SIERRA LEONE: EXPERIENCES, PRACTICES AND CHALLENGES IN DEVISING FINANCIAL SECTOR POLICIES
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MAKING FINANCE WORK FOR AFRICA
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PRESENTATION OUTLINE

• Background
• Development of the FSDP
• Implementation of the FSDP
• Challenges to Project Implementation
• Outcomes of the Financial Sector Reforms
• Impact of Financial Sector Policies
• Conclusions
In the 1990’s Sierra Leone’s:
- Population - five million,
- the Financial Sector was very rudimentary and;
- Divided into Banks and Non-Bank Financial Institutions (NBFI) both deposit and non deposit taking, comprising:
  - (4) Commercial Banks of which (1) was state owned,
  - (1) Cooperative development bank
  - (1) Post and Savings Bank, (1) each of Development Banks, Savings and Housing Cooperation Banks and
  - (9) insurance companies.
Background (cont’d)

In the 90’s, being rudimentary, the system had the following weaknesses:

- High cost of financial intermediation;
- Limited availability of finance for productive investment, especially for Small and Medium-size Enterprises (SME’s);
- Inadequate credit risk evaluation mechanism for bank clients leading to high Non Performing Loans (NPL’s)
DEVELOPMENT OF THE FSDP

• There was a civil war from 1991 to 2002, and when it ended, the aforementioned weaknesses were conspicuous in the operations of the Financial Institutions especially the Commercial Banks.

• Government intervened by undertaking a joint assessment of the Financial Sector Assessment Programme (FSAP) in collaboration with the IMF and World Bank in May 2006.

• The FSAP highlighted weaknesses in institutional structures, administrative and legal systems, and logistical issues (water and electricity supply).

• This led to the introduction of the Financial Sector Development Plan (FSDP) in 2008.
DEVELOPMENT OF THE FSDP

• The objective of the FSDP was to provide a framework for creating a sound, diversified, responsive and well-functioning financial system that would provide appropriate support to productive activities, thereby contributing to economic growth and poverty alleviation.

• This would be achieved by actions geared to improving the efficiency, quantity and quality of services provided by the financial sector through more effective financial intermediation, reduction of transaction costs, and direction of resources into productive investment.
DEVELOPMENT OF THE FSDP

The FSDP focused on four priority areas:

• Build a strong, competitive and effectively functioning Commercial Banking system;
• Increase access to finance by:
  ✓ broadening its outreach,
  ✓ strengthening microfinance and rural credit governance and supervision, and
  ✓ addressing the Community Banks;
• Improve the mobilization and investment of long-term funds through strengthening of Contractual Savings Institutions and the Capital Market;
• Establish a permissive and enabling environment in line with best international practice.
GOVERNANCE STRUCTURE OF THE FSDP

Subsequent to the approval of the FSDP by Cabinet in 2009, the Bank of Sierra Leone, being the implementing agency, established the governance structure and this comprises the:

- **FSDP Secretariat** – Responsible for the overall implementation of activities with the objective of ensuring progress in line with agreed work plans and deliverables.

- **Financial Sector Consultative Forum (FSCF)** - Advisory body with overall responsibility for final approval of the FSDP strategy.

- **Financial Sector Steering Committee (FSSC)** – Decision making body with direct control over FDSP activities and budgets.

- **The Governor** – He is the Chairman of the FSCF and the FSSC.

Membership for the FSCF and FSSC includes Ministers, Permanent Secretaries, senior representatives from Ministries and institutions and donor partners.
IMPLEMENTATION OF THE FSDP

• **Funding**

- Donor partners include:
  - the World Bank (FSDP Support Project)
  - GIZ, KfW, CordAid, UNDP and UNCDF (MITAF Activities)
  - AfDB (Payment Systems Development Project)
  - IMF, GIZ and IFAD (Strengthening Banking Supervision)

- The World Bank, is the lead donor and most other donors will channel funds through them to be managed using agreed procedures.
FSDP SUPPORT PROJECT

The World Bank funded the FSDP Support Project (FSDPSP), with the objective being:

‘To strengthen the capacity of the Bank of Sierra Leone and contribute to improving efficiency in financial intermediation, safeguarding financial sector stability, reducing cost of money transfer and expanding access to financial services.’

The FSDPSP focuses on two major components:

• Enhancing access to financial services;
• Building financial sector reform and oversight capacity of the Bank of Sierra Leone.
COMPONENTS

• Enhancing access to financial services
  – Establishment of a Credit Reference Bureau
  – SME/Value Chain Finance and Capacity Development of Commercial Banks

• Building financial sector reform and oversight capacity of the Bank of Sierra Leone
  – Strengthening the Enabling Environment
  – Implementing the Institutional Development Plan of the Bank
IMPLEMENTATION OPTIONS

- Eliminate the use of a Project Implementation Unit (PIU)
- Integrate Project within current existing BSL Structure
  - Advantages
    - provides a best practice for interagency and sector wide reform
    - Cost effective as piggy backs on current structure
Project Structure

Project implementation has been streamlined into the Bank of Sierra Leone operations.

Structure includes:

– BSL is responsible for all procurement and financial management
– An FSDP Secretariat was created within the Office of the Governor.
– the high level Financial Sector Consultative Forum and the Financial Sector Steering Committee.
– The Governor and Head of FSDP Secretariat serve as Chairman and Secretary of these two committees.
– Committee members include the Ministries of Finance, Agriculture, Trade and Justice, Commercial Banks, Non Bank Financial Institutions, Business Forum, Chamber of Commerce, Donor Partners.
CHALLENGES TO PROJECT IMPLEMENTATION

Key challenges include:

• Limited implementation capacity;

• Addressing all stakeholder views and interests especially those governed by separate legislation (NASSIT, SLICOM, etc.)

• Complementary donor projects

• Establishing Capital Requirements and prudential guidelines for both Commercial Banks and MFIs
MITIGATING MEASURES

• **Limited implementation capacity:**
  – a streamlined implementation structure with the FSDP Secretariat reporting directly to the BSL Governor and Deputy Governor
  – Back-up support to be provided by the Integrated Project Administration Unit (IPAU) in the Ministry of Finance and Economic Development.

• **Addressing Stakeholder views**
  – The Governor’s wealth of experience on in Macro Economic Management, project cycle activities and Donor Aid Coordination will help in addressing the views of Institutions that are not regulated by the Bank and Donor Requirements

• **Complementary Donor Projects**
  – The FSDP Secretariat will play a key role in coordinating the various stakeholders and donors as well as monitoring the implementation of the project.
KEY REFORMS UNDERTAKEN

• Enhancing access to financial services
• Establishment of a Credit Reference Bureau
• Legislative reforms
• Financial Sector Regulatory and Supervisory Reforms
• Development of Specialized Institutions for Investment
IMPACT OF FINANCIAL SECTOR REFORM

– Increase in the number of financial institutions:
  
  • Banks and Branches of commercial banks.
  • Microfinance institutions (MFIs) - These include both Deposit taking and Credit only MFIs.
  • Community Banks – There are already nine of these.
  • Financial Services Associations (FSAs) has gone a long way to improving rural financial intermediation.
## IMPACT OF FINANCIAL SECTOR REFORM

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IMPACT OF FINANCIAL SECTOR REFORM

![Bar Chart]

- Commercial Banks
- Commercial Banks Branches
- Discount Houses
- Community Banks
- Foreign Exchange Bureaux
- Financial Service Ass.

0 10 20 30 40 50 60 70 80

Jun-07
Jun-11
IMPACT OF FINANCIAL SECTOR REFORM

– Reduction in Non Performing Loans

– Revision to key legislation:
  • Bank of Sierra Leone Act
  • Banking Act
  • Anti Money Laundering and Countering of Financing Terrorism Act (AML/CFT)

– Regulatory and Supervisory Reforms
  • Formation of Regional College of supervisors
  • Recently concluded Stress Test of Commercial Banks
  • Increase in the Capital Requirements of Commercial Banks
CONCLUSION

Properly developed and implemented Financial Strategies lead to:

1. **Stability of the Financial System**
   - Customer Protection
   - Fair and Transparent Markets.
   - Monetary and Price stability

2. **Improved Regulation of the Financial Sector**
CONCLUSION

• Finally, we express our appreciation to the leading donor, the World Bank, as well as AfDB, KfW, GIZ, UNDP, CordAid, UNCDF. We hope that the pledges that have been made by our donor partners will be honoured in the near future as we still have outstanding projects to implement, for instance:
  • Improve the investment of long term funds and contractual savings
  • Review of Income Tax Act, Collective Investment Bill etc.
  • Strengthen land related legal environment, etc