

This work is used with the permission of Ann-Marie Samura.

© 1983, Frank B. Samura.

WORKSHOP: MULTI -PROJECT ACTIVITIES IN
DEVELOPING RURAL SIERRA LEONE
- MARCH 11 - 12 NJALA

THE BASIS OF CENTRALISING RURAL CREDIT
FOR RURAL DEVELOPMENT
BY

FRANK B. SAMURA
(CO-OPERATIVE ECONOMIST & DEPUTY REGISTRAR -ADMINISTRATION)



ARCHIV
711.3(664)
S 2

BACKGROUND

1. The Republic of Sierra Leone has even before the attainment of Independence demonstrated the need for the establishment of development agencies/institutions and the promotion of effective co-ordinated strategies to transform the structure of the economy and achieve where possible accelerated growth. Essential tools for example have been the setting up of various Ministries to co-ordinate total development and establishment in 1948 of a Co-operative Department to promote rural development. The formulation and implementation of the National Development Plan of 1974/75 - 1978/79 covering the development in the economic and social sectors are indications of the need for total development.

Development in this sense incorporates the means and strategies through which government and development agencies strive to improve the standard of living particularly of the rural population. This does not mean the ability to possess more luxuries but rather the availability of better food, clothing, comfortable houses and the necessary rural infrastructure to promote sustained growth. For rural areas particularly development includes the provision of healthy surroundings, clean villages, better maternity services, water supply, electricity, roads, medical and sanitary services and availability of operational schools. But above all efforts have to be made to ensure that the earning power at rural level is improved. Basically development services should be brought to the people at village level and provision made to allow them to be directly involved in the plan, management and implementation of their development process. It has also been observed in Sierra Leone that aided and well planned self-help projects of the people in different rural areas produce relatively

visible economic and social development effects.

The trend of development has for the past ten years shifted towards the rural area. Nearly 80% of the countries three million people live in these areas. It is estimated that about 75% are involved primarily with agriculture but only 1.5 million out of the 14.5 million acres of cultivable land are cropped annually. Development in agriculture has been too slow - 1.6% between 1969 - 79 and the bulk of the farmers are still small with a relatively low level of per-capita income.

Possibly due to the risk of agricultural production the rural population also diversifies economic activities - production of Arts and Crafts, small commercial business domestic industry and sometimes a mix of agricultural activities for added value - The growth of these small scale enterprises has been haphazard and uncoordinated with development in other areas. Individual Units at rural level find it difficult to get the right type of raw materials. They are small, poorly financed and lack organised marketing systems. Out of these constraints the middlemen who provide credit and market services exploit the rural entrepreneur considerably.

The above survey gives an indication of the need for a relatively well organised rural credit system to meet the production requirements both in agriculture and in other rural activities of the rural target population. It is possibly for some of these reasons that a number of different credit institutions had over the years been set up: The current trend seems the establishment of regional centralised integrated projects and there is also the Proposed Rural Development Bank Project to meet the credit needs of every Chiefdom. In the next Chapter we shall examine some of the credit institutions and possibly highlight the main constraints of the credit Units.

2. SOURCES OF RURAL CREDIT IN SIERRA LEONE

The sources of rural credit could be classified under the non-institutional and the institutional types. The non-institutional include mainly the role of money-lenders in the villages as well as in towns and offices; relatives and friends. Of these the money-lenders are the most dominant in the rural area because their services are still required. For many years he has adopted himself to the rural environment and employs strategies to survive time as well as to reduce the risk of a bad image. Compared to the institutional system he seems relatively more popular in disbursement but has produced little rural development impact to the debtor.

2. Of the institutional sources of credit the following could be indentified:-

1) Government Rural Credit Institutions.

These are mainly the Agricultural Loans and Credit Scheme administered in the past by the Ministry of Agriculture and Natural Resources and the Registrar of Co-operative Societies Loan Fund - 1950 -68.

a) The former Agricultural Loans and Credit Scheme was set up in the early sixties Primarily to promote the agricultural export of crops such as Cocoa, Coffee, Palm Kernels etc. The Scheme collapsed by 1967 due to a number of constraints in the Organisation, procedure in disbursement, lack of professionalism in loan work and lack of effective supervision.

b) The Registrar of Co-operative Societies Societies Loan Fund was an overdraft to the tune of about one million leones from the Commercial Banks under Government guarantee. The Registrar of Co-operative Societies supervised the disbursement to societies as well as the loan recovery. By 1967 this Fund also collapsed for

problems similar to the Agricultural loan scheme and more. Due to bad repayment records particularly the Long and Medium term loans this Government Co-operative Loan Fund was frozen in 1968. Co-operatives since that time were left to finance their 1000 primary societies - 40,000 Members - out of their internal funds mobilised from their monthly savings and the small net profit per year of business activities of a few societies.

2) Development Banks

The National Development Bank was set up in 1966 mostly to provide credit facilities for big business enterprises with little emphasis on rural activities. No provision was made to provide credit for small farmers. For example the bank documents for loan applications are too complicated for small rural enterprises. Procedure is too slow and the Bank too far away from the rural area. The impact of the Bank particularly in Agriculture for small farmers, small scale enterprises, Co-operative Rural groups etc. has been very limited. By 1980 a small National Development Bank Loan Scheme was suggested with a minimum loan ceiling of Le1000 instead of the large projects with a minimum ceiling Le5,000. If it has been considered it can possibly create a better rural development impact.

3. The National Co-operative Development Bank.

As a result of the collapse of the R.C.S. Loan Fund in Co-operative remained virtually without finance outside their internal mobilised savings. In view of this financial constraint the National Co-operative Development Bank was established in April 1971 with a Share Capital from society societies of barely Le10,000 to provide:-

- (a) Seasonal Production Credit - Short Term
- (b) Development Credit mainly for Agriculture
- (c) Credit for consumption during hungry season
- (d) Other rural credit for Consumer Societies, Arts and Crafts Societies and other services like loan formulation, control and revival of moribund agricultural marketing societies.

Due to the limited funds available for project management as well as services to societies the Bank has since 1971 depended very considerably on the Department of Co-operatives. The Bank cannot meet its recurrent and non-recurrent expenditure items. From the statistics below it is evident that 30,000 members cannot be financed effectively from the operating funds of Le..... in marketing and other activities.

YEAR	APPLICANT	LOAN REQUEST	APPROVED
1978	T.&C. Co-op. Socs.	Le32,000	Le4000
1979	Production Farmers Socs.	38,000	5000
1980	T.&C. Societies	40,000	7000
1981	Farmers T.&C.	23,000	3000
		<u>Le133.000</u>	<u>Le19000</u>

Loan issued = 6. 2% of request

4. Rural Credit through Primary Societies.

Statistics show that there are at the moment over 1000 primary societies with an average membership of 30 per society. These carry out mainly agricultural activities small business activities production of Arts and Crafts Commodities, small-scale industry, Consumer Work etc. These activities are financed from the internal funds mobilised monthly over the years. Statistics also show that Le1,500,000.00 has been mobilised since 1950 but credit impact is weak because loans are issued mostly on cash basis. Management is traditionally weak, loan repayment relatively poor and mis appropriations and "suspense accounts" items are to be observed. Other

constraints of Co-operatives will be dealt with in the next chapter.

5. Commercial Banks

Commercial Banks are more scattered in the rural areas than the development banks. They carry out diversified finance but mostly of big viable enterprises with a quick turnover. They are conservative, traditional and extremely rigid in their security requirements.

In spite of the credit guarantee scheme for small rural borrowers provided by the Bank of Sierra Leone the Commercial Banks have still virtually remained traditionally non-flexible.

6. Integrated Agricultural Development Projects.

Since 1972 a new agricultural approach was introduced called the "Integrated" approach with the following objectives:-

- (a) To establish in the area of operation a sustained agricultural development programme through provision of the necessary package of inputs of a seasonal, development and infrastructural nature.
- (b) Provide other relevant agricultural activities like marketing and processing and to integrate (Centralise) all these services to ease the production and disposal constraints of the farmer.

There are at the moment six such projects including those in the pipeline; each with its identified infrastructure and crop component. The Northwestern Integrated Agricultural Development Project - has just started with Headquarters at Kambia. For this project, the N.AIADP (Bambali and Tonkolili) and Koinadugu Project feedbacks are not yet available to make effective evaluation.

7. Farmers Finance Company.

The background of the F.F.C. is the 1st I.A.D.P. set up in the Eastern Province kenema in 1973 to increase agricultural production in the Eastern and Southern Areas of Sierra Leone. In the identified project area Farmers were assisted to cultivate a number of crops through the provision of agricultural credit and the success of the 1st phase led on to financing a second phase of development. To be able to retain the Project often the project period the Farmer's Finance Company was set up in July 1976 and run by a Board of Directors. Farmers buy shares in Company from the rural; credit operations the procedure is similar to other ongoing. Integrated Agricultural Development Project. The prospective borrowers credit worthiness is determined in terms of suitability of his land for crop component and his customary title under native law. Two types of loans are issued:-

- 1) (1) The seasonal loans in the form of provision of seasonal inputs - seed, fertilizer and pesticides.
- (2) Loan to purchase farming equipment - hand tools such as shovels, hoes, machetes.
- (3) Bigger farming equipment for progressive farmers, Credit is issued usually after the normal inspection by an agricultural officer. From the statistical records it appears the Eastern Area integrated Agricultural Project has achieved its projections in acreage number of farmers. There are however a number of constraints which will be discussed in the next chapter.

3. Some Constraints of Past and Current Credit Institutions.

The previous catalogue indicated two Government Credit agencies, two development banks, Commercial Banks, a number of I.A.D. Projects (six covering, Kenema, Bo, Mattru, Magbosie, Bambali and Tonkoli, Koinadugu and the NW, ADP covering Port Loko and Kambia District). This catalogue is not infact exhaustive as the S.L.P.M.B. too has set up rural subsidiary companies which disburse rural credit for specific crop component. Each of the institutions

catalogued is governed by its statutes and rules and determines its own priorities. Most of these projects are to be found in the same areas providing services for the same farmers who for lack of co-ordination, utilise the credit services of two or more rural institutions. In the East and Southern Provinces for example members of Co-operative Societies with considerable overdue loans move over to the new Integrated Agricultural Development Project or to the Farmers Finance Company to avoid payment of overdue loans.

2. It has also been mentioned in previous papers (1) that due to lack of co-ordination the World Food Programme Inland Swamp Development Scheme had to phase out in the Tonkolili District when the NAIAD Project commenced operations due to different credit policies e.g. distribution of free food to farmers as incentive to farmers for agricultural production.

3. An evaluation of Co-operatives was carried out by I.L.O. in 1980 and this revealed that there are 700 savings and credit co-operative societies at village level with a total membership of 35000. In all these societies hardly any recruitment of new members has taken place for the past ten years. Savings of 1.5 million leones and reserves are issued on credit only to members usually all in "Cash" for short-term seasonal production purposes. "Production" is defined here on broad lines because loans issued to pay dowry costs are regarded as productive. The development effect of Co-operative Credit is limited because there is hardly any visible agricultural policy. Due to

inadequate supervision, mis appropriations by departmental staff functionaries, and Committee Members and also due to concentration of loans to Committee "big men" loan delinquency is common.

4. Failure of the registrar of Co-operative Societies Loan Fund and Agricultural Credit Scheme is due to:-

- (a) Lack of proper supervision and control of disbursement of credit.
- (b) Inadequate training of staff and members in supervision and use of credit.
- (c) Societies are too small units to employ professional staff. This led to weak management and limited economic size.

5. Essential basic principles and practices were not applied such as:-

- (a) Proper planning in consultation with the people aimed at creating self-reliant economic units capable of satisfying the people's principle full needs.
- (b) Sound Management with particular emphasis on regular control by the people themselves and by the Department of Co-operatives.
- (c) Indiscipline and dishonesty arising from non-commitment on the part of all concerned to develop through joint effort.

All these problems are not typical of Co-operatives alone but common to all development programmes.

6. For commercial and National Development Banks the volume of loans to our target small rural farmer in relation to annual disbursement is too small; policy of the credit institutional framework i.e. branches available are too few to make contact with target population.

4. Establishment of a Central Rural Credit System.

The previous chapter identified a number of Credit Institutions in the rural area designed to provide package of services for the rural target population. Here our target group is in the main the small farmer who lives and understands his environment more than the planners themselves. It is infact to improve his standard of living that a number of rural credit institutions were set up. Our survey and research into respective credit institutions will reveal that the objectives:-

(a) Self-sufficiency in good production

(b) Expansion of export earnings.

(c) Upgrading of the small farmer through the availability of various credit institution at rural level - have not been successfully achieved. Efforts are still in the pipeline to set up other credit institutions to solve some of the constraints of existing institutions. For example the Bank of Sierra Leone had carried out a feasibility study for the establishment of Rural Banks in each large Chiefdom. There is also another proposal to establish an Agricultural Credit Bank for which a workshop was held in 1978. All these attempts are indications that a new rural credit Model is necessary.

This credit need has to be identified at rural level. A definition of credit for rural development should incorporate all economics sectors particularly of the small units - agriculture, small-scale industry, social sectors, infrastructure etc. The Catalogue of Institutions carry out specific duties for specific groups of people. For example Co-operative Bank for members only, I.A.D.P. for farmers within the area of operation; Farmers Finance Company for Farmers in the identified region.

Proposed centralised rural credit inspection.

As a result of the constraints and duplication identified in rural credit it seems now necessary to restructure the credit model. A prerequisite would be to carry out a comprehensive survey of all rural credit agencies to allow a restructuring process to be affected. As already proposed by the Bank of Sierra Leone there is need for some other credit agency. The proposal here is the establishment of a centralised rural credit institution. Such an institution should consider inter-alia the following points:-

1. It should not be identified with any particular sector like "Agricultural Bank", or "Small-industrial Development Bank etc. It should possess a geographical regional nomenclature like "Rural Credit Bank or Rural Development Bank. This will spread its functions to all socio-economic activities of the rural area. All existing credit agencies will now have access to the services of the central agency.

2. Because of its central nature funds will be available from institutions such as:

- (a) the Government
- (b) the Central Bank
- (c) the S.L.P.M. B.
- (d) Co-operative Movement
- (e) I.L.A.D.P (S)
- (f) F.F.C.
- (g) International Agencies

The method of finance will be determined by the institution that are the potential share holders/members of the institutions. Farmers can buy shares in the institution.

3. Such a central rural credit institution should spread its activities/branches in all rural areas and should carry out other functions such as savings mobilisation.

4. To serve rural population effectively the target group should be involved in policy planning and management of the institution. There should be close co-ordination with existing credit institution and all other rural development institutions. It is necessary to formulate an integrated chain between Central Agency and other rural credit units. Where necessary restructuring of existing credit institutions should be a prerequisite before the establishment of a Central Credit Project.



IDRC / CRDI

232479