

# insights



## SIERRA LEONE COUNTRY STRATEGY AND PROGRAMME EVALUATION Bringing financial services closer to rural populations in Sierra Leone

**In Sierra Leone, the International Fund for Agricultural Development (IFAD) in partnership with the Government has expanded coverage of rural financial institutions (RFIs) to meet the unmet demand of the rural population.**

Sierra Leone has made remarkable progress in fostering peace and prosperity since the end of its 11-year civil war (1991-2002). Overall, its economic growth has been very positive. However, the gains from that growth have not been equally distributed; at 66 per cent, the rural poverty headcount is still double that of urban areas. A key challenge for rural growth has been the lack of investment in agriculture, the largest sector in the country.

Eighty percent of the country's population live and work in rural areas, but formal financial institutions do not provide financial services there. High operating costs, poor infrastructure, low population density, high levels of illiteracy and limited business activities are barriers that prevent these institutions from expanding into rural areas. Rural inhabitants face high transaction costs in travelling to the nearest financial institution, and often do not meet the requirements for opening accounts or obtaining loans.

Recognizing the critical role of rural finance in reducing poverty and inequality, IFAD, in partnership with the Government of Sierra Leone, has been actively engaged in developing RFIs through its two stand-alone finance projects under the Rural Financial and Community Improvement Programme, phases 1 and 2 (RFCIP and RFCIP2).

### Reaching rural areas through sustainable rural financial institutions

The aim of the two projects has been to create RFIs capable of addressing the problems of access to finance for the rural poor. These RFIs aim to serve predominantly the economically active rural poor, including micro and small entrepreneurs. The investments from microfinance are expected to lead to overall rural development, including through spillover effects. Project support to RFIs has been

in the form of infrastructure (office), provision of funds through a refinance facility, and capacity-building for staff. In addition, the projects have helped establish an apex body, Apex Bank, to provide regulatory and supervisory services to the RFIs. To date, 59 financial services associations (FSA) and 17 community banks (CB) have been created or strengthened under the two projects.

The RFIs supported by the two projects have been successful within the demanding operational environment in rural Sierra Leone. They have reached large numbers of potential beneficiaries. All 76 RFIs are operational and projected to reach 285,000 households. Their average operational self-sufficiency ratios are high – 171 per cent for CBs and 166 per cent for FSAs. Some 64 out of the 76 RFIs meet the target rate of 5 per cent on the portfolio at risk (30 days). In general, the performance trends in these RFIs are promising and, since 2018, none of them has received financial support for their operational costs. As a result, access to financial services has improved significantly.

## Remaining issues

Despite this progress, true financial inclusion – which implies the existence of a wide variety of financial services that suit the needs of excluded populations – has not occurred. Agricultural lending to primary producers, who are among the poorest, has been low. Among the reasons for this is the fact that the CBs and FSAs have largely functioned with funds raised from their low-income shareholders/clients. This has led to very conservative strategies in lending, with a focus on short, higher-interest loans to trade and to salary earners rather than on riskier, more complex and longer-term farming loans. Only a few of the RFIs operate with genuine production loans with appropriate grace periods reflecting the time required for harvest and effective marketing of crops. In addition, Apex Bank, which was to administer re-financing facilities for lending capital provision to CBS/FSAs, is not well capitalized. Establishing apexes is usually costly, requiring substantial technical assistance over a longer period,



©IFAD/Emmanuel S. Gbokie

and requiring collaboration with other development partners. There is nothing wrong with RFIs pursuing profitability for their sustainability. However, gradually, a balance needs to be struck between greater profitability and financial inclusion.

## Looking ahead

IFAD and the Government of Sierra Leone are infusing US\$9 million of additional financing. With this, and a new strategy, Apex Bank aims to break even for the first time in 2021. This would be a positive development for the project-supported rural finance network, which needs the services of a strong, well-functioning apex institution. This development will also release funds for FSAs and CBs, which currently have to pay a fairly high percentage from their revenue to support the financially and operationally weak Apex Bank. However, the success of the additional funding will depend on certain conditions: (i) a modern, flexible agricultural lending policy for CBs and FSAs; (ii) adequately and appropriately staffed CBs/FSAs at all levels; and (iii) managers and credit officers fully trained in new agrilending approaches and products, well before the new capital injections reach the RFIs.

---

### Further information:

Sierra Leone, Country Strategy and Programme Evaluation, Independent Office of Evaluation of IFAD, Via Paolo di Dono, 00142 Rome, Italy | [www.ifad.org/evaluation](http://www.ifad.org/evaluation) | e-mail: [evaluation@ifad.org](mailto:evaluation@ifad.org) | [www.twitter.com/IFADEval](https://www.twitter.com/IFADEval) | [www.youtube.com/IFADEvaluation](https://www.youtube.com/IFADEvaluation)