



# Access to Finance for SMEs in Sierra Leone

A Guide on Financial Sources for SMEs

## Foreword

Access to finance remains a key challenge for potential and operating SMEs. The guide presents potential sources for SME Financing in terms of Equity financing, Debt financing and Grant financing. It provides the potential financial options including the processes and requirements for accessing funding from various sources and further include a grant financing directory. These include diverse mechanisms such as loans, overdraft facility, grants, credit union funds, angel investment, impact-oriented venture capital, and leasing, off balance sheet financing, trade credits and supply chain financing. It also presents opportunities in the recently launched Munafa Fund for SMEs.

Furthermore, the guide outlines requirements and expectations as well as SME types in an easily accessible way and offers practical support to SME owners to follow the right path when approaching financiers. To support growth, expansion and diversification the guide presents an SME competitiveness analysis and specifically outlines the WACOMP Sierra Leone Competitiveness opportunities for sector specific support. To support the knowledge base of SME Operators and potential investors common challenges and risk associated with their operations in country are outlined and remedy options are analysed.

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## Acronyms

All references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

AfDB	African Development Bank
AFF	Agricultural Finance Facility
AFI	Access to Finance and Investment
AgDevCo	African Agricultural Development Company
CBs	Community Banks
CGS	Credit Guarantee Schemes
CF	Challenge Funding
ECOWAS	Economic Community of West Africa States
ETLS	Ecowas Trade Liberalization Schemes
FCDO	Foreign Commonwealth Development Office
FSAAs	Financial Services Associations
GAAP	Generally Accepted Accounting Principles
IFC	International Finance Corporation
INGOs	International Non-Governmental Organisations
ITC	International Trade Centre
LOC	Line of Credit
MAF	Ministry of Agriculture and Forestry
MFI	Micro Finance Institutions
M&E	Monitoring and Evaluation
MSME	Micro Small and Medium Enterprise
MTI	Ministry of Trade and Industry
NGO	Non-Governmental Organisations
PSF	Private Sector Fund
QAERP	Quick Action Economic Response Program
RCB	Rokel Commercial Bank
SCADeP	Smallholders Commercialization and Agricultural Development Project
SCF	Supply Chain Financing
SLABI	Sierra Leone Agri-business Initiative Project
SLADF	Sierra Leone Agricultural Development Fund
SLAPCP	Sierra Leone Agro-Processing Competitiveness Project
SLARI	Sierra Leone Agricultural Research Institute
SLCB	Sierra Leone Commercial Bank
SLCR	Sierra Leone Collateral Registry
SLIEPA	Sierra Leone Investment and Export Promotion Agency
SLNGO	Sierra Leone Non-governmental Organization
SME	Small and Medium Enterprises
SMEDA	Small and Medium Enterprises Development Agency
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation
WACOMP	West Africa Competitiveness Program
WACQIP	West African Competitiveness and Quality Infrastructure Project
WTO	World Trade Organization

## Executive summary

This Access to Finance Guide is designed as a comprehensive, accessible, and informative tool that can be useful to SMEs and entrepreneurs in all stages of their business operation. The guide is developed to help entrepreneurs, potential and SME owners, start-ups enterprises and SMEs in operation across the country on how to access finance and how to overcome the various hurdles in the process of acquiring credit.

This guide presents an assessment of the access to finance existing financial infrastructure and requirements for credit application; bank financing options; methodologies including collateralization options; lending policies and government support schemes to that facilitates access to finance. Non-bank financing including alternative financing instruments such as microcredit Institutions; matching grant options and other institutional support for SMEs and entrepreneurs such as off-balance sheet facilities are also listed.

It gives an assessment of the business environment climate in Sierra Leone; profiling of SMEs, value chain analysis and government effort support for SME operations and growth. The policies, legal and regulatory framework guide is presented together with the challenges in policy implementation given existing scenarios.

The profiling of three specific agribusiness sectors Cassava, Cocoa and Palm Oil is presented. The guide gives an overview of the agribusiness sector in the country and the opportunities in the financing opportunities for agribusiness. It also brings to light donors' interest in agribusiness development and value addition schemes and their support strategy for the sector. It further presents the results of value chain analysis of the three-specific sector-cassava, cocoa and palm oil and the exposure of the of the trade with confidence EU funded project for the export of cassava derivatives, cocoa and palm oil. A sector specific financing platform is also presented.

Finally, an Excel version of the guide is provided under separate cover as it seeks to provide relevant information about potential sources of finance, how to access these finance, requirements and eligibility criteria, institutional contact details, application procedures and selected relevant information and the available financial exposure. The excel guide presents both domestic and foreign potential sources for SMEs in Sierra Leone.

## HOW TO USE THIS GUIDE

The financial services sector in Sierra Leone has grown significantly over the past decade and is increasingly positioned to meet the needs of small enterprises. There were 13 commercial banks in 2013, several of which now have considerable experience with lending to smaller businesses. However, difficulty of access to credit have historically been a problem in Sierra Leone and possibly the sub-region characterized by high bank lending rates and a sizeable interest spread. Interest rates for commercial bank loans in Sierra Leone have been steadily declining from 22% in 2010 to 18% in 2015 as a result of government's policy to limit borrowing in the financial market although the spread is still high (14% in 2015) compared to rates applicable in other countries in the West African monetary zone.

There is easy entry and exit in a relatively competitive environment in the economy of Sierra Leone. According to the World Bank report Doing Business, the overall rank has remained the same at 163<sup>rd</sup> for 2019 and 2020. For 2020, the country is ranked 58th in starting a business up from 55th in 2019. It is ranked 181 in dealing with construction permits down from 182 to in 2019. The rating for obtaining electricity (181st down from 178th in 2019) is unfavorable and attests to the country's fragility and sizeable infrastructure gap. The country was ranked 130th out of 137 on the Global Competitiveness Index (GCI) for 2018 in the Global Competitiveness Report 2017-2018 with a GCI value of 3.20. Relatively better rankings were given for some sub-categories such as labor market efficiency (111th) and macroeconomic environment (128th) but poor rankings were given for infrastructure (120th), and health and primary education (127th). The ranking has remained the same as in the 2017-18 GCI, as the country is ranked 130th out of 138.

The 2018 Doing Business Report ranks Sierra Leone at 159th out of 190 countries in getting credit, especially for the poor rural areas including smallholder farmers and SMEs. In 2016, 87% of the economically active population had no access to financial services but the ratio is likely to go down with the advent of digital (notably mobile) banking in the context of a Financial Inclusion Drive led by BSL. Access to finance for enterprises is a significant barrier to growth of the private sector. Enterprise survey data indicates that about 40 percent of firms indicated that access to finance is their largest barrier to growth (with no other factor being chosen by more than 15 percent of firms). This is particularly true for small and medium sized firms. The majority of bank lending is focused on working capital, and only a small percentage of firms are able to borrow from financial institutions for investment. In December 2016, it launched a National Strategy for Financial Inclusion (2017-2020) that was guiding the process to transform the financial sector to serve the under-served and un-served segments of Sierra Leone and contributed to a more inclusive, resilient and economically vibrant economy. Sierra Leone's NFIS officially ended in December 2020. An evaluation of the strategy is currently being done by UNCDF in partnership with The Bank of Sierra Leone (BSL) to identify the achievements and challenges in the implementation of the strategy and to offer recommendations for the design and implementation of a next strategy.

A multitude of factors explain the low level of access to finance for entrepreneurs. First, Sierra Leone's nascent collateral movable registry, adopted in 2017 with IFC support, has experienced little uptake. This situation precludes the securitization of loans and the guarantee for lenders on recovering assets in the event of default. As a result, lending is largely concentrated on corporate entities and trade as banks are less willing to lend to entrepreneurs and the agricultural sector due to their high perceived risk. Second, Sierra Leone lacks a modern credit registry, which is critical to ensuring financial institutions can obtain consumers' credit history to assess their risk profile. The current excel-based credit registry is prone to human error, susceptible to fraud, and time intensive, among others. Third, commercial banks do not offer products and services tailored to SMEs. In this context, banks are largely concentrated on corporate entities and trade.

The Capital Adequacy Ratio (CAR), which is a measure of how much capital a bank has available, reported as a percentage of a bank's risk-weighted credit exposures for the banking system rose from 38.2 percent in 2018 to 40 percent in 2019 from 38.2 percent, indicating that the system has adequate buffers in the case of losses. Asset quality has also improved in recent years, although the absolute level remains problematic. The level of non-performing loans (NPLs) peaked at 33.4 percent at end-2014 and declined to 12.7 percent at end-2018 and 16.62 percent at end-2019. Profitability has also improved, with return on assets (ROA) increasing from 6.1 percent at end-2018 to 7.60 percent at end-2019 and return on equity (ROE) increasing from 27.3 percent at end-2018 to 28.21 percent at end-2019.

Financial institutions do not play significant roles in providing financial services to agriculture and agribusinesses (including commercial farmers, large companies, and agro-processing) despite the important contributions of

agriculture to GDP and employment in the economy. Commercial bank loans to agriculture and agribusiness are mostly short term (up to 12 months), and long-term finance is not available in the market.

Microfinance institutions in Sierra Leone have struggled over the past few years and several mergers and consolidations have resulted in only a small number of MFIs remaining in the market space. The survivors appear to be building on lessons learnt from past experience and are moving toward more sustainable lending practices. Eight of the largest MFIs have recently joined forces to form the Sierra Leone Association of Microfinance Institutions. Loan sizes on average range between \$100 and \$200, with only one institution, Ecobank Microfinance, approving larger loans. Loan maturities are short and interest rates have been as high as 25 percent to 35 percent per annum. According to the World Bank, MFIs have a larger geographical presence in Sierra Leone than banks and have 168,163 borrowers and 189,352 depositors in 2017. These institutions also have a large agricultural loan portfolio; in particular, 29 percent of FSAs' loan portfolio is in agriculture. Women also make up a significant portion of loan recipients, 44.05 percent in the case of FSAs. There is still a significant gap between the market that MFIs can serve, and the market served by commercial banks. Unless significant effort is made to upscale microfinance institutions lending and downscale commercial bank lending, financial institutions will not be able to provide support to MSME that fall in this 'middle market'. The biggest constraint in doing so lies in the regulations setting the upper limit to MFI lending.



## CHAPTER 1 AN OVERVIEW OF SIERRA LEONE<sup>1</sup>

### 1.1 Country Overview

Sierra Leone is a small country of 8.244 million people in West Africa that belongs to the Mano River Union which was established as an instrument of regional cooperation consisting of Guinea, Liberia, Sierra Leone, and Côte d'Ivoire (Ivory Coast). Sierra Leone also belongs to African Union, Economic Community of West African States (ECOWAS), Commonwealth of Nations and other smaller regional cooperation zones. After the multiple shocks of the 10 years civil war which ended in 2002, the country achieved an estimated average annual growth rate of 7.8 percent between 2003 and 2014. This growth and expansion of the economy was largely driven by the resumption of iron ore exports and increased investment in agriculture, mostly through foreign direct investment. In 2015 the country was hit by the 'twin shocks' of the Ebola Virus Disease (EVD) outbreak and falling international iron ore prices. The EVD crisis as well as the sharp fall in iron ore prices had devastating economic and social impact and resulted in a 21.5 percent decline in economic output in 2015 and more than 3,000 deaths in Sierra Leone. The fall in iron ore prices resulted in the two main iron ore exporting companies (which collectively contributed 24 percent of GDP in 2014) being placed under administration. The slump in global commodity prices of Iron Ore which was the country's main mineral export severely affected the economy and created political uncertainties.

In the perspective of the Global Doing Business Platform, Sierra Leone is one of the world's top ten business reformers, having climbed into the top half of the Sub-Saharan index of ease of doing business within a 5-year period but nevertheless the overall business environment remains undoubtedly challenging and lacks transparency. The interest rates on bank credit to the SMEs and the private sector is one of the highest in Africa and remains a key challenge for SMEs growth and development. The banking sector regulator and the government are still studying the key risk factors such as non-performing loans and risk premium in the operation of the banking sector to boost commercial banks' loan supply.

Currently, Sierra Leone's economy contracted by 2% as the COVID-19 pandemic led to slowdown in all sectors following global supply chain disruptions and lockdown measures. GDP per capita fell by 4% in 2020, reversing some of the recent gains in poverty reduction. Real GDP is expected to rebound by 4.2% in 2021, reflecting the easing of COVID-related restrictions as well as the implementation of the government's fiscal response to the pandemic. On the demand side, growth will be driven by domestic demand (as external demand remains subdued), with private consumption and investment contributing the most.

Real growth is expected average 3.6 percent of the medium-term (2021–23), driven mainly by the uptick in both domestic and external demand as the pandemic recedes.

### 1.2 SME Landscape

There is no single definition of SME in Sierra Leone. For example, the Sierra Leone Small and Medium Enterprise Development Agency (SMEDA) Act is classifying SMEs by yearly turnover – up to 100m SLL – small, 100-500m SLL – medium. In Sierra Leone SMEs are classified by their number of employees and their capital investment at start-up. SMEs are the backbone to economic growth, survival and employment creation in many economies. They represent about 70% within the private sector employment because they operate in every type of industry including mining, agriculture, forestry, fishing, construction, manufacturing, transportation, communication, and utilities, wholesale trade, retail trade, finance, insurance, real estate, entertainment, services and many more. In order of importance, SMEs are predominant in retail trade, services, construction, wholesale trade, and manufacturing. They contribute to economic growth and development, job creation, and social integration. Currently, SMEs are facing challenges to growth in Sierra Leone including low access to information, poor infrastructure, limited access to finance, and weak capacity to scale up businesses. These constraints disproportionately impact women entrepreneurs, and the project hopes to address them through public goods investment, SME and start-up acceleration, and early-stage financing.

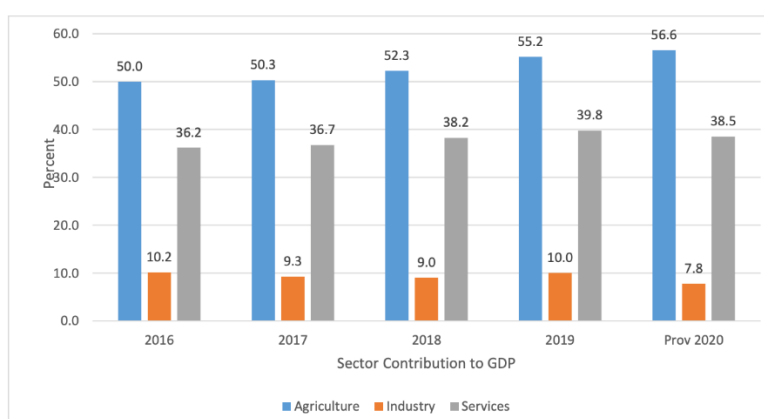
<sup>1</sup> A more comprehensive view can be found in the World Bank's Sierra Leone Financial Inclusion Project: <https://documents1.worldbank.org/curated/en/219761541351080983/pdf/Concept-Project-Information-Documents-Integrated-Safeguards-Data-Sheet-Sierra-Leone-Financial-Inclusion-Project-P166601.pdf>

In 2020 it was approved Sierra Leone Economic Diversification Project which goal is to increase investment, small and medium enterprises (SME) growth, and entrepreneurship in non-mining productive sectors in Sierra Leone. The investment was US\$ 40.00 million.

SMEs play a vital role in the socioeconomic development of national economies because they are creating job opportunities, promote economic stability, development of national economies, promotes creativity and innovation that fuels economic progress, promote the competition and cooperation and produce high value-added products. They play a big role with their contribution in labour absorption, poverty reduction, reduction in urban-rural income gap and revenue generation. Small and Medium Size Enterprises (SME) are very important in terms of the dynamic role in the development of the private sector in Sierra Leone as they provide opportunities for job creation and expansion in the physical reconstruction of the economy especially for a post war development country like Sierra Leone

The Agroindustry in Sierra Leone has been growing over the last decade with rising foreign and domestic investments in cultivation and processing of food and industrial crops such as rice, oil palm, cassava, cocoa sugar cane, horticulture, and livestock, mainly poultry. The entire agribusiness sector, including agro-processing, is still highly fragmented, consisting of few medium and large-sized formal companies, and a vast number of small sized enterprises with low productivity operating in few commodities, such as palm oil, rice, coffee and cocoa. Creating an enabling environment for investments in this agribusiness sector, strengthening of relevant institutions, and improving firm productivity are critical elements of a sector reform and growth agenda to catalyse investments in agribusiness sector and agro-processing sector in the country.

### PERCENTAGE CONTRIBUTIONS TO GDP BY SECTOR



Source: National Accounts and Economic Statistics Division, Statistics Sierra Leone (Stats SL)

### 1.3 SME Regulatory Authority

Sierra Leone Small and Medium Enterprises Development Agency (SMEDA) is the government Agency responsible to regulate all SMEs. It was created by an Act of Parliament in 2016 to provide for the establishment of the Small and Medium Enterprises Development Agency, to create a conducive environment within which Small and Medium Enterprises can thrive and operate, to provide for Sierra Leone's fiscal, monetary and banking policy, trade and industry, technology, marketing, infrastructural and institutional development, and for other related matters.

It is responsible to provide support for SMEs to address the challenges faced by developing Small & Medium Enterprises (SMEs). The Agency is the lead in the creation of an enabling environment and provision of business development services to the SMEs including business counselling, exploring potential sources for access to finance projects, development of marketing and technical skills, acquisition of technological skills, development of business linkages, business plan development and penetration of potential export markets. SMEDA is not only an SME policy-advisory body for the government of Sierra Leone but also facilitates other stakeholders in addressing their SME development agendas.

The government through its SME regulatory Authority has vouchered to improve on policies, the legislatives, regulatory and institutional framework including proper coordination, simplification and rationalization of procedures to enhance the ease of doing business to improve the competitiveness and support in establishing a conducive environment for SME development. The government is ready to facilitate, support and strengthen the mechanisms for easy and affordable access to finance to SMEs. The increasing acknowledgement of the role of SMEs in economic development and reducing unemployment in the country brings forth the need to enhance the understanding of the role and impact of the SME policy and its outcomes.

#### 1.4 Covid 19 and its Impact on SMEs Operations

Covid 19 has impacted the lives many people resulting in their jobs or have seen their incomes cut which has contributed to an increase in unemployment rates across major economies. International institutional support for economic activities to directly support the government's immediate efforts to address the economic impacts of the COVID-19 pandemic has been provided. The impact of the Covid 19 virus also affected financial institutions further reducing business confidence and reduction of credit opportunities.

These various impacts affected both large and small enterprises although the effect on SMEs were more severe because of higher levels of vulnerability and lower resilience related to their sizes.

The outbreak of COVID-19 is expected to have a severe adverse impact on the operations of SMEs in the country. Consumers experience loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption. These effects were compounded because workers were laid off and firms were not able to pay salaries. Some sectors, such as tourism and transportation, are significantly affected, also contributing to reduced business and consumer confidence. Lack of intermediate goods as value chains are disrupted, particularly for those businesses relying on imported inputs, is also affecting firms in Sierra Leone.

It is expected that the consequences of COVID-19 pandemic will continue to have escalating negative effects on SMEs in Sierra Leone. Both the supply and demand sides of their operation were affected. Consequently, these will cause a deterioration of the creditworthiness of SMEs'. This increases the cost of credit for the financial sector stimulating an increase in their reluctance to finance the SME sector if there is no external stimulus.

#### 1.5 Competitiveness of SMEs in Accessing New Markets

The main goal of a competitiveness strategy is to improve the structural position of the business and the country by upgrading current activities and incorporating new skills, value chain support and capita intensive activities.

SMEs as economic agents are being called upon to play a new and important role in boosting trade relations between ECOWAS member states. They can become more competitive by increasing their involvement in foreign markets, as internationalized enterprises typically report higher sales and growth as they participate across many markets. To stimulate industrialization in the region, ECOWAS regional industrial strategy has identified strategic interventions that to be implemented to increase competitiveness in new markets. The proposed actions intend to cover interventions pertaining to the development of sustainable value chains, micro, small and medium enterprises (MSMEs) and facilitating a platform for dialogue on industrialization between state and private sector, including enhancing the capacity of Member States to develop and implement industrial development policies along value chains.

The West Africa Competitiveness and Quality Infrastructure Project (WACQIP) been implemented under the framework of the West Africa Competitiveness Programme (WACOMP) aims to stimulate the competitiveness of SMEs in the 16 project countries through value chain development and an enhanced level of production, transformation and export capacities of the private sector.

The project focuses on supporting quality along value chains at both national and regional levels in the following sectors: (i) cassava and its derivatives, (ii) mango, (iii) textiles & garments, as well as (iv) information, communication and technology (ICT) as a horizontal value chain. The project seeks to promote transformation, better access to regional and international markets and consider social and environmental perspectives. It involves the preparation of the regional policy framework for the development of the value chains within the ECOWAS regional industrial strategy aiming at stimulating industrialization and job creation in the region.

The internationalization of SMEs, beyond helping to generate employment and increase incomes, offers the possibility of adding value at origin and introducing improvements in production to boost the market share of such firms and promote more vigorous entrepreneurship. It is therefore essential for these SMEs to reduce

productivity gaps by incorporating technology, innovations and knowledge into products, as well as to foster management improvements.

## 1.6 Agribusiness sector

The agribusiness sector in Sierra Leone is dominated by small-scale subsistence farming currently but the present government has identified this sector as a priority growth sector and is doing all it can to attract investment to boost productivity through mechanized commercial agriculture across the agriculture value chain. The government increased its agriculture budgetary provision to 10% in 2020-2022 while encouraging additional private sector investment alongside over US\$200 million of funding which has been sourced from the World Bank, FAO, EU and other international and regional organisations. A significant portion of the fund will attract SME investment across the agricultural value chain including value addition projects.

The agriculture sector will contribute to about half of all real sector growth. Agriculture will continue to be supported by recent reforms to increase its productivity through private sector participation and increased transformation of local production. For instance, the previous World Bank DPO series supported structural reforms in agriculture to increase productivity, among them the Seed Certification Agency Act, the National Fertilizer Act, and the Fisheries Act.

Several agricultural SMEs have been operating in the country producing palm oil, cassava and its various products, cocoa, timber, rice, sorghum, pineapples including processing and manufacturing juice concentrates. These small and medium-sized agribusiness enterprises play a critical role in achieving food security in the country. It is therefore important to provide the requisite support to the SME sector to ensure that the smallholders farmers who make up the vast majority of farmers are in a strong position to secure inputs, produce what the market demands, and find off takers for their products.

## 1.7 Sector specific SMEs: Cassava, Cocoa and Palm Oil

Although agriculture has the potential to become the country's key driver for economic growth and contribute to increased food security. The goal is to secure investment in agribusiness enterprises that are engaged into processing facilities and diversification into projects that will support increase in value addition enterprises to produce products for domestic consumption and export.

However, SMEs in the agriculture sector are facing considerable challenges including high cost of doing business, limited information on potential markets and tariff regulated zones, limited information on the access to finance opportunities and business advisory services and are unable to meet the competitive quality regimes to participate in the regional and international markets.

### 1.7.1 Cassava Value Chain

Cassava is an alternate staple food of the country, while cocoa, coffee, oil palm, and cashew nuts are the major cash crops. For many people in major cassava production districts of the country, it is the major staple. The most popular meals made out of cassava are 'Garri' and 'foo-foo', which are common in many West African countries.

Currently there are six cassava processing Centres across Sierra Leone, established under the Cassava Value Chain Development Project in the Ministry of Agriculture and Forestry. It's all part of an initiative that began in 2009 by the International Institute of Tropical Agriculture (IITA) and the Sierra Leone Agricultural Research Institute (SLARI) designed to ease the burden of processing, create additional markets for cassava products and more importantly generate wealth in local communities through increased cassava production. With the country's social and economic situation, the UNIDO programme included cassava among the priority commodity chains to be supported.

The strategy aims to stimulate economic growth, support private sector participation and create new employment opportunities, especially for young people and women. The intervention is fully in line with the development dimension of the Environmental Protection Agency. It also contributes to the national industrial transformation programme through the adoption of a "value chain" approach and improved access to regional and global markets.

### 1.7.2 Cocoa Value Chain

Cocoa had always been a major export crop for Sierra Leone until the country's civil war, which led to the death of many cocoa farmers and the destruction of farms.

The targeting of the selected product lines is consistent with ECOWAS regional industrialisation priorities for agro-industries. This initiative is in line with the processing of local raw materials to create value, increasing the contribution of the cocoa sector to the GDP, contributing to increasing the share of cocoa products in regional trade and bringing West African cocoa products to the world market.

A key government strategy is to increase the competitiveness of agri-food SMEs to add value and find new markets for cocoa products and avoid falling into the trap of an exclusively mineral-based economy.

### 1.7.3 Palm Oil Value Chain

The palm oil value chain is a very significant contributor to the Sierra Leone economy. Its main component is by far the artisanal value chain. This value chain allows some self-sustainability for many households, and for cash generation through sales.

The palm oil value chain in Sierra Leone is relatively stable and independent from most economic shocks and from the international palm oil markets. The value added of the whole palm oil value chain represented around 14% of the Sierra Leonean GDP in 2017, which is relatively high. 20% of the production is self-consumption by families, and the surplus is shared between sales for local consumption of traditional oil, and soap manufacturing for the regional market. Palm oil is an important traditional crop in Sierra Leone and is produced in almost many parts of the country, most of the palm oil production is carried out in the southern and eastern regions of the country in an artisanal manner.

The palm oil value chain contributes significantly to the country's economy. In 2017 direct value added is estimated at \$ 354 million, or 76% and 24% for soap and oil, respectively. The largest share of profits goes to farmers and is the main source of income for many families.

The sector provides a basic income to many households in rural areas. It contributes to further national industrial transformation through a value chain approach and access to regional and global markets. However, a flexible and market-oriented approach will be integrated into the project interventions so that other value chains can benefit from the project activities and results.

## 1.8 WACOMP Sierra Leone Competitiveness Programme

The national Programme of WACOMP Sierra Leone aims to increase the competitiveness of small businesses within the selected agricultural sectors by strengthening and improving the delivery services MSMEs receive from institutions.

For Sierra Leone agricultural development to play a key role in the country's economic development it is important that support institutions are strengthened, and value chain efficiencies are enhanced. Specific value chains have been identified for potential growth namely cocoa, cassava and palm oil already carry good export potential, with a modernized agribusiness industry agricultural employment to increase and improve employment opportunities for youths and women. Giving smallholder farmers and producers increased access to markets, improved income as well as more inclusive value chains through the greater inclusion of women and youths in these agricultural transformation endeavour.

Through WACOMP Sierra Leone interventions, small-scale farmers income will improve, growth in employment and increase productivity in both imports and exports. To promote export and market diversification efforts, the Sierra Leonean government has strengthened the country's institutional, legal and regulatory framework for policymaking. Also, through WACOMP Sierra Leone, ITC will enhance the product development and market access opportunities for smallholder farmers in the programme's primary value chains. This will boost the country's imports and exports potential and further its efforts in export and market diversification.

## CHAPTER 2 FUNDING OPTIONS FOR SMES IN SIERRA LEONE

### 2.1 Sierra Leone Financial Infrastructure to Support Access to Finance for SMEs

According to the World Bank, the financial sector infrastructure in Sierra Leone includes:

- 14 commercial banks;
- 17 community banks;
- 13 (2 licensed and 11 registered) microfinance institutions (MFIs);
- Three mobile money operators;
- 59 financial services associations (FSAs).

Sierra Leone has a liberalized financial system. Interest rates and exchange rates are market-determined and there are no selective credit controls. Even though the largest commercial bank is state-owned, the activities of the banking system are not government-dominated. There are cash and liquidity requirements that banks must follow to operate which is constraining the structure of banks' asset portfolios.

Access to credit and business loans for SMEs is often indicated as one of the main constraints that affect their operations, growth and development because of the bureaucracy and challenges associated with obtaining funding support from the financial infrastructure system. Nevertheless, in every economy the financial infrastructure system is central to the provision of access to finance for SMEs as they provide the much-needed financial instruments for access to finance for SMEs. Therefore, lack of a sound financial infrastructure is one of the major problems in the credit portfolio for SMEs and having a solid financial infrastructure that enhances the flow of information and legal uncertainties helps reduce lenders uncertainties.

Currently, SMEs are facing challenges for growth in Sierra Leone as a result of low access to opportunity information, poor infrastructure, limited access to finance, and weak capacity to scale up businesses. These diverse challenges facing SMEs in the country have disproportionately impacted women entrepreneurs in many communities as well.

#### Types of Sources for Access to Finance for SMEs

The potential source of financing SMEs in Sierra Leone are: 1) **Equity financing** which means someone is putting money or assets into the business in exchange for some percentage of ownership. 2) **Debt financing** means borrowing money from an outside source and promising to pay it back with interest by a set date in the future. 3) **Grants Financing** is financial support provided to SMEs by an entity such as international donor organisations, charity foundations or government to an individual or a company to facilitate its goal or incentivize performance. Grants are essentially business financial support that do not have to be paid back, under most conditions.

### 2.2 Equity Financing

Equity finance is a means of raising fresh capital by selling shares of the company to public, institutional investors, or financial institutions. They provide the SME with much needed capital to sustain business in exchange of shares or ownership in the Enterprise. The benefit of equity financing to the SME is that the money received doesn't have to be repaid. The business also shares a portion of its profits with its equity investors out of its earnings after tax. This type of financing is especially important during the start-up stages of an SME to help finance acquisition of assets and provide for start-up operating expenses. Investors make gains by receiving dividends or when their shares increase in price.

#### 2.2.1 Major Sources of Equity Financing

A private enterprise or SME equity financing can be raised from angel investors, crowdfunding, venture capital firms, or corporate investors. Ultimately, shares can be sold to the public in the form of an IPO.

#### 2.2.2 Owner's Equity

This is the most trusted source of finance for SMEs because it is from the entrepreneur who is willing to spend life-time savings in turning dreams into reality. They are also positioned to raise additional capital from friends

and family members. The key limitation is that, for most investors the capital required is more than what can be raised from family and friends.

### *2.2.3 Business Angel investors*

Angel investors are wealthy individuals who purchase stakes in businesses that they believe possess the potential to generate higher returns in the future. The individuals usually bring their business skills, experience, and connections to the table, which helps the company in the long term. Once a business angel is interested, they can become very useful to the SME, as they often have great business acumen themselves and are likely to have many useful contacts. There are many business Angels participating in the mining and fisheries sectors in the country.

**How to locate Business Angel Investors?:** Finding an angel investor is not a particularly easy task, but the effort will really pay off when you find the angel investor who is willing to invest in your business. Besides providing the capital your business needs, the advice and know-how of an angel investor can be key to shaping your company's success. An SME may want to approach a business accelerator to facilitate such deals. In Sierra Leone, there are many: Aurora Start-up Centre, Freetown Media Centre, Innovation Axis, Innovation SL, Sensi Tech Innovation Hub, etc.

### *2.2.4 Crowdfunding Platforms*

Crowdfunding platforms allow for several people in the public to invest in the SME in small amounts. Members of the public decide to invest in the SME because they believe in their ideas and hope to earn their money back with returns in the future. The contributions from the public are summed up to reach a target total. The main idea of equity crowdfunding is to raise the required capital by obtaining small contributions from a large number of investors. Unfortunately, there are no crowdfunding platform based in Sierra Leone. However there exist many platforms known worldwide that can host projects originated from Sierra Leone. Popular platforms are: GoGetFunding, Justgiving, Crowdfunder, Kickstarter, etc. and where some success stories can be found.

**Benefits of Crowdfunding Equity:** Equity crowdfunding introduces a new approach to the investing and capital raising process. It can offer several benefits to both companies and investors. The benefits include easier access to capital and less pressures on management.

**Risks with Equity Crowdfunding:** Any party that is willing to participate in equity crowdfunding must be aware of the risks that are associated with it. Some of these risks include the following: Equity dilution, high risk of failure, Low Liquidity and risk of fraud.

### *2.2.4 Venture Capital Firms / Impact Investors*

Venture capital firms are a group of investors who invest in SMEs they think will grow at a rapid pace and yield dividend in the future. They invest a larger sum of money into SMEs and receive a larger stake in the company compared to angel investors. The method is also referred to as private equity financing. They mainly target high profile SMEs that are at the stage of transforming their business to commercialization seek Venture Capital. They bring wealth, expertise and large sums of equity finance to the company. The term venture capitalist can also be defined in different terms when, for example, the investor is looking to make a profit while also having a positive impact on the world's social or environmental concerns. In that case, we call it impact investing. Two famous funds operating in Sierra Leone are the Cordaid Investment Management and Triodos-Hivos Fund.

**How does an SME attract Venture Capital?** In order to attract venture capital funding an SME must have a business idea that has the potential to create the high returns the venture capitalist is seeking. Types of Venture Capital includes Start-up capital, early development capital, expansion capital, commercialisation capital.

### *2.2.5 Corporate Investors*

Corporate investors are large companies that invest in private companies to provide them with the necessary funding. The investment is usually created to establish a strategic partnership between the two businesses.

### 2.3. Advantages and disadvantages of Equity Financing

#### Advantages

The main advantage of equity financing is that it offers SMEs an alternative funding source to debt. Start-ups that may not qualify for large bank loans can acquire funding from angel investors, venture capitalists, or crowdfunding platforms to cover their costs. In this case, equity financing is viewed as less risky than debt financing because the company does not have to pay back its shareholders.

Investors typically focus on the long term without expecting an immediate return on their investment. It allows the company to reinvest the cash flow from its operations to grow the business rather than focusing on debt repayment and interest.

Access to business contacts, management expertise, and other sources of capital

Equity financing also provides certain advantages to company management. Some investors wish to be involved in company operations and are personally motivated to contribute to a company's growth. Their successful backgrounds allow them to provide invaluable assistance in the form of business contacts, management expertise, and access to other sources of capital. Many angel investors or venture capitalists assist SMEs in this manner. It is crucial in the start-up period of an SME.

#### Disadvantages of Equity Financing

The main disadvantage to equity financing is that SME owner must give up a portion of its ownership and dilute its control. If the SME becomes profitable and successful in the future, a certain percentage of the profits must also be given to shareholders in the form of dividends. Many venture capitalists request an equity stake of 30%-50%, especially for start-ups that lack a strong financial background. Many company founders and owners are unwilling to dilute such an amount of their corporate power, which limits their options for equity financing.

#### Lack of tax shields

Compared to debt, equity investments offer no tax shield. Dividends distributed to shareholders are not a tax-deductible expense, whereas interest payments are eligible for tax benefits. It adds to the cost of equity financing. In the long term, equity financing is a more costly form of financing than debt. It is because investors require a higher rate of return than lenders. Investors incur a high risk when funding an SME, and therefore expect a higher return.

### 2.4 Debt Financing

Debt financing include traditional bank loans, personal loans, loans from family or friends, overdraft facilities, inventory financing, government loans, lines of credit, and others such as trade credit, supply chain financing, leasing, use of credit unions and off-balance sheet financing. The main advantage of debt financing over equity financing is that the lender does not take an equity position in the business. Debt financing can be divided into two categories based on the type of loan. It can be either short-term or long-term.

Type of Debt Financing	Description
Debt Financing over the Short-Term	SMEs use short-term debt financing to fund their working capital for day-to-day operations. It can include paying wages, buying raw material or costs incurred for supplies and maintenance. The scheduled repayment for the loans is usually within an agreed period. A common type of short-term financing is a line of credit, which is secured with collateral. It is typically used when SMEs are struggling to keep a positive cash flow (expenses are higher than current revenues), such as start-ups.
Debt Financing over the Long-Term	SMEs seek long-term debt financing to purchase assets, such as buildings, equipment, and machinery. The assets purchased are usually also used to secure the loan as collateral. The scheduled repayment for the loans is



	usually within an agreed number of years, with fixed interest rates and predictable monthly payments.
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## 2.4.1 Major Sources of Debt Financing

### 2.4.1.1 Commercial Bank Financing

A common form of debt financing is a commercial bank loan. Banks often assess the individual financial situation of each SME and offer loan sizes and interest rates accordingly.

### 2.4.1.2 State Owned Commercial Banks

The bulk of the population lives in rural areas and is dependent on subsistence agriculture activities for their livelihood. About 60% of the population in communities are engaged in small and medium-sized enterprises (SMEs) activities and most of them do not fully participate in the formal financial system. Their transactions are exclusively in cash, have no safe way to save or invest money, and do not have access to credit beyond informal lenders and personal networks.

The two state-owned commercial banks are:

1. Sierra Leone Commercial Bank (100% owned)
2. Rokel Commercial Bank (51 % state-owned)

### 2.4.1.3 Sierra Leone Commercial Bank

The bank offers financing options for SMEs. The bank is readily positioned to provide structured financing for business start-up or small-scale enterprises mainly in support of local content industries and agribusiness SMEs. They offer both short term and long-term facilities including flexible loans, Overdrafts, Cash-flow finance, Lines of credit, Letters of credit, expansion Loans Commercial Loans and Equipment Financing. The bank also participates in the collateral registry by accepting moveable and immoveable collateral for Loans.

### 2.4.1.4 Rokel Commercial Bank

Rokel Commercial Bank Limited provides banking and related financial services to Sierra Leoneans. The bank serves members of the public including small and medium enterprises (SMEs), as well as large corporations. The bank is known as the bank of innovative products and services and offers SMEs wide range of services including business discounted loans, overdraft facilities as business support, micro credit/small business loans, trade fiancé products, cash management support, Agricultural development loans and customized loan for SMEs.

### 2.4.1.5 Other Commercial Banks Financing

Ecobank is an important player in SME financing. They are also one of the Munafa fund implementing banks. Banks may be willing to provide an overdraft of some sort and may be willing to lend in the long term where that lending is secured by an asset such as land and buildings. However, raising medium-term finance to fund operations is often more difficult for SMEs as banks are traditionally rather conservative. This is understandable as the loss on one defaulted loan requires many good loans to recover that loss.

Hence, many SMEs end up financing medium-term, and potentially longer-term projects, with short-term finance such as an overdraft. Furthermore, banks often require personal guarantees from the owner-manager of the SME, which means the owner-manager has to risk his personal wealth in order to fund the company. However, with the enactment of the Borrowers and Lenders Legislation which encourages the use of both moveable and immoveable assets as collateral the lending environment is now SME friendly.

## 2.4.2 Advantages and Disadvantages of Debt Financing

### Advantages of Debt Financing

#### *Preserve Company Ownership*

The main reason that SMEs choose to finance through debt rather than equity is to preserve company ownership. In equity financing, such as selling common and preferred shares, the investor retains an equity position in the business. The investor then gains shareholder voting rights, and business owners dilute their ownership. Debt capital is provided by a lender, who is only entitled to their repayment of capital plus interest. Hence, SME owners are able to retain maximum ownership of their company and end obligations to the lender once the debt is paid off.

#### *Tax-deductible interest payments*

Another benefit of debt financing is that the interest paid is tax-deductible as it decreases the tax obligations. Furthermore, the principal payment and interest expense are a fixed and known amount assuming the loan is paid back at a constant rate. It allows for accurate forecasting, which makes budgeting and financial planning easier.

### Disadvantages of Debt Financing

#### *The need for regular income*

The repayment of debt can become a struggle for some business owners. They need to ensure the business generates enough income to pay for regular instalments of principal and interest. Many lending institutions also require assets of the business to be used as collateral for the loan, which can be seized if the business is unable to make certain payments.

#### *Impact on credit ratings*

If borrowers lack a solid plan to pay back their debt, they face the consequences. Late or skipped payments negatively affect their credit ratings, making it more difficult to borrow money in the future.

#### *Potential bankruptcy*

Agreeing to provide collateral to the lender puts business assets at risk, and sometimes even personal assets. Above all, they risk potential bankruptcy. If the business should fail, the debt must still be repaid.

## 2.5 Relevant financial organization sources for SMEs in Sierra Leone

	Name of the organization	Type	Products/instruments	Contacts	Website
1	Small and Medium Sized Enterprises Development Agency [SMEDA]	Government Business Support Organization (BSO)	Loans	Mr. Sharka Samuel Sannoh 24, Cantoment Road, Freetown Tel: +23276685049 info@smeda.gov.sl	www.smeda.gov.sl
2	Sierra Leone Commercial Bank	Commercial Bank	Loans	Abimbola O Williams Christian Smith Building 29/31 Siaka Stevens Street Freetown Tel: +23276619984aowilliams@slcb.com	www.slcb.com
3	Rokel Commercial Bank	Commercial Bank	Trade Finance, Letters of Credit, Cash Management, Loans, Overdrafts	Morrison Conteh 25/27 Siaka Stevens Street Freetown Tel: +23276222501 info@rokelbank.sl	https://www.rokelbank.sl/
4	Union Trust Bank [UTB]	Commercial Bank	Loans	Daria Komba Ngaujah 2 Howe Street Freetown Sanpha Koroma Building Lightfoot Boston Street, PMB 1237 Freetown Tel:+23279 686 695 dngaujah@utb.com	https://www.utb.sl/
5	First Bank of Nigeria [SL] Limited	Commercial Bank	Overdraft for working capital, Operational Vehicles, Loans, Equipment Finance, Contract & LPO Finance	Edward Hamilburg 3 Charlotte Street, Freetown Tel: +23278742861 edward.s.hamilburg@fbnbank.sl.com	www.fbnbanksierraleone.com
6	VISTA Bank	Commercial Bank	SME banking Leasing Mesofinance Trade and supply chain finance	Valeril Avril Benjamin Head Office: 2B Charlotte Street Freetown. Tel: +23278202211 info@vistabankgroup.com	www.vistabankgroup.com
7	Ecobank [SL] Limited	Commercial Bank	Loans, Payment and Transfers, Investment solutions, Guarantee Fund,	Samuel Bennett 3 Charlotte Street, P.O. Box 107, Freetown Tel: +23288141146 sbennett@ecobank.com	www.ecobank.com

8	Standard Chartered Bank [SL] Limited	Commercial Bank	Various	Kumba Ngongou 5 Lightfoot Boston Street, Freetown Tel: +23276505609 k.ngongou@sc.com	www.sc.com
9	Kabala Community Bank	Community Bank	Business Loans Personal Loans	Mohamed Kamara Old Makeni Road, Kabala Koinadugu District 00 23278588979	Not available
10	Marampa Masimera Community Bank	Community Bank	Business Loans Personal Loans	Gabriel Gbebay 8, Siaka Steven Street. Lunsar, Port Loko District 00 23278235926	Not available
11	Yoni Community Bank	Community Bank	Business Loans Personal Loans	Yusufu B. Kabia Freetown Road, Mile 91, Yoni Tonkolili District 00 23276370403	Not available
12	Kamakwie Community Bank	Community Bank	Business Loans Personal Loans	Joseph Julius BarbaFintonia Road, Kamakwie, Bombali District 00 23276759385	Not available
13	Yoni Community Bank	Community Bank	Business Loans Personal Loans	Yusufu B. Kabia Freetown Road, Mile 91, Yoni Tonkolili District 00 23276370403	Not available
14	Empire Solution (SL) Limited	Microfinance Institution	Loans	Lawrence John 13 Regent Road, Lumley, Freetown 00 232-76-216-216	www.empire-solutions.com
15	Grassroot MFI Limited	Microfinance Institution	Loans	Murray Vandy 248 Bai Bureh Road, Portee, Freetown 00 232-76-234-510 murrayvandy1972@gmail.com	Not available
16	Ecobank Microfinance Limited	Microfinance Institution	Loans Deposit	Samai Rahman Bureh 11 Rawdon Street, Freetown P.O. BOX 1288 00 232-22-228-706 sbureh@ecobank.com	https://www.ecobank.com/
17	Win Trust Investment and General Services Limited	Microfinance Institution	Loans	Fatmata Gbebay 43 Ngalu Road, Bo 00 232-76-759-951 fatmatagbebay@gmail.com	Not available
18	Sengbe FSA	Financial services Association (FSA)	Loans	Madusu M. Marah KabalaTown KoinaduguDistrict 00 23278235357	https://www.npcu.org/fsa.html
19	Fiama FSA	Financial services Association (FSA)	Loans	Saidu Koroma Jagbwema Town Fiama Chiefdom Kono District 00 23278507728	https://www.npcu.org/fsa.html
20	Gorama Kono FSA	Financial services Association (FSA)	Loans	Abdul K. James Kangama Town Gorama Kono Chiefdom Kono District	https://www.npcu.org/fsa.html

				00 23279185477	
21	Soa FSA	Financial services Association (FSA)	Loans	Ibrahim A. Conteh Kaikordu Town Soa Chiefdom Kono District 00 23278360500	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
22	Gbaneh FSA	Financial services Association (FSA)	Loans	JohnLawrence Komba Gandorhun Town Gbaneh Chiefdom Kono District 00 23278290552	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
23	Peje West FSA	Financial services Association (FSA)	Loans	Patrick Bundor Bunumbu Town Peje West Chiefdom  Kailahun District 00 23279596382	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
24	Mandu FSA	Financial services Association (FSA)	Loans	Abu Sheriff Mobai Town Mandu Chiefdom Kailahun District 00 23278955299	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
25	Luawa FSA	Financial services Association (FSA)	Loans	Mohamed K Sheriff Ngiehun Town Luawa Chiefdom  Kailahun District 00 23278782377	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
26	Kissi Kama FSA	Financial services Association (FSA)	Loans	Morie M. Kanneh Dia Town Kissi Kama Chiefdom Kailahun District 00 23278703865	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
27	Kissi Teng FSA	Financial services Association (FSA)	Loans	Abu Sheriff Kangama Town Kissi Teng Chiefdom Kailahun District 00 23278955299	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
28	Yawei FSA	Financial services Association (FSA)	Loans	Alieu John Fatorma Bandajuma Town Yawei Chiefdom Kailahun District 00 23278855740	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
29	Peje Bongre FSA	Financial services Association (FSA)	Loans	Abu B. Tholey Manowa Town Kailahun District 00 23278218821	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
30	Malema FSA	Financial services Association (FSA)	Loans	Ibrahim Sillah Jojoima Town Malema Chiefdom Kailahun District 00 23276994404	<a href="https://www.npcu.org/fsa.html">https://www.npcu.org/fsa.html</a>
31	Guaranty Trust Bank (GTB)	Commercial Bank	Loans		<a href="https://www.gtbsl/">https://www.gtbsl/</a>
	Sky Bank Sierra Leone	Commercial Bank		31 Siaka Stevens Street, 5 College Road, Cline Town, 33 Freetown Road Lumley, 22 Rawdon Street. +23234000555	<a href="https://skyebank.sl.net/">https://skyebank.sl.net/</a>

Please review attached excel documents for more sources, requirements, eligibility criteria, institutional contact details, application procedures and the available financial exposure. The excel guide presents both domestic and foreign potential sources for SMEs in Sierra Leone.

## 2.6 Grant financing

Most types of grants, unlike loans is a sum of money awarded to an SME from a government or a specific funding agency that don't have to be repaid. It's awarded to SME to assist in its development, often for a specific purpose. A small SME owner may find it difficult to fund its operations at times. When situations like this arise the SME Owner may try to secure a small business loan or explore other loan opportunities offered by a financial institution.

Depending on the situation, a business grant may seem more attractive than traditional funding options since they are essentially free money. It is most definitely an attractive financial consideration for entrepreneurs and small businesses with little cash available for start-up, growth or expansion. There are grants available for all types of small business owners, including women. Grants are a great way to help establish and grow your business without mortgaging the future.

Grants can come in many forms: small business grants, government grants, International Agencies grants, country grants, local grants and grants from private businesses. The amounts that organisations grant to businesses vary from hundreds of thousands to millions of dollars. Most common grants, however, tend to be on the lower side, most times under 500,000 million Leones [\$50,000].

But all grants have their advantages and disadvantages. There are many things to consider when pursuing this type of funding for business. The key challenge is to find the grant opportunity for which the SME is qualified. Agencies, be they government or international organisations that are offering grants issue notice for a call for proposals or applications, inviting interested SMEs to send their business ideas. Applicants will need to show how their business or idea is relevant to the grant.

### 2.6.1 Specific Grant Funding Partners<sup>2</sup>

#### **World Bank Grants for SME Financing**

The World Bank Board has recently approved a \$40 million grant to the Government of Sierra Leone from the International Development Association (IDA) to support investment and growth of Small and Medium Enterprises (SMEs) in non-mining productive sectors in Sierra Leone<sup>3</sup>.

The project (2021-2025) will contribute towards addressing:

- The structure and business support challenges
- SME expansion and diversification projects
- The constraints preventing women entrepreneurs from managing their SMEs
- Low access to information and poor infrastructure
- Limited access to finance, and weak capacity to scale up businesses
- SMEs start-up and early-stage financing
- Growth and Productivity issues
- Private sector-led growth for job creation, poverty reduction and economic diversification.
- Capacity development challenges including accountability and transparency
- Development of competitiveness of growth sectors such as manufacturing
- Promoting economic diversification to reallocate resources from low- to high-productivity sectors to boost growth in GDP per capita and reduce poverty.

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<sup>2</sup> Matching grants in Agro-sector can include funding from SLAPCP, SCADEP; CORDAID, UNCDF, GIZ, UNDP, etc.

<sup>3</sup> Sierra Leone - Economic Diversification Project: <https://projects.worldbank.org/en/projects-operations/project-detail/P164212>

**Eligibility Criteria:** Must be an SME in operations and registered. Startup enterprises with a good proposal can also be considered.

**For more information and applications:**

Address: 13 Howe Street, Freetown, Sierra Leone

Phone: +232 76 672186

Email: pfm2018@gmail.com

***World Bank Agro-Processing Competitiveness Project***

The development objective of the Project is to improve business environment in agribusiness sector and increase productivity of targeted agro-processing firms in Sierra Leone. The second component of the project focuses on SME direct support to increase productivity and strengthen competitiveness of agro-processing firms and SMEs in selected value chains. It consists of following sub-components: (i) firm-level technical assistance (TA) and capacity building of ecosystem players; and (ii) provision of matching grants to SMEs.

The \$10M project which closes in December 2023 is managed by a Project Implementation Unit with fiduciary management from the PFMU of the Ministry of Finance with supervision from the Ministry of Trade and Industry.

**For more information and applications:**

Address: 13 Howe Street, Freetown, Sierra Leone

Phone: +232 76 672186

Email: pfm2018@gmail.com

***ILO Opportunity Salone Project***

Opportunity Salone is a project financed by the EU aiming to contribute to large scale job creation and job quality improvement for women, youth and persons with disabilities, mainly in the rural area of Sierra Leone through inclusive value chain production focused on Small and Medium Enterprises (SMEs) and cooperatives and feeder road maintenance to improve access to market. Opportunity Salone adopts a market system in its implementation approach and is envisaged to contribute to value chain and entrepreneurship development, creating between 2,000 and 4,000 jobs in the short run to maintain up to 200 km of rural feeder roads as well as longer-term, sustainability job quality improvement in strengthened and inclusive agricultural value chains. The project is managed by ILO targeting SMEs in the Cocoa, Cassava, Vegetable and Palm oil value chains in Bo, Kenema, Bombali & Port Loko Districts.

More information can be obtained at [abujareg@ilo.org](mailto:abujareg@ilo.org).

***US Private Sector Gender Grants in Sierra Leone for Income-Generation and Self-Employment***

The Right Sharing of World Resources (RSWR) is a United State Organisation that is supporting a program for income-generating, self-employment projects for poor women who are members of a self-help group. They believe that small scale income-generating projects offer the recipient organizations to extend small loans to members of their groups so that they can start small and micro businesses.

**Funding Information:** Up to US \$5,500 for a one-year project. Each group may receive only one grant. Exceptions can be made to this only if it is clearly shown that a second grant will support a different group of women.

**Eligibility Criteria:**

- All groups must be self-directed by the women beneficiaries themselves.
- The leadership and management must come from within the group.
- The group cannot be formed or managed by outside coordinators.
- Additionally, the group must be registered with the local authorities and have a bank account, and the signers on the bank account must be three women who are members of the group.

**How to Apply<sup>4</sup>:** Proposals should be sent by email to: [sarahnorthrop@rswr.org](mailto:sarahnorthrop@rswr.org). We accept proposals from the Western and Northern Provinces of Sierra Leone from January 1 to June 30 and from the Eastern and Southern Provinces from July 1 to December 31 of every year.

### **The Challenge Funds**

The Challenge Fund (also referred to as enterprise challenge fund) is a competitive financing facility to disburse donor funding for international development projects, typically utilizing public sector or private foundation funds for market-based or incentive driven solutions. A challenge fund invites for proposals from companies, organizations and institutions working in a targeted field to submit project proposals.

The rationale for challenge funds has, over time, become increasingly linked to the financing of innovation, which is viewed as an area of significant potential for solving development challenges. Where funding gaps exist, challenge funds may play a role by ensuring (through competitive processes) that innovations with the highest potential to provide development benefits receive grant support. However, challenge funds must distinguish between innovations that are likely to reach the market of their own accord so as to maximize the effectiveness of donor spending.

**Eligibility Criteria and Who is to apply:** The criteria for who is eligible to apply for the Challenge Funding vary to a great extent among existing CFs but CFs is open only to for-profit private companies. Common minimum criteria for participation might, for example, be that the organization has judiciary form; that it has been in existence for a minimum of 2-3 years, it has audited accounts for that period; is not placed in bankruptcy; it has an established CSR policy, not engaged in activities such as arm production or tobacco, and has a financial position which makes it likely to be able to sustain a project, etc.

It is critical that the rationale for the CF is clear and explicit both to justify donor funding and to provide a high degree of transparency in the application and selection process. A leading principle in defining the purpose of a CF should be that it addresses a key development issue which otherwise is not addressed by market forces, and also that there is a clear benefit in applying the CF model versus other forms of donor support.

### **2.6.2 Grant Funding Advantages and Disadvantages**

As a start-up or small business owner wishing to turn a great idea into a thriving business venture, acquiring the necessary funds to achieve this vision can be frustrating. The size may limit one's ability to qualify for traditional forms of business lending, making it all too easy to assume that the capital required for the business beyond reach. But before deciding to look inwards and remove funds from personal savings, it is worthwhile to explore what fundraising opportunities exist in country, including Grants. However, using a Business Grant has both advantages and disadvantages that need to be acknowledged in order for to make an informed decision as to whether this is a suitable path for the SME.

#### **Advantages of Grant Financing**

Grant financing offer a variety of advantages to businesses, but these vary depending on the scheme. They are so popular because any funding the business receives doesn't need to be repaid. In addition, the approval of a grant gains the confidence of knowing that the proposed venture has been publicly endorsed by the scheme's operator (which could be anyone from a government body, growth hub, industry-specific associate or even a large corporate entity) and use it as a promotional tool.

#### **Disadvantages of Grant Financing**

There are disadvantages of Grants which must be considered. Every Grant scheme operates differently therefore the entry requirements must be thoroughly understood to confirm eligibility. That said, some of the most common factors that such schemes take into account can range from sector, niche, location, business plan and financial situation to turnover highlighting the need for careful planning and research.

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<sup>4</sup> [https://rswr.org/sites/default/files/Proposal%20Guidelines%20and%20Checklists/Guidelines%20for%20Proposals%20to%20RSWR%20-%20SIERRA%20LEONE%20-%20new%20criteria\\_0.pdf](https://rswr.org/sites/default/files/Proposal%20Guidelines%20and%20Checklists/Guidelines%20for%20Proposals%20to%20RSWR%20-%20SIERRA%20LEONE%20-%20new%20criteria_0.pdf)



Also, different Grant financing schemes may be intended to fund different aspects of the business operations so the SME goals must be aligned with the purpose of the grant. Yet even if the SME goals are suitable, there is always the need to check how much capital the business might receive, since such schemes tend to impose limits on how much they are providing, based on either a set limit or a percentage. This could result in only a portion of the business requirement being met.

In addition, one of the biggest disadvantages of applying for a Business Grant is how popular they are, meaning that you'll be facing a lot of competition from rival businesses. So even if the entry requirements have been met and present a great pitch, gaining access to additional capital this way could still prove a struggle. However, rather than waste precious time, you may want to seek out other alternatives

## 2.7 Directory of grants for SMEs

This is a list of SME grant providers in Sierra Leone.

	Agency Name	Type of Grant	Preferred Sector	Investment available or Funds size	Contact Details
1	Cordaid Sierra Leone	Grant support	Agribusiness	\$10-100k per SME	6 Bangalie Drive, Off Wilkinson Road mohamed.sesay@cordaid.org
2	Cooperazione Internazionale [COOPI] Sierra Leone	Grants & matching grants	Agriculture	Undisclosed	Ronsard Drive 49 H Off Spur Road, Freetown westafricacoopi.org
3	European Union [EU]	Grant	Agribusiness Technology development	Euro 100-200,000 per SME	delegation-sierra-leone-cfp@eeas.europa.eu
4	German Corporation for International Cooperation [GIZ]	Grant funding	Biotrade Sector	Undisclosed	GIZ Regional Office Sierra Leone – Liberia 32d Wilkinson Rd. Freetown, Tel: +232 78 700 887 <a href="mailto:giz-sierra-leone@giz.de">giz-sierra-leone@giz.de</a>
5	International of Migration [IOM]	Grant	Agribusiness	\$25,000 Per SME	New Signal hill road, 18A Freetown, Sierra Leone Tel: +232 22 234 244 Email: <a href="mailto:iomfreetown@iom.int">iomfreetown@iom.int</a>
6	International Fund for Agricultural Development [IFAD]	Grants; Matching Grants & Counterpart financing	Agricultural value chain development	Case by case basis	<a href="mailto:info@avdp.org.sl">info@avdp.org.sl</a>
7	International Finance Corporation [IFC]	SLPCP Business Grants	25 agro processing SMEs	\$1.3 million	<b>Moses Alex Kargbo</b> 13 Howe Street Freetown, Sierra Leone Tel: +232 78 874600 <a href="mailto:mkargbo@worldbank.org">mkargbo@worldbank.org</a>
8	Sierra Leone Agribusiness Dev. Fund (SLADF)	Grant /matching funding	Agribusiness development	\$500,000	37 Siaka Stevens Road P O BOX 100 Freetown, Sierra Leone TELEPHONE +232 30 444 142/444 104 Email: <a href="mailto:sladf@kpmg.com">sladf@kpmg.com</a>
9	UK Aid [Salone Invest]	Prosper Salone Grant	agriculture, fisheries, manufacturing and tourism.	undisclosed	<a href="mailto:enquiries@investsalone.com">enquiries@investsalone.com</a>

10	UNIDO Sierra Leone	Grants in selected value chain	Cassava, Cocoa & Palm Oil sector	\$1,000,000	IOM building 18A New Signal Hill Road Freetown <b>Email:</b> office.sierraleone@unido.org <b>Tel:</b> +232 78 350506; +232 78 849810; HQ: 81545
11	USAID funded West Africa Trade & Investment Hub first co-investment project	Grants funding	To increase access to finance	\$37 million [5 countries]	Olga Balangala olga@beaninsider.com
12	UNCDF Sierra Leone	e-Grants.	Cross cutting sectors	undisclosed	c/o UNDP 55 Wilkinson Road Freetown, PO Box 1011 <a href="tel:+23299289955">+23299289955</a> Wycliffe Ngwabe wycliffe.ngwabe@uncdf.org
13	UNDP Sierra Leone	Grants. GEF Grants	SME Producers and Traders	\$3 million through AfCFTA	Fourah Bay Close Main Motor Road, Wilberforce Freetown Tel: +232 78 135 152 Email: <a href="mailto:registry.sl@undp.org">registry.sl@undp.org</a>
14	World Bank Group	Grants	Non-mining SMEs	\$40m for SMEs investment and economic diversification	Moses A. Kargbo +232 76 345930 mkargbo@worldbank.org
15	Welt Hunger	Grants	Agricultural productivity Coffee, Cocoa & Cashew	Euro 3,552,178 for 2019-2023	Country Director Deutsche Welthungerhilfe e.V. 32 D Wilkinson Road Freetown Tel. +232 (0) 78 12 49 99 jochen.moninger@welthungerhilfe.de <a href="http://www.welthungerhilfe.de">www.welthungerhilfe.de</a>

## 2.8 Other types of funding sources

### *African Business Angel Network (ABAN)*

The World Bank is supporting the development of Angel investors and networks in Sub-Saharan Africa. The African Business Angel Network (ABAN) is a pan African non-profit association founded to support the development of early-stage investor networks across the continent and to get many more (early stage) investors excited about the opportunities in Africa.

ABAN seeks to promote a culture of Angel investing across Africa. There are networks emerging across the continent, but there is yet a conversation in place that connects them. There is a sincere need to collect/develop best practices and to make this knowledge available. To create a resource and contact point for promoting new networks and/or supporting other stakeholders looking to get involved in building the ecosystem. Also, to engage private sector investors and to offer some guidance on investing into African borne innovations. In turn, ABAN seeks to further build the industry and improve the climate for startup entrepreneurs.

ABAN began as a consortium of independent investor networks including the Lagos Angels Network (LAN), Cameroon Angel Network (CAN), Ghana Angel Network (GAIN), Venture Capital for Africa (VC4Africa), Silicon Cape and supported by the European Business Angel Network (EBAN), the LIONS Africa Partnership and DEMO Africa. In the interest to connect these African networks, support new investors and new networks, to maximize their impact and to connect African investors to their global counterparts, the need was established

to form a pan-African association of angel investor networks and other early-stage investors – hence the creation of ABAN.

### *Diaspora Funds*

Mobilization of diaspora investments is possible through the issuance of a diaspora bond, a retail saving instrument marketed to the diaspora. A developing country government (or a reputable private corporation) can tap into the wealth of migrants by selling such bonds even in small denominations (from \$100 to \$1,000). The bonds could be sold in larger denominations to wealthier migrants, diaspora groups, or institutional investors. Diaspora bonds can tap into the emotional ties of the diaspora—the desire to give back—and potentially help lower the cost of financing for development projects in their country of origin. Since the diaspora savings are mostly held as cash “under mattress” or in low-yielding bank accounts in the diaspora host countries, offering an annual interest rate of 3 to 5 percent on diaspora bonds could be attractive.

Diaspora bonds have several advantages, both for the issuer and for the emigrant who buys the bond: through retailing at small denominations, ranging from \$100-\$10,000, issuers can even tap into the wealth of relatively poor migrants. In certain cases, a confident issuer could issue in local currency terms as migrants may have local currency liabilities in the issuing country and hence less aversion to devaluation risk. Migrants are expected to be more loyal than the average investors in times of distress, and they might be especially interested in financing infrastructure, housing, health, and education projects. A diaspora bond would offer a higher interest rate than the rate diaspora savers earn from bank deposits in their country of residence.

The African Diaspora could be developed as an important source of Angel financing and mentoring support for new and young African entrepreneurs – in much the same way that Endeavor originally started out as providing support to Latin American entrepreneurs, based upon Latin Americans living in the United States.

## CHAPTER 3 HOW TO ACCESS CREDIT

Access to finance allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thereby ensuring their competitiveness and that of the country. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment. Despite their dominant numbers and importance in job creation, SMEs traditionally have faced difficulties in obtaining formal credit or equity. In Sierra Leone maturities of commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment.

Meanwhile, access to competitive interest rates is reserved for only a few selected blue-chip companies while loan interest rates offered to SMEs remain high. Such practices have crowded out most private sector borrowers and increased the cost of capital. SME Competitiveness brings out the impact of SME performance on inclusive economic growth and are regarded as the missing link to sustainable economic growth and are fundamental to addressing inequality and ensuring greater inclusiveness. Country specific constraints for SMEs to connect, compete and change is based on the fact that traditional commercial banks and investors have been reluctant to service SMEs for a number of well-known reasons.

- SMEs are regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates.
- Access to finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Without finance, SMEs cannot acquire or absorb new technologies, nor can they expand to compete in global markets or even strike business linkages with larger firms.
- Small and medium-sized enterprises (SMEs) are important agents of development throughout the world. Promoting a country's SME sector plays a crucial role in maintaining high employment and income generation and is therefore critical for achieving sustainable growth.

### 3.1. How to Access Finance through Commercial Banks

Sierra Leonean banks and other financial Institutions offer financing for various needs ranging from Start-up financing, Cash flow support, Contract financing, Machinery /Equipment Financing or Expansion facilities. Financing for large projects is funded with a mixture of debt and equity from commercial banks or financial entity. However, Commercial bank loans, attracts very high lending rates which makes commercial loans expensive and unattractive to SMEs. Most commercial banks limit their activities to short and medium-term finance which is also not very good for SME operations.

#### 3.1.1 Requirements for SMEs to Open an Account in a Commercial Bank

1. Select Bank Account Type. Different types of bank accounts help you achieve different goals.
2. Choose the Right Bank for your Account. [You can open a bank account at many different institutions mentioned above]
3. Gather the Required Documentation [M&A, Business registration licences, Tax Identification number, Proof of address document, Passport sized pictures]
4. Complete the Application Process.
5. Fund Your Bank Account with an optional amount
6. Start Using Your New Bank Account.

### *3.1.2 How to Access a Short-Term Loan for Financing Working Capital*

SMEs will be required to produce the following documents in order to secure working capital loan from commercial banks:

- Provision of Business Registration Documents [Corporate Affairs Commission (CAC), Federal Communications Commission (FCC) and Office of Administrator & Registrar General (OARG)]
- Moveable or Immoveable Collateral
- Length of Operations
- Loan request amount and repayment period
- Completed Application Form

### *3.1.3 How to Access Long Term SME Financing through commercial banks*

SMEs will be required to produce the following documents to secure Long-Term Loans and sometimes with the additional requirements for short term loan:

- Provision of a Strategic or Business Plan
- Provision of Business registration Documents
- Moveable or Immoveable Collateral
- Length of Service in Operation
- Cash Flow Projections for a specific period
- Loan Request Amount and Repayment period
- Proof of Collateral Ownership
- Collateral Valuation
- Social Security Certificate
- Tax clearance Certificate
- Financial Statement Audited Accounts

### *3.1.4 Depending of the need of the SME the following additional documents may be required*

- Board Resolution
- Financial Statement [Audited Accounts]
- Management Profile
- Assets Profile
- Feasibility Study Report
- Contract Documents
- Proforma Invoices for Machinery or Equipment
- Shareholders Profile
- Diversification or Expansion Proposal
- Environmental Impact Assessment License

## 3.2 Access to Debt Financing Options

### 3.2.1 Trade Credit

SMEs, like any company, can take credit from their suppliers. However, this is only short-term and, indeed, if their suppliers are larger companies who have identified them as a potentially risky SME the ability to stretch the credit period may be limited.

**How to use Trade Credit:** Trade Credit facility is a short-term offer that thrives on sincerity and trustworthiness. It is an important source of working capital financing for SMEs because it arises when a supplier of goods or services allows customers to pay for goods and services later. Cash is not immediately paid and deferral of payment represents a source of finance. This arrangement effectively puts less pressure on cash flow than immediate payment would make.

### 3.2.3 Community Banks

Community banks play the role of extended financial services to local communities which are not able to access the commercial banks. A community bank is a locally owned and operated as a financial institution. Community banks offer standard banking services to the rural population such as “salary loans, mobile money or money transfers to mobile phones, and local money transfer, and are particularly focused on agricultural loans and support to farmers<sup>5</sup>” and short-term loans (between four to 8 months) with interest similar to the commercial banks’ and above.

They are designed to help development within Sierra Leone by supporting the government’s microfinancing program and by empowering local communities. Businesses receive strong support from a community bank’s advisers who understand the market and often play an active role in financing small scale agricultural projects in villages and communities. The bank also provides ongoing working capital that supports both the business and the broader economy.

**How to Access Finance through Community Banks:** Community Banks are overseen by the Apex Bank, whose mandate is to serve as a central bank for them by offering a central clearing service and performing first level regulatory and supervisory duties as well to the overall oversight provided by the central bank. They are 17 of them<sup>6</sup> as of 2021 and can be found across different regions in the country. SMEs and interested parties must submit a formal request for loan. The banks address the needs of a community by offering loans to small-business owners or personal loans to individuals. Shareholders must be community people and they owned the bank.

### 3.2.4 Financial Services Associations (FSAs)

FSAs in Sierra Leone were established in 2003. They have been operationally self-sufficient and sustainable over the period of their existence. It is owned and financed by the community through subscription of shares. FSAs are established and situated in chieftom headquarter towns in most of the chiefdoms across the Country. FSAs are established at community level and are owned and managed by community members that buy shares in the FSA. In terms of outreach, FSAs operate in non-banked rural communities that would not be viable for many other forms of financial services organizations. It combines the principles of an investment company that focuses on risk capital, financial returns, and shareholder value and that of community finance that focuses on proximity, social capital, user ownership, and outreach to be poorer segments of the community<sup>7</sup>.

**How to use the FSAs:** Applicant must be a shareholder in the FAS. This innovative model offers financial support at a lower cost and potentially sustainable solution for rural environments that are initially unattractive to formal financial institutions.

**What are the services offered to SMEs?:** The range of services offered by FSAs is quite limited, and the normal loan is adapted to the part of the rural poor population with regular earnings. Therefore, products and lending methodology have been progressively refined to enable FSAs to attract a much wider clientele, increase their local outreach, and ensure that FSAs serve the interests of the poorest.

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<sup>5</sup> <http://www.npcu.org/rfcip.html#>

<sup>6</sup> According to the Sierra Leone Central Bank: <https://www.bsl.gov.sl/Apex%20Bank%20Community%20Banks.pdf>

<sup>7</sup> <http://www.npcu.org/rfcip.html#>

### 3.2.5 Collateral Registry

The Collateral Registry provides a platform for registration or searches assets offered by the borrower as collateral for a loan. The Registry is to improve access to finance, particularly for Micro, Small and Medium Enterprises (MSMEs) and facilitates the use of movable assets as collateral that may remain in possession or control of the borrowers and thereby improve access to secured finance. The existing legislation provides for the broadening of the scope of the collateral registry to include the registration of encumbrances in immovable assets and to provide for lenders who are not licensed or supervised by the central bank to be able to register their security interests.

Movable assets are the main type of collateral that MSMEs can encumber to obtain financing. Given opportunities in the agribusiness sector the Collateral Registry regime allows farmers and entrepreneurs to unlock significant sources of capital with assets that would otherwise not be looked at by lenders as potential collateral.

**How does the Collateral Registry Operate?** The Collateral Registry allows lenders to better assess the status of the loan applicant's assets and its potential priority as against other security interests. Before taking a security interest in the equipment the borrower offers as collateral, the lender should search the Collateral Registry to make sure no other lender already has a security interest in that collateral.

**Benefits of the Collateral Registry to SMEs:** The benefits of the collateral registry include enabling businesses to leverage their assets to obtain credit for growth, improve assets liquidity especially short-term assets, and allow asset diversification as well as to reduce cost and promote prudent lending.

### 3.2.6 Credit Unions<sup>8</sup>

Credit Unions in Sierra Leone started some 10 years ago and presently there are 28 credit unions in the country. There is a National Cooperative Credit Union Association and the Credit Union system delivers greater financial inclusion in Sierra Leone by enabling underprivileged people to have access to financial services by creating the enabling environment or conducive avenue to encourage daily savings. Such Credit Union are not for profit but provides access to credit facilities for its members at low interest rates.

**How does the Credit Union system Operate?** Like banks, credit unions accept deposits, make loans and provide a wide variety of other financial services. It is a members-owned and cooperative institutions which provides a safe place to save and borrow at reasonable rates.

**How to get Loan from Credit Union:** Credit union loans often attracts low rates and fees, which results in a lower overall cost of borrowing. As an additional benefit, it can be easier to get approval for a loan through a credit union than other lending institutions. SMEs must join the credit union, make you regular contribution and when the need arises you can apply for a loan.

### 3.2.7 Leasing

Leasing assets rather than buying them is often very useful for an SME as it avoids the need to raise large capital. However, leasing is only really possible on tangible assets such as property, machinery, etc.

**Benefits of Leasing to SMEs:** This enables SMEs to confidently acquire a business asset it needs to operate efficiently and grow. There are two preferred frameworks: Hire Purchase which allows the business to benefit from the immediate use of an asset on an agreed term, while paying the cost and charges in instalments over a period. The second option is operating Lease, which is suitable if the SME does not need the equipment for its entire working life.

**How does Leasing Operate:** Lease Finance allows SMEs to obtain equipment and capital goods even when they lack the credit history or collateral to access traditional loan products. Generally, Leasing products are offered by individuals, leasing companies or private leasing companies.

## 3.3 How to access financing through microfinance institutions

The financial sector in Sierra Leone has 13 microfinance institutions (MFIs) and they are a key financial service provider, particularly in rural areas. The most importance need now for MFIs operation is the government to

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<sup>8</sup> Much more info is available here: <https://www.naccuasl.org/>

support the rural operations of microfinance institution is to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidies, and high-delinquency loan programs. Microfinance Institutions are important because they provide resources and access to capital to the financially underserved, such as those who are unable to get checking accounts, lines of credit, or loans from traditional banks. Microfinance helps them invest in their businesses, and as a result, invest in themselves.

### *3.3.1 How to access SME financing through Ecobank Microfinance*

Business Loan is an all-purpose loan, offering flexible repayment plans and the option to access additional funds after repayment over time. So, whatever you're financing, it's easy to lean on the Institution. Unlike formal commercial banks this procedure is simple as they offer smart inclusive banking to Low-income individuals. SMEs are required to provide the following:

- Open an Account with an ID and proof of address
- Open the Account with a credit amount
- The freedom to borrow and pay back slowly
- No tangible Collateral Required
- Purpose of the loan need not be disclosed
- Loan extension available

### *3.3.2 How to Access SME financing through Other Microfinance Institutions*

The one of purposes of this type of microfinance is to provide financial services for SMEs and to people generally excluded from traditional banking channels because of their low, irregular and unpredictable income. Generally, a major clientele of Microfinance Institutions are borrowers belonging to the informal sector and small businessmen or entrepreneurs. The loan which can be available under microfinance are usually the issued without collateral.

These Institutions have provided loans to women entrepreneurs who are not served by other financial institutions, giving them the opportunity to start their own businesses in their local communities. Borrowers of Microloans are not required to provide collateral and can reimburse their loans on a weekly basis against competitive interest rates. Through this initiative MFIs help the government to achieve its goal of developing a feasible and fully functioning microfinance sector. These Institution offer microloans along with other services and provide small enterprise loans to entrepreneurs who are seeking to expand their business.

SME owners and entrepreneurs can access microfinance loans for a variety of reasons to improve their business and living conditions. The step-by-step common procedure to access microfinance loans is follows:

- Visit of Loan Officer or personal enquiry to a microfinance institution
- Assessment of Personal Circumstances to determine eligibility
- ID and Physical Address
- Determine the type of Loan- SME working capital support or Agricultural
- Getting the Loan Approval



## **EXAMPLE OF A LOAN OPPORTUNITY FORM FOR A MICROFINANCE INSTITUTION**

### **LAPO Microfinance**

“*SME Loan*” is a credit product designed specifically to support Small and Medium Scale Enterprises (SMEs) operators in Sierra Leone. Irrespective of the sector your enterprise is operating. LAPO Microfinance is willing to support you with a credit facility up to Le250,000,000 to expand the enterprise. Sierra Leone SMEs can now maximize their potentials with the SME Loan for the expansion of their businesses.

#### **Documentation Required**

- Loan application letter
- Duly completed application form
- 2 guarantors
- A valid means of ID (national ID, driver’s license, voter’s card or international passport)
- Current utility bill
- 4 recent passport-size photographs

#### **Grant Funding Range**

- Facility Amount Le250,000 -Le 500,000,000
- Methodology: Individual
- Duration: 12 months

#### **Benefits**

- No collateral
- Access to funds for your business expansion
- Flexible repayment structure
- Training on basic financial management, business planning and customer relations
- Expert financial advice available when you need it

#### **FAQs on Grant**

Q: Do I need collateral before I can access this loan?

A: No, you do not need collateral before you can access the loan, once you can provide 2 guarantors that can stand for you in case of default.

Q: Can I reduce the repayment duration?

A: Yes. You can reduce the repayment duration to the number of months that suits you.

Q: Is there any insurance on the loan?

A: The loan is insured against death, fire in the business place or disability

For more information about the SME Loan, kindly contact us on: +23230900602, +23230900606, +23230900690, +23230900699 or +23230900600

### 3.4 Government of Sierra Leone Low Interest Loan Platform for SMEs

The government is reintroducing a national micro credit scheme to be executed by the Ministry of Trade and Industry using NGOs, Microfinance Institutions, Commercial Banks and Community Banks as implementing partners. The design conforms to all principles of a sustainable micro-credit scheme. It has launched Le 100 billion fund for SME development, during the four years – from 2020 to 2023 targeting 50,000 households with special focus on women and youth.

#### 3.4.1 The Munafa Fund to Support SMEs<sup>9</sup>

The fund is to support micro, small and medium-sized businesses that are struggling to gain access to finance for growth and expansion, which is desperately needed if the country is to address its massive youth employment and growing abject poverty.

As a strategy to promote economic livelihood and develop the Private Sector the Government of Sierra Leone through the Ministry of Finance has allocated 100 billion Leones over the 4 year period (2020-2023) to support SMEs Operations, its growth and Competitiveness.

The Munafa Fund Programme is implemented by SMEDA, that also collaborates with Bank of Sierra Leone in the implementation process. Financial Service Providers – (FSPs) will competitively apply to participate in the program and will have the right to borrow from it for the purpose of on-lending these funds to MSMEs in accordance to the strict requirements set out in Munafa manual. The MFIs must be licensed and regulated by a relevant regulatory body, such as the Bank of Sierra Leone, the Apex Bank and the department of cooperatives.

#### Eligibility Criteria for Munafa Fund

Although FSPs have their own eligibility criteria that they use when lending to MSMEs, below are the general guidelines that should be used when using funds from this programme for on-lending to MSMEs.

- Must be a Sierra Leone citizen;
- Must be at least 18 years but not more than 65 years old (persons older than 65 years may be required to create a legal entity recognized by laws of Sierra Leone);
- Should have been in business for at least six months;
- Start-up enterprises may be considered on a case-by-case basis, especially those that present viable business ideas;
- Should possess a valid national identification document (i.e., passport, driver's license, national ID, voter's card, etc.);
- May have an outstanding loan with the FSP or other FSPs, as long as they may have the capacity to repay and a good credit history;
- Business legal status may include: sole proprietorship; partnership; and limited liability company;
- Business should be registered with an appropriate government body, including: the district council; corporate affairs commission; and the office of administrator and registrar general;
- Be registered with SMEDA;
- Business owner(s) must have a fixed abode; and
- Preference shall be given to businesses in value addition sectors, including: manufacturing; agro-processing; tourism; food processing; transport; and fisheries.

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<sup>9</sup> Please check the Munafa Operations Manual for more info: <https://smeda.gov.sl/wp-content/uploads/2021/03/SME-Reg.docx>

SMEDA shall encourage partner FSPs to develop and provide appropriate financial products to MSMEs, including provisions for grace period for businesses that require adequate time before they can generate cash flows for loan repayments.

### *3.4.2 Specific Agribusiness Sector SME Financing*

SCADeP is a US\$ 55 Million project being implemented by the Government of Sierra Leone, with credit funding of U\$ 40 million from the International Development Association (IDA) of the World Bank and a grant of US\$15.0 million from the UK Department for International Development (DFID) to support the feeder roads component. The project targets four main commodity value-chains rice, cocoa, oil palm and poultry. However, even though the primary focus is on these four value chains, the project can support other value chains that demonstrate commercial viability and integrate smallholder farmers in the intervention areas.

In addition to financing, the project supports advisory services or technical assistance to support priority non-financing constraints identified by value chain actors. To promote smallholder commercialization by fostering productive business linkages between smallholder farmers and selected agribusiness firms and other commodity off-takers in Sierra Leone. SLADF targets eligible agribusinesses, facilitating their access to competitive value chain finance tailored to their needs and required for the provision of productivity enhancing services and market access to out-growers.

This can be achieved through support for interventions aimed at improving agricultural productivity and access to markets as well as development of inclusive smallholder farmer-agribusiness linkages in Sierra Leone.

**Matching Funds:** The interested Company should (including 3rd parties such as co-investors or banks and other lenders) provide matching funds of at least 50% of the total cost of the business idea. This is to demonstrate risk sharing between the organization and SLADF.

**Value Chain Profile:** Cocoa, rice, poultry, oil palm are the core focus. However, other value chains can apply, provided they demonstrate impact on out growers.

**Fund Limit:** The total funds requested must not exceed USD 1,000,000.

**Out grower Model :** Out growers model proposal must demonstrate that the project involves the development and growth of existing or proposed out grower scheme/off taker arrangements.

### *How to Apply*

#### Concept Note Stage

The first stage involves the submission of a Project Concept Note (PCN), which is a summary of your proposed business idea. The PCN template as well as Guidance Notes will be available on the SLADF website (<http://www.sladf-sl.org/application>). Applicants are expected to register on the website in order to access the template. The first stage is submission of an initial application form where the applicants write about their business ideas and about their company on a template provided. The Fund Manager (FM) then assesses all the eligible concept notes.

#### Business Plan Stage

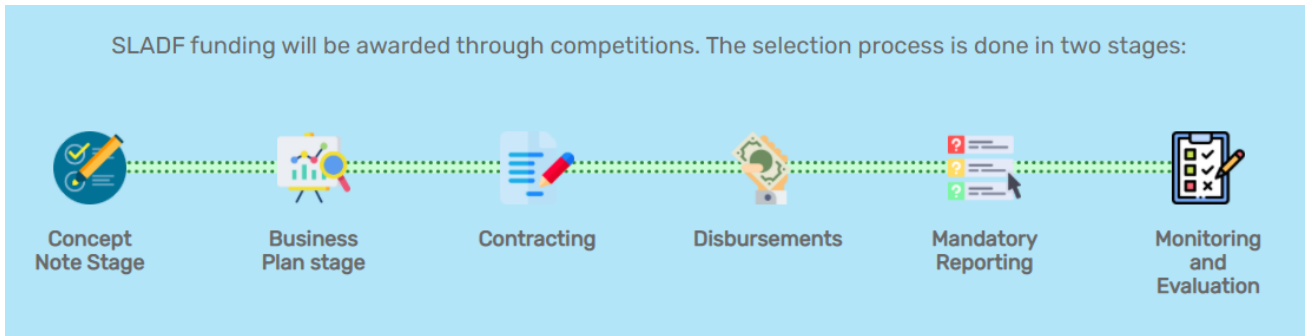
The second stage involves the submission of a detailed business plan as well as financial and development impact projections. Organisational Assessment Visits: SLADF engages with and visits the shortlisted applicants to understand their business model and innovations better and to carry out an organisational assessment of the applicant's business.

#### Contracting

The contracting phase is rigorous and formalises obligations and deliverables committed to by the grantee so to meet all contracting terms for disbursement of funds.

#### Disbursements

Disbursements are actualised by following disbursement schedules agreed at the time of contracting and are dependent on key deliverables being met at each stage of the project.



Source: 2020 The Sierra Leone Agribusiness Development Fund<sup>10</sup>

<sup>10</sup> <https://www.sladf-sl.org/application>

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