MICROFINANCE IN SIERRA LEONE

ENABLING SMALL ENTREPRENEURS TO RECOVER FROM EBOLA

CARE. ACT. SHARE. LIKE CORDAID.

Photo Sherbro Foundation Rotifunk

SMALL ENTREPRENEURS MANAGED TO SURVIVE BY DEMONSTRATING REMARKABLE RESILIENCE AND ENTREPRENEURSHIP

In Sierra Leone, Cordaid is helping microfinance providers and their clients – small entrepreneurs – to recover from the Ebola crisis. This report[1] assesses how they have fared under the impact of the crisis. They have proven to be remarkably resilient. They have employed an array of viable risk management strategies to survive and recover from the crisis. The report concludes that providing loans to small entrepreneurs is a vital tool for restoring local economies affected by disaster and conflict, and that the risks are manageable. Indeed, Cordaid believes that the international development community should consider investing more in the microfinance sector in crisis-prone economies.

Impact on entrepreneurs

The Ebola crisis clearly had a sharp negative impact on the businesses of a large number of microfinance clients. Even for these relatively resilient clients covered by the research, the significantly negative effects resulted in delayed loan repayments and lower household expenditures, particularly in food consumption.

A majority of microfinance clients experienced a decline in business income and expenditures of over 35%. The crisis caused both the number of customers and the supply of goods for resale to decrease. District quarantines, road blockades, restrictions in the movement of people and goods, including limited international flights and border closings, and a ban on trade fairs and markets are the main reasons for the decline. A majority of clients also reported a decrease in household expenditures as they reduced their food consumption in particular.

FACTS & FIGURES

€950,000
Cordaid investments in Sierra Leone's microfinance

3
microfinance providers involved

15,668
clients

65%
of the clients are women entrepreneurs

Remarkable resilience: how entrepreneurs managed their risks

Despite the negative impact of the Ebola crisis on businesses, clients managed to survive the crisis period by demonstrating a remarkable display of risk management strategies and entrepreneurship. This confirms why micro and small entrepreneurs deserve to be supported through various financial instruments, including loans, coaching and business development services during and after crisis periods.

Change the business

A top risk-mitigating strategy, mentioned by 74% of clients, is to "change the business". This basically means shifting the business emphasis to more saleable products, concentrating resources only on fast-selling goods, or adding new products or a completely new line of products that are in high demand (considered diversification by clients). During the Ebola crisis, the sale of food, drinks, local produce and building materials continued to be economically viable. Several clients selling non-food items such as kitchen utensils, electrical supplies and clothing switched to selling food or local produce to continuously generate income.

Other strategies employed by clients included:

- **Requesting financial help** from family members and implementing new business strategies (55% of clients) such as changing the location or adding a new location or sales outlet, reducing prices to attract more customers, hiring sales people on commission, street hawking, and avoiding credit sales to minimize risks (although some clients offered credit sales to attract more customers). Another strategy was to improve customer service by offering free delivery of wholesale purchases, giving price discounts, and satisfying customer requests as quickly as possible.
- Engaging in **additional livelihood activities** (26% of clients) such as farming, small gardening, "okada" riding (running a taxi service on a motorbike), selling firewood or charcoal, phone charging, and artisanal diamond mining. These additional activities also included taking paid employment. For example, one client joined the burial team, another client became a cook for an Ebola treatment facility, and another became a hired farm laborer.
- **Selling assets** such as cows and land, and drawing on savings (6% of clients) also occurred but on a limited scale. This reflects the clients' poverty level and their limited ownership of assets.

Motorcycle taxi driver in Freetown, Sierra Leone promoting Ebola awareness.

STORIES OF RESILIENCE PORT LOKO

Salamatu Kamara sells traditional clothing materials, lace, satin and wax cotton during village trade fairs (called "luma" in Sierra Leone) in the Port Loko district. She used to generate sales of up to US$2,000 a day at the trade fair and she goes to at least one luma a week. The lumas were one of the first public gatherings to be banned when the government declared a state of public health emergency. As a result Salamatu could only sell from her home in Lunsar. Her sales dropped dramatically, to less than US$100 a day. She had to lay off her three workers. For six months, Salamatu's family managed to get by on the meager sales, on her husband's contribution of US$150 per month, and on extra income from an okada business. And yet she did not miss a single loan payment to her microfinance provider, Salone Microfinance Trust (SMT).

Salamatu noticed that the number of Ebola cases was continuing to increase in Port Loko, which meant there was no chance that the luma would re-open for business in the short term. So she decided to look for a business location where she could get higher traffic than selling from home. She found one in Lunsar's commercial area. Using her huge amount of unsold stock, she set up a display of her goods in a makeshift stall. She sacrificed her high profit margins by selling at wholesale prices or at the same prices as in the capital Freetown. Her prices generated marketing by word of mouth and she attracted a growing number of customers. By January 2015, sales were up to US$600 to US$800 a day, suggesting that Salamatu's business was in the process of recovering. With the number of Ebola cases declining in Port Loko, she also re-hired two workers. After several months of not having travelled, she went to Guinea three times in January 2015 to buy more goods. Tailors who discovered her shop location and competitive prices suggested that she should also sell products for tailors. In the meantime she has taken this advice and can count tailors among her new customers.

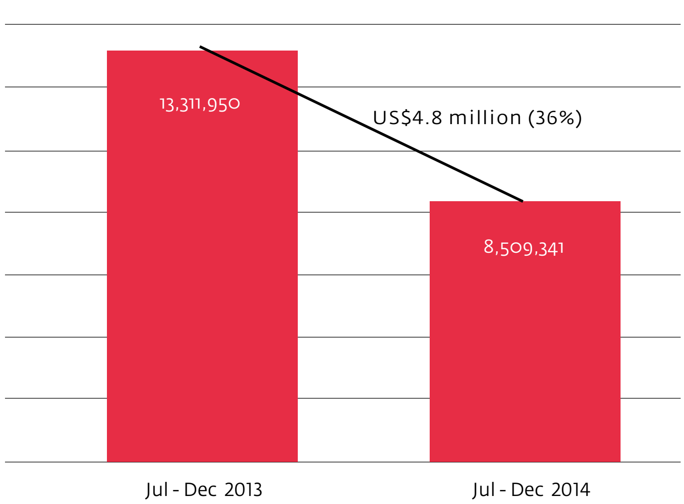
Even though sales have not reached the level of when she was selling in lumas, Salamatu is happy she survived the crisis. SMT did not hesitate to provide her with a repeat loan because of her outstanding character and business tenacity, and she received her third loan cycle from them in January 2015.

Impact of Ebola on microfinance providers

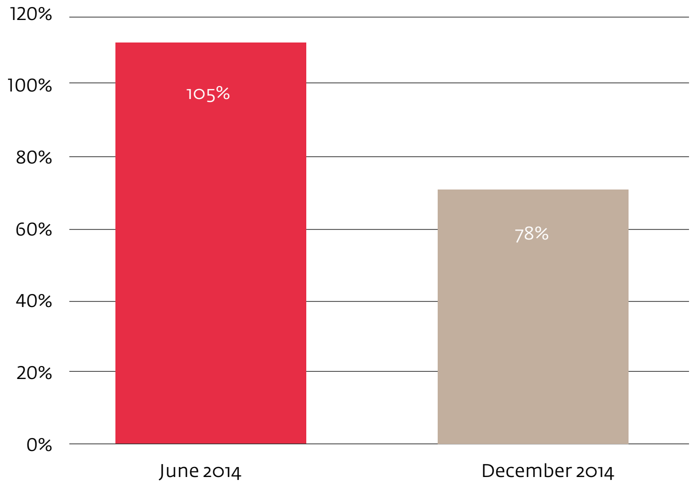
The Ebola crisis had a severe impact on the majority of micro-finance providers. Eight MFIs had just attained, or were on the brink of attaining, 100% operational sustainability before the crisis. The Ebola crisis interrupted the progress most MFIs had made in terms of growth and sustainability. The sector already faced a high incidence of default prior to the crisis, and this was exacerbated by the onset of Ebola. The 'portfolio at risk greater than thirty days' was at 11% in June 2014, but this percentage had doubled to 22% by December 2014 as an additional 3,074 clients defaulted during that period. All MFIs but one saw their operational sustainability decline, causing the sector's operational stability to drop to 78%.

The extent of the impact, however, varies from one MFI to another depending on their course of action. Sustained aware-ness of the Ebola virus, dissemination of infection prevention kits to staff, careful assessments of clients and local markets where MFIs operate have enabled MFIs to make operational decisions that reduce the overall negative impact.

LOAN DISBURSEMENTS DURING THE EBOLA CRISIS PERIOD



OPERATIONAL SUSTAINABILITY OF MFIS



Operational sustainability (OSS) is calculated by dividing the operating revenues by the operating expenses. The acceptable level is greater than 100%.

STORIES OF RESILIENCE BOMBALI

Idrissa Conteh sells drinks and operates an entertainment center that shows football games on TV. Based in the Bombali District, the business is among those that were immediately banned when a state of public health emergency was declared because it attracts crowds of people. Idrissa contin-ued to sell drinks but immediately lost at least 30% of his customers. The slow turnover of inventory during this period meant that some of the drinks' sell-by-date expired, which resulted in additional business losses. In order to prevent a further decline in income, he and his wife decided to set up a small shop and sell drinks and cooked food in another location. Idrissa and his wife also managed to save at least US$10 a day in a box at home. Idrissa set aside this money to pay off the monthly loan that he owed his microfinance provider. The combination of additional business and savings proved to be a good risk-mitigating strategy: Idrissa managed to stabilize the household income and simultaneously accumulate savings that enabled him to open a new shop and sell food and drinks. Since people need basic provisions on a day-to-day basis, even during an Ebola crisis, Idrissa thought that it would be a smart thing to do.

Idrissa is 40 years old and though he has only two children, nine other people, consisting of younger brothers and sisters, depend on him for their basic needs, including education.

Photo SLAMI/Ayani Consultants

Lessons learned: building institutional and client resilience

Microfinance has been one of the major financial interventions used to restore livelihoods for people affected by natural disasters and conflicts. Microfinance can be an important intervention to help the vulnerable and low-income sector stay afloat and diversify their sources of income. It can also help small enterprises to recover more rapidly by enabling them to re-establish viable economic activities and increase their productivity.

Specific lessons learned include:

- Proactive and continuous assessment of the local markets where MFIs are operating made it possible to analyze the types of business activities that could still be viably supported, enabling MFIs to meet the financing needs of these clients during the crisis.
- Continuous communication and engagement with clients by MFIs and MFI staff during the crisis period provided some level of comfort that the lending relationship will be sustained through recovery and beyond the crisis period.
- MFIs that offer diversified products (e.g. SME loans, salary and consumption loans) had higher overall portfolio quality than those offering only a group loan product. In addition to a broader range of clientele, diversifying the geographical outreach and economic sectors also reduced the risks.
- The level of preparedness for business continuity, liquidity and portfolio management must be assessed and MFIs should develop contingency plans and build contingency reserves to manage external risks not only for another Ebola outbreak but for any natural disaster, epidemic, war or sudden economic shock.
- Microfinance providers must ensure that products and services are designed not only to sustain businesses' working capital requirements but also to support clients to build assets and reduce their vulnerability. The Ebola crisis increased client demand for other financial services that could be served by MFIs, namely savings, money transfer services, and micro-insurance. Non-financial services such as financial education and client business training are also helpful for building client resilience.
- The multilateral donor community should avoid implementing programs and approaches that will distort the microfinance market and have a long-term negative impact on the sustainability of the microfinance sector. If the donor community deems subsidies to be necessary, then they should look into effective client targeting or sequencing for grants and loans.

Cordaid's support for microfinance institutions affected by Ebola

Cordaid has helped microfinance providers in Sierra Leone survive and recover from the Ebola crisis by offering them interest waivers and extensions of maturity on outstanding loans. These provisions enabled microfinance institutions (MFIs) to attend more flexibly to the needs of their clients. To help MFIs build resilience, Cordaid is currently helping them to develop contingency plans, including reserves, and to manage external risks in case Sierra Leone is hit by another epidemic or other disaster or sudden economic shock.

Vendor selling fresh produce in Freetown.

[1] This report is the result of research conducted under Cordaid's Microfinance Sector Support Program by the Sierra Leone Association of Microfinance Institutions and Ayani Inclusive Financial Sector Consultants to assess the impact of the Ebola crisis on clients and on microfinance providers. The research was undertaken from the last week of December 2014 to mid-February 2015 and collected comparative information from the period preceding the Ebola crisis (May 2014) and during the crisis (November 2014 to January 2015).

ABOUT CORDAID

Cordaid is the Catholic Organization for Relief and Development Aid, with its headquarters in The Hague, the Netherlands. Cordaid has worked for over a century with more than 800 partners in 38 countries to fight poverty and exclusion in the world's most fragile societies and conflict-stricken areas. Cordaid is a founding member of Caritas Internationalis.

CONTACT

Laure Wessemius-Chibrac
Director Cordaid Investments
Laure.wessemius@cordaid.nl

Cordaid the Netherlands
Lutherse Burgwal 10
2512 CB The Hague
+31(0)70-31 36 300
www.cordaid.org

CARE.
ACT.
SHARE.
LIKE CORDAID.