



**SIERRA LEONE:
THE IMPACT OF THE
EBOLA CRISIS ON THE
MICROFINANCE SECTOR**

AND STORIES OF MICROENTREPRENEURS' RESILIENCE

March 2015



Sierra Leone Association of Microfinance Institutions



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EXECUTIVE SUMMARY

With the support of the Netherlands-based international development organization, Cordaid and its Microfinance Sector Support Program, the Sierra Leone Association of Microfinance Institutions (SLAMFI) and Ayani Inclusive Financial Sector Consultants collaborated to undertake research to assess the impact of the Ebola crisis on clients and on microfinance providers. Field research was undertaken from the last week of December 2014 through mid-February 2015 and analyzed in conjunction with comparative data from both the pre-Ebola crisis period (May 2014) and the crisis period (November 2014 to January 2015).

A significant majority or 77% of microfinance clients reported a negative impact on business income, and 69% reported a decline in business expenditures. The impact was deep, with most clients reporting declines in business income and expenditures of over 35%. The crisis caused decreases in both the number of customers and in the supply of goods for resale. District quarantines, road blockades, limitations in movements of people and goods including limited international flights and border closings, and the banning of trade fairs or market days (e.g. “luma”) were the main reasons cited for these declines. Seventy four percent (74%) of clients also reported a decrease in total household expenditures. The majority of these clients reduced their total household expenditures by thirty-five percent (35%) or less, with reductions mainly occurring in the category of food consumption. The study also highlights client characteristics and various coping strategies that contributed to their resilience during the crisis. These coping strategies and general resilience underscore microentrepreneurs’ worthiness of ongoing financial services during and after the crisis.

Nine (9) microfinance providers contributed data to assess the impact of the Ebola crisis on the provision of financial services, as well as to evaluate the health of the national microfinance sector in the wake of the crisis. The most immediate impact observed was the 36% decline in loan disbursements during the peak crisis period of July to December 2014, as compared to the same period in the prior year. MFI growth plans were clearly disrupted, and business plan implementation was widely suspended in the context of uncertainties posed by the crisis. Portfolio-at-risk over thirty days (PAR>30) stood at 11% in June 2014 and had doubled to 22% by December 2014. Meanwhile, 3,074 borrowers fell into delinquency during the period. Prior to the Ebola crisis, eight (8) MFIs had achieved or were approaching 100% Operational Self-Sustainability (OSS); however at the end of 2014, seven of these had registered a decline in OSS, and the sector reported an average OSS of only 78% -- an unacceptable level.

This study’s key recommendations for each stakeholder group are as follows.

Microfinance Providers

- Bolster institutional capacity to develop and implement risk-management strategies.
- Create mechanisms to ensure that lending practices remain robust at all times.
- Design and implement products and services that not only sustain business working capital requirements, but also support clients in building assets and reducing their vulnerabilities.

SLAMFI

- Actively advocate for and engage regulatory bodies and the international donor community to support the microfinance sector’s recovery.

- Engage microfinance providers in continuing their collaboration under SLAMFI to address common interests and goals.

Microfinance Funders/Investors

- Support MFIs to develop and implement risk management strategies.
- Proactively engage with investees to continuously assess their situations during crisis periods, and support informed decision-making on available support, (e.g., equity infusion, loan restructuring, partial debt or interest forgiveness, or capacity building).

Regulatory Bodies

- The Ministry of Finance and Economic Development (MoFED) and the Bank of Sierra Leone (BoSL) can collaborate with SLAMFI for sustained monitoring and assessment of the health of the microfinance sector and to promote a more inclusive financial sector.
- MoFED and BoSL should recognize the contribution of microfinance providers in promoting livelihoods and local economic development, and include them in the formulation of post-Ebola economic recovery strategies.

Multilateral Donor Community

- Recognize the demonstrated role that microfinance can play in restoring livelihoods and economic well-being for people affected by natural disasters and conflicts; invest in microfinance as an important intervention for post-Ebola economic recovery.
- Avoid implementing programs and approaches that will distort the microfinance market; collaborate with SLAMFI to ensure that market distortions are not inadvertently created.

1. INTRODUCTION

With the support of the Netherlands-based international development organization, Cordaid and its Microfinance Sector Support Program, the Sierra Leone Association of Microfinance Institutions (SLAMFI) and Ayani Inclusive Financial Sector Consultants collaborated to undertake research to assess the impact of the Ebola crisis on the microfinance sector in Sierra Leone. The research assessment had two components:

- (1) Assessing the impact of the Ebola crisis on clients, most of whom are microentrepreneurs; and
- (2) Assessing the impact of the crisis on Microfinance Institutions (MFIs), the providers of financial services to microentrepreneurs.

1.1. RESEARCH OBJECTIVES

The research was designed to answer the following questions.

Microfinance clients

- i. How did the Ebola crisis affect clients' businesses?
- ii. How did client business performance affect the well-being of clients and their households?
- iii. How did clients manage the risks of decline in business income and the possibility of business shutdown?
- iv. What are the specific impediments for clients to mitigate risks and sustain their businesses during crisis?

Microfinance providers

- i. What are the operational and financial impacts of the crisis on MFIs?
- ii. To what degree is MFI sustainability at risk?
- iii. What lessons can be learned from the actions taken by MFIs during the crisis?

2. METHODOLOGY

Client-level impact

The research on clients was designed to understand the financial transactions, behaviors, coping mechanisms and external factors affecting clients during the crisis and to trace socioeconomic impacts in real time. Both quantitative and qualitative approaches were used, although the methodology emphasized qualitative approaches. Eighty-four (84) microfinance clients were visited every two weeks during a forty-five (45) day period and were interviewed how the ongoing Ebola crisis was affecting their businesses and households.

Three (3) sets of questionnaires were developed to collect client-level data. A baseline questionnaire was administered to document basic demographic and household information, as well as the microentrepreneurs' general and expected business and risk management strategies. Next, a follow-up questionnaire was administered biweekly to collect more detailed and nuanced information on the evolution of client-level impacts and the results of their coping strategies. Finally, an end-line

questionnaire was administered to obtain the latest situation of clients and their businesses and to compare this with earlier periods during the crisis.

The sample was comprised of eighty-four (84) clients, representing all fourteen (14) districts of Sierra Leone with six (6) client respondents per district. The research sample was not intended to be statistically representative (as quantitative research normally requires), but rather to provide a more in-depth, qualitative view of client impacts and coping mechanisms over a 45-day period. The sample was very diverse in terms of client income levels, economic activities, and rural/urban locations. The research period ran from the last week of December 2014 to mid-February 2015. Clients were visited four (4) times for interviews—a baseline, two follow-up interviews, and an end-line.

The selection criteria for respondents were:

- Current MFI client with an active business loan (either group loan member or individual loan client);
- Considered a “good” client with a positive repayment track record and a well performing business prior to the Ebola crisis (to minimize the role of external factors such as poor business management skills);
- Voluntary participation with clients clearly understanding that their involvement would not affect future loans requested, etc.

Nine (9) MFIs and one (1) community bank participated in the research (see table below). Participating providers offered the time of their loan officers to undertake client visits and interviews. A data encoder from the MFI Association for Rural Development (ARD) was also integral to the research process.

District	MFI	District	MFI
Bo	A Call to Business	Kono	LAPO Microfinance
Bombali	Salone Microfinance Trust	Moyamba	GGEM Microfinance Services
Bonthe	Mattru Community Bank	Port Loko	Salone Microfinance Trust
Kailahun	SEND Sierra Leone	Pujehun	CEDA
Kambia	GGEM Microfinance	Tonkolili	Finance Salone
Kenema	Salone Microfinance Trust	Western Rural	Ecobank Microfinance
Koinadugu	LAPO Microfinance	Western Urban	Bank for Innovation and Partnership

Provider-level impact

All nine (9) MFIs also participated in the provider-level research process. SLAMFI was already collecting member MFI financial and portfolio information reports on a semi-annual basis before the Ebola crisis began. In order to more closely monitor key performance indicators, SLAMFI increased its reporting frequency to quarterly from semi-annually and added some data points for further comparison of MFI performance before and during the crisis period. Qualitative interviews with select MFI managers served to clarify certain data and findings. Moreover, SLAMFI members participated in an email forum to share experiences and actions undertaken during the crisis period.

The research had the following limitations:

- A critical period of time was lost, due to the timing of the research. The first Ebola case was detected on May 25, 2014, and a public health emergency was officially announced on August 1,

2014. But the baseline research did not commence until the end of December 2014. The interviews attempted to address this gap by asking clients to recall their transactions and experience during the past six months (June to November 2014). However, it is to be expected that client recollection would not be as detailed or accurate, due to the lapse of time between the onset of the crisis and the first data collection activities.

- Restrictions in inter-district travel and even movements within a district were heightened during December 2014. This caused significant delays in interviews and submission of data.
- The possibility of survey fatigue for clients was anticipated due to the frequency of visits. To reduce the risks, the time commitment and level of client participation were made clear at the outset. A decision was also made to rely on loan officers as data collectors, because their existing relationships with clients, characterized by mutual trust and familiarity, were likely to enhance clients' comfort in sharing their experiences.
- The scope and focus of this study are limited. The Ebola crisis has other social and livelihood impact on clients and their families that will hopefully be assessed and documented by international and local non-governmental organizations, the international donor community and other actors. SLAMFI can undertake further secondary research and synthesize the findings to be shared with members to help inform post-Ebola recovery activities.

Researchers were advised to take Ebola prevention measures while interacting with clients and to comply with local by-laws imposed by authorities for movement and activities in the field.

3. FINDINGS ON MICROFINANCE CLIENTS

3.1. Demographics

- There were thirty-one (31) male and fifty-three (53) female respondents.
- Fifty-four (54) respondents were from rural areas, and thirty (30) were from urban centres, including the cities of Freetown, Bo, Kenema, Makeni and Koidu.
- Sixty-nine percent (69%) of respondents have a household size with more than five members.
- Sixty-nine percent (69%) of respondents live in a house; twenty-six percent (26%) in a rented apartment; and five percent (5%) in temporary or makeshift dwellings.

For a clearer socioeconomic profile of the sample, the baseline survey gathered information on respondents' access to public services and asset ownership. Based on two key indicators of access to a water point and flush toilets (as opposed to latrines), the majority of respondents are economically disadvantaged.

Household access to or ownership of	Number of YES responses	Percent
House	58	69%
Electricity (NPA)	35	42%
Water point	36	43%
Kitchen	70	83%
Flush toilet	35	42%
Mobile phone	83	99%
TV	52	62%
Radio	78	93%
Motor vehicle	15	18%

Other socio-economic characteristics of respondents:

- Seventy-eight (78) out of eighty-four (84) respondents have more than three years of business experience; and
- Seventy-six (76) of them are engaged in trading of local produce, food, provisions and clothing.

3.2. Impact of the Ebola Crisis on Client Businesses

Change in Business Income May 2014 vs. November 2014	Number of responses	Percent of total respondents
Decreased less than or equal to 35%	17	20%
Decreased 36% to 70%	42	50%
Decreased 71% to 100%	5	7%
Increased	18	21%
No Change	2	2%
TOTAL	84	100%

Change in Business Expenditures May 2014 vs. November 2014	Number of responses	Percent of total respondents
Decreased less than or equal to 35%	17	20%
Decreased 36% to 70%	33	39%
Decreased 71% to 100%	8	10%
Increased	26	31%
No Change	0	0
TOTAL	84	100%

Seventy-seven percent (77%) of respondents reported a negative impact on business income, and 69% reported a decline in business expenditures. The impact was extensive, with most clients reporting at least a 35% decline in business income as well as expenditures (mainly inventory purchases). However, a small proportion of clients (21%) managed to increase their business income during the period—evidence of some microentrepreneurs' capacity to successfully adapt to crisis conditions.

The negative impact on client businesses is attributed to the following:

Factor	Number of Responses	Percent of total respondents
Decrease in number of customers	69	91%
Decrease in volume of supply/suppliers	61	73%
Increase in price of goods purchased	50	60%
Increase in own selling prices	42	55%

District quarantines, road blockades, limitations in movements of people and goods, including limited international flights and border closings, and the ban on trade fairs or market days (e.g. “luma”) were identified as primary reasons for the decrease in number of customers and decrease in supply of goods for resale. Most clients cited the depreciation of the Leone currency and high transportation costs during the period as main reasons for increased cost of goods. Many clients (55%) consequently increased their own selling prices to cover higher costs, thereby making their businesses less competitive. On the other hand, 45% of clients opted to maintain their selling prices even in the face of higher costs, which resulted in lower profits or even losses for them.

As mentioned earlier, one criterion for the selection of research respondents was that the client be considered a “good” borrower and not have a loan in arrears. Even among these relatively strong clients, some were forced to miss loan repayments during the period. Some had to close their businesses for three weeks or more because their households were quarantined, and some reported that there were days when their business were open but no sales were realized (see table below).

Difficulties encountered even by clients with good borrower track records	Percent of respondents who experienced
Delayed loan repayments	24%
Business closures due to quarantine	13%
Zero sales during some business days	17%

3.3. Impact on Clients and Household Well-Being

Change in Household Expenditure May 2014 vs. November 2014	Number of responses	Percent of total respondents
Decreased less than or equal to 35%	41	49%
Decreased 36% to 70%	20	24%
Decreased 71% to 100%	1	1%
Increased	19	22%
No Change	3	4%
TOTAL	84	100%

Seventy-four percent (74%) of clients reported a decrease in total household expenditures. The majority of these clients (49%) reduced their household expenditures by thirty-five percent (35%) or less. However, twenty-two percent (22%) of respondents actually increased their household expenditures.

Most of these increases were due to increased health expenditures and extra contributions to family members and relatives in need.

Change in Household Expenditures May 2014 vs. November 2014	Food Expenditure (number of respondents who reported)	Health Expenditure (number of respondents who reported)
Decrease	57	43
Increase	13	30
No Change	14	11
TOTAL	84	84

The majority of clients reduced their spending on food. Clients indicated that the household and business uncertainties brought by the Ebola crisis forced them to tighten their expenditures on food. Half of the respondents also reduced spending on health, but a third of the clients increased household health expenditures. The Ebola crisis appears to have pushed some people to be more mindful of their health and the health of their household members.

3.4. How Clients Managed their Risks

A top strategy for risk mitigation, mentioned by 74% of clients, was to “change the business”. For example, clients changed to products in higher demand and/or concentrated on fast-selling goods, even if unrelated to existing products (considered diversification by clients). During the Ebola crisis, the selling of food, drinks, local produce and building materials continued to be very viable. Several clients selling non-food items like kitchen utensils, electrical supplies and clothing shifted to selling food or local produce to generate income.

Other strategies employed by clients to augment incomes or stabilize business include:

1. ***Receiving financial assistance from family members (58%)*** is a major coping strategy of clients.
2. ***Implementing new business strategies (55% of clients)***, such as changing or adding sales locations, reducing prices, hiring sales people on commission, street hawking, and avoiding credit sales to minimize risks (although some clients offered credit sales to attract more customers). Improving customer service was also a strategy, such as offering free delivery of wholesale purchases, and more rapid response to customers’ requests.
3. ***Engaging in additional livelihood activities (26% of clients)***, such as farming, small gardening, “okada” riding (commercializing a private motorbike), selling firewood or charcoal, timbre trading, phone charging, and artisanal diamond mining. This also included taking paid employment; for example, one client joined a burial team, one became a cook for an Ebola treatment facility, and another became a hired farm laborer.

4. ***Selling of assets such as cow and land, and drawing of savings (6% of clients)*** also occurred but on a limited scale. The limited sale of assets reflects the poverty level of clients and their limited asset ownership.

During the biweekly follow-up visits, clients were asked whether they had been able to implement their strategies and if so, what results they had experienced. As illustrated in the tables below, many clients were able to implement their strategies, but not without challenges, and their ability to do so declined over time, due to the uncertainties and challenges that continued to prevail during the period.

Have clients been able to implement their business and coping strategies?	First bi-weekly Visit 5 January 2015	Second Bi-weekly Visit 19 January 2015
YES	64%	50%
NO	36%	50%

Results of coping strategies on business performance	First bi-weekly Visit 5 January 2015	Second Bi-weekly Visit 19 January 2015
Business performance improved	31%	41%
Business performance stayed the same	40%	44%
Business performance has worsened	29%	15%

3.5. Impediments to Sustaining Businesses in Times of Crisis

The following issues were the most common impediments cited by clients as detrimental for their businesses going forward.

Prolonged Ebola crisis and continued restrictions in movement – Eighty-three (83% of clients) cited an unabated crisis, inability to access a supply of goods, and continued reduction in trading hours/days as the main impediment for them to sustain their businesses.

Financing constraints and MFIs suspending loan disbursements – Fifty-five percent (55%) of clients expressed that capital constraints and an inability to avail a new loan from their MFIs following loan repayment as major threats to their businesses. They expressed concerns that the MFIs might continue suspending new loan disbursements as the crisis continues or that financial contributions from family members may slow down.

Ebola infection or poor health – Forty percent (40%) of clients expressed fear of infection and ill health as impediments for them to continue their businesses.

Higher prices of goods and transportation costs – Twenty percent (20%) of clients cited higher costs as a threat because it reduces their ability to realize profits if they cannot pass those cost increases on to customers, or if increased prices result in a loss of customers.

The final survey was undertaken between the second and third weeks of February with the objective of obtaining the latest business and household data for clients covering the period January 2015 for

comparison to the pre-crisis period in May 2014. As shown in the table below, the majority of the clients had not achieved pre-crisis levels of business and household expenditures and income.

Final Survey May 2014 vs. January 2015	Business Expenditures	Business Income	Household Expenditure
Decrease	56%	74%	64%
Increase	41%	23%	35%
No Change	3%	3%	1%

3.6. Conclusions: Impact on Microfinance Clients

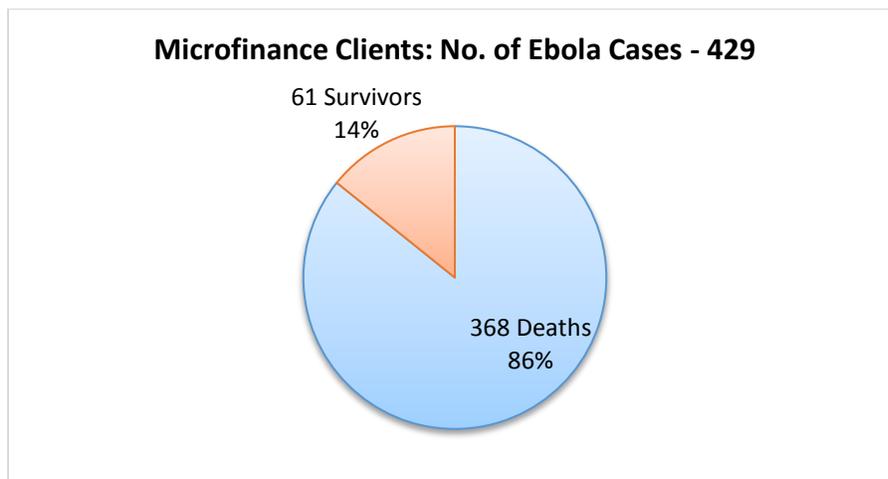
The Ebola crisis clearly had a sharp negative impact on the businesses of many microfinance clients. Even for relatively strong and resilient clients, the negative effects are manifested in delayed loan repayments and lower household expenditures, particularly on food. Interestingly, clients displayed remarkable risk management strategies that enabled them and their microenterprises to survive the crisis period. This demonstrates that micro and small entrepreneurs are worthy of ongoing financial access (financial assistance, loans, and savings) during and after a crisis period.

4. FINDINGS ON MICROFINANCE PROVIDERS

4.1. Operational and Financial Impacts of the Crisis on MFIs

Sierra Leone had 9,446 confirmed Ebola cases at the end of 2014.¹ The 9 microfinance providers that participated in this study reported a total number of Ebola cases amongst MFI clients of 429 with a high death incidence as shown in Figure 1. Seventy percent (70%) of microfinance clients who died are women.

Figure 1: Number of Ebola Cases among Clients of 9 Microfinance Providers

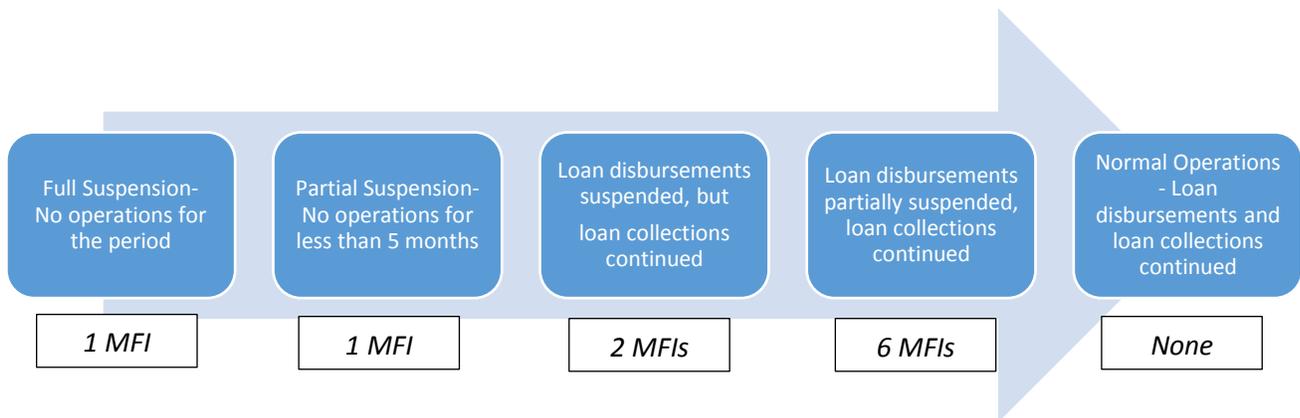


Actions taken by MFIs to avert a deep negative impact differ considerably. Figure 2 shows the gamut of operational decisions made by MFIs. All MFIs that did not fully suspend operations undertook the following risk mitigation actions:

- Group loan meetings were suspended; collections were done through group leaders.
- Group trainings and disbursement meetings in clusters were suspended and verification of clients for disbursement was undertaken in small numbers to avoid overcrowding.
- Continuous Ebola awareness campaign for all MFIs staff.
- Infection prevention measures for MFI staff were implemented (e.g. proper hygiene/hand washing, manner of interaction with clients such as by keeping sufficient distance and avoiding body contact, and wearing of gloves/long sleeves)
- Client monitoring and loan collections (reminders) through phone was intensified.

¹ <http://apps.who.int/ebola/en/status-outbreak/situation-reports/ebola-situation-report-31-december-2014>

Figure 2: Operational Decisions of MFIs (July to December 2014)

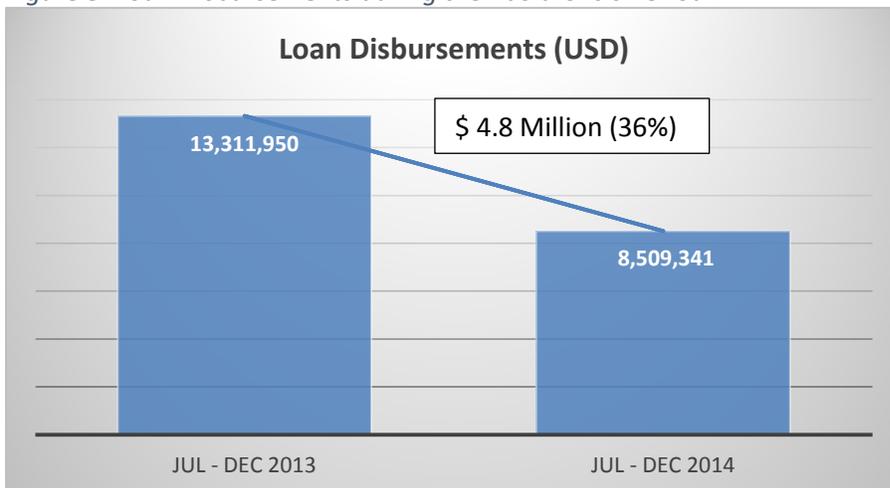


In order to relieve the borrowers from the economic hardships posed by Ebola and to protect the lives of all staff, BRAC Microfinance Sierra Leone (BRAC SL) suspended all microfinance operations for at least six (6) months. BRAC SL had thirteen (13) international staff embedded in field operations, and the potential liability in case of deaths or infections was considered enormous. Despite the expected severe financial impact of suspending services (BRAC SL continued to pay all staff salaries during the service suspension), the MFI did so with the full support of its shareholders. BRAC continued to support its clients through an Ebola information campaign and the distribution of protective health/sanitation materials. Shareholders have committed to recapitalize BRAC SL to cover any financial loss due to the suspension of business activities.

4.1.1. Loan Disbursements

Nine (9) of the largest and most active microfinance providers in the country reported portfolio data for the SLAMFI Ebola Crisis Impact Monitoring exercise. Based on this data, the microfinance sector’s loan disbursement declined by 36% (US\$ 4.8 Million) during the crisis period July to December 2014, as compared to the same period in the prior year. As shown in Figure 3, most MFIs continued loan disbursements, but not at their normal level. These MFIs disbursed primarily to repeat clients with good payment track records and did not approve new clients during the period.

Figure 3: Loan Disbursements during the Ebola Crisis Period



Thus although the economy was seriously affected and markets were disrupted by Ebola containment measures, there was not a total market breakdown. Local markets were still functioning, but MFIs applied a high level of vigilance, and all had to face the difficult decision of whether to halt loan disbursements. Where loan disbursements did continue, providers carefully assessed local market vulnerabilities and focused their investments on viable markets and microentrepreneurs with stable or promising opportunities for continued income. Microfinance providers were fully aware of the risks faced by small enterprises and discussed mitigating measures with clients to overcome volatility and ensure their commercial viability (e.g. supply of goods despite quarantine restrictions).

MFI business plans were clearly disrupted, and business growth was suspended during the crisis. As shown in Figure 4 below, the sector’s loan portfolio volume declined during the period; as shown in Figure 5, the number of active clients also declined.

Figure 4: Gross Loans Outstanding

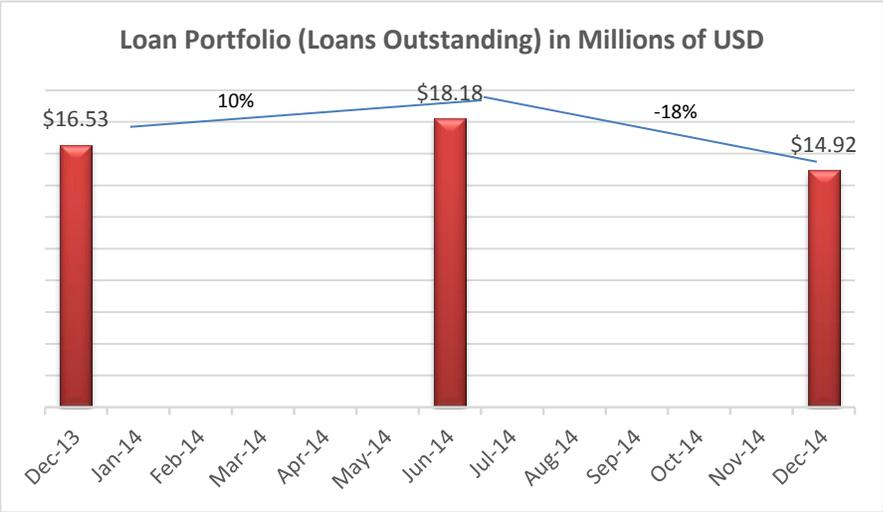
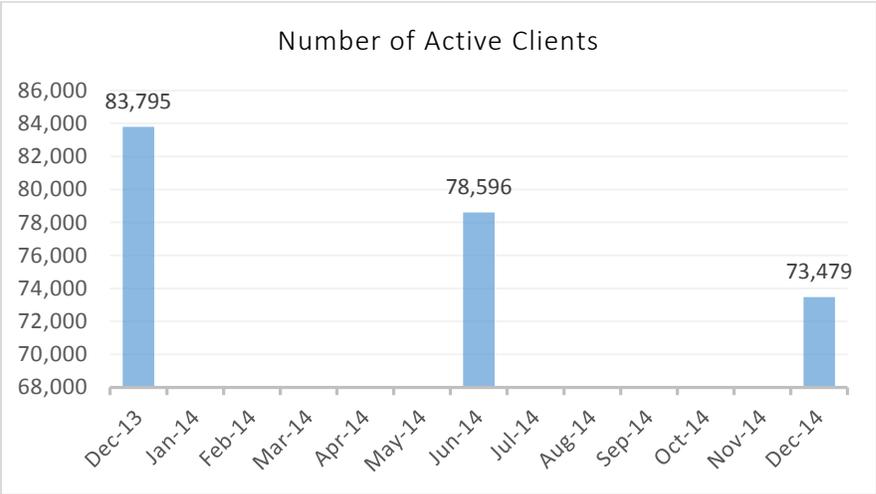


Figure 5: MFI Client Outreach



4.1.2. Portfolio Quality

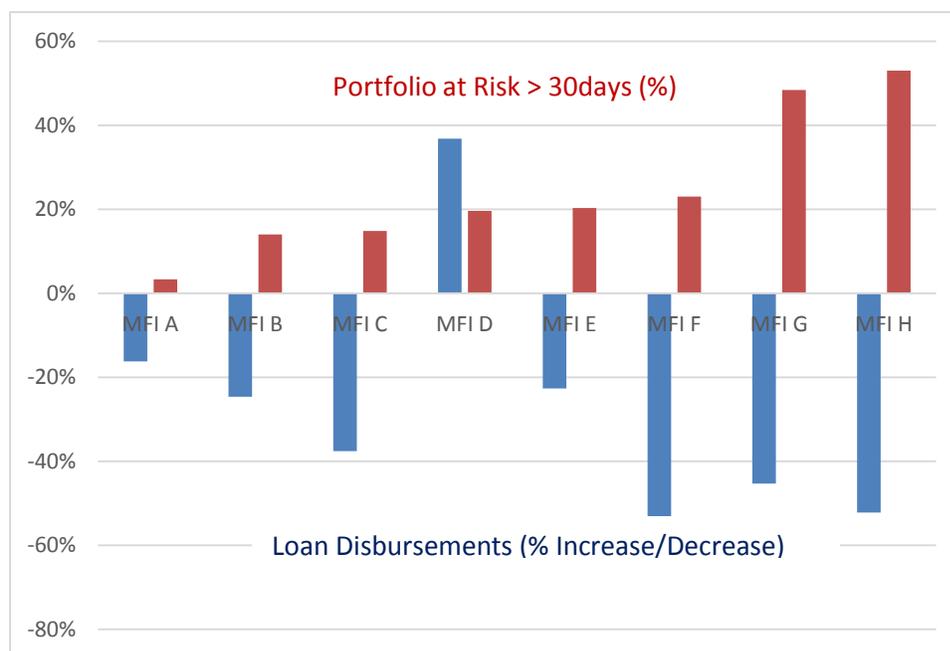
The sector's already high level of loan delinquency in spring 2014 was exacerbated by the Ebola crisis. **Portfolio at Risk greater than thirty days (PAR>30) stood at 11% in June 2014 and had doubled to 22% by December 2014.** (Note: BRAC SL fully suspended operations and froze its portfolio in June 2014, when PAR>30 stood at 4.30%. If the BRAC stoppage is viewed as causing 100% of its loan portfolio to be at risk, the consolidated delinquency rate for the 9 participating microfinance providers would be 33%, rather than 22%.)

The sector also saw a sharp increase in the number of clients or loans in arrears (28%). A total of 3,074 clients fell into delinquency during the period. For MFIs that offered both group and individual loan products there was no significant difference in the extent of portfolio deterioration. This means that very low-income clients (who often take a group loan product) and relatively better off clients (commonly holding individual loan products) were almost equally affected by the crisis.

Figure 6: Loans in Arrears

	Number of Loans in Arrears	Loans in arrears plus unpaid loans due to BRAC stoppage
June 2014	11,009	11,009
December 2014	14,083	37,754
Percent Increase in Arrears from June to December 2014	28%	243%

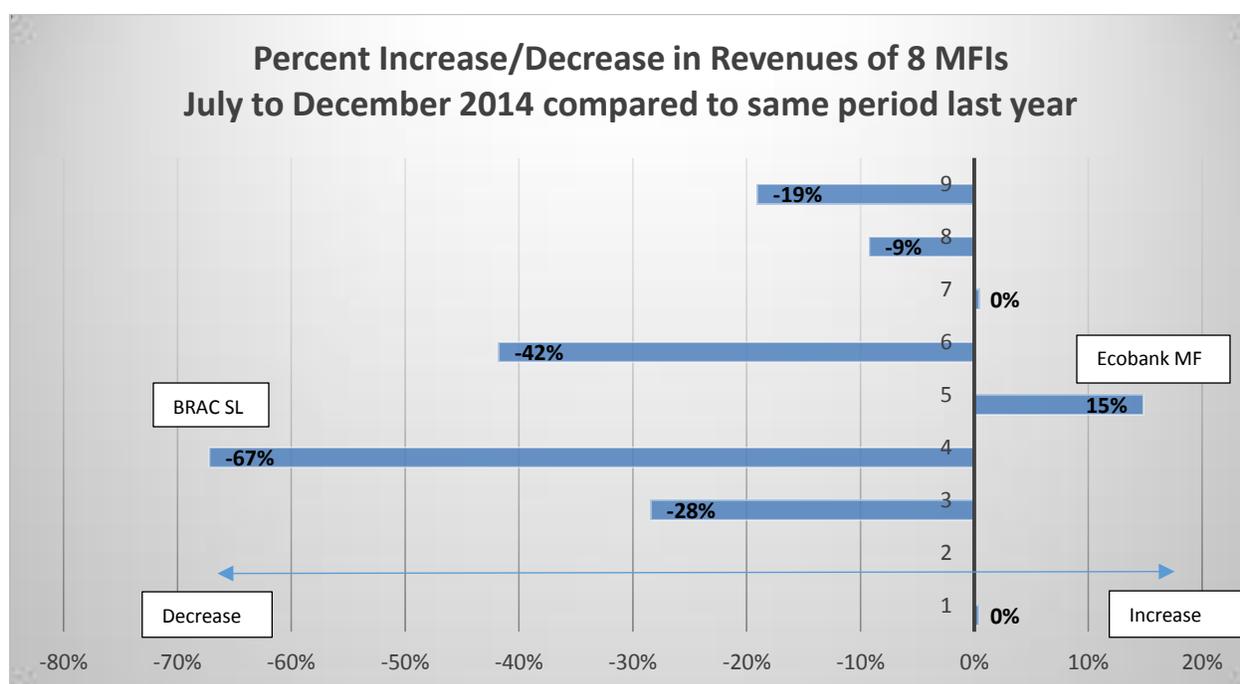
Figure 7: Correlation between Loan Disbursements and Portfolio Quality



4.1.3. Revenues and Profitability

The decline in loan disbursements (36%) and increase in delinquency (PAR>30 of 22%) have direct effects on the ability of microfinance providers to generate income. The majority of the MFIs realized significantly lower revenues; BRAC SL saw the largest decline (67%), while Ecobank Microfinance showed an exceptional increase in revenues (15%). Ecobank Microfinance was one of the MFIs that only partially suspended loan disbursements, and as a deposit-taking institution, the MFI benefits from diversified income streams. Ecobank Microfinance also managed to maintain relatively low delinquency, with only a three percent (3%) increase in PAR>30. As shown earlier in Figure 2, the MFIs made a wide range of decisions in reaction to the crisis, and these differences resulted in various impacts on revenues (from severely negative to moderately positive).

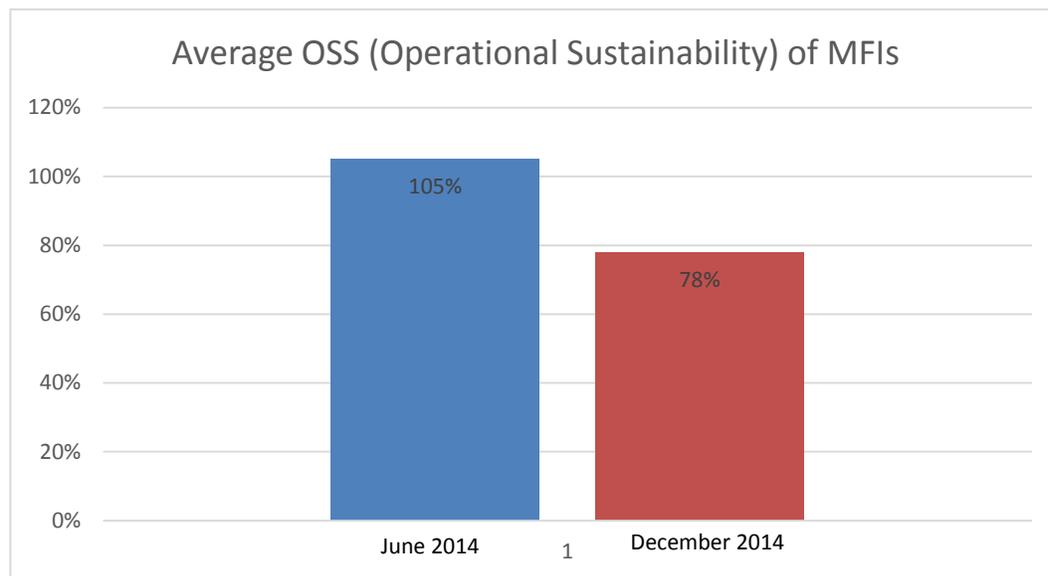
Figure 8: Percent Increase/Decrease in Revenues



Other key drivers of profitability are also at play. In particular, the high PAR>30 entails very high loan loss provision expenses. Another driver of profitability—operating expenses—did not decline significantly, since MFIs largely maintained their branches and employees despite the slowdown in operations. Microfinance providers were forced to put their active growth plans on pause when the Ebola crisis emerged. So, although a majority of the MFIs were on track in mid-2014 to achieve annual profitability and operational sustainability (OSS)² targets, their progress was reversed during the peak of the crisis. The average OSS fell from 105% in June 2014 to just 78% in December 2014.

² Operational sustainability (OSS) is calculated as Operating Revenues divided by Operating Expenses. The acceptable level is greater than 100%.

Figure 9: Operational Sustainability of MFIs



4.2. To what degree is MFI sustainability at risk?

Only one (1) out of nine (9) MFIs in the monitoring survey had acute sustainability issues prior to the Ebola crisis, while the eight (8) MFIs had achieved or were very close to reaching 100% OSS. All MFIs but one saw their OSS decline, resulting in an overall OSS of 78%, an unacceptable level. With the inflation rate increasing from 6.74% in June 2014 to 10% in December 2014,³ and at the cost of capital increasing from 20% to 26%, the MFIs' costs have increased. The 22% delinquency rate is unsustainable and represents a major threat to the MFIs' liquidity position. The short- to medium-term financial sustainability of the MFIs is therefore at considerable risk.

To reverse this situation, the MFIs must take several actions. The following actions are strongly recommended:

- Liquidity infusion either through equity or subsidized loan funding to increase loan disbursements;
- Improvement in portfolio quality by enhancing loan recovery strategies
- Restructuring of loans (which has liquidity implications)

4.3. Lessons Learned

- MFI staff education and continuous dissemination of infection prevention measures for Ebola helped allay fears and safeguard staff while they continued their duties. Staff brought this

³ The 10% inflation rate in December 2014 is an estimate.

<http://www.worldbank.org/content/dam/Worldbank/document/EconomicImpactUpdateDec2014.pdf>

knowledge to their own homes and communities and also educated their household members on infection prevention measures.

- Sustained awareness-raising on the epidemiology of Ebola helped management to critically look at risks in markets where their branches are operating and made informed decisions to reduce the impact of the crisis on its staff and operations.

Proactive and continuous assessment of local operating markets allowed MFIs to identify the types of economic activities that could still be viably supported and enabled them to continue meeting many clients' financial needs during the crisis. Many MFIs mitigated risk by maintaining active operations in high-performing markets and slowing activities in harder-hit areas.

- The MFIs' ongoing communication and engagement of clients during the crisis period provided some assurance that the lending relationship would be sustained after the crisis period, which helped collections and maintain positive client relationships.
- Diversified market segments and products allowed some MFIs to minimize negative impacts. MFIs that have savings products, SME loans, salary and consumption loan portfolios had better overall portfolio quality, as compared to just offering the group loan product. In addition to diversified clientele, diversification of geographical outreach and economic sectors being served also reduced the risks.
- The lack of preparedness for external risks should be avoided in the future. Preparedness for business continuity, liquidity management, portfolio management and recovery must be assessed and a contingency plan should be developed to manage external risks—not only for another Ebola outbreak, but also for any natural disaster, epidemic, war or other sudden economic shocks. The microfinance association and its members should prioritize the proactive development of a comprehensive risk management strategy and protocol.

4.4. Conclusions: Impact on Microfinance Providers

The Ebola crisis had severe impacts on the majority of Sierra Leone's microfinance providers. Eight (8) MFIs were operationally sustainable or very close to 100% OSS before the crisis, but the crisis largely derailed their path to growth and sustainability. The sector was already confronted with a high level of delinquency prior to the crisis, and this was exacerbated by the onset of Ebola, with PAR>30 rising from 11% to 22% and an additional 3,074 clients falling into delinquency during the period. The extent of the impact however varies from one MFI to another, depending on the course of actions undertaken. Sustained awareness of the epidemiology of Ebola, dissemination of infection prevention measures to staff, careful assessments of MFIs' local operating markets and clients enabled sound operational decisions that did serve to minimize the overall negative impact.

5. RECOMMENDATIONS

Microfinance Providers

- Microfinance providers must have the capacities necessary to develop and implement risk-management strategies. While the most apparent need from the Ebola crisis is external risk management and preparedness, there is a fundamental need for MFIs to review and enhance their overall risk management systems in order to financially recover from the crisis and return to sustainability.
- Microfinance providers must ensure lending practices remain robust at all times. It is evident from the study that high quality client selection and appraisals protected loan portfolios from significant deterioration. Client character, including entrepreneurial skills, remains the single most effective determinant for clients to weather or bounce back from a crisis.
- Microfinance providers must ensure that products and services are designed not only to sustain business working capital requirements but also support clients in building assets and reducing vulnerabilities. The Ebola crisis also highlighted the need for other financial services, such as savings, money transfer services and micro-insurance. Non-financial services, such as financial education, as well as business training upon request, are also relevant to help build client resilience.

SLAMFI

- SLAMFI should actively advocate and engage regulatory bodies and the international donor community to support the microfinance sector in its recovery.
- Microfinance providers should continue their commitment and collaboration under SLAMFI to address common interests and goals. Transparency should also be sustained, including an exchange of information and experiences. MFIs should report to the Mix Market⁴ to raise the visibility of the Sierra Leone microfinance sector and build the sector's credibility in the eyes of international social investors and the global microfinance community.

Microfinance Funders/Investors

- Microfinance funders or investors should consider supporting Sierra Leonean MFIs in developing and implementing risk management strategies not only to protect investments, but also to ensure the institutions' long-term sustainability.
- Microfinance funders or investors should proactively engage with investees to continuously assess their situations during crisis periods and make informed decisions on supportive actions,

⁴ Microfinance Information Exchange (www.mixmarket.org)

such as equity infusion, loan restructuring, partial debt or interest forgiveness, or capacity building.

Regulatory Bodies

- The Ministry of Finance and Economic Development (MoFED) and the Bank of Sierra Leone (BoSL) should collaborate with SLAMFI for sustained monitoring and assessment of the health of the microfinance sector and to promote a more inclusive financial sector.
- MoFED and BoSL should recognize the contribution of microfinance providers in promoting livelihoods and local economic development and include them in the formulation of post-Ebola economic recovery strategies. Financial service provision was seriously affected, but there has not been a total breakdown. Many microfinance providers have been able to continuously operate and effectively serve their clients' financing needs. Despite the current financial challenges faced by MFIs, the government can still leverage the structure, capacities and achievements of the microfinance sector to deliver recovery support to the low-income sector.

Multilateral Donor Community

- The multilateral donor community can collaborate with SLAMFI to develop and implement post-Ebola economic recovery strategies. It can also financially assist SLAMFI to expand its capacity to engage MFIs in implementing the risk management strategies and recovery activities.

Microfinance has been used as one of the major financial interventions 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 to smooth consumption and diversify sources of income. It can also support more rapid recovery of affected small enterprises by enabling them to re-establish viable economic activities and/or increase their productivity following economic crisis.

- The donor community should avoid implementing programs and approaches that can distort the microfinance market and lead to longer term negative impacts on the sustainability of the microfinance sector. If subsidies are deemed truly necessary, proper client targeting or sequencing of grants and loans should be carefully analyzed. This underscores the importance of collaborating with SLAMFI to ensure that market distortions are not inadvertently created.

6. STORIES OF RESILIENCE

The following section describes in detail the impacts of the Ebola crisis on clients by capturing their backgrounds and experiences during the crisis period. These stories relate experiences and lessons learned that may provide valuable insight on supporting client resilience going forward. Hopefully these stories will guide microfinance institutions and practitioners, and inspire stakeholders to continue to be champions of micro and small entrepreneurs.

Stories of Resilience: Why Women should be empowered

KADIATU GBORIE

(Kailahun District)

Kadiatu is an empowered, 50-year-old woman with a secondary school education. She developed strong entrepreneurial skills as a child, learning from her mother, who was an astute trader. Later, as an employee of Save the Children, Kadiatu acquired community mobilization skills. Kadiatu is very active in community affairs in Kailahun, for example organizing women's groups and projects that facilitate skills and livelihood development for women. Mostly engaged in rice farming, Kadiatu and other women managed to obtain funding to operate a rice mill and storage facility. Kadiatu became a widow in 2008 with four dependents at that time. Not long after her husband's death, she started her own business to sustain the family's needs by selling farm produce and provisions. SEND Sierra Leone, an NGO operating a microfinance program in Kailahun, provided the loan that helped Kadiatu start her business.

Kailahun District was the first district to experience the devastating effect of Ebola. Kadiatu's immediate household was not affected, but she lost two very close relatives to the disease. The district fell into an intense state of fear as both government and non-government organizations grappled with handling the onset of the crisis. Kadiatu completed her loan repayments with SEND in June 2014 and was about to obtain her next loan, when SEND decided to suspend microfinance operations. Kadiatu's daily sales fell sharply, due partly to her low stock, but she observed that sale of farm produce such as rice, beans, onions, palm oil and condiments was steady. Although there were days declared by government as "no trading" days, Kadiatu never completely shutdown her business throughout the crisis period. Soon, her household's consumption needs exceeded her daily sales, and Kadiatu decided that she must do something both to sustain her household and to prevent the collapse of her business. Kadiatu approached a larger, Liberian trader in Kailahun town and was able to obtain supplies on credit, worth about \$300, enabling her to re-establish and increase sales. Her business sales remained 30% lower than normal in November 2014, but she is more confident that the situation will gradually improve. In addition to the supplier's credit, her participation in Osusu (a rotating savings scheme) and a \$150 monthly contribution from a daughter who is employed in Freetown also helped Kadiatu overcome financial distress.

Kadiatu attributes her personal resilience to her strong sense of independence and hard work. She and other women in her group continued growing rice in swamps and now have seed rice available for next planting season. She hopes that other women will also maintain positive attitudes and not easily give up in times of crisis.



Stories of Resilience: Business Tenacity in a Time of Crisis

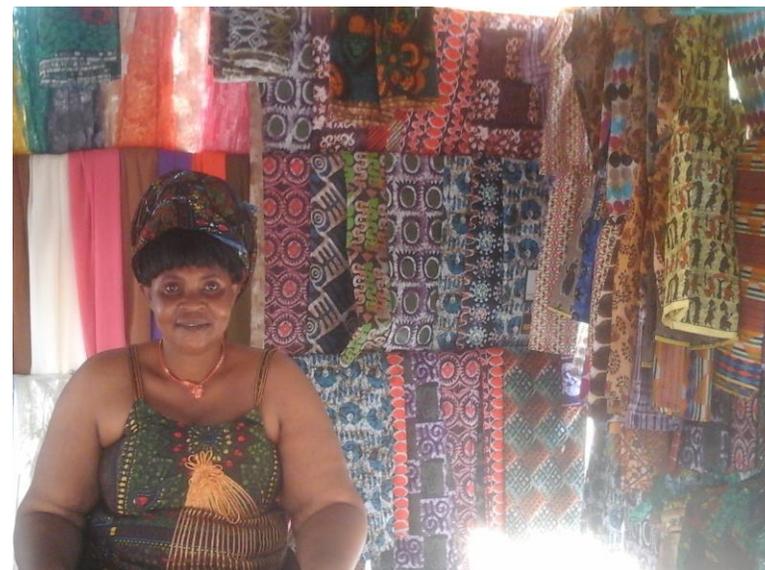
SALAMATU KAMARA
(Port Loko District)

Salamatu's business is selling traditional clothing material, lace, satin and wax cotton during village trade fairs (called "luma" in Sierra Leone). She used to generate sales of up to \$2,000 for a whole day trade fair and she attends at least three lumas in 1 week. The luma was among the first public gatherings to be banned when the government declared a State of Public Health Emergency. Port Loko is an Ebola hotspot in the Northern Province. The district was quarantined, and this along with the ban on lumas resulted in Salamatu being confined to selling only from her home in Lunsar. Her sales dramatically dropped to less than \$100 a day. She had to lay off her three workers. For six months, Salamatu's family managed to get by on her meager sales combined with her husband's contribution of \$150 per month and from an okada (commercial motorcycle) business. Salamatu never missed a single loan payment to her MFI, Salone Microfinance Trust (SMT).

With Ebola cases continuing to increase in Port Loko, and with no opportunity for luma to return for a while, Salamatu decided to find a business location with more traffic than at her home. She initially looked into relocating near the public market but worried about the risks of Ebola infection, so she continued to search. Finally, Salamatu set up a display of her extensive unsold stock in a make-shift location within Lunsar's commercial area. She sacrificed high profit margins, selling instead at wholesale prices and capital city (Freetown) prices. Her strategically low pricing generated marketing by word of mouth and she attracted a growing number of customers. Salamatu saw real possibility of business recovery in January 2015 with her sales reaching \$600 to \$800 per day. With Ebola cases declining in Port Loko, she has also brought back two workers. After several months of not travelling, she travelled three times to Guinea in January 2015 to buy more goods. Tailors who discovered her shop location

and competitive prices suggested that she should also sell tailoring products. By implementing this suggestion, Salamatu has added a new set of customers—the tailors themselves.

Although her sales have still not recovered to her prior level, Salamatu is happy that she survived the crisis. Despite only having a primary school education, Salamatu's determination and savvy business strategies helped her overcome considerable obstacles and maintain a strong business. Salamatu received her third loan from SMT in January 2015; the MFI did not hesitate to provide her with a repeat loan because of her outstanding character and business tenacity.



Stories of Resilience: A Model Youth Entrepreneur

MOHAMED BAH
(KENEMA DISTRICT)

Kenema was one of the hardest hit districts by Ebola. It was the second district to be quarantined very early on the crisis and restrictions on travel in and out of the district continued for six months. This prolonged quarantine period has been understandably devastating for the district's local economy. The situation was particularly hard for small businesses that do not have the capacity to bring in merchandise stocks on their own. They had to rely on large traders with regular trucks and transportation means to help them bring in their goods. Such was the case for Mohamed Bah, a young entrepreneur, and a microfinance client of Salone Microfinance Trust (SMT).

Mohamed operates an electronics shop near the main market centre of Kenema City. The quarantine not only significantly reduced Mohamed's ability to obtain merchandise from Freetown, but it also significantly reduced the number of his customers, who are primarily people traveling from villages outside of Kenema City. With restrictions on movement as well as the population's pervading fear of travel, the number of customers plummeted, resulting in very low sales for Mohamed. Mohamed however continued to open his shop and closed only during times and days prescribed by the government.

There was also a ban on public gatherings and social activities, which had a positive effect on his business. With people restricted mostly to their homes, there was a higher demand for home entertainment. Mohamed's sales of televisions and mini-laptops that could play DVDs did not slow down. Mohamed focused his resources on these products and increased his sales. Although he was forced to miss some loan repayments during four months, Mohamed recovered quickly from the crisis and managed to maintain the well-being of his mother and two younger siblings.



From December 2014 to January 2015, Mohamed improved his business sales and was able to fully repay his loan. This has brought him great relief, as he wants to maintain his credit record and be able to obtain higher loans from SMT. He is also happy to see his customers from the villages returning to buy from him.

Mohamed displays impressive business skills for a 24-year-old entrepreneur. Although he completed secondary school, his parents could not afford to send him to college. When his father passed away five years ago, Mohamed assumed his watch trading business. With his keen business sense, Mohamed sold his father's watch inventory, generating \$500, and used this to start a mobile phone business with a few phones to sell. Today, Mohamed has grown his business assets close to \$15,000. According to Mohamed, an important ingredient in his success has been good customer service and working to create a loyal set of customers.

Stories of Resilience: How Family Support Matters

Paulina Samba
(Freetown)

Paulina is the proprietress of a small private primary school in Freetown. She was a teacher for 25 years at various schools in the provinces. In 2008, she retired and moved to Freetown. Upon the request of her community and with funds provided by her children, she started a school offering nursery school up to class 3 for a total of 35 children initially enrolled. Before the Ebola emergency, this became a fully recognized primary school with over 300 registered students in the last academic year.

The Ebola crisis caused schools to remain closed, which has been seriously devastating for Paulina and her twelve teachers; Paulina has lost almost 100% of her income. While she has two children with stable employment, she also has seven dependents—an unemployed daughter and six grandchildren. To be able to sustain their household needs, Paulina diverted part of a business development loan obtained from Bank for Innovation and Partnership (BIP) to a side business—selling drinks, earning between \$50 and \$100 per week. She also had to rely on a \$200 monthly subsidy from her children, which helped her also to keep up with loan repayments on her third loan. Paulina has been able to use some of these funds and her time to improve the school’s facilities, provide better learning materials and construct additional classroom blocks. Paulina wants to remain very active and fully occupied, so she also recently embarked on becoming a distributor of cosmetic products and herbal medicines of a well-known brand. Her start-up capital was also paid out of the proceeds from the sale of her drinks and her children’s monthly contribution.



Paulina values her borrowing relationship with BIP, and she intends to make every effort possible to maintain her good credit record. When she fully pays her current loan in May 2015, she intends to obtain another loan. She will use the proceeds to set up a complementary business selling stationery and educational supplies, and providing photocopying and computer services, not only to the poor and needy children, but also to her community as a whole.

Stories of Resilience: Brave and Determined

KHADIEJAH TOMMY
(BO DISTRICT)



Khadijah Tommy, her husband and two children are among those who remained safe and healthy during the Ebola crisis. Khadijah is a client of A Call to Business Microfinance. She is selling apparel, shoes, slippers and handbags. In other districts, this type of business is among those that experienced a sharp decline in sales as people minimize spending on these low-priority items during a crisis period. Khadijah's business, however, was only slightly affected. Bo District was relatively better off than other districts, as it was not subjected to prolonged quarantines. Also, as the second largest city in Sierra Leone, Bo has a growing population and a dynamic local economy. Sales did decline by 50% during some weeks during

the crisis period, but overall Khadijah's business was unscathed from the crisis.

All throughout the crisis period, Khadijah was persistent to keep her business strong. She braved travel to Guinea multiple times to purchase inventory, overcoming not only the risk of contagion, but also the challenges of border closings, low availability of transport and higher transport costs. To keep herself safe and to avoid body contact with other passengers in public transport, she paid for two seats so that she would not have to sit close to other passengers.

Khadijah completed junior secondary school. She was a hairdresser for many years before she and her husband, an NGO worker, were able to accumulate \$500 for her to start her business in 2010. Today, her business is worth \$15,000. Khadijah attributes her business success to her hard work and the financial discipline that she and her husband practice. They separate business and household finances, and she only takes the loan amount that she needs and is within her capacity to repay.

Stories of Resilience: Carrying On No Matter How Small

FATMATA MANSARAY
(Koinadugu District)

A major producer of vegetables and other agricultural products, Koinadugu District was the last district in Sierra Leone to have a confirmed Ebola case, which emerged only in October 2014. In order to protect the community from contagion, Koinadugu implemented very tough measures on movements of people and goods beginning in May 2014. This resulted in serious hardship for local farmers. The restrictions caused extensive spoilage and losses for farmers, many of whom are women. In August 2014, a women’s vegetable cooperative reported a loss of \$40,000, because their produce was spoiled after waiting for several days to obtain transport approval. Consequently, farmers reduced production, fearing an inability to transport their goods for sale in Freetown. The local economic situation in Koinadugu during the Ebola crisis period was bleak. With agricultural losses and declining production, consumption by farmers also declined and had a

multiplier effect on other sectors, particularly trade of consumption goods. Many farmers and small business owners defaulted on their loans.

One of the micro-entrepreneurs who had to bear the negative effects is Fatmata Mansaray. While she is not a farmer, her business selling cooked food and snacks depends on the vibrant local market in Kabala, the district capital of Koinadugu. During the crisis, Fatmata was only able to generate of 50% of her usual daily sales, which was \$80 per day. The prices of goods she regularly purchased such as rice, cooking oil and canned tomatoes increased by 5% to 10%, forcing her to increase her selling prices, just as customers and sales were also declining. Her household with four children had to cut back on expenditures, and eventually she sought financial help from her brother to keep her livelihood going.

We asked Fatmata how her peers in the loan group were coping. She said that for those with food businesses, they managed to continue albeit on a smaller scale. Others had to find new sources of income, such as going to the forest to collect firewood for sale or becoming hired laborers on farms. Her loan group with LAPO SL is now in arrears but they are trying their best to pay regularly in very small amounts.



Stories of Resilience: How Savings Help in a Time of Crisis

IDRISSA CONTEH
(Bombali District)



Idrissa sells drinks and operates an entertainment center business showing football games on TV. The business is among those that were immediately banned when the state of public health emergency was declared because it attracts crowds of people. Idrissa continued selling drinks but immediately lost at least 30% of his customers. Due to slow inventory turnover during the period, some of the drinks inventory expired, resulting in additional business losses. In order to prevent a further decline in income, he and his wife decided to set up a small shop also selling drinks and cooked food in another location. Despite their business difficulties, Idrissa and his wife managed to save at least \$10 daily in a box at home over the course of the

Ebola crisis. Idrissa also set aside money on a daily basis to be able to pay his monthly loan payment due to his MFI, Salone Microfinance Trust (SMT). The combination of additional business and savings proved to be good risk mitigation strategies, because Idrissa managed to stabilize household income and at the same time accumulate lump sums that later enabled him to open a new provision shop. Since people tend to use provisions on a daily basis even during crises, Idrissa calculated that this would be a strategic business.

Idrissa is forty years old with two children and nine other dependents that rely on him for their basic needs and education. He believes that he has come a long way after spending many years as volunteer secretary of a drivers' union in Freetown and not having a regular and sufficient income. He also worked briefly at African Minerals, a large iron ore mining company but he was made redundant two years ago. An expatriate colleague working for African Minerals helped him to obtain an unutilized container van, plus \$600, that he used to start the current business. Idrissa did not fail to productively use the gifts and in fact for him there is no turning back, as he has now found his path as an entrepreneur.

Stories of Resilience: Perseverance was her companion

KATIE ROGERS
(Bonthe District)

Katie Rogers is a prominent businesswoman in Matru Jong, the district capital of Bonthe. She runs a trading business selling rice and various general merchandise. She inherited the business from her husband, who died four years ago although that business had to be split between her and a second wife. She was a full time housewife when her husband was still alive, and she has very limited business experience—filling in for her husband when he traveled and not participating in business decision-making. When she assumed the business, Katie gradually learned how to run the business, which began growing rapidly. Katie even eventually expanded to a new business venture, opening an electronics shop.

When the Ebola crisis was at its peak in Bonthe during the months of August and September, Katie saw at least a 50% decline in sales. Her customer base of traveling small traders and weekly trade fair visitors was severely diminished by travel and trade fair restrictions. She had to exercise extra care in selling on credit, fearing that more debts would become bad. Noticing that food items were still selling fast, Katie focused on these items, particularly rice. Although she had to pay up to 20% more for some of her inventory, Katie hesitated to increase her selling prices at the same rate, in light of low demand and heavy competition. Katie recognized the threat to her business profitability. Instead of increasing prices and despite her six dependents and other relatives needing occasional help, Katie reduced her business and household expenditures. By controlling costs, making tough decisions and keeping sales going, Katie persevered, all throughout the crisis period. In fact, she was never late in loan repayments to her lender, Matru Community Bank.

Katie is another success story of a female entrepreneur whose perseverance ensured stability in a period of crisis. Her lender considers her a very honest client, and with her business success, she has won the admiration and respect of the community.

