

The effectiveness of financial institutions in the economic development of Sierra Leone. (Case Study: Sierra Leone commercial bank 2009-2013)

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Abstract

The banking industry is an essential sector in both national and international level. The banking sector is considered to be the engine of economic growth, because of its organization of financial business activities through the mobilization and utilization of resources from the public.

The Structural Adjustment programmed (SAP) of the International Monetary Fund (IMF) has placed more emphasis on the private sector and included in its conditional ties for privatization of parastatal and encouragement of public and private sector partnership. Since the private sector consists of private enterprises that cannot afford the huge amount of capital requirement, they therefore demand commercial banks credit.

The economic performance in Sierra Leone has declined over the past decade, due to high inflation, low economic activities and political instability.

Because of the significant role of the Sierra Leone commercial Bank Limited which activities includes; giving loans to small and medium scale enterprises, supply money, infrastructure development, economic growth and stabilization, it is therefore necessary to examine its contributions to the nation.

Keywords: Savings Account, Current Account, Borrowing, Investment.

Introduction

Sierra Leone is a small West African country with an area of approximately 72,000 square kilometers of an estimated population of 4.5 million, with a growing annual rate of about 2.5 percent and endowed with substantial agricultural, mineral and marine resources. The country has been classified under the United Nations (UN) as one of the least developed countries (LDC's) with a substantial proportion of the population living in an abject poverty. There are large income disparities between the employed and the unemployed.

Overall, economic performance has steadily deteriorated since the late 1970s.

Brisk economic performance in the first decade after independence in 1961 with annual growth rate of national income of nearly four percent (4%), gave rise to a slower growth rate of 1.5 percent in the 1970s. By the end of the 80's Gross Domestic Product (GDP) was drastically reduced. In the late 1980s after hosting the Organization of Africa Unity (OAU) Conference in Sierra Leone, now Africa Unity (AU), donor's partners introduced the Structural Adjustment but its implementation, prior to 1991 was very slow, inconsistent and created unfold hardship on the people of Sierra Leone. The programme achieved fruitful macroeconomic success, the initial adjustment period-diverted resources away from social services bringing further hardships to the country.

The banking sector contributes greatly to the economic development of any nation. This implies that it has direct influence on economic activities and therefore the sector continues to make it available to the business sectors and the country at large. The actions of commercial banks to some degree help to trigger financial growth in any country through the provision of private sectors business venture. The private

sectors engage in small – scale business activities which government alone cannot produce through the closed market economy. Generally, the private sectors cannot provide necessary capital needed for organizing this market structure. Therefore the country's financial status would be impeded. For a country to have a developed economy, its banking sectors must be dynamic.

The Sierra Leone Commercial Bank Limited is a Government's owned bank, which was established in 1973. This bank plays a vital role in the economic development of Sierra Leone through its linkages between its borrowers and lenders and the ability to render other financial service to the public. Among the diversity of operations, it specialized in operating current accounts of which overdraft facilities can be arranged. Deposit accounts are also operated with higher rate of interest to customers.

like most other financial institutions, Sierra Leone Commercial Bank Limited (SLCB) is involved in operating the "payment" system. The payment system is the procedures used to settle financial transactions with the bank and other entities by transmission of money through cheques, standing order, direct debit e.t.c.

However, the Sierra Leone Commercial Bank Limited (SLCB) has the capacity to channel funds to areas that might hold the highest returns. For instance it provides credit to the private sector in numerous ways, such as Agricultural credit, Commercial and industrial loans, Customers loan e.t.c. all this help to increase and enhance efficiency in Sierra Leone economy. Currently the bank headquarter is located at Siaka Steven Street, under a Thirteen(13) storey building, which was constructed between 1977 and 1980 at an approximated cost of six million, five hundred thousand Leone (Le6.5Million).

The bank was named after the bank's first managing Director Dr. Christian J. Smith.

The Sierra Leone Commercial bank has various sources of finance that is used to undertake activities included the following:

- Maintaining customers in saving and current accounts.
- Charges commission on Turnover (COT)
- Handling interest on deposit and loans.

- Commissions on exchange rate transactions in foreign currency.
- Investment returns by the treasury bills and treasury bearer bonds etc.

Presentation and Interpretation of the Result

Table 1: Response Rate

Departments	No. of Questionnaire	No. of Respondents	No. of Non-Respondent	% of Respondent	Rating	
					Good	Poor
Accounting	30	20	10	67%	15	5
Operations	20	18	2	90%	10	8
Internal Audits	30	20	10	67%	15	5
Totals	80	58	22		40	18

Source: Questionnaire Administered In 2014

Table 1.1: Sierra Leone commercial bank limited financial statement for the year ended 31 December 2013

	notes	2013	2012
Interest and similar income	7	52,226,746	69,944,394
Interest expenses and similar charges	7	(16,518,358)	(15,306,447)
Net Interest income		35,708,388	54,637,947
Net fee and commission income	8	14,184,348	16,544,884
Net trading income	9	6,457,957	6,923,987
Other Operating Income	10	294,299	226,136
Operating Income		56,644,992	78,332,954
Impairment losses on loans and			
Advances	11	(47,028,508)	(1,261,837)
Operating expenses	12	(59,965,462)	(54,582,177)
Operating (loss)/profit		(50,348,978)	(20,558,528)
Income tax charge	13	8,145,339	(5,884,344)
(Loss)/profit for the year		(54,494,317)	14,674,184
Other comprehensive income			
Total Comprehensive Income		(54,494,317)	14,674,184
Earnings per share on profit attributable In Leone par share			
Basic	14	(2.17)	(0.54)

Source: Audited Financial Statement of (Slbc) 2013

Table 1.2: Statement of financial position for the year ended 31 December 2013

In thousands of Leone	note	2013	2012
Assets:			
Cash and balances with the central bank	15	101,497,661	63,605,600
Balances with other banks	16	153,499,754	214,862,726
Treasury bills and other eligible bills	17	213,255,268	124,410,546
Equity investments	18	1,005,521	1,005,352
Loans and advance to customers	19	203,712,425	222,659,217
Other assets	20	10,454,584	10,313,363
Income tax receivable	13	-	8,021,092
Property, Plant and equipment	21	45,052,462	46,401,716
Total assets		728,477,675	691,279,616
Liabilities			
Deposits from customers	22	671,282,705	584,782,348
Deposits from banks	22a	5,545,929	20,975,000
Other liabilities	23	32,276,454	9,186,575
Deferred income liabilities	13b	7,694,875	6,843,994
Total liabilities		717,480,293	621,787,917
Shareholders' equity			
Issued share capital	25	27,000,000	24,000,000
Reserves	26	41,489,688	44,489,688
Retained earnings	27	57,492,306	1,002,011
Total equity		40,163,994	44,603,994
Total liabilities and Shareholders' equity		728,477,675	691,279,616

Source: Audited Financial Statement of Slbc (2013)

Table 1.3 Sierra Leone commercial bank limited income statement for the year ended 31 December 2009

In thousand of Leone	notes	2009	2008
Interest and similar income	6	28,866,431	27,010,241
Interest expenses and similar charges	6	(5,531,259)	(4,037,300)
Interest income		23,335,172	22,972,941
Net fee and commission income	7	8,644,771	8,444,073
Net trading income	8	4,737,994	4,293,761
Other operating income	9	207,985	242,830
(Impairment losses on loans and Advances)/ release from bad debts	10	(12251169)	(1261837)
Operating expenses	11	(31,010,216)	(23,826,063)
Operating (loss)/profit		(6,335,463)	(10,865,705)
Income tax credit/ (expenses)	12	1,895,663	(3,262,327)
(Loss)/profit after taxation		(4,439,800)	(7,603,378)
In Leone par share	notes	2009	2008
Basic	13	(0.49)	(0.42)

Source: Audited Financial Statement of (Slbc) 2009

Table 1.4: Balance sheet for the year ended 31 December 2009

In thousand of Leone	note	2009	2008
Assets:			
Cash and balances with the central bank	14	16,032,613	13,412,585
Balances with other banks	15	66,776,812	64,752,572
Treasury bills and other eligible bills	16	43,217,700	13,412,585
Equity investments	17	937,305	327,305
Loans and advance to customers	18	72,864,849	67,176,719
Other assets	19	23,530,142	21,175,230
Income tax receivable	6,253,767	3,886,431	
Property, Plant and equipment	20	49,057,613 278,670,801	43,280,801 250,656,793
Liabilities			
Due to customers	21	229,427,841	189,170,810
Other liabilities	22	6,132,093	12,039,653
Deferred income liabilities	23	2,946,873	4,842,536
Total liabilities		238,506,807	206,052,999
Shareholders equity			
Issued share capital	24	9,000,000	6,000,000
Reserves	25	22,891,854	22,891,854
Retained earnings	26	8,272,140	15,711,940
Total equity		40,163,994	44,603,794
Total liabilities and Shareholders` equity		278,670,801	250,656,793

Source: Audited Financial Statement of (Slbc) 2009

Table 1.5: Statement of changes in equity for the year 31 December 2009

In thousand of Leone	Revaluation Reverse	statutory reverse	develop reverse	capital reserve	other reserve	total reserve	issued share	revenue reverse Capital	total share holder Equity
Bal at 1Jan 2008	16727744	2217742	65979	650	78050	1909016	1000000	20710251	4080041
Total recognize gain	—	—	—	—	—	—	—	7603378	7603378
Transfer from reven	—	—	—	—	—	—	5000000	(5000000)	—
Transfe from s.rev	—	3801689	—	—	—	3801689	—	—	—
Div to share holder	—	—	—	—	—	—	—	(3800000)	(3800000)
Bal at 31 Dec 2009	16727744	6019431	65979	650	78050	22891854	6000000	15711940	4460379
Bal at 1 Jan 2008	16727744	6019431	65979	650	78050	22891854	6000000	15711940	4460370
Total recog loss/gain	—	—	—	—	—	—	—	(4439800)	(443980)
Transfer from reven	—	—	—	—	—	—	3000000	(3000000)	—
Transfer to S. reverse	—	—	—	—	—	—	—	—	—
Dividend to shareholder	—	—	—	—	—	—	—	—	—
Bal at 31 Jan 2009	1672774	6019431	65979	650	78050	22891854	9000000	8272140	40163994

Source: Audited Financial Statement of (Slbc) 2009

Table 1.6: Statement of cash flow for the year ended 31 December 2009

In thousands of Leones	Notes	2009	2008
Operating activities			
Interest received	6	28,866,431	2 7,010,241
Interest paid	6	(5,531,259)	(4,037,300)
Loan provision	10	(12,251,169)	(1,261,837)
Fees and commission received	7	8,644,771	844,073
Operating expenses paid	11	(31,010,216)	(23,826,063)
Other operating income	8, 9	4,945,979	4,536,591
Depreciation of PPE	20	4,431,654	3,308,105
Cash flow from operating profits Changes in operating assets and liabilities	b.4	(1,903,809)	14,173,810
Changes in operating assets and liabilities			
Loans and advance to customers		(5,688,130)	(18,504,386)
Deposits from customers		40,257,031	40,210,145
Other assets		(2,354,912)	(1,382,819)
Other liabilities		(2,107,560)	(1,382,819)
Net cash flows from operating activities	b.4 tax	28,835,284	17,896,202
Income tax paid	12	(2,367,336)	(3,513,683)
Cash flow from operating activities		25,835,284	17,896,202
Investment activities			
Equity		(610,000)	
Acquisition of property, Plant & Equipment	20	(10,818,466)	(7,959,070)
Cash flow from investing activities		(10,818,466)	(7,959,070)
Financial activities			
Dividend paid		(3,000,000)	(5,000,000)
		(3,000,000)	(5,000,000)
Net cash increase and cash equivalents		11,216,818	49,371,432
Cash and cash equivalent at 31 December 2007		118,810,307	109,873,175
Cash and cash equivalent at 31 December 2007	28	126,027,125	114,810,307

Source: Audited Financial Statement of Slbc (2009)

Table 1.7: Income statement extract from 2009 to 2013

Years	Total Income	Profit B.4 Tax	Profit After Tax	Current Assets	Current Liability	Total Assets
2009	12,971,736	6,001,544	5,059,632	73,038,728	67,074,173	82,562,457
2010	16,307,390	6,167,261	5,866,077	104,469,107	97,768,379	116,672,740
2011	17,300,593	5,643,346	4,200,319	10,282,2370	95,035,738	116,840,418
2012	27,831,483	11,402,305	6,263,785	13,255,323	12,588,506	15,035,352
2013	55,662,966	22,804,610	12,527,570	26,510,646	25,177,012	27,8670,801

Source: Audited Financial Statement of Slbc (2009 To 2013)

Profitability and Earnings Ratios

The most important tool is the measurement of the bank's success, is that of profitability and earnings ratios. This

analysis indicates the efficiency of management in initiating and implementing policies of the bank. Below is a stated formula used to calculate the profitability of the bank?

Table 1.8(A) Profitability ratios

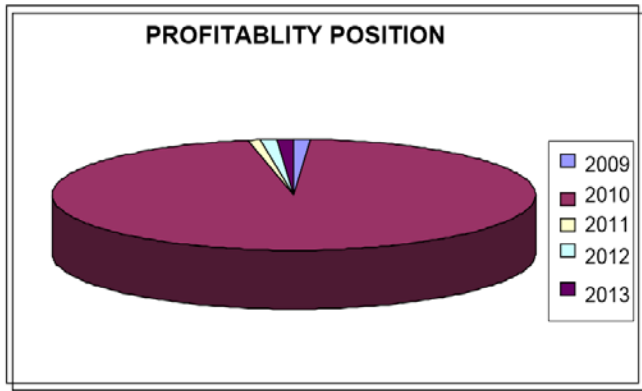
Ratios	Years				
	2009	2010	2011	2012	2013
Pro margin Profit b.4. tax X 100 total income	46.2%	37.8%	32.6%	41%	46%
Return on shareholders' fund= Profit after tax x 100 Shareholder fund	32.7%	31%	19.3%	25.6%	30%
Returns to total assets= Profits after tax x 100 Total assets	7.3%	5.3%	4.8%	7.6%	9%

Source: Audited Financial Statement of Slbc (2009 To 2013)

Table 1.9: Profitability positions

Years	Profit Margin	Returns To Shareholder	Returns To Total Assets
2009	46.2%	32.7%	7.3%
2010	37.8	31%	5.3%
2011	32.6%	19.3%	4.8%
2012	41%	25.6%	7.6%
2013	46%	30%	9%

Source: Audited Financial Statement of Slbc (2009 To 2013)



Source: Audited Financial Statement of Slbc (2009 To 2013)

Fig I: Profitability Position

Liquidity Position

Generally the objectives of liquidity ratio analysis are to indicate the bank’s ability to meet it maturity obligations. In the event of insolvency, shareholders only risk losing their investment because of limited liability principle, but unsecured creditors risk financial losses. Short-term creditors may be willing to allow creditors to a firm running into financial difficulties.

Working capital is the difference between the current assets and current liabilities. Working capital looks at the liquidity and short- term financial strength of the company. It totals

assets ratio shows the proportion of total assets represented by working capital.

Statutory Reserve

The banking regulation states that as the bank liquidity increase its statutory reserve should also increase.

From 1994, the statutory reserve was the same as that in 1993, i.e. forty five million Leone (Le45). In 1995, it rose to Six Hundred Million Leone (Le 600m). (i.e. Bank of Sierra Leone bulletin- various issues prepared by the research department (1995).

The capital adequacy ratio reflect the amount a commercial bank is obliged to keep with the central Bank so that in the course of liquidation it can be used to pay off its customers, in other words it is a form of guarantee. The bank is required to pay a minimum capital ratio of 6%. The bank also mandated by the central bank to maintain a local asset liability ratio of 75%. In 1996 for example capital adequacy ratio was 14.47% and the local asset liability was 80.4%. In our country this can be assessed to be good performance and it is attributed to be prudent to treasury management of persistent and aggressive bad debt recovery programme.

In 1995 bonus issues made in order to comply with the capital adequacy ratio and to give to increasing the sole 5% shareholders holding you 60% of the authorized share capital prior to the commencement to a public company.

Table 2: Working Capital to Total Asset Ratios

Years	Current Assets	Current Liabilities	Current Ratios	Working Capital	Total Assets	working capital to total assets ratio
2009	73038728	67074173	1.09	5964555	82562457	26.9%
2010	104469107	97768379	1.07	6700728	116672740	36.5%
2011	102822370	95035738	1.08	7786632	116840418	4.4%
2012	13255323	12588506	1.05	666817	15035352	60.89%
2013	26510646	25177012	1.09	1333636	278670801	70%

Source: Audited Financial Statement of Slbc (2009 To 2013)

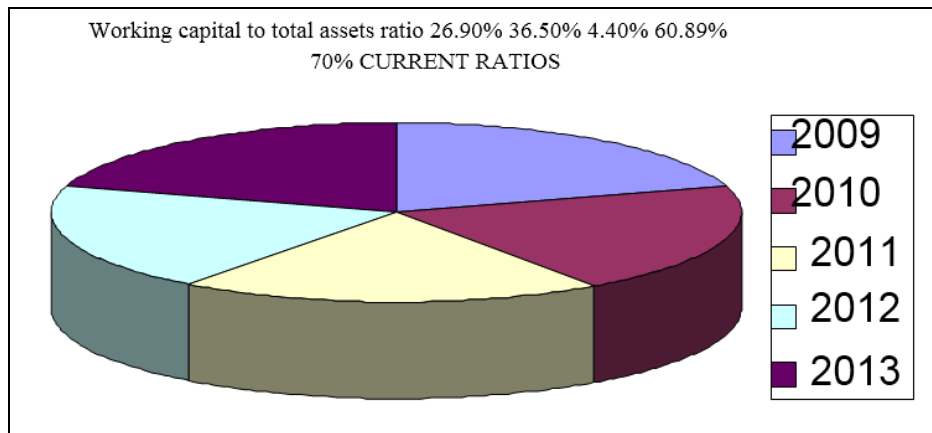


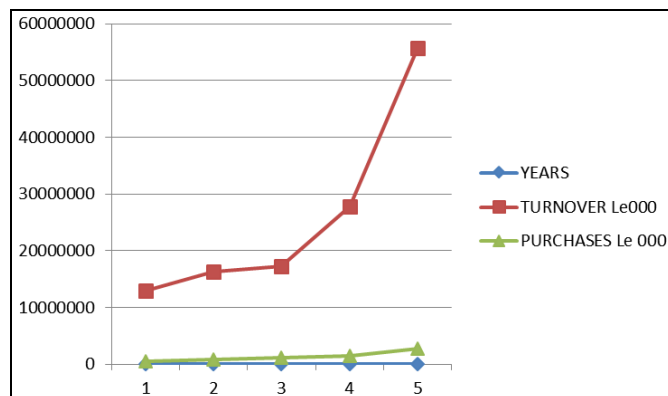
Fig II: Working Capital To Total Assets Ratio

Quantitative Data in Purchases, Interest and Other Operating Incomes for the Periods 2009 To 2013.

Table 2.1: Turnover and Purchases for the Period 2009 TO 2013

Years	Turnover Le000	Purchases Le 000	
1	2009	12,971,736	411,166
2	2010	16,307,390	848,655
3	2011	17,300,593	1,065,890
4	2012	27,831,483	1,399,073
5	2013	55,662,966	2,798,158

Source: Audited Financial Statement of Slbc (2009 to 2013)



Source: Survey 2014

Fig III. Turnover and Purchases

The chart above shows the income and interest expenses on the bank’s turnover. Since 2009, the interest income was gradually increasing from Le12, 971,736 to Le 55,662,966 in 2009.

This data are clearly shown in the audited financial statement of the Sierra Leone Commercial Bank estimated for the period 2009 to 2013.

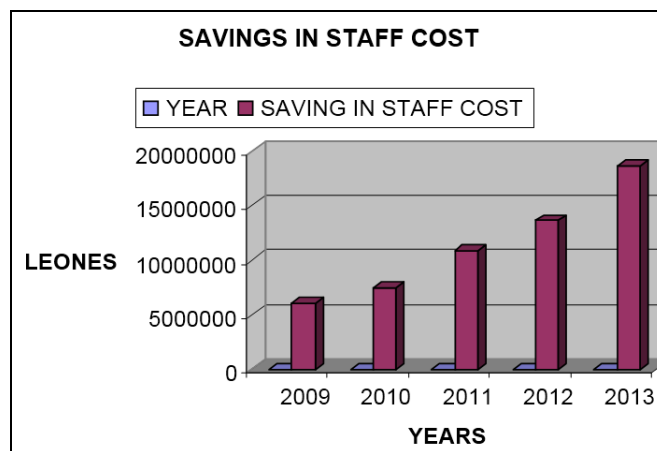
Estimated Quantitative Benefits

These are benefits that can be measured in monetary terms. These benefits enjoyed by Sierra Leone Commercial Bank limited includes: saving in cost of running the department as a result of staff relocation, and profits on disposal of computers and other equipments.

Table 2.2: Savings in Staff Cost

Year	Saving In Staff Cost	Profit On Disposal
2009	6,000,000	25,000,000
2010	7,500,000	30,000,000
2011	10,800,000	29,680,000
2012	13,600,000	18,500,000
2013	18,600,000	27,700,000

Source: Audited Financial Statement of Slbc (2009 to 2013)



Source: Survey 2014

Fig IV. Savings in Staff Cost

From the chart above savings in staff, cost for 2009 was Le6, 000,000 and profit on disposal for the same year was Le 2,500,000 for 2009.

Similarly, in 2010, saving in staff cost amounted to Le 7,500,000 and profit on disposal for the same period amounted to Le 3,000,000.

In 2011, both savings in cost and profits on disposal recorded with an amounted of le 10,800,000 and Le 29,680,000 respectively.

In 2012, a total rate of Le 13,600,000 was recorded on saving in staff cost, and an amount of Le 3,600,000 was recorded for saving in staff cost, while Le 18,500,000 for profits on disposal.

In 2013 savings in staff cost was recorded as Le 18,600,000 and profit on disposal was also recorded as Le 27,700,000.

In average 2009 was recorded as having the highest saving in staff cost and profit disposal for the past five years.

Results from the literature review

Financial modernization has greatly changed the business of the banking operations in Sierra Leone. Instead of just accepting and making loans available to customers, which was refers to as the old fashioned way of banking operations; nowadays, banks are increasable active in lending without pulling loans from their balance sheet, through either the protection of their portfolio from their balance sheet. The Sierra Leone Commercial Bank Limited has shifted from interest based revenue towards fee-based activities, including line of credit and many types of credit guarantees.

However, since the Sierra Leone Commercial Bank is not the only bank in the banking industries, besides the Inter- firm comparison which might be misunderstanding due to different accounting and arrangement policies.

Therefore, comparison overtime is used in order to give the changes in ratios and possible causes, given in an attempt to guide users group regards to their decision making process. To determine the financial performance of the Sierra Leone Commercial Bank Limited, as illustrated above the profitability and liquidity position of the company which was looked at.

Results from empirical investigation

It is of my dismay, that all the respondents were unable to provide answers to the questionnaires. However, some follow-

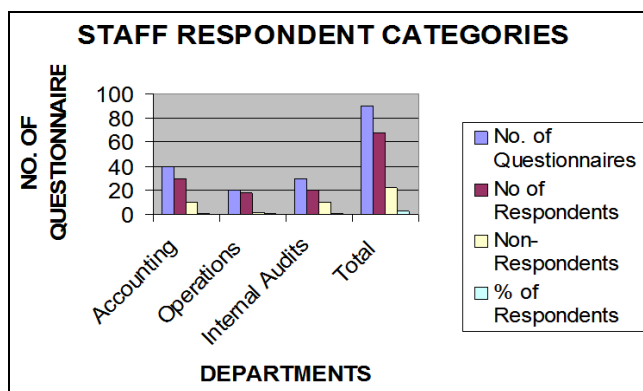
up was made, but yet still much dividend was not yield as was expected from the staffs, especially from the accounting department. To be precise only about 67% of the total questionnaire were returned. Although must of the staff were constrains with work, the director of the operations department

made available the use of the bank library for all information relevant towards this research. Although such an opportunity was given to undertake the study, time constrains was one factor that limits the research as only one hour was given per week (i.e.12PM to 1PM) especially on Thursday and Friday only.

Table 2.3: Staff Respondent By Category

Staff Category	No. of Questionnaires	No of Respondents	Non- Respondents	% of Respondents
Accounting	30	20	10	67%
Operations	20	18	2	90%
Internal Audits	30	20	10	67%
Total	80	58	22	

Source: Questionnaire Administered In 2014



Source: Questionnaire Administered In 2014

Fig V: Staff Respondent Categories

From the above chart, it can be seen that out of the thirty (30) questionnaires issued to the Accounting section it is only twenty (20) were respondent to, which gives a percentage of 67% as in the figure above.18 out of 20 questionnaires were respondents from the Operations section which gives a percentage of 90% in the figure above, and 30 questionnaires issued to the Internal Audits 20 were responded to, which gives a percentage of 67%.Out of a total of 80 questionnaires issued 58 were respondent to, and a total of 22 were not responded to. The above analysis shows that to obtain information from the Accounting and internal Audit department is more difficult than that of the other department, which gives the highest percentage of respondents.

Conclusions

It is my belief that the Sierra Leone Commercial Bank Limited is closely tired around their traditional products rather than around the customers. It is concludes that a more customer’s focused approach be developed in the form of improving their customer care service and increases tellers. From the information gathered so far, it was realized that most customers are not well informed about their corresponding expectations from customers. It is feasible for job enlargement to be worked out for the marketing department of the bank. In actualizing this arrangement, the marketing department should be transform to a marketing and research department. Furthermore, the marketing staffs that to some extent are overburdened with other operational management roles may produce results. The required responsibility of this department may include disseminating information in the print and

electronic media and precisely what the bank offers, having a research on what customers actually need and then taking most appropriate action.

It is convincing to note that most of the banks investments are short term except for few. The bank could develop packages on how these could be developed and financed. More of long-term investment could then develop which in turn could increase the bank’s market share and aid growth in the product market of the private sectors.

However it is, recommend that, there be a proper accounting system in place to record the receipt and issues of stocks, based on an effective supervision to avoid in efficient uses or wastages.

Finally, one of the major objectives of the bank is to get a larger proportion of the market shares in the industry. This can be achieving by taking the bank to the people, that is, by establishing branches all over the country. This trend is currently followed by the bank as it had seen the establishment of braches in different parts of the city, like Congo Cross branch, cline town branch and different branches in the region, such as Makeni in the North, Bo in the South and Kenema in Eastern province.

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