

BUSINESS PLAN FOR BOOSTER MICRO-CREDIT ORGANIZATION

(Private and Confidential)

“FOR STARTING A MICROFINANCE INSTITUTION IN SIERRA LEONE”

NORTHWEST REGION 2024

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1. INTRODUCTION AND BACKGROUND

1.1. Executive Summary

Booster Microfinance Organization (BOMO) is registered as a profit organization under the laws of the Republic of Sierra Leone. Its headquarters is located in Kambia Town, Kambia District. The organization was formed with the purpose of providing social and financial solutions to the poor, women and children. The existent business plan provides a rational framework for the microfinance part of HACEM-SL. The Organization was founded by Mr. Abdul S. Bangura and team who are actively managing the Organization. BOMO has already started a micro lending pilot project in Kambia district and has scheduled to roll it out to 200 families in Northwest region(underserved area in Sierra Leone), by the end of 2024, in collaboration with other stakeholders. The BOMO intends to use Bank model, developed by the Government of Sierra Leone. BOMO intends to reach out to 10,000 poor families in Sierra Leone with microloans in the next five years in Kambia, Port Loko and Karene districts and other parts of the country. Achieving this goal BOMO will expand its business in 2025 to other regions in Sierra Leone. BOMO management philosophy is to gain self sufficiency within five years. For that purpose, the management restricts the fundraising portion with a declining percentage of 100% in year one down to 55%, in year two, 50% in year three and 30% in year four. In 2028, BOMO does not expect to require any more grants. This document won't be possible without the hard-work of Mohamed Salim Kamara, who has invested a great deal of his time and resources to develop this important document because of his passion to those who live underserved conditions in Sierra Leone. BOMO Governing Board is grateful to his support.

1.2. Mission and Goals

BOMO exists to empower people economically while ensuring that those who live in poverty, particularly vulnerable women and children, are served in body, mind, and spirit. The springboard of BOMO is compassionate micro-finance lending that includes a range of support services for its members through multiple local programs in strategic rural and urban areas of Sierra Leone, and will eventually spread to other countries in Africa. By 2028, BOMO expects to

empower a population of one million Sierra Leoneans to move out of extreme poverty through strategic goals:

a) Microfinance. This includes urban and rural lending, community owned banking, and asset development strategies.

b) Community Investment. This comprises consumer-owned businesses, social businesses, and social investment.

c) Entrepreneurial of Entrepreneurship. This involves small-business development, hands-on learning, technical know-how culminating in self-employment, and life skills development.

d) Dynamic social network. This involves sharing resources, local interdependence, and mobilization of social networks.

As a Microfinance Institution, BOMO intends to increase opportunities for the poor to access financial services by providing financial services to low income entrepreneurs, mobilizing deposits from members and non-members and then loaning a certain percentage of these funds to urban and rural producers, traders and small scale farmers. BOMO's core values are enhancing their clients 'self-determination, serving as an ongoing financial resource for members, and achieving significant outreach and financial self-sufficiency.

1.3 About the Country, Sierra Leone

Sierra Leone is endowed with a plethora of natural resources such as precious ores, timber and agriculture and marine products. It is considered to have one of the highest potentials for growth among African countries. Prior to civil war in 1991, the country was a top exporter of rice, cocoa, coffee, minerals and marine products. However, much of its infrastructure was destroyed during the war in 199 to 2002 and its economy left ruined. When Sierra Leone came under the scourges of Ebola in 2014 credit was suspended by Financial Institutions, reducing the much needed capital investment to boost the economy and get it off the ground. The stalemate was further compounded by the corona virus which ravages the whole world including Sierra Leone. The real growth of the economy has been hampered by high inflation, which on an average has been 65 percent per annum for more than 10 years.

Out of Sierra Leone's population of 8.2 million (2022 estimates), 6 million (70%) live in rural areas. A household survey of living conditions conducted by Statistics- Sierra Leone in 2017 identified that more than 80 percent of people were living below the poverty line (that is, their expenditures were insufficient to cover their basic food and non-food needs), with significant regional variations.

The majority of the rural poor are comprised of marginal farmers and landless casual laborers. Among them households with handicapped, widows and chronically sick members are most vulnerable to social and economic shocks. All of them are not served by banks as they are unable to provide the collateral needed for a bank loan. Therefore, they must resort to multiple sources of informal credit at very high interest rates which push them into vicious cycles of indebtedness. The lack of access to credit at an affordable cost (interest) is the most critical constraint faced by the rural poor in order to engage in productive economic activities.

By tradition in Sierra Leonean society, women are often in the back seat, though they work very hard in all aspects of the economic sphere, they are traditionally not active in decision- making. The need and potential to empower them with the provision of micro-credits within the context of family as well as at local level community is essential.

1.4 Why this Project?

In the 21st century, the role of women in Sierra Leone is under increasing scrutiny. At the highest levels, gender issues have been, and continue to be, studied and analyzed within the overall national social, political and economic context. Sierra Leonean women, as members of the human community, and as members of the marginalized peoples of the global and national patriarchal societies, constitute a diverse group, which despite differences of culture and class, are yet bound together by a commonality of issues and experiences that are rooted in the discrimination that they experience at all levels and stages of their lives. Over the years, women have been in the vanguard of initiating and organizing related movements for economic, political, and socio-cultural issues. It is due to this concerted and sustained action by women themselves, that the centrality of gender issues is increasingly being recognized within the mainstream.

Women in Sierra Leone comprise 51% of the population of the country and are an integral part of its economy, both in the formal and the informal sectors according to 2015 Population and Housing Census. Despite being active participants in the economically productive process, their efforts remain largely "invisible", and are not represented in economic decision making. This is compounded by discriminatory barriers that restrict their entry into the formal and modern sectors of the economy. In order to meet their subsistence needs, women in rural areas are being forced to seek economic employment, but due to the lack of their mobility, education, skills, and access to credit facilities, they have limited options. These women are doubly disadvantaged as they face social constraints as well as weak institutional support. The implication of this situation is more than that of simple inequity. Therefore, inequities that are detrimental to them (in education, income earning ability, etc.) are detrimental to society at large.

Women and youth are vital contributors to the economic survival of poor households; the reliance of women's earnings increases with the extent of poverty, for example, a survey in 2019 showed that the earnings of women in households in poverty in the rural areas comprised half of the total family income. However, the opportunities for paid employment of these women, who rarely own assets, and who are largely illiterate, is limited to agricultural wage labor in rural areas, or informal sector employment in urban centers. There are almost 3 million women in the rural informal sector in Sierra Leone; they represent a significant growing section of the working population of Sierra Leone. The informal sector absorbs surplus and unskilled labor unable to find jobs in the modern, organized sector. Women are confined to being domestic servants, or home-based workers, who stitch clothes, make lace, weave baskets, make food products and embroider. They also work in productive and service activities like pottery, leather tanning, sports goods, brooms and brushes, garments, brick layers/brick-kilns and in agriculture.

In Sierra Leone, quantitative increases in women's economic participation have not been matched by qualitative improvements. Although, in the past ten years their share in professional and related jobs rose from 15.5 per cent to 20 per cent, the proportion of female

production workers rose from 4.5 per cent in 2018 to only 9.4% in 2020. Women are still faced with inadequate enforcement/circumvention of labor legislation on wages and working conditions by the employers, leading to lower paid jobs. Women often face more hurdles in the job market than men do. Poverty has a woman's face. Most of the nation's people are poor and most of the poor are women. Their greater deprivation is due to their lower status, characterized by lower endowment of land and productive assets, to discrimination in the labor market, and to their more limited access to economic options and social services. Against 100 males, only 16 females are economically active. Out of total females in Sierra Leone population of 4.7 million, only 15 per cent are active in the labor force. Of these more than three fourths are working in the informal sector, and the majority of these have no access to formal credit facilities.

The Government of Sierra Leone clearly recognizes that development must include an overall strategy to alleviate poverty. Any programme to alleviate poverty must focus on women who are involved in a range of economic activities in the informal sector. Easy access to micro-credit by women has been a major constraint.

A number of studies have identified the importance of providing credit as an entry point in mobilizing communities. By doing so, the Government will be unleashing a powerful wealth creating resource for disadvantaged and poor women. Access to financial resources by women from low-income communities is a key factor in human development. Experience shows that when female entrepreneurs and producers gain access to responsive financial services at market rates, they save, repay their loans and use the proceeds to invest in health, education and housing of their families. With access to productive resources, women from low-income families gain more and broader choices and increased capacity to reshape society. Financial institutions/banks provide next-to-no financing for this group. Non-traditional specialized intermediaries, including NGOs, reach less than 2 per cent of women.

Credit has also been disbursed through NGO programmes but the outreach of these organizations is geographically constrained and religiously biased. Women in the christian religion benefit most while those in the Islamic religion are always marginalised. Effective

institutional links geared towards increasing micro-credit disbursement and reducing the formidable administrative costs, need to be forged between the Microfinance institutions, other public and private sector banks who offer micro-enterprise credit and apex NGOs with good credit models which can represent the interests of smaller Community Based Organizations (CBOs).

Over the past ten years, credit disbursing NGOs, specialized financial institutions and some non-traditional banks in developing Sierra Leone has demonstrated that financial and business development services can be provided to low-income women in responsive and sustainable ways. Experience has shown that to be responsive to the needs of low income women, financial services need to provide an informal banking atmosphere; small, short-term loans; non-traditional collateral requirements; simple application procedures with rapid turnaround; flexible loan requirements; ownership and mutual accountability; convenient mechanisms for small savings accounts; participatory lending and savings structures; and participatory management of institutions.

Economic empowerment of women in Sierra Leone requires improved access to, and control over productive resources, including knowledge, credit and marketing channels. Formal credit and savings programmes respond directly to the demands of the women and are important means of increasing control over income and access to resources. This reduces incidence of informal credit (borrowing from middlemen/shopkeepers/relatives, who charge excessive interest rates). Because of their existing high-level participation in the small-scale informal sector in rural areas, credit for micro-enterprise development for women is seen as a dynamic and hitherto, neglected aspect of the economy. It becomes an important way of addressing the problem of poverty and achieving sustainable human development. Stimulating female entrepreneurship is seen as having important "trickle down" effects on wider poverty alleviation and gender disparity through the expansion of female employment and stimulation of the economy. Empowerment of women and skill training results in formation of social capital, which is crucial to sustainable human development.

Microfinance is more than a financial intervention. It is also a social intervention and works towards strengthening civil society and uplifting women's status by strengthening women's roles and increasing decision making authority in the household as well as in the community and by promoting economic independence and increased participation in good governance in communities where they live. As a result of the increased access to credit, women's increased contribution to household incomes has led to tangible gains for poor families in achieving a more balanced economic contribution from men and women. Participation in

Micro-Finance groups has increased individual capacity and confidence of women and poor farmers and has widened their own and their households social networks. Consequently, targeted women are now playing much larger roles in both family and village-level decision-making. Experience so far has shown that overall empowerment and participation, especially of the poor women, is far higher in villages where these groups are present. By empowering Sierra Leonean women and poor farmers through access to credit, their political voice is hence also strengthened.

1.5. Macroeconomic Situation in Sierra Leone

Sierra Leone's economic freedom score is 50.2, making its economy the 148th freest in the 2023 index. Its score is 8.1 points lower than 2022. Sierra Leone is ranked 35th out of 47 countries in the sub-Saharan African region, and its overall score is below the world and regional averages. Sierra Leone has invested in improving its legal and physical infrastructure; the foundations of economic freedom remain beset by structural and institutional problems. The rule of law is getting strong, and corruption continues to reduce to acceptable level for private-sector development.

Sierra Leone became independent from the United Kingdom in 1961. A civil war killed or displaced about a third of the population in the 1990s, and the first peaceful transfer of power did not occur until 2007. Much of the population depends on subsistence agriculture, and trading

The top individual and corporate tax rates are respectively, 15% and 50%. The tax burden equals 12.3% of GDP. The three-year government spending and budget balance averages are respectively 25.1% and -5.4% of GDP.

Gross Domestic Product is 4.042 billion USD (2021) and GDP growth rate 4.1% annual change (2021- World Bank). GDP Per capita is 480.04USD (2021) ,Gross National Income is14.77 billion PPP dollars and GNI per capita:1,750 PPP dollars (2021 -World Bank)

Internet users: 18.0% of the population (2020) World Bank. The Currency is Sierra Leonean Leone

2. MARKET AND CLIENTS

2.1. Market

According to a study of PRIDE (Promotion of Rural Initiative and Development Enterprises), a major microfinance oriented NGO, —it is estimated that there are close to one million small and micro entrepreneurs who need financial services, and the number is growing by 5% percent annually, the majority of whom are found in the rural areas (PRIDE, 2009). That is 25% of the country's population, mainly dealing in the informal sector. At the beginning of their microfinance activities, BOMO is focusing on the urban informal sector. This sector contributes 40% of the country GDP. Also it contributed 30% to the total urban labor force (URT, 2003). In Northwest Region, the informal sector offers about 35% of the city's labor force (URT, 1995). Nearly two of three urban households own informal enterprises (URT, 2003). BOMO decided to boost informal sector by providing financial services to their actors. Although there are contradicting views regarding the relationship between poverty and the informal sector, without it, the poverty situation of the affected families would have been much worse (Orlando, 2001). At the beginning, BOMO selected four underserved target areas for their credit program to informal micro entrepreneurs. All are situated in Kambia, one of three districts of Northwest Region. Furthermore, BOMO is chiefly committed to empowering the communities in rural areas because of the fact that their access to financial services is extremely limited. The initial community to be reached during the pilot phase is Bamoi Luma, a village in the Magbema Chiefdom, Kambia district, 10 km away from the BOMO Head Quarter in Kambia Town. For

further detailed information regarding demand, market penetration and opportunities, see section 3.1 Competition.

2.2. Microeconomic Background

At present the microfinance sector in Sierra Leone is at a nascent stage. The financial sector is mainly developed to cater to the higher segments in the market and salaried people. Over the past three years numerous operations have started to venture into the microfinance sector. The present supply of microfinance services only reaches a fraction of the total demand. The more advanced operators expressed a strong commitment to become sustainable and to increase their outreach considerably.

It is estimated that the demand for credit for productive purposes ranges between 590,000 and 1,000,000 customers with a combined loan volume ranging from US\$ 44.8 to 63.5 million. The present supply reaches less than 100,000 customers with a combined loan portfolio of less than US\$ 5,000,000. Experience shows that this considerable gap between demand and supply can only be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market. The nascent microfinance industry is in need of considerable support to build their capacity, capital base and plans for expansion. At present the industry is fully dependent on subsidies. At this stage many of the operations would probably not survive without additional investments. This situation is common in the start-up phase of microfinance sector development. Many operators have adopted a businesslike approach and are committed to reach profitability and scale.

The Government of Sierra Leone recognizes the importance of microfinance as an effective tool to fight poverty among the economically active poor. The Government gives high importance to the development of a self-reliant microfinance sector. With the government approval of the national policy on microfinance, the stage has been set for the microfinance sector to develop. The policy strongly advocates adherence to sound microfinance principles with the objective to eventually integrate microfinance into the commercial financial sector. The policy is built on the experience that unsustainable microfinance programmes distort the market and undermine the

emergence of a sustainable microfinance industry. The present legal and regulatory framework is conducive for the microfinance industry to develop and expand.

Some important constraints for the development of the microfinance industry are not yet addressed. The capacity of microfinance operators needs to be enhanced considerably.

Significant funding would be required to create sustainable microfinance institutions with a large outreach. Such funding would be needed for building capacity and financing an expansion of the customer base. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the microfinance sector.

At present three scenarios are conceivable. In the first scenario the above mentioned constraints are not addressed and the microfinance sector will remain in the start-up phase. A second scenario is that donors go alone without much coordination and provide modest support to selected microfinance institutions. In this scenario the development of the microfinance sector will be slow and will not contribute in a considerable manner to poverty alleviation and economic development. In both scenarios the risk is prevalent that political pressure will force the Government to abandon its well designed policy on microfinance and to resume direct provision of microfinance.

In the third scenario the constraints are addressed. Government and donors combine their efforts with a vision to build an inclusive financial sector whereby the microfinance sector develops as an integrated part of the financial system. In this scenario it is feasible that within a period of 5 to 7 years a large and self-financing microfinance industry will be built from scratch.

2.3. Clients

Customer profile is based on survey results explored by Statistics Sierra Leone, —a comprehensive national household survey focused on the financial services needs and usage across the entire population in the Country (Finscope, 2007). The Sierra Leone Commercial Bank highlighted following characteristics of the potential microfinance clients:

Population

57% of the adult population is less than 34 years, and mainly rural-based (72%). In addition, there are approximately 3 Million people under 16 years.

Financial access

A large segment (54% overall; 45% of urban, 57% of rural) of the adult population has no access at all to financial services, either formal or informal (overall, 9% have a formal bank account (11% men, 5% women, 16% urban, 4% rural), 2% have access to semi-formal finance [NGOs, Saving And Credit Co-Operative Societies – SACCOs] and 35% have access to informal finance and moneylenders – these categories are mutually exclusive). Only 20% of the population has access to formal bank in a 1 hour walking distance.

Financial literacy

This is generally low, and lower still for women and for people living in rural areas (92% of the population has heard of loans, but 84% do not understand how interest rates work, or collateral, guarantors, opening an account etc.; 27% have never heard of a savings account). Beyond loans and savings, financial literacy is close to nil (e.g. on insurance, Automatic Teller Machines). Nevertheless, 82% of the total population indicated that they would like to know how to open an account in a financial institution. This indicates a huge need for more as well as better communication regarding financial services with the larger population.

Sources of income

Only 4% of the population is employed in the formal sector. Most people make a living from agriculture, either by selling food crops (36%), cash crops (12%), cattle/livestock produce (9%), or livestock (11%). Others run an informal small business (28%), not (directly) related to agriculture. A large majority of people (61%) go without cash income at times. Many (28%) depend on getting money from family and friends.

Use of credit and loan facilities

Of those that borrow, most (38%) turn to family and friends. An additional 33% get loans from local microfinance organization, 23% borrow in-kind (e.g. livestock). Only 4% said that they have a loan from a bank (5% of men, 1% of women). SACCOs and MFIs (Microfinance Institutions) serve only a small percentage of all borrowers (9% and 6% respectively).

Use of savings facilities

Most people with money do not save it with a bank or financial institution. Of those who save, four out of ten favor saving in-kind (even more so in rural areas) and three out of ten say they keep money in a secret hiding place (similar for urban and rural). Another interesting aspect is that of the people with a bank account (9%), many save with or borrow from informal providers

(48%), SACCOs (26%) or MFIs (15%) (Regarding money lenders and market risk section 5.1 Competitor).

3. BUSINESS ENVIRONMENT ANALYSIS

The context in which BOMO operates was explored by an environmental analysis that gauges how foreseeable external challenges will affect their capacity to achieve their goals.

3.1. Competitors

The deregulation of the financial sector (in 1991) resulted in the privatization of some government Commercial Bank and the Cooperative and Rural Development Bank (CRDB), which were the dominant providers of rural finance. These institutions decreased their participation in rural finance. Several private banks were established but the majority of them operate only in urban areas. In 2006, only 5% of the rural population had access to bank services (Finscope, 2007). Although ABC Bank aims to offer micro-credits to micro-clients, it allocated only 0.2 % of loans to small scale farmers. Access to credit seems to be a problem that equally affects rural farmers in all regions of Sierra Leone. As indicated by Sarris et al. (2020), in 2021 more than 80% of the rural households faced difficulties in accessing seasonal credits for purchasing agricultural inputs. The extension of institutional finance to rural areas has been included among developmental initiatives taken by the government and the development agencies to eradicate poverty. Since the deregulation of the financial sector and the enactment of the Cooperative's Act of 2001, there has been an increasing number of MFIs. In 2015, there were about 199 MFIs. Although, SACCOs are the dominant MFIs, and as 69 % of them are from rural areas, only 2 % of the rural population has access to their services. The limited capacities of MFI's are among the reasons why they have not managed to solve the problem of credit inaccessibility in rural areas (Kamara M S, 2003). The majority of the rural population still depends on informal sources of financial services (Finscope, 2007), which are sometimes not reliable enough to make a significant impact on income improvement and asset accumulation. A summary of all relevant MFIs in Sierra Leone was provided by Private Financial Services (PFS). Hereafter, besides PFS, the most influential NGOs are LAPO, BRAC and MONAFA, Small Enterprise Development Agency (SEDA)). Some minor institutions known as community based

organizations (CBOs) are dealing throughout the country. The following Banks are providing financial solutions to the poor: UTB Bank, GTB, ECO- Bank, the Sierra Leone Commercial Bank (SLBC), Rokel Commercial Bank (RCB) and a few Community/regional E.g. ABC Banks.

The indicated total estimated demand for microloans is about four million. Commercial banks and Community banks together share 50,000 customers, while NGOs account for 220,000 customers. The rest are served by Co-operative and Savings Banks, and many much more minor social organizations with limited resources for their microfinance activities. The largest single player in the NGO category with a market share of 29% is Lapo, which is mainly due to commercial and trade customers as classified

There are about 100 mainly rural based Savings and Co-operative Societies in the whole country serving an estimated client population of about 130,000, most of whom are savers. According to Researchers, —it is important to note that cooperative institutions in Sierra Leone have had a very bad history as most were associated with financial mismanagement to the extent that they lost peoples' trust and confidence. The cooperative based financial institutions therefore, could not make any meaningful impact in the lives of their members as they operated at very small scales due to funding constraints. Some improvements have occurred since the government —has been implementing a special program to resuscitate the cooperative based financial institutions (PRIDE, 2017). It takes time, however, before significant impacts are shown. Other suspicious providers of financial solutions to the poor are moneylenders. According to the Finscope study, 30% of the Sierra Leonean adult population has access only to informal financial services. Some studies have emphasized the need to consider the use and the amount of credit offered to the clients when evaluating the impact of the MFIs on poverty reduction. It was found that the higher the amount of a loan or the frequency of borrowing, the higher the labor productivity (Hossain and Diaz, 1999) and the household welfare of the recipients. However, the amount of credit, which for the case of the MFIs increases with the frequency of borrowing, may not necessarily lead to poverty reduction. This is so because some poor borrowers continue borrowing from MFIs to repay loans from moneylenders, and hence

are trapped into the debt vicious cycle' (Chavan and Ramakumar, 2012). This is an indication of increased vulnerability and poverty.

Microfinance Institutions in Sierra Leone with a special focus on Northwest Regions

- Commercial Banks
- Private Banks
- NGOs
- Financial Services Association
- Government Programs
- Savings and Co-operative Societies
- CBOs

3.2. Opportunities and Threats

Northwest Region: The Northwest region has fewer MFIs than the average number per region in Sierra Leone. The designated target areas around region are remarkable underserved. In total, there are 7 MFIs in the Region serving 14,153 clients (BOT, 2021). The total demand of the adult populations who have no access to financial services is 400,000 (that is 45 % out of the region adult population of 900 thousand people, according to the Finscope study). There are nearly one million people living in Kambia district, and the other two target districts. Of that, 480,000 of the adult population do not have any access to financial services (84,500 in Kambia district, 40,500 in Karene, and 355,000 in Port Loko district). Only 8,000 people who have access to a financial institution are served by three NGO, as well as the National Microfinance Bank (one of few commercial Banks who are involved in the microfinance business) putting together a market shares of about 10%. The NMB has a market share of 19 %, mainly in the populated Port Loko where they have a large branch. Based on these facts, the estimated demand of micro-entrepreneurs who are currently out of the scope of reliable financial institutions is at least 10,000. They represent the most vulnerable and poor people in the target areas that will, prospectively, not be served by NMB because of missing collaterals. Initially using the Commercial Bank model of microfinance, BOMO' strengths are serving the most vulnerable and poor people who will not served by financial institutions.

4. CORRABORATION AND PARTNERSHIP

4.1. Global Network

Cooperating Partnerships

BOMO relies on a wide-ranging web of partners across the globe that is committed to a common purpose and is willing to invest resources - money, time and talents - to ensure its success.

Sierra Leone Government

Locally and country-wide, BOMO is joining the efforts of the Sierra Leone local and central government, especially with the department of Poverty Eradication and Economic Growth, to serve grassroots people specifically, by helping to implement the policies so that we serve the interests of the citizens, the less advantaged groups, and underserved areas according to government vision.

Bank of Sierra Leone (BSL)

The Bank of Sierra Leone is the implementing agency responsible for coordinating and monitoring the flow of funds on behalf of BOBO donors. The Sierra Leone Investment Center and other relevant government ministries will ensure that the people of Sierra Leone are served according to the vision and agenda of the Sierra Leone government.

Sierra Leone commercial Bank (SLCB)

Bank has great interest in collaborating with BOMO to replicate its micro lending model in Sierra Leone. SLBC is the premier National banking model for the poor, with more than 2.5 million borrowers in all the regions around the country. The Bank will offer consultancy during the development, implementation, and monitoring of a micro credit program in Sierra Leone, and providing direct or indirect technical support during the pilot phase of BOMO micro credit programming.

Financial Service Association (FSA) is a financial firm in Sierra Leone that provides professional development investment services. Their aim is to mediate social investments in low-income regions around the country, with a goal of the alleviation of poverty. ***FSA*** is a leading social business agency in Sierra Leone that works as a think tank, providing social solutions within an economic and business framework. In the effort to avoid duplication of services, and to

acknowledge the need for a multi-dimensioned approach to achieve success, BOMO continues to build relationships with existing national and international organizations and bi-lateral development donors. Also, financial institutions in the country, specifically the Sierra Leone Investment Bank, and Self Project, National Economic Empowerment Council etc. have shown great interest in BOMO's programming.

4.2. Regulatory Policies

The following regulatory policies play an important part in shaping BOMO's institutional environment:

National Policies The National Microfinance Policy (NMP), enacted by the government in May 2000 and incorporated in the Banking and Financial Institutions Act 2006, aims to enable the increasing microfinance industry to become more sustainable and reliable. With this policy, the government was relieved of its responsibility as the key player in delivering financial solutions to the poor. Since then the formal private sector has been the main provider of microfinance services. Those are required to apply these financial principles in running their business. Beside to the NMP following other policies are in place:

The National Strategy for Growth and Reduction of Poverty (known as MKUKUTA). These strategies are executed by the department of Poverty Reduction and Strategic Plan (PRSP).

Their targets are as followed:

- Increasing economic growth
- Reduction of income poverty
- Improving the quality of life
- Social well-being
- Strengthening governance and accountability

Small and Medium Enterprises Development Policy, Ministry of Industry and Trade (2002)

National Land Policy (1995)

Legal Framework

A distinguished licensing system is in place to regulate financial institutions based on minimum capital requirements:

In addition, following regulatory and supervisory frameworks are established in which BOMO will adhere to:

1. The Bank of Sierra Leone Act (2006)
2. The Banking and Financial Institutions Act (2006)
3. The Companies Ordinance (1993)
4. The Microfinance Companies and Microcredit Activities Regulations (2005), that regulate microfinance activities under the supervision of the Bank of Sierra Leone, with special respect to financial reporting, product design, risk management, controlling, pricing, etc.
5. Capital Adequacy Regulations (2001)
6. Banking and Financial Institutions Regulations (1997)
7. Regulations for: liquidity management, risk management, internal control and audit

4.3. Transformation into Microfinance Company (MFC)

The institution is considering formalization when it passes the capital requirement. The board evaluates the opportunities and risks associate with the different options available. In the hope of attracting a significant flow of client savings and domestic and international debt and equity funds, BOMO is considering changing their legal status to that of a formally licensed financial intermediary in year 2024, initially with one Region and progressing to two in the future. The Financial Committee (see section 5.4), which works under the governing board, evaluates the costs that are likely to result in the context of banking regulatory structure. The Financial Committee will incur both up-front and ongoing costs, and these costs are likely to be substantial. The evaluation will entail costly feasibility studies of the alternatives and extensive consultations with lawyers and accountants. Registering as a formal financial institution involves legal and filing fees. Once BOMO attains a formal status, the regulations governing the

licensed financial intermediaries will lead to greater professionalization, for example, through conformity to more rigorous standards of provisioning and asset valuation. Regulations may also impose significant constraints, restricting the hours and days of operation, requiring advance approval for opening new branches, and setting requirements relating to the compensation, hiring, and termination of employees. A microfinance institution that changes its status will generally face significant additional supervisory requirements, such as an internal audit department and expanded reporting. For that purpose, BOMO is considering hiring an internal auditor and an additional accountant in 2025. Significant capital reserve requirements are necessary. Most significantly, BOMO operates as a tax exempt nongovernmental organization but will lose that status and have to begin paying taxes on its earnings when they become a formal limited institution.

5. INSTITUTIONAL ASSESSMENT

BOMO is still in a start up phase and has no historical data to be assessed. The following institutional capacity model is carried out of the market study and the environmental analysis. It is a five year projection plan, considering the BOMO milestone transforming to a microfinance company in 2024, to be allowed to collect savings for the purpose of becoming self sustained at the end of the projected period.

5.1. Credit and Savings Program

Defining BOMO's Financial Products

At the end of 2024, BOMO started a pilot program and offered a single loan product, Solidarity Small Business Loan, and had no voluntary savings products. The institution required all borrowers to maintain monthly compulsory savings, which is treated as part of the loan product. According to the pilot results, BOMO intends to follow up with this loan type but plans to introduce new loan product in year four when they extend their business. The product should be customized based on the needs of agricultural small scale businesses. Because of the late introduction and the very low financial impact, it is not designed as an individual product in

the existent business plan. BOMO intends to convert to a nonbank financial institution in year three, which will make it eligible to collect savings deposits. Its management expects to offer two voluntary savings products: a voluntary savings account, called —Passbook Savings that replaces the current compulsory savings, and a range of term deposits to be modeled as a single product called —Fixed Deposits.

Setting BOMO's Loan Amounts and Repayment Conditions

At the beginning of 2024, BOMO will offer a single loan product in the region. Clients are required to form groups of five, and each client will receive a loan amount based on their need. In accordance to the Sierra Leone Commercial Bank model, BOMO decided not to require group guarantee. That means that no group member will cosign for the others. All loans require biweekly payments. BOMO will not offer a grace period on repayments. Contractual loan terms varied between 8 and 12 months, it is projected that in general clients took an extra month to fully repay their loans.

| Loan Cycle | Average Amount year 1 (\$) | Average Amount year 2 (\$) | Average Effective Term |
|----------------------|---------------------------------------|---------------------------------------|-------------------------------|
| First | 200,000 | 300,000 | 9 |
| Second | 300,000 | 450,000 | 9 |
| Third | 450,000 | 600,000 | 11 |
| Fourth | 600,000 | 750,000 | 11 |
| Fifth and subsequent | 720,000 | 1,000,000 | 13 |

Average loan amounts are expected to increase annually by the rate of inflation. Initial annual client retention rate is to be estimated at 80%, and will increase gradually up to 90% from year three to five.

Defining BOMO's Compulsory Savings Requirements

BOMO require clients to save 20 % of their requested loan amount before disbursement. The primarily purpose of compulsory savings is to cover any default risk. These savings will be held at the BOMO bank. When BOMO converts to a nonbank financial institution in the third year of its strategic plan, it intends to eliminate the compulsory savings requirement. In month 25, BOMO will replace compulsory savings with their voluntary Passbook Savings product and their Fixed Deposits.

Setting BOMO's pricing Structure

BOMO charges 30% annual interest using flat balance calculations. BOMO also charges an upfront commission fee of 3% on all loans at the time of disbursement. All lending has been transacted in local currency, with no indexing to external values. The management decided to take a lower interest rate than the market average, which would attract more customers at the beginning and is in accordance to the Poverty Reduction Strategy of the Sierra Leone government. If the profitability projections turn out to be unacceptable, it will re-price the loan product again.

Setting the General Parameters for BOMO's Compulsory Savings Products

The compulsory savings pay the depositors interest at 12.5%. The clients do not have an individual saving account. BOMO collects the savings from their clients and deposits it as accumulated amount on their business account at the Bank. BOMO pays out the interest (minus a commission of 2%) when the loan is fully repaid or in year three when their clients open voluntary saving accounts. Access to the compulsory savings is blocked while the client has an outstanding loan and can be seized by BOMO if the client fails to repay the loan. The funds are not otherwise available for BOMO's use.

Defining BOMOs Voluntary Savings Products

Starting in year three, BOMO plans to begin offering two voluntary savings products. Passbook Savings will pay interest ranging between 2% and 6%, depending on the deposit amount, with an average rate expected to be at 4%. Fixed Deposits will pay interest ranging between 7% and 10%, depending on the term, with the average rate expected to be 8%. These prices are above the current market rates (BOT, 2007). BOMO decided that a specific percentage rate of any savings deposits be placed in short-term reserve deposits, to handle ongoing depositors

withdrawing, with the rest available for on-lending at the institution's discretion. BOMO's management expects to establish a reserve of 40% of Passbook Savings and 25 % of Fixed Deposits.

5.2. BOMO's Marketing Channel

BOMO's Initial Balances

BOMO projects that it will have 200 active clients at the end of 2024, all with Solidarity Small Business Loans. Referencing BOMO's balance sheet, it is determined that BOMO will have a gross outstanding balance for its single loan product of \$40,000 at the beginning of the five-year projection.

Projecting BOMO's Active Loans

BOMO's market study showed that the institution has the potential to grow from 200 to 9,000 clients in the current market area by the end of its five-year plan. In addition, BOMO intends to open a second branch office, in Northeast region, in January of 2027. This branch is expected to expand to 1,000 clients by the end of 2027, bringing the total number of clients to 10,000. The projection models multiple branches using a consolidated approach. It had chosen to project credit activity by the number of active clients rather than by the number of new clients each month to calculate a reasonable cycle time for each segment.

BOMO's Projected Number of Active Loans (2023 - 2028)

| Branch (Region) | Initial | 2024 | 2025 | 2026 | 2027 | 2028 |
|-----------------------------|----------------|-------------|-------------|-------------|-------------|-------------|
| Northwest | 200 | 1,200 | 3000 | 4,500 | 7,000 | 9,000 |
| NothEast | 0 | 0 | 0 | | 700 | 1,000 |
| Total | 200 | 1,200 | 300 | 4,500 | 7,700 | 10,500 |
| Average monthly growth rate | | 16.1% | 7.9% | 3.4% | 3.7% | 2.2% |

Analyzing BOMO's Customer Retention Rates

Confident that the SLBC model and the special trained staff will address their clients' needs, BOMO's management expects a relatively high customer retention rate from 80% up to 90%. The management reviewed their loan-demand projections. They saw that BOMO will need to attract about 12,290 new clients in the next five years to reach its expansion targets, and that only 2,290 of these clients will drop out during the five years. Therefore, high client retention will need to be a primary goal in the coming years.

Projecting BOMO's Compulsory and Voluntary Savings

At the end of 2024, BOMO's borrowers would have \$ 8,000 of compulsory savings on deposit at Bank- an amount projected to grow to \$ 225,120 by the end of year two. When BOMO begins offering voluntary savings in Northwest Region in the first quarter of year three (after terminating the compulsory savings requirement in month 37), management estimates that 60% of borrowers will transfer a significant portion of their compulsory savings to the new voluntary savings accounts, either to a passbook or to a deposit saving account. For the passbook saving account, management estimates an initial average balance of \$40,000 that will grow to about \$221,000 at the end of year five. The same applies to the Term Deposit. The initial average balance is estimated significantly higher and accounts for \$300,000 increasing to \$467,000 at the end of year five. The number of savers is predicted to be significantly lower. This is because of the fact that customers take time to save sufficient capital reaching the minimum deposit requirements of a Fixed Deposit account. In addition, the savers will have limited access to their capital for an agreed time period. As client confidence and awareness increase, the percentage of borrowers with voluntary savings is projected to increase up to 80% in year five. In addition, BOMO expects non-borrowers to open Passbook Savings and Term Deposits accounts, starting in year three as well. For Passbook Savings, BOMO estimates 100 new accounts a month during the first half of year three and then a 5% monthly increase in accounts from the beginning of the second half of the year until the end of the five year plan. For Term Deposits, the initial number of savers is estimated at 10% of the borrowers in year three, increasing slightly with 1% in year four and 2% in year five.

5.3. Board and Management

BOMO embraces the organizational leadership model with a leadership team capable of formulating and shaping a coherent vision combined with a management team skilled in implementing and rejuvenating the vision over time. This team is comprised of an Executive Director working closely with Governing Board chair, Advisory Board chairs, advisors and members committed to constructing and executing the strategies. The Managers are responsible for the implementation and management of the vision, specifically in the areas of microfinance, education, social business, research, and entrepreneurial education. The management of the corporation is vested in the Governing Board.

Governing Board

Board members are nominated and appointed for staggered terms of three years. Board members serve a maximum of three successive terms; initial terms would be for three, six, or nine years. A full board meeting would occur annually in the month of April supplemented by quarterly conference call meetings. Every third year the annual board meeting takes place in Freetown, capital city of Sierra Leone. The board members represent groups deemed critical to managing a micro-finance organization, banking, legal, accounting, education, pastoral, business, organizational development; government, financial planning, and women are well represented in the board. Three members come from the three districts (1 from each district), in which one of them represents MFI clients of the BOMO. The Board delegates responsibilities for day-to-day operations to the corporation's Executive Director and Committees. The board receives no compensation other than reasonable expenses.

Founder and Executive Director

Mr Abdulrahman Bangura is the Founder and Executive Director of BOMO. Born and raised in Sierra Leone, he has worked internationally in Sierra Leone, London, and the United States. Most recently, Mr. Bangura formed and operated HACEM-SL and ISD-SL, programs serving the economic and social needs of a culturally, racially, and economically diverse communities, particularly children, teens, single moms, and victims of crime living in Sierra Leone and beyond. Mr. Bangura has participated in strategic planning, leadership development, and organizational management seminars. He became intrigued with national development practices.

5.4. Roles and Responsibilities of the Board Management

The Board may create committees as needed, such as community Relations, Cultural Outreach, Research and Publication. There are two outstanding Committees: Executive and Finance Committee. The Governing Board appoints all Committee chairs who must be members of the Board.

The Executive Committee

The Executive Committee reviews the performance of the Executive Director. Except for the power to amend the Articles of Incorporation and Bylaws, the Executive Committee have all power and authority of the Governing Board in the intervals between meetings of the Board of Directors, subject to the directors and control of the Board of Directors. The Executive Director is responsible for hiring and supervising. The Executive Committee shall serve as a vital committee and is responsible for developing a personnel policy.

Finance Committee

The Treasurer is chair of Finance Committee, which include three other Board members. The Finance Committee is responsible for fiscal control, development and reviewing expenditure procedures, and a fundraising action plan and organization annual budget. The Board of Directors must approve the budget and all expenditures must be within the budget. Any major change in the budget must be approved by the Board of Directors or Executive Committee. The fiscal year shall be the Calendar year. Quarterly reports are required to be submitted to the Governing Board showing income, expenditure and pending income. The financial records of the Corporation are public information and shall be made available to the Governing Board members and the public.

5.5. Institutional Resources and Capacity

Defining BOMO's Staffing Categories

BOMO refers to members of its field staff as —Loan Officers. The company opted for salary and benefit adjustments at the beginning of each fiscal year, because BOMO's board generally grants an increase equal to the inflation rate. In addition to its loan officers, EBOMO considers its —Credit Supervisor, —Bookkeeper and —Operations Manager part of the Branch-related

staffing. All other existing staff is considered Head Office staff. In January 2024, when another branch office is to be opened, BOMO will shift the operations manager to the position of branch manager of the old branch and hire a branch manager for the new one. So the job title includes both positions - "Operations/Branch Manager". Also, a bookkeeper will work in the new branch. Starting in year three, when savings products are introduced in northeast region, that branch will add the following positions: —Teller and —Security Guard. One year later, when a new branch is opened, additional Tellers and Security Guards will be hired. The credit supervisor will also be hired in year four, when the second branch is to be opened. His role is to empower the sales staff and to review the credit decisions. A large branch like Northeast region that will need more than 40 employees should be supported by additional supervision functions. For administrative-level staffing, BOMO entered the following positions:

- Executive Director,
- General Manager,
- Chief Accountant,
- Assistant Accountant,
- MIS Supervisor,
- Internal Auditor,
- Human Resource Manager,
- Saving Director,
- Secretary,
- Driver.

(For detailed job specifications see attachment)

Defining BOMO's Operational Expense Categories

For Branch-related operational expense categories, the staff specifies

- Rent,
- Utilities,
- Transportation,
- General Office Expenses
- Staff Training,

- Borrower Training, and
- Repairs, Maintenance and Insurance

For Head Office operational expense categories they enter

- Rent,
- Utilities,
- Transportation,
- General Office Expenses,
- Repairs, Maintenance, and Insurance,
- Professional Fees and Consultants,
- Board Expenses, and
- Staff Training.

Projecting BOMO's Branch Resources and Capacity

Projecting BOMO's Branch-related Loan Loss Provisioning BOMO estimates that its portfolio, at risk for more than 30 days, will be 10%. It projects write-offs of 2.2% of its portfolio and decided to use this write-off rate for all future projections. The loan loss reserve, as of December 2009 on the balance sheet, is to be estimated by \$ 1,200.

Defining BOMO's Branches

BOMO plans to open its first branch in Northeast region in third quarter of 20226, and indicates that a second branch will open in the beginning of year four in southeast region.

Setting the Links for BOMO's Loan Officer Projections

BOMO's lending methodology (SLCB Model) permits experienced field staff to work with a caseload of 350 clients. Loan officers generally take 12 months to move up to the senior level and a full caseload. Beginning staff generally work with 25% of a full caseload, secondary staff with 50%, and intermediate staff with 75%. BOMO generally hires new loan officers in groups of at least three in order to coordinate staff orientation and training. At the beginning, BOMO will have two loan officers, one of whom will have been with BOMO for 12 months (i.e., senior level), and one which will be newly hired.

Projecting BOMO's Automated Branch-related Staffing Levels

At the beginning, BOMO intends to start with two loan officers, one bookkeeper and one operations manager. To ensure efficiency and to serve with a high grade of safety and quality, the company planned to hire:

- one credit supervisor for every 12 loan officers, starting after a total of 12 loan officers are hired;
- one branch manager and one bookkeeper for each branch that opens;
- one teller for every branch that offers voluntary savings;
- one security guard for each branch that offers savings, starting in year three.

The cost for each position - including salaries, benefits and payroll taxes - as of January 2024 is estimated in the following table. The model will automatically increase the salaries by the inflation rate in the first month of each fiscal year.

| Staff Position | Monthly Salary (Benefits are included) / \$ |
|----------------------------------|---|
| Loan Officer, Entry level | 333 |
| Loan Officer, Intermediate level | 420 |
| Loan Officer, Senior level | 534 |
| Teller | 467 |
| Bookkeeper | 593 |
| Operations/Branch Manager | 801 |
| Credit Supervisor | 1,000 |
| Security Guard | 267 |

Projecting BOMO's Branch-related Other Operational Expenses

To generate projections of BOMO's Branch-related other operational expenses, the company distinguished the Branch-expenses from administrative-expenses categories opting for automated projections as they enter the following Links:

| Category | Expense Amount/ \$ | Inflation Adjustment |
|---------------------------------|---|----------------------|
| Rent | 6,590 per branch per month | Monthly |
| Utilities | 2,630 per branch per month | Monthly |
| Transportation | 650 per officer per month | Monthly |
| General office expenses | 1,350 per branch employee per month | Monthly |
| Repairs, maintenance, insurance | 6,590 per branch per month | Monthly |
| Staff Training | 700 per branch employee per month | Monthly |
| Borrower Training | 100 per borrower per month | Monthly |
| Misc. expenses (% or absolute) | 8% of total branch other operational expenses | Monthly |

Entering Initial Balances for BOMO's Branch-related Fixed Assets

BOMO entered initial balance information for the following Branch-related fixed assets, as of the end of 2009:

| Asset | Purchase Amount | Remaining Life |
|------------------------------------|-----------------|----------------|
| Two computers | 1,000 | 1 |
| Assorted office furniture | 1,050 | 3 |
| Three employee furniture groupings | 500 | 4 |
| One Photocopy | 2,000 | 1,5 |
| One Money Detector | 300 | 2 |
| Two Motorcycles | 3,900 | 2 |

Planning BOMO's Fixed Asset Acquisitions at the Branch Level

BOMO decided to link each fixed asset category to a key output of the model in order to automatically generate its fixed asset acquisition schedule. They estimate that a branch office needs one computer for every four Branch staff. BOMO plans to purchase one set of general

office furniture for each branch office. They linked employee furniture groupings to the number of Branch staff, using a ratio of one unit of furniture for each Branch staff person. For other assets categories they specify an MIS system to be introduced in year three.

Projecting BOMO's Administrative Staffing Levels

At the beginning of 2010, BOMO's administrative staff will consist of an Executive Director, a Chief Accountant, a Secretary and a Driver. In addition, the institution plans to hire an MIS Manager at the beginning of year three to supervise the new management information system, a Savings Director in the third quarter of year two to prepare for the new services to be offered in year three, and a Human Resources Manager at the beginning of year two to work with the growing number of staff. Starting in the third quarter of year two, when BOMO prepares to transform to Microfinance Company, they will hire a General Manager that will take over the executive responsibility for the formal microfinance institution, and an Assistant Accountant. When BOMO becomes a legal Microfinance Company in year three, they will hire an Internal Auditor to ensure appropriate controlling and reporting.

Projecting BOMO's Administrative Salary and Benefits Expenses

Just as for the Branch staff, the salary of BOMO's administrative staff is considered equal to market rates. The staff estimated monthly salary and benefit costs for administrative staff are as follows:

| Staff Position | Monthly Salary (Benefits are included) / Tsh |
|-------------------------|---|
| Executive Director | 3,872 |
| General Manager | 3.205 |
| Chief Accountant | 1,068 |
| Internal Auditor | 800 |
| Assistant Accountant | 667 |
| MIS Supervisor | 1,068 |
| Human Resources Manager | 1,068 |

| | |
|-----------------|-------|
| Secretary | 534 |
| Saving Director | 1,068 |
| Driver | 267 |

Projecting BOMO's Other Operational Expenses at the Administrative Level

BOMO prepared the following budget estimates for other operational expenses at the administrative level:

| Category | Expense Amount/ \$ | Inflation Adjustment |
|--|--|-----------------------------|
| Rent (Head Quarter Office) | Subsidized by other partners | |
| Utilities | \$1,500 per month | Monthly |
| Transportation | \$350 per administrative employee per month | Monthly |
| General office expenses | \$1,350 per administrative employee per month | Monthly |
| Repairs, maintenance, insurance | \$1,318 per month | Monthly |
| Professional fees, consultants | 1.000 per month | Annually |
| Board Expenses | 1,540 per month | Monthly |
| Staff Training | 500 per administrative employee per month | Monthly |
| Miscellaneous expenses (% or absolute) | 5 % of total administrative other operational expenses | Monthly |

Developing BOMO's Fixed Asset Acquisition Plan at the Administrative Level

To begin the fixed asset analysis at the administrative level, EEA entered the following information about the institution's existing assets:

| Asset | Purchase Amount/ \$ | Remaining Life/ years |
|--------------|----------------------------|------------------------------|
|--------------|----------------------------|------------------------------|

| | | |
|---------------------------------|-------|-----|
| Two Computers | 2,000 | 1.5 |
| One Assorted office furniture | 2,500 | 4 |
| Accumulated depreciation, total | 1,642 | |

BOMO budget for the purchase of six additional computers in months 13, 19, 25, 31, 37 and 49, whenever BOMO expect to hire new administrative staff members (e.g. Human Resource Manager is expected to be hired in the beginning of year two). They also budgeted for the purchase of additional office furniture grouping in month 19, when administrative staff accounts for more than five members. These purchases are in addition to the automatic replacement of fully depreciated equipment that is projected by the model.

Analyzing BOMO's Land and Buildings

In 20023, BOMO owned no land or buildings and had no plans to acquire any during the next five years.

Analyzing BOMO's Other Assets

BOMO's strategic plan identified an urgent need to upgrade the MIS system, and budgeted \$70,000 in month 13. The MIS is treated as an asset and amortized over a five-year period.

Analyzing BOMO's In-kind Subsidies

Through partnership with other stakeholders, BOMO receives free rent for their Head Quarter office during the projected period. BOMO estimates the value of this support at \$8,016 for year one. With regards to the inflation, they project it will increase to \$10,625 in year five. BOMO entered these figures initially as their monthly equivalents of \$668 a month for year one. While this rent subvention is not an actual expense for BOMO, it is factored into the financial profitability calculations.

5.6. Risk Management and Controlling

BOMO identified following main risk categories: credit, liquidity, and operational Risks.

Credit Risk

Credit risk is defined as a potential loss that is indicated when a borrower fails to repay a loan. BOMO's risk prevention and collection strategy depend on the reason for the imminent default: unwillingness or financial distress. Group lending methodology and up-front compulsory savings will decline BOMO's credit risk. Biweekly collection procedures and trainings are parts of an early risk recognition system based on ongoing customer evaluation provided by the loan officers. Different approval levels (group member – Loan Officer – Branch Manager –Credit Supervisor) should ensure a high quality loan application process. A borrower who is in financial distress and is willing to repay their loans will be transferred to a flexible loan. A flexible loan reduces the installment size and extends the maturity depending on the customer payment ability. In 2026, when BOMO will be legalized as Microfinance Company, an Internal Auditor will be hired to implement a risk management system following the Basel II requirements and the national banking regulators.

Liquidity Risk

Liquidity risk management will be done by the Finance Committee which ensures that funding commitments and deposits withdrawal can be met on time. For that purpose, BOMO has considered a sufficient liquidity margin in their model (section 5.7 Financing Strategy).

Operational Risk

Operational risk is a main issue for a start up in finance with their limited resources. Employees who are overloaded, undertrained or underpaid are the primary driving force behind errors, fraud and mismanagement. BOMO decided to serve and educate their employees from the beginning in a competitive manner. This serves to increase their identification with the company. To ensure proper operational procedures, reasonable controlling systems will be developed from the beginning and will be managed by the Executive Committee. An operational margin is implemented in the model to handle any operational losses and liquidity gaps (see section 5.7 Financing Strategy).

5.7. Financing Strategy

Identifying BOMO's Sources of Financing

Management prepared the following summary of BOMO's financing sources. BOMO has the following grant commitments and pledges:

International Donors: have pledged \$ 3,300,000 unrestricted.

Government Banks: have pledged \$ 691,000, unrestricted.

Individual Investors: have pledged \$1,350,000.

BOMO also has initiated discussions to commitments for grants from the following organizations:

GLS Treuhand (Foundation): GLS Treuhand is a foundation of a German Social Bank who promotes small projects in poverty eradication activities worldwide. The foundation managed a small grant portfolio of three million US dollars. BOMO estimates a grant commitment of about \$7,500,000, starting in month seven, 2024, restricted for initially operational costs.

FSA (Financial Service Association): FSA is a Sierra Leonean wholesale fund Bank and has additional grant funds available to subsidize microfinance institutions technology and equipment. It normally provides small grants subjected to office equipment. BOMO estimates an initially grant of \$350,000, restricted for other assets.

GTZ (Society of Technical Cooperation). The German GTZ is an international cooperation enterprise for sustainable development with worldwide operations. GTZ promotes complex reforms and change processes, often working under difficult conditions. Its corporate objective is to improve people's living conditions on a sustainable basis. BOMO expect a grant of \$70,000 to purchase and introduce a MIS System at the beginning of year two.

BOMO needs to receive portfolio restricted loans, and estimates for the third quarter in 2026 a initial loan of about \$1,000,000 at zero percent to expand their pilot program to 200 borrowers in Northwest Region. It is reflected at the initial outstanding amount, at the beginning of the projection period.

BOMO restricted the use of savings to loan portfolio financing. The management established a liquidity margin for portfolio of 25% of monthly loan disbursements, and a liquidity margin for operations of 33% of monthly cash expenses. BOMO is expecting an initial market rate cost of

funds of 20%. This is a precaution estimate. Some commercial Banks in Sierra Leone offers lower interest rates. This rate is expected to decrease down to 16% when the company becomes a formal financial institution and has sufficient means in year three. BOMO considers any interest rate that is at least 85% of this value to be market rate.

Projecting BOMO's financing Flows

Loans BOMO modeled the institution's financing strategy by entering all confirmed and likely financing receipts and repayments. All loan payments are entered as negative numbers:

- **Unidentified sources.** The initial loan amount of \$ 1,000,000 that is need to serve 200 clients in third quarter 2024 will be repaid in October 2025. A new fund of \$5,000,000 with a supposed maturity of two years is expected in January 2026 and entered in the model. BOMO will make monthly payments.
- **Financial Service Association.** BOMO is scheduled to receive its first disbursement of \$ 2,000,000 in January, 2026 with a supposed maturity of three years. BOMO will make monthly payments. No new funds are expected.
- **Vision Microfinance Fund.** BOMO has started the discussion with Leopold Seiler, Portfolio manager, and expects a fund of 100,000,000 in January 2026, with a supposed maturity of two years. BOMO will make monthly payments. No new funds are expected.
- **Government Banks.** BOMO would negotiate a onetime disbursement of \$5,000,000 with a supposed maturity of two years in January, 2026. BOMO will make monthly payments. No new funds are expected.

Funds

BOMO anticipates experiencing a funding shortfall in the beginning of 2025. The following years also show shortfalls, with the exception of year five. In addition to the indicated fund sources, BOMO is forced to request unrestricted grants for:

- Year one: \$2,800,000
- Year two: \$1,900,000
- Year three: \$1,800,000
- Year four: \$ 2,000,000

BOMO management philosophy is to gain self sufficiency within five years. For that purpose, the management restricts the fundraising portion with a declining percentage of 100% in year one down to 55%, in year two, 50% in year three and 30% in year four. In 2027, BOMO does not expect to require any more grants.

Equity

In year four, BOMO plans to open a new branch in Northeast Region. Under the National Microfinance Policy, BOMO is requested to raise capital amounting to \$ 8,000,000 to become a nationwide operating Microfinance Company. To increase their equity and to strengthen their customer retention, BOMO will introduce a compulsory membership model, where each new borrower will pay \$255 with an annual distribution of dividends, starting in year three.

Projection shows that additional equity funding sources are needed. The following equity funds and banks meet the BOMO principles and would be appropriate shareholders:

- **Government Micro-Credit Fund (GMCF):** A commercial investment fund with a special respect to social impacts. Focus on micro-entrepreneurs in emerging markets.
- **Vision Microfinance Fund:** A fund with a double bottom line strategy, to maximize the risk return profile for the benefit of the investor and to strengthen the social impacts for micro, small and medium enterprises in emerging and least developed economies.
- **Sierra Leone Microfinance Institutions (SLMI).** SLMI manages their portfolios with a bottom line strategy. It invests in financial markets in developing countries and channels private investment funds to the microfinance industry.
- **Private Banks.**
- **British bank** with high amount of interest to develop the microfinance market.
- **National Economic Empowerment Council (NEEC)**

BOMO expects to gain from each investor \$ 700,000 in year three. After increasing BOMO's capital, BOMO will achieve full financial sustainability from month 43, ending by year five at 143% in operational, and 131% in financing sufficiency. *Investment Strategy*

BOMO will not establish any long-term investments during the first five years. BOMO will earn 3% interest on cash deposits. It earns 5% on short-term investments, 12.5% on savings reserves

and would earn 12.5% on long-term investments if it had any. All rates are based on current market rates. BOMO will generate nearly \$1,730,000 (round up) in investment income over the five-year period.

6. FINANCIAL PROJECTIONS

Financial projection plan was made with a Microsoft Excel spreadsheet developed by the Consultative Group and IT-Sierra Leone (IT-SL).

APPENDIX

1. Job Descriptions

| Designation | Experience and skills |
|-------------------------|---|
| Executive Director | Minimum of 7 years working in community development, financial institutions, organizational leadership and planning with at least Masters degree of higher |
| Microfinance Director | Minimum of 5 years working in community development, financial institutions, Marketing with at least Master's level in Social Science, Finance, or Economics |
| Chief Accountant | Minimum of 5 years working Accounting field. CPA holder or its equivalent. |
| Assistant Accountant | Minimum of 2 years experience working in accounting activities Possess at least Advanced Diploma or Degree in Accountancy and Finance. |
| Human Resources Manager | Minimum of 5 years experience working in Human Resources Activities. Possess at least Postgraduate or Mater's degree in Human resource and Public Administration. |
| Internal Auditor | Minimum of 5 years experience working in audit departments in Financial institutions. Possess at least advanced Diploma or Degree in Accounting & Controlling |

| | |
|-----------------------|--|
| MIS Supervisor | Minimum of 3 years experience working in IT Activities in Financial institutions. Possess at least Diploma in Computer Science or Information Technology. |
| Branch Managers | Minimum of 5 years experience working in operation/field Activities in social/Financial institutions. Possess at least advanced Diploma or Degree in Social Science/ Administration. |
| Credit/Loan Officers | Possess at least advanced Diploma or Degree in Social Science/Administration. Possess at least advanced Diploma or Degree in Social Science and Accountancy |
| Drivers | WASSCE certificate with Class C Driving License. |
| Security Guard (Hire) | Form IV/VI certificate and attended military training |
| Secretary | Must have a Diploma or Advanced Diploma in Secretary and Computer Studies from a recognized institution. Must have at least 2 years experience as secretary & Data Clerk Must posses'knowledge in computer application such as Microsoft Excel, Microsoft Word, Microsoft Access, Microsoft Power Point. |

2. Characteristics of the Target Audience

This project focuses on the poor, especially women. Why women? Women and children are the most vulnerable. Furthermore, they often run the risk of attack and abuse—one woman informed a BOMO interviewer that she had been raped and humiliated when she arrived at the dump before other women. Women will take any opportunity to help their families survive even if it means being involved in activities that could potentially humiliate them. Women often are left to reclaim discarded items in exchange for small change. For example, the only recourse available to one poor women BOMO interviewed, was collecting plastic bottles at the dump, an area rampant with contagious disease. The bottles were then sold for mere change. Even after spending the whole day collecting, washing, and selling the bottles, the women earn less than \$1 a day. Young girls work as maids or are pressed into service as sex-workers, while boys are often involved in child labor and petty criminal activity

The majority of women, unlike men, interviewed by BOMO in Sierra Leone discussed how painful it is for them to send their children to school each day with only the meal in their bellies and no shoes on their feet. The experience BOMO obtain through the community reveals that men often hide money from their families for their own desires. Even if his family might be struggling, a man may spend money in other areas that fulfills his own desires, without considering family's needs. Therefore, women need to be empowered so that they can transform their families.

A second audience category is the poor (especially farmers and young people) who cannot receive loans from other financial institutions or grantors - such as an employee. These people live on less \$1 a day. It is not necessarily that the poor do not want to do something to improve their lives. Economic and cultural structures have caused them to develop a mindset of —BOMO does not have a way out. Profit-motivated financial institutions are less inclined to help the poor because the poor lack collateral as well as the experience of handling loans. Professor Muhammad Yunus, whose work focuses on the poorest of the poor, argues back by saying that the poor pay back the loans. He has found that the poor have their own plans, agendas, and business ideas, but they do not have access to financial services.

The third group includes nursery, primary and secondary school teachers, and nurses from dispensaries, hospitals and other private sectors of employment as a means of boosting self-employment among them. The goal is to encourage the passage of their newfound education to the people they teach and serve. Per month, these people earn a basic salary or a bit higher. They need to be encouraged to participate in income-generating projects. BOMO's goal for these groups is to see them grow their entrepreneurial skills so that they can be successful business people and transfer their skills to their families, including their eventual offspring.

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