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Original Paper

Assessing the Constraints on the Development of a Full-Fledged Microfinance Market in Sierra Leone

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Abstract

Sierra Leone faces a significant poverty challenge, with financial inclusion recognized as a critical factor in economic growth and poverty reduction. Microfinance has emerged as a pivotal tool in empowering the economically disadvantaged by promoting sustainable economic activities. Despite the presence of microfinance services since the early 2000s, the sector struggles with growth. This study explores the barriers to expansion within Sierra Leone's microfinance market, focusing on the perceptions of various stakeholders, including NGOs, community banks, FSAs, PFIs, and commercial banks.

The findings reveal that the sector is hampered by an inadequate regulatory framework, insufficient capital, and high operational costs. Moreover, client-side challenges such as the use of collateral for loan access, the grace period for loan repayment, and limited microfinance coverage also restrict service accessibility. Despite these barriers, microfinance clients have reported increased incomes and business expansion.

This research suggests that legislative attention is crucial and recommends the establishment of a robust regulatory policy framework to support the sector's growth. Implementing these recommendations could significantly enhance the development and reach of microfinance services in Sierra Leone.

Keywords: Microfinance, Financial Inclusion, Economic Development, Poverty Alleviation, Regulatory Framework, Sierra Leone.

1. Introduction

Microfinance has emerged as a pivotal tool in economic development, particularly in addressing poverty and enhancing financial inclusion. This form of financial service is critical in supporting micro-enterprises, women, and agriculturalists, among other underserved groups. By providing sustainable financial resources, microfinance institutions (MFIs) aim to facilitate income generation and reduce poverty, a concept supported by Baumann (2001).

The inception of microfinance was primarily to address the lack of access to financial services and savings facilities for the poor. As development organizations, MFIs strive to meet the financial needs of unreached markets, thereby achieving broader development goals such as poverty reduction, empowerment of disadvantaged groups, job creation, and support for small businesses (Ledgerwood, 1999).

Research, including a World Bank study on lending for microenterprise projects, highlights three primary objectives of microfinance: creating employment and income opportunities through microenterprise development, enhancing the productivity and incomes of vulnerable groups, particularly the poor and women, and reducing rural family dependence on single-crop farming by diversifying income sources (Bennett, 1996).

Despite its introduction over two decades ago, the widespread adoption of microfinance models gained momentum in the early 1990s. By the mid-1990s, these programs became a significant component of strategies aimed at promoting micro-enterprise development and poverty reduction in developing countries (Colin H, 2006).

Defined by the United Nations in 2005, microfinance encompasses financial services such as credit, savings, and insurance. These services enable individuals to borrow, save, invest, and protect their families against risks, thus contributing not only to credit availability but also to savings that build assets for the poor (Ukeje, 2005).

In Sierra Leone, various microfinance institutions, ranging from cooperative-based entities like A Call to Business and BRAC to conventional banks such as Ecobank Microfinance, have played substantial roles in the nation's economic landscape by creating jobs, training entrepreneurs, and providing livelihoods for many low-income households. Despite these efforts, the growth of the microfinance sector in Sierra Leone remains unsatisfactory, prompting a need to evaluate the constraints hindering the development of a fully-fledged microfinance market. This study aims to identify and analyze these impediments to better understand how to enhance the sector's effectiveness and reach in Sierra Leone.

2. Literature Review

This section elucidates key concepts and definitions relevant to this study, aiming to prevent misunderstandings and enhance comprehension among readers concerning the foundational ideas underpinning this research.

The Concept of Microfinance: Expanded Overview

Microfinance, as a financial sector practice, involves offering a variety of services to those typically underserved by traditional financial institutions. These services are not limited to small-scale loans but also encompass savings accounts, insurance, transfer services, and pensions, aimed primarily at micro-entrepreneurs and small businesses that face barriers to accessing conventional banking services. High transaction costs and the perceived risks associated with lending to small, often informal businesses contribute to their financial exclusion.

Historical Context and Evolution: Microfinance has evolved significantly since its more formal introduction in the 1970s with the pioneering efforts of the Grameen Bank in Bangladesh. Initially focused on providing small loans, the sector has expanded to include a comprehensive suite of financial products intended to meet the diverse needs of its clientele. This evolution reflects an increased understanding of the financial complexities facing low-income populations.

Institutional Framework: According to Robinson (2001), microfinance institutions operate under a model that aims to be financially sustainable while serving economically disadvantaged populations. Women's World Banking, a global network of financial organizations, emphasizes that the primary role of these institutions is not only to provide financial services but to do so in a manner that supports long-term poverty alleviation and economic integration of the poor (Mukama, 2005).

Service Spectrum and Impact: MFIs strive to offer services that are both impactful and sustainable. This dual focus is crucial because while the primary mission is to reduce poverty, the sustainability of the institutions themselves is necessary to ensure they can continue to serve their communities long-term. Services typically include:

- Credit: Small loans, often without the traditional requirements for collateral, which micro-entrepreneurs can use to invest in their businesses.

- Savings: Facilities that allow clients to deposit small amounts safely, helping to build a culture of saving and financial security.

- Insurance: Products tailored to the needs of low-income clients, offering protection against various risks such as illness, crop failure, or business disruptions.

- Payment Services: Increasingly, MFIs are providing money transfer services, which are crucial for populations that do not have access to standard banking services.

Integration into Financial Systems: One of the significant contributions of MFIs, as highlighted by both Robinson and Women's World Banking, is their role in integrating financially excluded individuals into the broader financial system. By mobilizing savings and channeling funds from commercial sources, MFIs not only help reduce poverty on an individual level but also contribute to the financial health and stability of the regions they serve.

Sustainability and Challenges: While MFIs aim to be self-sustaining, they face numerous challenges, including managing the high costs of transactions and maintaining profitability without compromising their social objectives. The balance between financial sustainability and social impact continues to be a central theme in the development of microfinance policy and practice.

In summary, microfinance serves as a critical bridge for economic inclusion, providing financial tools and resources to those who would otherwise remain outside the formal financial sector. Its development over the decades underscores its adaptability and the ongoing need to refine its models to meet the changing needs of the global poor effectively.

Microfinance Institutions:

Microfinance Institutions (MFIs) play a crucial role in the financial inclusion of populations underserved by traditional banks. These institutions target micro-entrepreneurs and small businesses that operate on the margins of the formal economy. By providing a suite of financial services that cater to the unique needs of these groups, MFIs help bridge the gap in financial services access in both urban and rural settings.

MFIs focus particularly on clients who exhibit some entrepreneurial ability but lack the collateral and credit history required by conventional banks. This approach not only aids individuals but also supports broader economic development by fostering entrepreneurship and job creation.

Loan Recovery: Expanded Overview

Loan recovery is a critical aspect of microfinance, referring to the methods and processes by which MFIs ensure the repayment of loans. Effective loan recovery is vital for the financial sustainability of these institutions and the continuity of their ability to lend. Practices aimed at improving loan recovery include regular follow-ups, restructuring problematic loans, and providing borrowers with support and advice on business management.

Since the 1980s, the field of microfinance has increasingly focused on achieving financial sustainability and extensive outreach, with many institutions moving towards self-sufficiency. This shift is driven by the recognition that long-term impact in poverty reduction is contingent upon the financial health of the lending institutions themselves (Ledgerwood, 1999).

Corruption:

In the microfinance sector, corruption can significantly impede effectiveness and trust. Corruption might involve loan officers creating fictitious loan accounts, diverting funds into personal accounts, taking bribes for favorable loan terms, or outright theft of funds. Such activities not only undermine the financial integrity of MFIs but also betray the trust of the communities they serve. Combating corruption is crucial for maintaining the credibility and operational viability of microfinance services (Transparency International, 2018).

Collateral

Collateral serves as a security measure for loans, wherein borrowers pledge assets to secure a loan agreement. In microfinance, the types of collateral can vary significantly and may include not only tangible assets like land or livestock but also less traditional forms such as group guarantees or future earnings. The key characteristic of effective collateral is its marketability—assets pledged must be easily sellable at a stable value if the borrower fails to meet the loan terms. It is also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset (Gima, 1996). According to (Chan & Thakor, 1987), security should be safe and easily marketable. Marketable securities with the exception of land and building keep on losing value to globalization where new technology keeps on developing therefore lender should put more emphasis on it.

Group Lending With Joint Liability

In the late 1970s, the success of Grameen Bank in Bangladesh (Bank for the poor) introduced a practical solution for the problem of adverse selection and moral hazard: that is, group lending with joint liability which is now known as a theory of social liability or peer lending. Indeed, the solution is the idea that instead of offering individual liability contracts, the bank lends to a group of borrowers who are jointly liable for each other's loan. So, if one member of the group defaults on his or her debts, other members in the group must repay the bank the portion of the defaulting member's loan in addition to their own liabilities. The group loan factors affecting the microfinance development in Vietnam contract differs from an individual loan contract, in that group members are now liable for their fellow member's loan. Therefore, safe borrowers will not wish to match with risky types since the latter are more likely to default on their loan, leading to a higher expected joint liability cost. Group lending with joint liability overcomes the problem of moral hazard by passing the monitoring activity on to the borrowers themselves. The group leaders will monitor their peers and will pressurise those individuals who want to misuse their loan to act accordingly. This can be successful because group members know each other very well in advance before the date of borrowing and their information can be easily available which will save the expense lesser than it would be for the lender and increase the quality of borrower. Moreover, when financial institutions made loan to the group, the fixed cost transaction would be lower than if they made individual loans.

Together, these elements illustrate the multifaceted nature of microfinance and highlight the operational strategies and challenges inherent in extending financial services to underserved populations. Each component—from the structure of MFIs to the mechanisms for ensuring loan repayment—plays a critical role in the broader goal of financial inclusion and poverty reduction.

The Law of Diminishing Return and Profitable Microfinance

In economics, diminishing return law plays an important role in explaining a firm's behavior. It states that if other factors are fixed in supply and successive units of a variable factor are added to them, then the extra output derived from the employment of each successive unit of the variable factor must, after a time, decline though they may increase prior to that and this may hold for revenue as well as output. In finance, the law of diminishing return can be expressed as when more capital is added, the marginal return tends to increase to a point beyond which any additional capital could lead to a lower marginal return. Applying this theory into microfinance can lead to a belief that small businesses seem to have higher marginal return than large businesses because they lack access to capital and any additional capital could be in the first stage of increasing marginal return, while large businesses seem to be in the second stage of decreasing marginal return.

Micro and Small Enterprises

There exists a range of definitions for MSEs, but for the purpose of this research, MSEs refer to a productive activity involved in either the production or distribution of goods and/or services, mostly undertaken in the informal sector.

Economies of Scale

This implies lower average cost as the result of mass production of goods. In finance, it can be understood as; when loans are large and when the number of borrowers increases, the average lending cost decreases. This theory on the one side encourages lender to make large loans rather than a number of small loans to reduce cost. On the other side, it suggests that if lenders can make some loans in the same ways, the average transaction fixed cost also decreases. Therefore, to expand quickly and keep the costs of handling each loan application low, financial institutions may offer simplified and standardized loan contracts but by so doing can lead to a fall -off in portfolio quality because of economizing the resources needed to select the best potential borrower. To find out the solution, financial institutions have been interested in finding new lending methodologies to the economies of scale and increase the quality of borrower such as making use of advantage of new lending technologies such as Group Lending Methodology.

Microfinance Policy

In 2002, microfinance institutions were a small sector in Sierra Leone, with some providers experimenting various models and approaches prepared for the World Bank, under the direction of Consultation Group to Assist the Poor (CGAP). This report reviewed microfinance performance in Sierra Leone, while placing this experience in a comparative international context.

Types of Services and Products Offered By Microfinance Institutions

Microfinance offers both commercial banking and microfinance services and products to its customers. The microfinance services provided are mainly in the form of loans and deposit. Loans issued are of different types and they include small and medium enterprises loans, corporate loans, personal loans, salaried workers‟ loans and pensioner’s loans. Deposit include savings account, business account, deposit and short-term deposit.

The Link Between Microfinance And Poverty Alleviation

Microfinance was initiated to meet various objectives. The commonly mentioned objectives include: poverty alleviation and improved living standards, providing financial services to the poor, empowering women, and the development of smaller business sectors as a means of achieving high standards and reducing market failure (Chijoriga & Cassimon, 1999).

Empirical evidences and surveys give mixed results on the performance of Microfinance schemes. In some cases, bad stories have been reported, yet there have been success stories. In other cases, the reasons for failures or successes have not been well documented.

Studies by Mosley (2001), showed that, linking Microfinance with other interventions such as poverty alleviation often complicates the functioning of Microfinance by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation.

Most sustainability indicators focus on the Microfinance as a profitable institution (loan repayment, profitability, and degree of subsidizations). Thus, for the Microfinance program to meet the microfinance best practices, as given by Consultative Group to Assist the Poor (CGAP), and be financially sustainable, it has to regard itself as a business venture. Because of this and especially in the rural areas, very few people qualify for a business loan.

3. Methodology

This research utilized a mixed-methods approach, employing both quantitative and qualitative analyses to comprehensively investigate the microfinance sector in Freetown, Western Urban District. The study focused on two units of analysis: group and individual. The group analysis compared different categories of microfinance institutions (MFIs) involved in the study, while the individual analysis concentrated on the managers of these institutions.

Variables of Interest: The primary variables examined included demographic factors such as age, gender, level of education, marital status, and income of the respondents. The study also investigated key operational variables including the factors impacting the growth of MFIs, the types of services provided, and the target groups served by these institutions. The results were quantified in terms of the prevalence and significance of these variables within the sample population.

Data Collection: Data collection was twofold; primary data were gathered using structured questionnaires administered to both managers and selected employees of the MFIs. Secondary data were sourced from published documents available from BRAC Sierra Leone, the Ministry of Finance and Economic Development, the Ministry of Trade and Industry, the Bank of Sierra Leone, and various international organizations.

Data Analysis: The quantitative data collected were analyzed using frequency distributions and percentages to identify the most common factors influencing MFI growth, the range of services offered, and the demographics of the groups targeted by these services. This data was presented in the form of frequency tables, pie charts, and bar graphs to illustrate the relationships among the variables studied.

Interpretation and Reporting: The data interpretation involved providing written explanations of the statistical findings, drawing conclusions from the data, and formulating recommendations based on the analysis. This process was aimed at elucidating the dynamics within the microfinance sector in Sierra Leone and offering insights into potential areas for policy and operational improvements.

This methodology ensured a robust framework for understanding the complexities of microfinance operations in Sierra Leone, providing a clear view of both the macro and micro factors that influence the sector's development and sustainability.

4. Presentation, Interpretation and Analysis of Results

This section presents data as they have been collected and finally analyzed. Data in this study were presented and analyzed according to the research objective.

Gender Distribution of the Respondents

The study examined the constraints in the development of a full-fledged Microfinance market in Sierra Leone to which Men and women understand and use the services offered by microfinance institutions in Sierra Leone as shown in Figure 1 below.

The findings of this study revealed that male owned businesses grow slowly compared to female owned businesses. The level of assets and number of employees were different among these two groups. Different motives of owning and running businesses were also observed among the groups. In actual fact, females were observed to be risk averse compared to males. Due to risk averse, it is clear that the returns of female owned businesses were also expected to be low. The low level of growth of males owned businesses also recount to my theoretical base which sees males in developing countries as a disadvantaged group which are not groomed for opening and running business. In this regard, the social relationship explains growth motives of the business owners. It is from this point that the social environment where the females growth in developing countries can explain the differences in growth performance of their enterprises. Despite the fact that both females owned business and males owned business experienced microfinance interventions; females owned business demonstrated higher level of growth than males owned business.

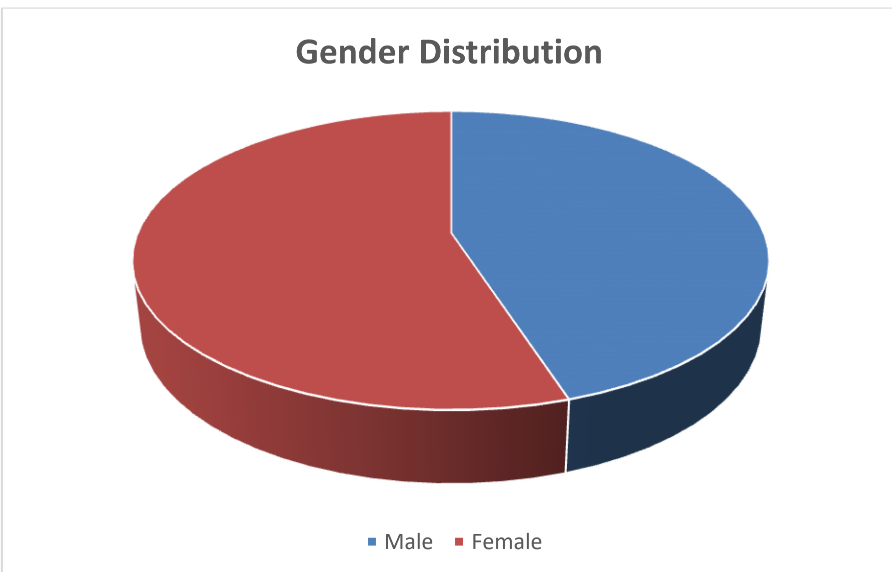

Figure 1. Pie chart showing Gender Distribution of the Respondents

It's evident that about 55% of the respondents were found to be females and 45% were males. This is due to the following reasons: - MFIs operate with women than Men. Most of the men are employed in informal and formal sectors and they do not have time for entrepreneurship, but women are used to stay at home so its possible for them to engage in entrepreneurships in order to improve the livelihood. This confirms the policy of women empowerment.

Nature of Microfinance Institutions Customers

In order to know the nature and categories of clients of Microfinance Institutions I examined a number of respondents in the study area. These included sex and educational level. The finding shows that, women are the major borrowers making up 55% of the value of Microfinance Institutions while men accounted only 45%. Due to the lack of education, many women are not able to secure jobs. As a result, women do engage themselves on self-employed activities which necessitate them to borrow from different financial institutions so that they can run their businesses. (See Table 1 below.)

Table 1. Customers interviewed (by Gender)

Gender	**Frequencies**	**Percentage**
Male	54	45%
Female	66	55%
Total	**120**	**100%**

Educational Level of Clients

Another characteristic that was considered was education level, due to the fact that certain level of understanding is required for one to access and analyze the relevance of loans towards poverty reduction. Again, most of the real poor people are illiterate or with low level of education. As a result of that, I used this characteristic to determine whether the real poor met with the banks services, particularly loans facilities. I also obtained the information concerning the education level of the Microfinance customers through documentary review whereby using different Microfinance Institutions documents to get this information such as loan application forms as well as opening account forms.

The study revealed that the educational level of clients, especially in terms of financial literacy and business management, was another challenging aspect to sustainability of MFIs in Sierra Leone. In most cases the clients do not have prior exposure to the formal financial sector. They lack necessary skills and know-how required in operating a business.

Issues of importance are to ensure that clients understand the financial liability and loan contract to ensure repayment. Increase in repayments of loans will eventually lead to growth of MFIs in Sierra Leone because the repaid funds can serve as capital for future lending.

An additional constraint to the growth of MFIs in the view of this research is the lack of innovation among the clients. The loans obtained from MFIs in Sierra Leone is mainly utilized for consumption than income generating activities such as hair saloons, tailoring and other small trading activities. This does not really translate in real business growth. In the Rural District the level of education particularly for those who are the implementers of entrepreneurship activities is still very poor. Data in Table 2 below show 38.3% of respondents stopped at primary school level.

Respondents who do not know how to read nor how to write their names forms 7.5%. While 22.5 % of the respondents are secondary school leavers. Furthermore, 31.7% have got college education and 38.3% stopped at primary level. This percentage of college education falls within teachers who normally access teacher’s loan to settle domestic and/or family problems.

This implies that the level of awareness of the respondents especially those who are taking entrepreneurial activities are very low in Rural District. This serves as a great challenge to MFIs in Sierra Leone. But point to note is that despite the low level of education, there are still people who are doing well in application and implementation of financial services.

Table 2. Respondents levels of education (N=120)

Categories	**N**	**Percentage**
Primary level	46	38.3%
Secondary level	27	22.5%
Colleges level	38	31.7%
Non level	9	7.5%
Total	**120**	**100%**

Source: Field work 2022

The analysis further shows that customers with no formal education accounted for only 7.5% from all the customers interviewed. Furthermore, customers with formal education can easily understand the availability of loans and can follow instruction toward loans. Findings also reveal that, those educated people with post-secondary education have more awareness and understanding of loans and when it comes to loans application, they find it unprofitable because of the interest rate and hence they don't apply for it.

Respondents' Working Experience

The researcher wanted to know distribution of working experience in order to be sure of the quality of responses thus satisfy with the inputs made to the research. The distribution Table 3 below shows that most of the respondents' working experiences range between 11 and 15 years, which is adequate experience to be able to provide relevant responses to the research. As indicated in Table 3, the majority of the respondents follow to a class of working experience between 11 and 15 years which is 40% of all respondents. Another group of the respondents with working experiences range between 6 and 10 years which scored 25% of total respondents. The group which seems to have potential to the study is the working experiences between 16 and 20 years which marked a total of 10% of all respondents. The group with working experience between 1 and 5 years make up 15% of the respondents and the rest is the group of 21 years and above which represents 10% of the respondents.

Table 3. Respondents working experience

Year	**Frequency**	**Percentage (%)**
1-5	18	15%
6-10	30	25%
11-15	48	40%
16-20	12	10%
21 and Above	12	10%
Total	**120**	**100%**

Source: Researcher, 2022

Performance Trends

Despite the availability of services in some parts of the country, the study revealed that the extent of outreach remains low, compared to the potential demand for financial services. The findings revealed that women account for more than 50 percent of borrowers, particularly in rural based co-operatives. This phenomenon is in line with experiences that women generally tend to be good borrowers. The results from the survey are indicative of problems consistent with the findings from various studies on microfinance sustainability indicated earlier in this research.

Marketing Issues

Lack of information about clients: The study revealed lack of information about clients as one of the challenges experienced by MFI’s. This is a constraint particularly because MFI’s would not be able to provide the much needed products and services without knowing the preferences of their market. This problem is triggered by the lack of market analysis of the targeted clientele in terms of demographics, to determine the needs of each segment of potential MFI’s beneficiaries. Provision of products/services that are not needed by the clients will lead to a mismatch between the demand and supply, rendering the MFI’s inefficient.

Low population density: Sierra Leone is sparsely populated. The majority of the population lives in rural areas where poverty is prevalent. The findings revealed that the low population density and the geographic distances are prohibitive to sustainable microfinance delivery because it requires the service provider to incur additional costs to cover the distance in order to reach and serve the rural poor. The incremental cost incurred to travel long distances between rural and urban areas greatly contribute to microfinance gap, hence limiting outreach and impact. Furthermore, the low population density adversely affects the growth of MFIs in Sierra Leone due to the lack of economies of scale and low concentration of clients, because reaching profitable volumes relative to potential clients will not be achievable. The microfinance providers should not be deterred by distance to reach the poor, they should instead explore the possibility of outsourcing the function of microfinance delivery to established institutions (like community banks and financial services associations) which have nationwide networks to act as their agent or partner to roll out the microfinance services. The cost of travelling to these remote areas will be greatly reduced because the provision of service will be close to the MFIs' clientele's place of economic activity. This will enhance outreach levels.

Regulatory and Legislative Framework

Lack of specific policy and regulatory framework for the microfinance sector was cited by respondents as one of the main challenges facing the institutions. Regulations are necessary because weaknesses in the institutional framework adversely affect the efficiency of MFIs service providers, because in the absence of the MFI regulatory body, it would be difficult to monitor and enact various regulations to ensure efficiency in the microfinance sector. Lack of standardized industry practices constrain the capacity of the sector due to lack of harmony among the microfinance providers. It is commendable, however, to note that on the regulatory front, effort is made to develop the charter for microfinance activities.

Capitalization Issues

Equally important is the correlation observed between lack of funds to lend to clients and clients focus because greater focus requires more funding to reach potential clients.

Operation Issues

There is a positive correlation between high cost and profit performance because the MFIs struggle to break-even, hence influencing the attainment of profitability. Furthermore, high costs also lead to lack of capital to lend to clients because all loan repayments are ploughed back into business to cover the operational costs.

Strategic Issues

The relationship between the regulatory framework and MFIs on the availability of capital to lend to customers can be explained by the restrictions on MFIs to mobilize internal savings which can serve as a source of funding for lending activities. Moreover, constraints on regulatory limit focus on clients because MFIs in Sierra Leone are aware of the need for customers to do savings, but they cannot respond very well to these needs because of the regulatory restrictions to mobilize savings from the public.

5. Conclusion, Policy Implication and Recommendations

5.1 Conclusion and Policy Implication

The research on microfinance institutions (MFIs) in Sierra Leone highlights significant challenges, particularly in funding sources, leading to the closure of offices in various parts of the country. Notably, a lack of entrepreneurial knowledge among borrowers has resulted in poor loan repayment rates. To address this, it is recommended that MFIs provide training for customers and assess their business sites before disbursing loans.

In terms of collateral, the absence of proper property documentation among Sierra Leoneans, especially in rural areas, hinders access to loans. It is imperative for municipal authorities to issue title deeds to landowners to facilitate their eligibility for financing.

The competitive landscape for MFIs in Sierra Leone also demands attention. Institutions must be ready to navigate and thrive in competitive markets to attract and retain customers. Additionally, improving the compensation for loan officers could help reduce corruption in loan administration.

Another major concern is the lack of robust regulatory frameworks, which undermines strategic direction and sector growth. Stricter regulations are necessary to foster a supportive environment for microfinance.

Operational costs also pose a significant challenge, exacerbated by the Loan Act, which caps interest rates, preventing MFIs from covering costs and achieving profitability. High operational expenses have thus impacted the sustainability of these institutions.

While Sierra Leone’s MFIs lag behind regional counterparts in performance, efforts toward enhanced efficiency and the establishment of a Microfinance Bank—which offers diversified products and services to the economically disadvantaged—are positive steps forward.

Considering the broader impact of microfinance, though its contribution to the national economy may be modest, it significantly benefits individual recipients. To enhance microfinance development, the government and stakeholders need to strengthen their support for MFIs, particularly in addressing funding and regulatory challenges.

5.2 Recommendation

5.2.1 Recommendation to the Government of Sierra Leone

The Government of Sierra Leone should develop and implement a comprehensive regulatory and policy framework to bolster the microfinance sector. It is essential to reassess restrictions on savings mobilization, recognizing savings as a potential source of lending capital. Furthermore, microfinance institutions should be strategically located within accessible areas for low-income populations and should focus on lending to clients with viable economic business ideas for income-generating projects.

5.2.2 Recommendations to Donors and Microfinance Institution Management

Donors and managers of microfinance services should establish exit strategies to ensure the sustainability of these programs after donor support ends, to avoid squandering initial funding. Effective microfinance interventions hinge on several core principles that institutions should adopt to be successful. These include:

(i) Tailoring microfinance services to meet the specific needs and preferences of clients.

(ii) Prioritizing outreach to ensure the sustainability of microfinance services, aiming to include a substantial number of impoverished individuals.

(iii) Recognizing the adverse impacts of imposing interest rate caps, which can harm the very people these services intend to assist.

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