails would provide larger amounts of long term finance for the development of the economy. From the point of view of the central bank, moreover, the relative increase in domestic sources of finance will certainly improve its ability to manage the economy.

PUBLISHED BY SERVIZIO STUDI E STATISTICA
OF THE CASSA DI RISPARMIO DELLE PROVINCE LOMBARDE
PRINTED IN 1980, BY ARTI GRAFICHE GAJANI - ROZZANO (MILANO) - ITALY

Summary

The study by A. Taylor deals with the nature and operations of financial institutions in Sierra Leone during the period 1960-1976.

Sierra Leone's development strategy has relied heavily on external sources for its financing. As evidence of this excessive reliance on external sources of finance, the Ten-Year Development Plan 1961-1972 expected up to 75 per cent of the total cost of the development programme to be met from external sources. The plan had to be abandoned largely because the anticipated external financial resources were not available.

The country cannot depend too much on external sources for the financing of its development programme. To achieve the objective of rapid economic development, increasing reliance should be placed on domestic sources.

However, because of rapid increases in the recurrent budget and sluggish growth in revenue, the recurrent budget has generated only small surpluses for the financing of the development expenditure. Hence, increasing emphasis on domestic sources for development capital presupposes reliance on voluntary domestic financial resources. This in practice involves institutionalization of domestic savings.

Equally important as the mobilization of additional resources by financial institutions is the efficient allocation of available ones. The experiences of a number of LDC's have shown that the volume of investment does not necessarily guarantee development. In effect, therefore, the process of institutionalization and productive investment of domestic savings calls for an organized financial institutional structure that is consistent with the socio-political and economic framework of the country.

Primary concern of the study is thus to assess the extent to which the monetary and financial system of Sierra Leone has contributed to the availability of development finance.

