The Republic of Sierra Leone

FINANCIAL SECTOR DEVELOPMENT PLAN

31st October, 2009

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FSDP

October 31st, 2009

Acknowledgement

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Foreword

In the past few years, the Bank of Sierra Leone (BSL) through its internal deliberations and public pronouncements has highlighted the importance of promoting financial sector development to support overall growth objectives and poverty reduction strategies of the Government of Sierra Leone (GOSL). The GOSL has recently published its Agenda for Change, the Second Poverty Reduction Strategy Paper (PRSP II) and one of the selected preconditions for achieving the strategic priorities of the PRSP II is 'Growing the Private Sector'. Financial sector development, especially improving access to finance by building and sustaining a responsive financial sector, is an important aspect of this priority. An efficient and effective financial system will be crucial for financing private sector activities.

A joint IMF/World Bank review of the Sierra Leone financial sector conducted in May 2006 under the Financial Sector Assessment Program (FSAP) identified a number of weaknesses in the financial system such as institutional, administrative, legal, and physical impediments (including inadequate water and electricity supplies). In the context of the Poverty Reduction and Growth Facility (PRGF) arrangement, the IMF set a structural performance criterion on the adoption of a comprehensive strategy for the reform of the financial sector, drawing on the FSAP recommendations. The development of this comprehensive national strategy has been spearheaded by the BSL.

The Sierra Leone Financial Sector Development Plan (FSDP) is the output of an extensive consultation exercise with stakeholders in the financial sector, and a number of special studies and thematic reports on various aspects of the financial system were produced by both domestic and donor-funded international consultants. The consultation process included two stakeholder workshops, regular FSDP Working Group meetings held at the BSL, bilateral discussions between the BSL and key players in the Sierra Leone Financial Sector and a series of meetings and discussions with donor partners at various stages during the preparation of the FSDP.

We are grateful to all those who assisted in preparing this report. We thank the management and staff of the BSL. The Ministry of Finance and Economic Development and the BSL are partners in the FSDP process and we are grateful for this cooperation. We thank key stakeholders in the financial system who were active members of the FSDP Working Group including the Sierra Leone Business Forum, the Association of Commercial Banks and the insurance companies.

We thank the Bank of England and the UK Department for International Development (DfID) for a jointly-sponsored technical assistance programme which played a major role in advancing the FSDP process. The World Bank office in Freetown coordinated the work of the international consultants and the German Development Cooperation (GDC) actively participated in the stakeholder workshops and other consultations. We express our gratitude and appreciation to both institutions.

The objective of the FSDP is 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. The FSDP would therefore focus on four priority areas:

1) Build a strong, competitive and effectively functioning commercial banking system. This would require a significant modernization of the BSL Banking Supervision Department including investment in a modern information technology infrastructure across the Bank. Installation of a new payment systems architecture is currently underway as part of an African Development Bank (AfDB) supported West African Monetary Zone (WAMZ) payment system project;

2) Increase access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks;

3) Improve the mobilization and investment of long-term funds, through strengthening our contractual savings institutions and the capital market; and

4) Establish a permissive and an enabling environment, largely in line with best international practice, through legislative and regulatory reforms, develop

an appropriate macroeconomic and financial system stability policy framework, and promote capacity building in the financial sector.

Effective implementation of the FSDP would be crucial for a successful financial reform programme in Sierra Leone. An FSDP Secretariat will be established at the BSL and would have primary responsibility for implementing the FSDP and ensuring that the implemented programme is consistent with Sierra Leone's long-term growth objectives. The work of the FSDP Secretariat will be supervised by an FSDP Steering committee chaired by the Governor.

We seek the support of all stakeholders and our international partners to ensure successful implementation of the plan.

Sheku S. Sesay

Governor, Bank of Sierra Leone.

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Acronyms

ACB	-	Association of Commercial Banks
ACH	-	Automatic Clearing House
ADR	-	Alternative Dispute Resolution
AfDB	-	African Development Bank
AML	-	Anti-Money Laundering
ATM	-	Automated Teller Machine
BCPs	-	Basle Core Principles
BSL	-	Bank of Sierra Leone
CB	-	Community Bank
CFT	-	Countering of the Financing of Terrorism
CIS	-	Collective Investment Schemes
CMTs	-	Change Management Teams
DfID	-	UK Department for International Development
ECOWAS-		Economic Community of West African States
GDC	-	German Development Cooperation
FIU	-	Financial Intelligence Unit
FSAs	-	Financial Services Associations
FSAP	-	Financial Sector Assessment Program
FSDP	-	Financial Sector Development Plan
FSR	-	Financial Stability Report
FSRS	-	Financial Sector Reform Secretariat
FSSC	-	Financial Sector Steering Committee
GDP	-	Gross Domestic Product
GOSL		Government of Sierra Leone
GPRS	-	Global Positioning Routing Systems
HFC	-	Home Finance Company
HIPC		Heavily Indebted Poor Countries Initiative
IAIS	-	International Association of Insurance Supervisors
ICASL	-	Institute of Chartered Accountants of Sierra Leone
IFRS	-	International Financial Reporting Standards
IMF	-	International Monetary Fund
MFI	-	Microfinance Institution
MITAF	-	Microfinance Investment and Technical Assistance Facility
MOF	-	Ministry of Finance
MOFED	-	Ministry of Finance and Economic Development
NASSIT	-	National Social Security and Insurance Trust
NATCOM	-	National Telecommunication Commission
NBFI	-	Non-Bank Financial Institutions
NPC	-	National Payments Committee
NPL	-	Non-Performing Loan
NRA	-	National Revenue Authority
OFSA	-	Other Financial Services Act
POSB	-	Post Office Savings Bank
PRGF		Poverty Reduction and Growth Facility

PRSP II		Second Poverty Reduction Strategy Paper
PSD		Private Sector Development
RCB	-	Rokel Commercial Bank
RTGS	-	Real Time Gross Settlement System
SALHOC	-	Sierra Leone Housing Cooperation
SCBSL	-	Standard Chartered Bank of Sierra Leone
SEC	-	Securities and Exchange Commission
SLAMFI	-	Sierra Leone Association of Microfinance Institution
SLCB	-	Sierra Leone Commercial Bank
SLIA	-	Sierra Leone Insurance Association
SLICOM	-	Sierra Leone Insurance Commission
SME	-	Small and Medium Scale Enterprise
TA	-	Technical Assistance
US	-	United States
WAMZ	-	West African Monetary Zone

FSDP EXECUTIVE SUMMARY AND OVERVIEW

A. Introduction

Sierra Leone's financial sector plays a critical role in the economy. But its contribution depends upon the quantity, quality and efficiency of its services. Fundamental sector reforms are needed, to improve efficiency in financial intermediation, reduce transaction costs, expand access to financial services, and channel scarce resources to productive investment. This Financial Sector Development Plan (FSDP) describes the challenges we face, and shows how we intend to overcome them. The FSDP will be implemented through a Plan of Action, summarized in Annex 1, which will be finalized during FSDP review.

B. The Commercial Banking System

Our 14 licensed banks control 75% of financial sector assets. In 2008 deposits grew by 37% and net loans by 62%. New banks have enhanced competitiveness significantly, but banking could be more competitive, costs reduced and credit-risk rating improved. Banks are small, with average total assets of only US$ 38 million; the 3 largest banks hold over 50% market share, down from the 86% of 2005. They are unusually inefficient, with noninterest expense nearly 12% of assets, and average spreads of 10%, imposing high costs on borrowers. There are few well-qualified bankers available. Newer, foreign-owned banks are growing fast, and could come to dominate the system. The banking system, with capital exceeding 17% of total assets, is sound, and banks that are well-managed appear profitable. However, non-performing loans are a problem, at 16% of total loans, and banking supervision may not be sufficiently risk-oriented.

Impediments to a strong banking system include inadequate bank supervision, policy constraints, inadequate bank coordination, a weak interbank market, the lack of payments mechanisms, absence of credit-risk information, inadequate short-term financial markets, absence of longer-term finance and foreign currency lending, and inadequate rural and agricultural finance. The FSDP strategy for the banking system includes strengthening capacity; supervision and regulation; payments systems; short-term financial markets, monetary policy and financial system stability; and central bank infrastructure.

Building the Banking System. The capacity building strategy includes: increasing efficiency in government-controlled banks, and privatization; adopting a credit reporting system; allowing moveable properties as security for bank loans; introducing commercial dispute resolution facilities; building a deposit insurance scheme (which would need funding); and improving commercial bank coordination by strengthening the Association of Commercial Banks..

Strengthening Banking Supervision and Regulation. Strengthening banking supervision is fundamental to an efficient banking system, and is the top FSDP banking priority. Yet with the proliferation of banks, BSL's off-site and on-site supervision has weakened, despite increasing needs. FSDP supervision and regulation strategy includes restructuring the BSL Banking Supervision Department, with aggressive programmes of staff recruitment, retention and training, supported by technical advisors; focussing supervision on deposit-taking institutions with a risk-based approach; new commercial bank licensing policies and minimum capital requirements; improved bank reporting using appropriate technology.

Strengthening Payments Systems. The lack of payments systems imposes obstacles for all who need to make payments or have access to credit. The FSDP payments systems strategy includes setting up a National Payments Council to represent stakeholders; developing BSL regulation and oversight capacity; and a framework for international and local electronic and mobile payments systems.

Macroeconomic and Monetary Environment. Stable macroeconomic and financial environments, with robust monetary and fiscal policies, are fundamental to a sound financial sector. Accordingly, BSL will strengthen its analytical capacity and staffing; moving to a forward looking monetary policy framework; developing a financial system stability assessment framework and a market intelligence function; and monitoring bank reserves. The financial authorities will improve their revenue, expenditure and liquidity forecasting. Government will provide BSL with government securities to implement monetary policy.

Strengthening Central Bank Infrastructure. A strong BSL is fundamental for commercial banking. Strategy includes BSL's continued recapitalization; BSL operational independence; modernizing BSL technology and working environment; implementing management and functional changes; seeking technical assistance for identified skills gaps; updating legislation; and further strengthening the BSL Financial Intelligence Unit (FIU), including for anti-money laundering (AML) and counter-terrorist financing (CFT) functions.

C. Access to Finance

The vast majority of Sierra Leoneans are poorly served with banking services, especially the rural population, of whom 80% live on below the equivalent of one US dollar a day. There were only 160,000 bank accounts in the country in 2006. Sierra Leone has one of the lowest bank branch penetrations in Africa with one branch per 200,000 people, although more branches are opening. Credit to the private sector amounts to 5% of GDP, far below the sub-Saharan Africa average of 17%. Agricultural loans account for only 2% of gross loans, although agriculture provides 75% of employment and 50% of GDP.

Rural Banking. The rural bank network was destroyed by the war. Our present institutions are poorly equipped to address rural needs. The recent entry of new banks will help only at the most commercially viable margins; commercial banks will not contribute much directly to microfinance (MFI) for some time.

In the microfinance sector, 6 large MFIs have 60% market share (total loans of US$ 4.8 million dollars and 63,000 clients). They are mainly funded by donors, and small commercial bank loans; growth is slowing due to capacity limitations. Two new MFIs, BRAC and LAPO, have recently entered the market; six community banks (CBs) also operate but with severe problems. Both the MFIs and CBs require a substantial overhaul to be more efficient and profitable. MFIs are credit-only institutions, not permitted to mobilize deposits, and not BSL-regulated. The donor-funded Microfinance Investment and Technical Assistance Facility (MITAF) supports MFI development.

Broadening MFI and Rural Credit Outreach. Proposed strategies would promote overall growth in an effective MFI industry, to broaden and improve access for the poor and rural populations (a most important FSDP objective). We must also address the community bank dilemma. MFI needs sound legislative, regulatory and governance bases, and well-managed institutions. We will encourage the stronger MFIs which meet capital requirements to take deposits; facilitate commercial bank involvement in MFIs; and develop mobile telephone-based banking. BSL will improve MFI reporting requirements, set accounting standards (with ICASL), implement clear MFI licensing policies, and work with MITAF on an MFI training programme.

The financial sector will need to coordinate with the Ministry of Agriculture on agricultural and rural finance, and with the Ministry of Trade on nonfinancial SME services. A diagnostic study to develop rural finance strategy is needed. We plan to create a challenge (competitive grant) fund to provide long term loans, partial guarantees and MFI refinancing for SME and agriculture; to continue MFI institutional strengthening and market research through MITAF; and set up credit guarantees to encourage commercial bank SME and agricultural lending.

Strengthening MFI Governance and Supervision. The overall governance and supervision structure for MFIs and CBs – BSL, MITAF, and the Sierra Leone Association of MFIs (SLAMFI) – is relatively weak and inadequately coordinated. The legislation, the Other Financial Services Act (OFSA), needs updating. We will amend the OFSA, and make regulations for both deposit-taking and non-deposit-taking MFIs and CBs. BSL will supervise MFIs that take deposits.

Restructuring Community Banks. Licensing of new CBs will be restricted to those with proper structures. BSL will exit from any ownership or management of CBs, and will establish a specialized MFI/CB Supervision Section.

D. Strengthening Contractual and Long-term Savings

Sierra Leone's pensions and insurance industries, together with a recently established capital market framework, constitute essentially the only sources of long-term funding, as commercial banks are heavily oriented toward the short-term. For mortgages, the government-owned Sierra Leone Housing Cooperation (SALHOC) is virtually inactive, while the HFC Mortgage Finance & Savings controlled by the National Social Security and Insurance Trust of Sierra Leone (NASSIT) has just begun operations. NASSIT and the life insurance industry need more long-term investment opportunities. The business community needs better alternatives for financing equity and long-term debt.

Strengthening Pensions and Provident Funds. NASSIT is essentially the only pension fund in Sierra Leone: there is little private pension fund activity and no suitable regulatory framework. Set up in 2002, NASSIT has made a sound start. However, since it accounts for the bulk of financial sector long-term funds, and is the primary source of long-term finance, which is critical for development, NASSIT must manage these funds well. Its dominant position imposes a significant constraint on developing other capital sources. With the current government policy for NASSIT to enter the health sector, there will be even less scope for voluntary contractual savings and capital market development. Government will make an official policy statement on NASSIT's role in financing pensions, life and disability insurance and health care.

To streamline NASSIT's role, to improve financial intermediation and deepen the market, we propose amending the NASSIT Act to facilitate competition; creating an equal playing field for private pensions with respect to taxability of contributions and benefits; separating NASSIT's Social Security administration role from its investment function; carrying out a consultant institutional and operational review of NASSIT.

Strengthening the Insurance Industry. Sierra Leone's insurance sector is underdeveloped and inadequately supervised. It has 8 insurance providers, with two new ones entering. The industry is reportedly profitable, although it does not provide SLICOM adequate data on its financial condition. Total premiums written in 2006 were Le 19 billion (US$6 million), 0.4% of GDP, low even by sub-Saharan Africa standards.

The industry association, the Sierra Leone Insurance Association (SLIA), could be more effective in supporting the industry.

SLICOM, responsible for insurance industry licensing and supervision, is weak: it does not have the resources for its role, nor to deal with important stability issues like possible insolvency. It has too few professional staff, inadequate training, limited use of technology, lacks manuals and analytical tools, and is subject to undue industry influence.

We intend to ensure a well supervised, solvent and stable insurance industry, that can mobilize long-term funds, particularly for life insurance and pensions. We will strengthen SLICOM and insurance regulation. FSDP calls for recruiting a donor-financed Insurance Commissioner and technical assistance; ensuring that SLICOM senior management has substantial relevant experience; establishing a SLICOM compliance bureau; and increasing SLICOM independence from insurance companies. The 2000 Insurance Act needs amending; regulations are required to implement key prudential norms, including addressing gaps in IAIS core principle compliance, requiring insurers to adopt relevant accounting standards, and setting solvency/minimum capital requirements. The law must also provide for micro- and crop insurance. The FSDP also includes strengthening SLIA to help strengthen and deepen the industry, innovative mobilizing of insurance company capital, and agreeing tax modalities for life insurance.

Strengthening Capital Markets. An embryonic capital market infrastructure is being created. Capital markets can play an important role in providing long-term finance for development, can create investment opportunities for pensions, provident funds and life insurance, enhance liquidity for equity and long-term debt, and facilitate our privatization programme. It is important initially to keep the infrastructure relatively simple and inexpensive to operate, as the volume of transactions is likely to grow relatively slowly.

The stock exchange, inaugurated in 2007, is now operational. It has established detailed listing rules, and is currently listing Rokel Commercial Bank. Other listings are on the way. An equity fund, Manocap, was set up in 2006; funded and maintained offshore, it is unregulated. Two discount houses are regulated and supervised by BSL under the OFSA.

We propose to strengthen the capital markets regulatory structure, facilitate collective investment schemes, strengthen market participants, and pursue a phased plan to develop and deepen the market. In the near future, we will establish a Securities and Exchange Commission (SEC). Since this will take time, BSL has de facto interim responsibility for overseeing markets. We will develop a strategic plan for BSL's securities market responsibilities, and licensing & regulatory frameworks for securities intermediaries. Experts will be recruited to help set up the SEC and train senior staff, perhaps initially filling the roles of commissioner and unit head.

A regulatory structure can be an enabling environment but does not itself create a capital market. The market can only develop over time; it will require attention and joint coordinated action from the stock exchange, BSL, SEC, government (primarily through MOFED), and private sector stakeholders.

Creating a long-term debt market, depending initially on government debt instruments on the supply side, is the soundest and easiest approach to building a capital market. Accordingly, MOFED with technical assistance will develop procedures and strategy to issue long-term government paper, which would also enhance monetary policy. The SEC and BSL will facilitate active market trading in shorter-term treasury bills.

We will require listed companies and CIS schemes to adopt IFRS accounting and international auditing standards. BSL will provide guidance on IFRS accounting (see below, Section E). We will provide formal training in capital market functions for market participants, especially securities intermediaries, so they perform their roles correctly, in accord with regulations and ethics considerations. An essential first step will be training SEC staff, who will help train other market participants.

Facilitating Collective Investment Schemes. The Collective Investment Schemes (CIS) Bill needs to be enacted, and supporting regulations issued, to allow formation of investment companies and unit trusts. Passage of this bill may facilitate privatization of some government holdings, and sale of NASSIT holdings to reduce their ownership share in some companies.

E. Strengthening the Enabling and Capacities Environment

Getting the enabling environment right, and developing financial sector players' capacity and skills, are essential elements for implementing a financial sector reform programme consistent with Sierra Leone's long term objectives. We need to ensure that our policies and institutional framework are aligned with our obligations under the World Trade Organization, Economic Community of West African States, and West African Monetary Zone (WAMZ).

Strategy will focus on establishing an appropriate legal framework, including those aspects relating to debt recovery and land-related issues. We will address other enabling issues, including education, training and communications capability. A high profile FSDP structure and process will ensure that key stakeholders have a voice, and that FSDP actions are carried out as scheduled.

The Legal Framework. Working with the Attorney General's Office a legal team will prepare draft legislation, described above. Paramount for amendment is the Bank of Sierra Leone Act 2000, so as to enhance BSL independence to conduct monetary policy, extend its supervisory role of the financial sector, give it authority to contract-out some supervisory functions, and resolve distressed banks.

Strengthening Debt Recovery. An inadequate legal structure for collecting loans is a major constraint on credit to the private sector. Reform will establish: an effective commercial court system, fast-tracking banking cases, and improve judiciary accountability and efficiency; also a better non-court self-enforcement mechanism for mortgages and other secured transactions. Finally, to ensure banks put more emphasis on collection, the income tax law will be amended so that provisions for bad debts follow international best practice.

Land-Related Legal Environment. Reform in land-titling and the ability to use land as collateral for borrowing are essential for increased private sector credit, particularly rural finance. Such reform concerns a wide range of stakeholders beyond the financial sector. We will prepare an FSDP paper to sensitize such stakeholders to how important land-titling reform is for the financial sector.

Other Enabling Environment Issues. The enabling environment must include regulatory frameworks for accounting and auditing, AML, and capital markets, as well as appropriate taxation provisions, and an adequate telecommunications infrastructure.

- BSL will work with ICASL to implement IFRS and improve **accountancy** training, providing accountancy assistance to ICASL, ICASL members, market participants and all financial institutions supervised by BSL.
- It will implement the **AML** framework, including CFT regulations.
- It will facilitate **stock exchange** development by strengthening the company registrar, valuator, and real estate regulatory capacity.
- **Tax reform**, like land reform, affects a broad set of stakeholders: an FSDP paper on the financial sector's tax reform needs will be prepared.

Capacity building. Capacity building at the individual and institutional levels is crucial, to develop adequate human capacity. A financial sector training institute for bankers and other sector professionals will be set up. Universities and tertiary institutions will be encouraged to provide courses relevant to the financial sector. BSL will support an internship programme for financial sector students. We would also continue to support MITAFF training initiatives for microfinance.

FSDP Implementation Structure and Process. Designing the FSDP and action plan are the first steps. More difficult will be implementation. An appropriate FSDP implementation structure will be essential, in which stakeholders feel they are participating. We will form a Financial Sector Steering Committee (FSSC), with overall responsibility for final approval of FSDP strategy, and to lead implementation. It will be chaired by the BSL Governor, with representatives from key participating ministries and financial institutions. The FSSC will establish a Financial Sector Reform Secretariat (FSRS), approve its operational plan and budget, and take decisions as needed on FSDP issues.

The FSRS, located within BSL and appropriately staffed, will assist agencies to prepare detailed implementation programmes; it will interact with stakeholders, monitor and report on quarterly progress, and recommend solutions to problems.

Individual sector agencies will be assigned primary responsibility for implementation in accord with the FSDP strategy. Each would name a change management team with primary responsibility for ensuring actions are implemented as scheduled, and for coordination with the FSRS.

A project document is being prepared to operationalise the Plan. Donors are requested to support it.

THE FINANCIAL SECTOR DEVELOPMENT PLAN

1 THE FINANCIAL SECTOR

1.1 Introduction

1.1.1 Sierra Leone's financial sector plays a critically important role in the economy. It helps the economy to pool and utilize resources, to reduce costs and risks, to expand and diversify opportunities, to enhance the efficiency in allocating resources, and so to promote productivity and economic growth. Its contribution to the growth and development of the economy largely depends upon the quantity and quality of its services and the efficiency with which these services are provided.

1.1.2 Fundamental financial sector reforms are needed to achieve efficiency in the financial intermediation process, reduce transaction costs, expand access to financial services, and channel scarce financial resources into productive investment. Accompanied by appropriate legislative changes, these reforms should result in the deepening of financial intermediation, the creation of new instruments to facilitate investment and the establishment of new financial institutions to increase outreach.

1.1.3 Unfortunately, but understandably given the difficult conditions in Sierra Leone over a period of years, the financial sector falls considerably short of playing its important role in a satisfactory fashion. The overall financial sector situation was relatively well summarized in the 2006 World Bank-IMF FSAP report which stated:

> *"--the financial system has been unable to provide adequate support to the private sector and the obstacles to its doing so extend beyond the financial sector. Access to finance outside Freetown, among small businesses, the poor,*

and in agriculture is very limited. Physical barriers to financial sector development posed by weak infrastructure are exacerbated by institutional, administrative, and legal obstacles involved in conducting banking and financial transactions. An even bigger obstacle to the creation of a deeper, more efficient financial sector with wider outreach is the inadequately served need for capacity development due to the shortage of skilled professionals, insufficient technological resources, and a general public that is not well-educated in the products and procedures of a modern financial system."

1.1.4 As highlighted in the new Poverty Reduction Strategy Paper (PRSP II), the Government, the Bank of Sierra Leone (BSL), and key stakeholders in the financial sector have recognized these limitations and financial sector development is high on the Government's agenda. The Government's Financial Sector Development Plan (FSDP), which this document sets out, describes the challenges that we face and shows how we intend to overcome them.

1.1.5 The FSDP consists of five Chapters. Chapter 1 gives an introduction, chapter 2 discusses the banking system, chapter 3 deals with access to finance, looks at the contractual and long-term savings and chapter 5 examines the enabling environment.

1.1.6 The FSDP will be implemented through an approved Plan of Action (see Annex 1). The Plan of Action constitutes the essence of the FSDP. It will include time-bound actions, and focus in particular on support of its overriding objectives. Boxes in the FSDP text show summaries of actions to be taken for each set of issues. These summaries , taken together, constitute the outline Plan of Action. The detailed Plan is being drafted in a participatory manner based on discussion of the FSDP. Updated versions of the Plan of Action, showing target dates and institutional responsibilities, will be incorporated in the final FSDP.

Summary 1: OUR FINANCIAL SECTOR OBJECTIVES

- To build a strong, sound effectively functioning banking system;
- To increase access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks;
- To improve mobilization and investment of long term funds, through strengthening our contractual savings institutions and the capital market;
- To establish an enabling environment in line with best international practice;
- To implement a financial sector reform programme consistent with Sierra Leone's long term objectives and ensure that the implemented programme achieves these objectives.

1.2 Macroeconomic Overview

1.2.1 In 1999, the Government in association with multilateral and bilateral donors embarked on an economic recovery program. Its implementation, following the July 1999 Lome Peace Accord, was designed to re-establish macroeconomic stability, rehabilitate the economic and social infrastructure that was in a state of disrepair as a result of the rebel war, and rebuild capacity for policy formulation and implementation. Support was provided by the IMF, World Bank and bilateral donors. In the years that ensued, macroeconomic stabilization and structural reform were pursued within the framework of the 2001 Interim National Poverty Reduction Strategy. In 2002 Sierra Leone became eligible for, and benefited from assistance under the enhanced Heavily Indebted Poor Countries Initiative (HIPIC) which was completed in December 2006. The Sierra Leone Second Poverty Reduction Strategy, prepared in 2008, articulates an array of policies to facilitate the attainment of the Millennium Development Goals.

1.2.2 Recent macroeconomic performance suggests that the authorities have been reasonably successful in creating a climate conducive to financial sector reform. Among the key indicators are the following:

- Inflation dropped to 7.9 percent p.a. in 2006, but increased to a less satisfactory 12.1 percent in 2007 due in part to the supply shocks arising from increases in international prices for petroleum and food products.
- The budget deficit including grants dropped to Le59.3 billion (1.2 per cent of GDP) in 2007.
- Real GDP growth increased to a relatively robust 7.3 percent p.a. in 2006 but dropped to 6.4 percent in 2007.
- Gross central bank foreign reserves increased to US$215.48 million in December 2007, representing 4.7 months' imports of goods and services.
- The normal exchange rate of the Leone to the US Dollar remained relatively stable while weakening against the Euro.
- Broad Money (M2) grew by 22.6 percent in 2007 after growing 21.5 percent the previous year, i.e., a substantial increase in real terms.

1.2.3 The Government and Central Bank are aware that policies and actions conducive to maintaining this relatively stable macroeconomic situation, especially in the monetary policy and fiscal arena, are needed to create the foundation necessary for our financial sector reform programme to largely meet its objectives.

1.3 Overview of the Financial System

1.3.1 Sierra Leone's financial system is dominated by an oligopolistic banking system comprising the Bank of Sierra Leone (BSL), and 14 commercial banks (listed in Annex 2). Other financial institutions include the Finance and Trust Corporation, 2 discount houses, 6 community banks, 3 non-deposit taking finance companies, 8 insurance companies, 61 foreign exchange bureaus, and 6 micro-finance Institutions, none of which take deposits.

- None of the insurance companies offers policies with an investment dimension, while only four insurance companies offer any form of life insurance.
- The government-owned development bank has recently been closed and its assets liquidated.
- The discount houses accept deposits from the public, deal in government securities and function as security dealers that assist in trading shares over the counter; however, the need for their traditional services is declining, and their assets and levels of business are decreasing.
- The government-owned housing finance company, the Sierra Leone Housing Cooperation (SALHOC) has facilitated the construction of high, medium and low income houses but is now relatively inactive.
- A new housing finance company, Home Finance Company Sierra Leone (HFC), has been established. HFC is at present controlled by the National Social Security and Insurance Trust of Sierra Leone (NASSIT); NASSIT will reduce its stake by public offer.
- The Sierra Leone Post Office has a banking arm whose operations were suspended in March 2007 and whose future mode of operation, if any, seems doubtful.

1.4 Overall Financial Sector Reform Priorities

1.4.1 Our financial sector strategy has four overriding priorities:

- To build a strong, sound effectively functioning banking system;

- To increase access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks;
- To improve mobilization and investment of long term funds, through strengthening our contractual savings institutions and the capital market;
- To establish an enabling environment largely in line with best international practice, as a precondition for implementing a financial sector reform programme consistent with Sierra Leone's long term objectives and ensuring that the implemented programme achieves these objectives.

1.5 Main Economic Requirements Underpinning FSDP and PSD

1.5.1 There are five main economic requirements underpinning the FSDP and the private sector development (PSD) strategies:

- The need to create a culture of entrepreneurship. The level and quality of entrepreneurship is low, which hinders the pace of growth and the speed with which the economy diversifies and grows.
- The need to increase and broaden the scope of investment to cover a wider range of sectors of the economy to make growth more inclusive. This will require building and sustaining a responsive financial sector.
- The need to increase the currently low productivity and competitiveness, especially in the agriculture and agribusiness sectors in which the majority of the poor earn their livelihoods.
- The need to enhance market access and the functioning of markets, that are particularly important for pro-poor growth in view of pervasive past government and market failures.

- The need to harness international linkages in trade and foreign investment through improving financial sector enabling conditions.

2 BANKING

2.1 Commercial Banking System

2.1.1 Addressing weaknesses in the commercial banking system is a major FSDP priority, because Sierra Leone's 13 commercial banks dominate the financial system. They comprise roughly 75% of total financial sector assets, recording high growth (total assets increased by over 40% in 2008). A major FSDP objective is to build a robust, innovative, competitive, well regulated and supervised banking system, which can effectively provide expanded financial services to our people to meet national economic development requirements. It is, therefore, extremely important that the banks are stable, efficient and pursue policies conducive to economic growth.

2.1.2 Major changes have taken place in the structure of the banking system over the past few years. A number of new banks, especially banks from Nigeria, have opened, bringing in new products, services, more competition, and taking an increasing market share. Moreover, five additional banks have applied for entry, with their applications at an advanced stage of processing. The changes pose a number of challenges, including building BSL's capacity for supervising these institutions. There is a general concern that, given the relatively small market in Sierra Leone, there may be too many banks.

2.1.3 In the current climate, the three largest existing banks (Sierra Leone Commercial Bank – SLCB, Rokel Commercial Bank – RCB, and Standard Chartered Bank of Sierra Leone – SCB/SL) are not as active as the new entrants in developing their business and enhancing their services. They have lost 13% of their combined market share of lending in the last year. Moreover some of the older banks lack institutional and financial capacity and are burdened with large portfolios of bad loans. Over the next 18 months, the banking system is therefore likely to be dominated by the newer foreign banks which have, to date, demonstrated reasonable financial strength and stronger commitment to developing the market.

2.1.4 There are a number of impediments to achieving our objective of building a strong, sound and effectively functioning banking system. Among these impediments are policy constraints, weak coordination among bankers, and an almost non-existent inter-bank market. Perhaps more important contributing factors are:

- Inadequate bank supervision,
- The lack of an adequate payments system infrastructure,
- The absence of a functioning credit information system,
- The under-developed short-term financial market,
- The almost complete absence of longer term finance or foreign currency lending,
- The weak flow of finance to the rural and agricultural sectors.

2.1.5 Our FSDP strategy directly addresses banking objectives in five major areas:

i) Building banking sector capacity;

ii) Strengthening banking supervision and regulation;

iii) Strengthening payments systems;

iv) Strengthening short-term financial markets, monetary policy and financial system stability; and

v) Strengthening central bank infrastructure.

2.2 Building Banking System Capacity

2.2.1 To enhance capacity in the banking system, the strategy will focus on i) greater cooperation among commercial banks by strengthening the Association of Commercial Banks (ACB); ii) improving human resource capacity; iii) addressing weaknesses in the state-controlled banks; and iv) providing tools to enhance debt recovery. This strategy is augmented with a number of additional actions discussed in Chapter 3 for increasing access to finance and for mobilizing long-term funds in the banking system as discussed in Chapter 4.

2.2.2 While improved regulation and supervision can play a role, bankers themselves, through their association and individually, have the primary responsibility for strengthening the banking system of which they are a part. BSL will encourage the banks to establish a permanent secretariat and build a stronger Association of Commercial Banks capable of playing an enhanced role. BSL will hold regular bankers' meetings with ACB on important issues and policies, and ensure that they play a key role in decisions relating to the design and implementation of the payments systems and the credit reference bureau.

2.2.3 Strengthening human resource capacity is a critical element in the FSDP. The banks' strength is fundamentally dependent on the skills and capacity of their management and professional staff. Our strategy for strengthening bank staff is three-fold:

- First, the BSL proposes to catalyze the development of a comprehensive banker training program, through the development of a Financial Training Institute (see the enabling environment, chapter 4), by encouraging an expanded university curriculum, and through the banks' individual training programmes.

- Second, the BSL will encourage the ACB to reactivate internationally accredited banking qualifications such as the Chartered Institute of Bankers and its associate examination system: thereby establishing a standard to which bank officers will be motivated to aspire.
- Finally, the BSL will support the ACB in establishing and enforcing a non-mandatory code of conduct for all professional bank staff. All banks will be asked to implement a standardized corporate governance code to augment the individual codes of conduct of their staff.

2.2.4 Building and maintaining confidence in the banking system is an important part of the FSDP. The two largest banks, both government-controlled, have notable operational problems, which if left unchecked will over time have a potentially erosive effect on banking system stability and in public confidence in the banks. Discussions and preliminary assessments including due diligence for privatization of at least one of these banks is currently underway. Generally, strengthening the capacity of professional staff in the banking system coupled with an effective BSL supervision of the system as a whole would identify and address potential problems and reduce the likelihood of systemic risks.

2.2.5 The Ministry of Finance and Economic Development (MOFED), BSL and other relevant authorities will take two additional steps over time to increase public confidence in the banking system and better protect depositors.

- First, we will ensure that all banks and other financial institutions adopt International Financial Reporting Standards (IFRS) accounting and auditing standards and publicly disclose financial information in a transparent and comprehensive manner.

- Second, we hope to design and implement a feasible deposit insurance scheme. Such a scheme will require funding.

2.2.6 Making good loans and successfully collecting them is arguably the most important indicator of a commercial bank's financial condition and performance. Non-performing loans are at worrisome levels for the banking system as a whole, although the levels vary considerably from bank to bank. Past economic and political instability has exacerbated debt collection problems: anecdotal evidence suggests that there are habitual bad debtors who maintain facilities amongst the various lending institutions. As part of the strategy for improving the enabling environment (see chapter 4), action will be taken to improve the environment for debt collection, assist the banks to make better loans and reduce credit risk by taking those steps necessary to make moveable property effective legal security for loans, utilize an arbitration and alternative dispute resolution facility in the collection process, and create a credit reference system. While a privately operated credit reference bureau would be ideal over the long term, it is likely that BSL will regulate the system and, initially, operate it. Legislation for the credit reference bureau is currently being prepared.

Summary 2: Strategy for Building Banking System Capacity

In summary, our strategy for building banking system capacity, as shown in the attached action plan (Annex 1), consists of:

- Increase efficiency in government-controlled commercial banks, and support and facilitate the process of privatization
- Adopt a credit reporting law and regulations relating to credit reference reporting
- Introduce an interim credit bureau in BSL with uniform reporting format and data base
- Make moveable properties as security for bank loans a part of the legal/regulatory framework
- Establish an arbitration and alternative dispute resolution (ADR) facility and establish a commercial court
- Encourage greater coordination & cooperation among commercial banks, through strengthening the ACB, including establishing a secretariat
- Hold bankers' meetings between the BSL Banking Supervision Committee and the ACB at least quarterly
- Establish a comprehensive banker training programme, including internationally accredited banking qualifications
- Standardize corporate governance codes in banks in line with international best practice
- Enhance transparency through disclosure requirements and enforcing IFRS
- Establish a code of ethics for the banking industry
- Design, prepare documentation and seek funding for a deposit insurance scheme
- Establish a permanent private credit reference bureau
- Introduce a deposit insurance scheme

2.3 Strengthening Banking Supervision and Regulation

2.3.1 The highest priority in the FSDP is strengthening BSL Banking Supervision and regulation. This is fundamental to ensuring a stable, competitive, and efficiently functioning banking system. BSL's ability to conduct effective risk-based off-site and on-site supervision has weakened in recent years. Yet the need for strengthening it has become imperative, in light of the significantly increased number of banks, with some that are becoming financially challenged, and when there is probable increasing financial risk in the banking system, as a result of the world-wide economic recession.

2.3.2 BSL Banking Supervision Department staffing and skills have both become inadequate. This is a critical problem, as the number of institutions that need to be supervised has increased, while highly trained staff are leaving. Currently only 26 of the 71 professional jobs in the department have been filled, and only some of those staff are available to conduct commercial bank off-site and on-site supervision.

2.3.3 The BSL will engage in an aggressive recruiting programme within the universities and elsewhere to increase its professional staffing to at least double the current size as soon as practicable. In addition, the BSL will design and implement incentives to reduce the level of staff turnover in the supervision department. Increasing capability and staff skills within the department are also of critical importance. Two strategies for addressing this weakness are i) recruiting one or two long-term technical advisors for at least a two year period; and ii) drafting and implementing a training programme for departmental staff in risk-based on-site and off-site supervision.

2.3.4 The BSL will also address the staffing constraint by reorganizing the department to conduct work more effectively, and by reducing the supervision burden in appropriate ways that do not undermine the primary objectives of preserving banking system stability and keeping depositors' money safe. BSL will accomplish this by focusing direct supervision only on deposit-taking institutions, while continuing to appropriately regulate and require financial reports from all financial institutions for which it has a responsibility. Further, to promote financial deepening and reduce the risk that Sierra Leone will have too many, relatively small commercial banks, a situation that would exacerbate the supervision burden as well as potentially undermining stability, the BSL will:

- implement a licensing policy of a general unwillingness to license any new commercial banks (except for exceptional cases that would bring in a bank focussing on entirely different strategies and niches than the existing banks); and
- significantly increase commercial banks' minimum capital requirements over the next five years.

2.3.5 Potential new products would include, for example, an Islamic banking facility which would cater for those customers that like to conduct banking on the basis of Islamic Sharia law. However, this would have implications for BSL's supervisory role and some capacity building would be required. Leasing finance is also an important growth area and the BSL supports efforts currently underway to develop this market in Sierra Leone.

2.3.6 Upgrading and implementing appropriate information system technology and software is also a critical element in BSL's bank supervision strengthening program. With technical assistance, BSL plans to create hardware and software technology, including the creation and use of an electronic platform for bank reporting and off-site supervision analysis.

2.3.7 Our major supervision objective is for BSL to move effectively away from the present compliance-oriented approach to a modern, risk-based supervision in both the off-site and on-site arenas. BSL's supervision manual will be revised to reflect this objective, and a risk-based bank rating system.

2.4 Off-Site Supervision

2.4.1 Other steps to improve risk-based off-site supervision will include:

- Incorporating a risk-focused policy statement into the off-site supervision manual, and following it;
- Improving the analytical template to incorporate elements in the risk-focused policy statement;
- Improving banking supervision capacity to undertake off-site supervision;
- Conducting a training course on bank analysis from a risk-focused perspective; and
- Undertaking risk-based supervision including market and interest rate assessments.

2.5 On-site supervision.

2.5.1 Steps that will be taken to improve risk-based on-site supervision include:

- Studying risk management systems and procedures in the best managed local banks;
- Preparing an on-site supervision strategy for each bank;
- Analyzing causes when individual bank financial statements deteriorate;
- Analyzing corporate governance and auditing quality in individual banks;
- Conducting examinations of the internal and external audit functions in commercial banks;

- Making inspection reports more proactive in prescribing corrective action with required time tables; and
- Following-up inspection recommendations, to ensure that banks address identified weaknesses.

2.5.2 Regulation and legislation will be reviewed as needed to finish our agenda for fully complying with BCPS and addressing gaps in the bank regulatory environment by i) Implementing policies for the declaration of unclaimed assets to Government; ii) enabling commercial banks to lend to MFIs through change in banking regulations; iii) updating the Banking Act.

2.6 Non-Bank Financial Institutions

2.6.1 While not banking supervision, per se, non-bank financial institution (NBFI) regulation would be strengthened by issuing regulatory guidelines on permissible activities for commercially oriented NBFIs.

2.6.2 Foreign exchange bureaus were licensed only to conduct spot transactions. However, there is some evidence that a large proportion of remittances are channelled through these bureaus, which are not reported because they are not spot transactions. Given the importance of this information for balance of payment statistics, the BSL will conduct a study to ascertain the volume of these remittances. Subsequently, the BSL will review regulations and implement fuller reporting requirements for foreign exchange bureaus. In addition, the BSL supports efforts by the government to rationalize remittances and create a framework for the use of remittances for developmental purposes.

Summary 3: Strategy for Strengthening Banking Supervision And Regulation

In summary, our strategy for strengthening banking supervision and regulation, as shown in the attached action plan (Annex 1), consists of:

- Restructure the BSL Banking Supervision Department to reflect the current demand for financial supervision in Sierra Leone, and recruit the appropriate number of staff with an aggressive recruitment and retention program
- Recruit one or two long-term technical advisors to work for at least 2 years with the Banking Supervision Department
- Prepare & implement a training plan for supervision staff
- Focus central bank supervision on deposit-taking institutions
- Develop a new licensing policy for issuing commercial banking licenses
- Increase commercial bank minimum capital requirements
- Create and use an electronic platform for bank reporting and acquire appropriate hardware and software technology for on-site and off-site banking supervision
- Revise supervision manual to reflect migration towards risk-based supervision including incorporating a risk-focused policy statement and a risk-based bank rating system
- Implement policies for the declaration of unclaimed assets to Government
- Enable commercial banks to lend to MFIs, through changes in banking regulations
- Finish agenda for compliance with BCPs
- Update Banking Act 2000
- Issue regulatory guidelines on permissible activities for commercially oriented NBFIs
- Conduct a study to ascertain the volume of remittances from abroad
- Review regulations and implement fuller reporting requirements for foreign exchange bureaus
- Support government efforts to rationalize remittances and create a framework for the use of remittances for developmental purposes

2.7 Strengthening Payments Systems

2.7.1 Sierra Leone, with the exception of 18 ATM machines not connected with each other, is largely without a national payments system or "switch". The Payments System Act which provides the legal or organizational structure to support a payments system has only been enacted. The absence of a national payments switch imposes significant obstacles for banking, donors, tourism, government and pension payments, various retail industries, conducting financial transactions up-country, and enhancing access to credit. The small number of cheques to be processed suggests that the need for automatic cheque cashing is not urgent: hence higher priority is being given to moving directly to an electronic payments system.

2.7.2 Our most urgent priority in this context is establishing a legal framework and oversight system for payments, as it is the foundation upon which implementation of a payments system must be placed. Our implementation strategy envisages assigning BSL the primary responsibility for overseeing implementation of the payments system, and then regulating it. An external expert should be recruited, with donor financing, to assist BSL in the task. The expert would interact with the National Payments' Committee (NPC), in developing the framework, detailed design and implementation relating to the switch, mobile payments, and, if implemented, the Automatic Clearing House (ACH), and in preparing detailed regulations for them.

2.7.3 It is our intention to include credit cards, point of sale systems, internet banking and ATMs in the national payments switch and to use the switch for many government payroll, pensions, and utility company bills. Eventually, it may be expanded to cover other retail transactions. As part of the payments system strategy a private company would be selected to introduce and operate the switching system and its various applications. Exceptions would be a real time gross settlements system (RTGS) and the eventual ACH, which would be operated by BSL. An RTGS is being designed to be implemented as part of the WAMZ payments system project financed by the AfDB. Commercial banks are also in the process of acquiring Swift FINCOPY to process local bank payments in local currency.

Summary 4: Strengthening Payments Systems

In summary, our strategy for strengthening payments systems, as shown in the attached action plan (Annex 1), consists of:

- Establish NPC to represent stakeholders in broad payments system decision-making
- Develop BSL capacity to provide payments system oversight
- Establish BSL regulation and oversight of the national payments switch, ACH, and mobile payments systems
- Develop a framework for international, local electronic and mobile payments systems
- Include credit cards, point of sale systems, internet banking and ATMs in the national payments switch
- Ensure that the capacity exists to process local bank payments in local currency electronically
- Finalize RTGS analysis/design focusing on business needs
- Install RTGS
- Design and install an ACH system

2.8 Short-term Financial Markets, Monetary Policy, System Stability

2.8.1 A stable macroeconomic environment is fundamental to developing a sound financial sector. A robust monetary policy, a reduction of the likelihood of threats to financial system stability, and sound fiscal policies, would contribute to ensuring a stable macroeconomic environment.

2.8.2 The BSL should work towards a new forward-looking monetary policy framework, while upgrading and modernizing its research and analytical capacity. There is therefore the need to recruit high-calibre staff and develop a comprehensive staff training and retention program.

2.8.3 Effective implementation of monetary policy is dependent on a sufficient but not excessive supply of government securities and an active market in buying and trading them through the interbank market and other short term market mechanisms. In addition to supporting interbank trading in government paper, our strategy for facilitating development of these markets comprises

- Establishing a central bank set benchmark (or prime) interest rate, a long-term objective to support the move to a new monetary policy framework;
- Increasing BSL rediscount facility rates to above-market penalizing rates; and
- Encouraging interbank lending and continued interbank trading in foreign exchange.

2.8.4 The BSL also recognizes the need to free up a portion of commercial banks' large foreign exchange deposit holdings, so they become available for funding economic development, but in a sufficiently limited way to minimize the potential inflationary effect. A new policy and regulatory framework to allow banks to lend foreign exchange deposits in foreign exchange would be required, including the introduction of liquidity and reserve requirements in foreign exchange on banks' foreign exchange balances.

2.8.5 On financial system stability, the BSL will develop a system-wide surveillance programme to monitor systemic risk in the banking sector. This surveillance exercise will be supported by strong market intelligence culminating in the publication of a biannual BSL Financial Stability Report (FSR). Other issues/sectors in the financial system would be considered in the FSR when they are deemed to pose a threat to financial system stability.

Summary 5: Short-Term Markets, Monetary Policy and Financial Stability

In summary, our strategy for strengthening short-term markets, monetary policy and financial stability, as shown in the attached action plan (Annex 1), consists of the following actions:

- Upgrade and modernize the BSL research and analytical capacity and recruit high-calibre staff
- Implement a forward looking inflation, output and money supply forecasting methodology with the objective of moving to a forward looking monetary policy framework in the long-term
- Develop a BSL financial system stability assessment framework, produce a biannual FSR and formalize the BSL market intelligence function
- Provide BSL with sufficient government securities to implement monetary policy
- Implement forward looking liquidity forecasting methodology and regularly monitor bank reserves
- Encourage better MOF forecasting of revenues and expenditures
- Support interbank trading in government paper
- Establish a central bank-set benchmark (or prime) interest rate
- Increase BSL rediscount facility rates to above-market penalizing rates
- Encourage interbank lending and trading in local and foreign exchange
- Develop a policy and regulation to allow banks to lend in foreign exchange

2.9 Strengthening Central Bank Infrastructure

2.9.1 The central bank, while not a part of the commercial banking system, per se, plays a crucial role in its stability and functioning. Therefore, continuing to strengthen BSL in other areas besides bank supervision (previously discussed) is fundamental to our FSDP strategy. Much of this strengthening initiative addresses issues that are largely internal to the central bank and are, therefore, being implemented in parallel to the FSDP rather than being incorporated into it. However, it is appropriate to include some elements herein because of their broader ramifications.

2.9.2 The independence of BSL is of paramount importance. Therefore, government will commit to completing BSL's recapitalization in accord with the agreed time schedule and to ensuring BSL's operational independence.

2.9.3 In the legal arena, the Bank of Sierra Leone Act needs to be reviewed and updated, as does the Other Financial Services Act. Among needed amendments are i) making BSL legally responsible for supervision of the financial sector; and ii) giving BSL authority to contract out some of its supervisory role.

2.9.4 The Anti-Money Laundering Act 2005, which criminalizes money laundering and related offences, provides for the establishment of the Financial Intelligence Unit (FIU) at the BSL. The FIU was established at the BSL in 2006. The BSL has developed Guidelines on the Prevention of Money Laundering and Terrorist Financing, which has been issued to commercial banks for implementation. On-site examinations of commercial banks by FIU staff to check compliance with these guidelines have commenced. The FIU also analyzes Suspicious and Currency Transactions Reports as and when they are received. The FIU will embark on training and sensitization programmes for reporting entities, law enforcement agencies (police, legal and customs), Government Ministries, Department and Agencies, and private sector practitioners. All banking courses would include modules on money laundering and terrorist financing issues. The FIU should be equipped further and there are proposals to enlist staff from law enforcement agencies on secondment basis. The FIU would eventually become an independent agency.

2.9.5 Internally, among its strengthening initiatives, BSL will:

- Design and install new information and communications equipment, software and technology;
- Improve the organizational structure, systems and staffing patterns in line with a recent organizational study, including requesting technical assistance to fill indentified skills gaps;
- Conduct a comprehensive BSL manpower study and begin to implement it;
- Improve the staff grading and performance-based remuneration mechanism; and
- Strengthen BSL capacity in line with WAMZ guidelines.

Summary 6: Strengthening Central Bank Infrastructure

In summary, our strategy for strengthening central bank infrastructure, as shown in the attached action plan (Annex 1), consists of the following actions.

- Continue recapitalization of BSL with a timetable for completion
- Ensure operational independence of the BSL
- Modernize information and communications equipment, software and technology
- Implement recent BSL change management and functional review
- Request technical assistance for identified skills gaps in research, banking supervision, management information systems and internal audit
- Review Bank of Sierra Leone Act
- Review and Update Other Financial Services Act
- Further equip and strengthen the BSL Financial Intelligence Unit (FIU)
- Strengthen BSL capacity and working environment

3 ACCESS TO FINANCE

3.1 Access for Low-Income and Rural Clientele

3.1.1 The FSDP strategies for enhancing and broadening access to financial services to low-income and rural clientele, and increasing the amount of financing available for rural and agricultural development are a core element of the Sierra Leone PRSP-II. Consequently, increasing access to finance for the 73% of the population who live in rural areas, the 70% who live in poverty, and the 50% of the economy that is represented by agriculture, are at the heart of the FSDP. Clearly, financial sector constraints severely hamper the nation's ability to achieve overall economic development and improve the quality of life.

3.1.2 Commercial banks provide little access to services and credit to this clientele, because the necessary physical and legal infrastructure are poorly developed. The banks also do not have the appropriate skills, prospects for profitability appear bleak, and there are only limited links with the more specialized Microfinance Institutions (MFIs) and community banks that do focus on this client base. An informal financial sector, consisting of Village Savings and Loan schemes, Financial Service Associations and "Osusu" schemes (rotating savings and credit associations) which provide subsistence finance primarily in rural areas, has been adversely affected by the years of instability. Information on their level of activity is inadequate.

3.1.3 Currently, six MFIs and six community banks operate in Sierra Leone. The MFIs are reasonably strong, but with relatively small portfolios averaging just over $1 million in size; they do not take deposits. On a combined basis, they have only 63,000 clients with an average of $100 each in loans outstanding.

3.1.4 The community banks have notable operational problems and would require substantial assistance in capacity building and management. The first of the community banks opened in 2003; 7 more are planned under the Rural Finance Community Improvement Programme coordinated by the Ministry of Agriculture Forestry and Food Security. They are regulated by BSL and provide basic banking services but have been found to lack adequate capacity for further development.

3.1.5 The donor funded Microfinance Investment and Technical Assistance Facility (MITAF) has provided a supporting role to enhance MFI development. Both the MFIs and the community banks initiative require a substantial overhaul for these institutions to be more efficient and profitable.

3.1.6 To achieve increasing access to finance the following are proposed: strengthening microfinance and rural credit governance and supervision, broadening its outreach, and addressing the community bank dilemma. It is our view that conducting a significantly large successful outreach depends heavily on launching it from a sound legislative, regulatory and governance foundation, and utilizing sound, robust, reasonably well managed institutions.

3.2 Broadening Microfinance and Rural Credit Delivery Outreach

3.2.1 BSL will implement strategies for improving governance and regulation of MFIs to enable us to achieve one of the most important FSDP objectives, i.e., broadening and deepening microfinance and rural credit delivery outreach, to improve the availability of financial services to the large rural and low-income urban populations. This would assist in improving their economic situation and their quality of life. In order to implement our strategies with respect to this objective, the financial sector will need to coordinate closely with the Ministry of Agriculture on agricultural and rural finance and lending, and with the Ministry of Trade on nonfinancial services for small and medium-size enterprises.

3.2.2 It is essential, given the inadequate levels of participation in microfinance, that an effective vehicle be created for mobilizing and lending medium and long-term funds for the rural, agricultural, and microfinance subsectors. However, government-owned development banks in Africa, particularly those concentrated in agriculture, have been characterized by very high risks and have a generally poor performance record. Therefore, an agricultural sector diagnostic study with the objective of developing a more comprehensive rural financial strategy including, a new facility for channelling long-term funds, which would be different from a traditional development bank, would be required.

3.2.3 In addition, within the context of the new financing facility, a challenge fund (or competitive grant fund) would be created to provide long term loans, partial guarantees and MFI refinancing in support of SME and agriculture. In line with government policy, potential donors would be encouraged to channel all their funding via this new arrangement. The competitive grant fund will focus in particular on MFI institutional strengthening and market research. It will also give attention to encouraging product development, testing and introduction of innovative new products.

3.2.4 This new financing facility should be utilized as the vehicle for channelling all donor agricultural financing support. However, the primary strategy is for the new facility, and the funding within it, to facilitate increased lending by the commercial banking system and MFIs, as it is our view that rural financing needs can only be serviced adequately over the long term by the predominantly private commercial sector. Therefore, the following would be required:

- Re-channel all funding for on-lending to the commercial banks to the maximum extent feasible;
- Limit direct lending to long-term funds and catalyze co-financing for related short-term needs; and
- Encourage more commercial longer term lending with the use of an administered partial credit-guarantee scheme.

3.2.5 Five other key strategies for achieving better access to financial services to the presently underserved clientele include:

- Linking rural lending with specific market opportunities like out-grower schemes;
- Linking banks and MFIs through equity participation, guarantees & improved credit risk assessment;
- Designing and funding a programme to increase savings by small savers, such as for Village Savings and Loans;
- Putting major emphasis on the introduction, promotion and implementation of mobile telephone banking; and
- Supporting mobile payment systems.

3.2.6 Given the severe infrastructure constraints and relatively small markets in Sierra Leone, new mobile approaches to building rural access to financial services, rather than traditional “mortar and brick” approaches, will be preferable. Over the long term, risk mitigating tools would be developed for agricultural lending, such as weather- and micro-insurance. This would require establishing information systems for weather based insurance[1].

[1] Detailed discussion on the insurance sector is provided in Chapter 4

3.2.7 Part of our strategy for increasing access through outreach includes conducting studies to better understand the issues and enable us to refine our strategies. Two future studies would be required in this area: i) conducting an agricultural sector diagnostic with the objective of developing a more comprehensive rural finance strategy; and ii) ascertaining the demand for microfinance services, possibly through a FINSCOPE study. Finally, the BSL in conjunction with other stakeholders would embark on a financial education strategy with the goal of mainstreaming microfinance/rural finance awareness to a broader financial sector audience.

Summary 7: Microfinance and Rural Credit Delivery Outreach

In summary, our strategy for strengthening microfinance and rural credit delivery outreach, as shown in the attached action plan (Annex 1), consists of the following:

- Coordinate closely with the Ministry of Agriculture on agricultural and rural finance and lending
- Coordinate with the Ministry of Trade on non-financial services for SMEs
- Commission an agricultural sector diagnostic study for a comprehensive rural finance strategy including, mobilizing long-term finance
- Create a challenge (competitive grant) fund to provide long-term loans, partial guarantees and MFI refinancing to support SME and agriculture
- Continue MFI institutional strengthening and market research under new MITAF arrangement
- Design and implement a credit guarantee scheme to incentivize more commercial bank SME and agricultural lending
- Link rural lending with specific market opportunities like out grower schemes
- Link banks and MFIs through equity participation, guarantees & improved credit risk assessment
- Mainstream microfinance/rural finance awareness in education initiatives to broad financial sector audience

3.3 Strengthening Microfinance and Rural Credit Governance and Supervision

3.3.1 The overall governance and supervision structure for MFIs and community banks, which includes the BSL development coordination function, MITAF, and the Sierra Leone Association of MFIs (SLAMFI), is relatively weak, inadequately coordinated and inadequate in terms of effectiveness.

3.3.2 There is no Microfinance Act or specialized regulations for MFIs or community banks. Therefore the Other Financial Services Act (OFSA) needs updating. Consequently, the BSL propose to get an appropriate MFI legislative and regulatory structure in place by amending the OFSA as needed, and preparing and finalizing two sets of prudential and non-prudential regulations, one for deposit taking MFIs (and community banks) and one for those that do not take deposits. BSL will regulate and require reports from all MFIs but will only supervise those MFIs and community banks that take deposits.

3.3.3 While creating an appropriate regulatory environment, a broad three-pronged strategy for broadening and deepening access to financial services in rural areas and among lower income clientele will be followed:

- Encouraging the stronger MFIs to broaden the scope of the financial services they provide by allowing those that meet appropriate minimum capital requirements to take deposits;
- Creating conditions that will facilitate broadening commercial bank involvement with these market segments; and
- Supporting the development of mobile telephone-based banking.

3.3.4 Therefore, once the regulations are in place, the BSL will endeavour to strengthen the MFI industry by reviewing and improving MFI common reporting requirements;

working with the Institute of Chartered Accountants of Sierra Leone (ICASL) to determine appropriate accounting and auditing standards; adopting and implementing clear licensing policies; licensing highly qualified MFIs that meet appropriate minimum capital requirements to take deposits; and encouraging MFIs to adopt legal structures that facilitate borrowing from commercial banks. BSL also plans to work with MITAF to arrange a comprehensive training programme for MFIs.

3.3.5 Our strategy to facilitate increased commercial bank involvement includes

- Developing and adapting commercial banking regulations directly affecting access to finance;
- Simplifying collateral seizure procedures with regard to moveable assets using the ADR facility;
- Establishing land title throughout the country to facilitate collateralization of land[2]; and
- Introducing regulations on transparency in pricing and procedures facilitating access for low income clients

3.3.6 Co-ordination, focus and effectiveness of MFI/community bank governance structures will be improved through strengthening and clearly defining the responsibilities of the three key entities: the BSL, MITAF, and SLAMFI.

3.3.7 It is our intent to refocus the BSL's role relating to MFIs and community banks almost entirely on regulation of all MFIs and supervision of those that take deposits, by significantly cutting back on promotion, management, or technical assistance roles in the subsector. The BSL will support strengthening the current MITAF arrangement, which will provide oversight, monitoring, technical advice and training to all community banks and

[2] Further discussions of (iii) and (iv) is provided in Chapter 5.

MFIs. BSL will, of course, continue to require and process reports from all MFIs as part of its overall financial sector stability monitoring and research roles.

3.3.8 MITAF should be involved in training within the subsector by offering certificate programmes, internships and short-term MITAF courses. A restructuring study should address MITAF's long-term role including inter alia, the feasibility of establishing a technical assistance wing.

3.3.9 The existence and role of SLAMFI, the third institution, is useful for sectoral development. SLAMFI will be encouraged to increase its role in MFI industry data compilation, reporting and analysis as well as expanding its advocacy role on behalf of the sector.

3.3.10 While less central to our FSDP strategy, there is a need to address the problems of the POSB, as well as informal institutions.

- While operating at a number of locations outside Freetown, the POSB, in fact, has no meaningful level of rural operations and is totally insolvent. Necessary actions will be taken to separate POSB from the Post Office and take decisive steps to resolve its problems.
- The strategy for issues associated with informal institutions and cooperatives include i) determining the legal structure and framework for Financial Services Associations (FSAs) and, ii) updating the Cooperative Societies Act of 1977.

Summary 8: Microfinance and Rural Credit Delivery Governance and Supervision

In summary, our strategy for strengthening microfinance and rural credit delivery governance and supervision, as shown in the attached action plan (Annex 1), consists of the following actions:

- Amend OFSA as appropriate for MFIs
- Review & finalize prudential and non-prudential regulation & supervision for deposit-taking and non deposit-taking MFIs
- Regulate all MFIs, but supervise only those that take deposits
- Review and, as necessary, refine MFI common reporting requirements
- Determine accounting and auditing standards for MFIs
- Provide general training to MFIs including training by MITAF
- Adopt and implement clear MFI licensing policies
- Introduce regulations on transparency in pricing and procedures facilitating access for low income clients
- Eliminate BSL development coordination role in MFIs and community banks by restructuring and strengthen MITAF, and provide it with additional funding
- Establish a MITAF small grant facility for training and technical assistance
- Strengthen the Association of Community Banks
- Encourage the development of Sierra Leone Association of Microfinance Institutions (SLAMFI)
- Separate Post Office Savings Bank from SL Post Office and resolve Post Office Savings Bank issues
- Determine the legal structure and framework for Financial Services Associations (FSAs)
- Update the Cooperative Societies Act of 1977

3.4 Restructuring and Improving Community Banks

3.4.1 As previously noted, the community banks (CB) have enormous structural and operational problems which require urgent action. There are several layers to our strategy for resolving their problems. Most importantly, immediate steps will be taken to limit the extent of the cost associated with the CBs to what has already been incurred. A license will not be issued for the opening of a new community bank whose framework does take into consideration the existing structural weaknesses of CBs and are robust to these issues.

3.4.2 We will also agree on and implement a strategy that will ensure that the BSL, over the medium-term, will completely exit from any ownership or management role in the existing CBs, and will establish a section in the BSL Supervision Department which specializes in supervising and regulating CBs and deposit-taking MFIs.

3.4.3 We realize that our preferred option for resolving the ownership/governance issue, which is for the community to purchase shares in CBs and repay BSL's original loan, is not feasible for most if not all CBs, given the constraints on the depositors' financial resources and limitations on their ability to provide the management and governance needed to operate the CBs profitably. While we continue to explore that option, an alternative would be to encourage commercial banks and other interested parties to acquire majority share-holding in the CB and thus be in the position to provide liquidity, management and expertise. A fundamental objective is to ensure that ongoing financial services are provided in each of the existing CB locations.

3.4.4 Our strategy calls for continued support for any community banks that are in regulatory compliance to continue to operate as CBs after BSL's involvement has been removed. The two fundamental elements in this strategy include i) encouraging communities to participate in community bank/MFI capitalization and management together with any new larger investors; and ii) supporting community banks/MFIs to stabilize operations with a limited range of services. If any CBs continue to operate as community banks over the longer term, the strategy also comprises i) ensuring that any remaining community banks/MFIs have agricultural lending skills; ii) putting a formal community bank/MFI training programme in place; iii) giving each community bank/MFI TA for 2 additional years; and iv) ensuring that each facility has internet access.

Summary 9: Restructuring Community Banking

In summary, our strategy for restructuring the community banking system, as shown in the attached action plan (Annex 1), consists of the following actions:

- A license would not be issued to any new CB whose proposed structure does not address the weaknesses of existing CBs.
- Draft an action plan and timetable for BSL exit from CBs; improve governance and ensure long-term sustainability
- Strengthen the existing CB/MFI Supervision wing in the BSL, to ensure regular supervision of CBs and MFIs
- Encourage communities to participate in CB/MFI capitalization and management
- Support CB/MFIs to stabilize operations with limited range of services
- Ensure that CBs/MFIs have agricultural lending skills
- Set up a formal CB/MFI training programme including training on agricultural lending

4 STRENGTHENING CONTRACTUAL SAVINGS AND CAPITAL MARKETS

4.1 Mobilization and Investment of Long Term Funds

4.1.1 Improved mobilization and investment of long term funds, through strengthening our contractual savings institutions and the capital market, are an essential element in the FSDP strategy. Sierra Leone's pensions and insurance industries, together with a recently established capital market framework, constitute essentially the only sources of long-term funding as the commercial banking system is heavily oriented toward short-term operations. In the mortgage arena, the government-owned housing finance company, the Sierra Leone Housing Cooperation (SALHOC) is virtually inactive, while the NASSIT-controlled HFC Mortgage Finance & Savings has just begun operations. NASSIT and the life insurance industry need more long-term investment opportunities, especially in debt instruments, to match their liability structures. The business community needs better alternatives for financing equity and long-term debt. The following is the FSDP strategy for strengthening pensions, insurance and capital markets.

4.2 Strengthening Pensions and Provident Funds

4.2.1 NASSIT is at present the only pension fund in Sierra Leone. The 2001 Social Security Act gives NASSIT the sole mandate to provide pension and retirement benefit to members of the scheme. While it is off to a reasonably sound start, addressing NASSIT's situation is a strategic priority, because it is where the bulk of all Sierra Leone's long-term funds are held, and these funds are critical to the country's development. The importance of using these funds in a prudent, conservative, and productive manner cannot be over emphasized. Unfortunately, while private pensions can be approved by the tax authorities, there is little private pension fund activity and no regulatory or legislative framework within which it might operate.

4.2.2 NASSIT's long term viability is of paramount importance as it has important social safety net objectives that go far beyond the financial sector. However, its investment role and performance are also of critical importance to the financial sector.

4.2.3 As of June 2008, NASSIT insured about 141,500 members and had total assets adding to Le 260 billion (US$85 million equivalent). Since 2006, assets have been growing at a rate of about Le 57 billion (32%) per annum and it is now the second largest financial institution in the country. It has an investment portfolio of about Le 216 billion and new revenue cash inflow, Le 90 billion in 2007, is steadily increasing. The size of its new cash inflows, relative to the economy, places significant constraints on NASSIT's flexibility in terms of its investments. It is necessarily engaging in substantial reverse term transformation, i.e., turning developmentally important long-term resources into short term resources. Due to inadequate support from other venture partners and the capital market, it sometimes takes majority ownership positions in companies which impose management responsibilities outside its primary area of comparative advantage.

4.2.4 NASSIT has, to date, been responsibly managed and is, arguably, in better financial condition than many other national pension entities in Africa. However, it is largely self-regulated and supervised and, as for virtually every financial institution, there is opportunity, through review by investment experts, to improve investment strategy. The action plan calls for strengthening NASSIT's regulatory and governance structure and some reforms to improve its performance. A more detailed discussion of these proposed actions and the issues they are addressing in the areas of governance and regulatory structure and financial performance follows.

4.3 NASSIT Governance, Regulatory Structure and Investment Performance

4.3.1 While NASSIT is the primary source of long-term finance, its dominant position imposes a significant constraint on developing other sources. In this respect, it would be useful if there were an official statement of government policy setting out the intention to review the legislation and parameters under which NASSIT can occupy space in the spheres of pensions, life and disability insurance and health care financing.

4.3.2 NASSIT's investments, with the exception of its investments in equities and real estate, are heavily short term, given the virtual absence of long-term debt instruments in the market place. This results in heavy reverse term transformation, i.e., turning considerable long term funds into short term funds. This has unfortunate ramifications for NASSIT, as it sharply constrains its ability to better match its liabilities (which are predominantly long-term) with long-term reasonably liquid assets. It also has unfortunate ramifications for the economy, as it sharply reduces the amount of long term funding available to support economic development objectives. The BSL wants to facilitate development of long-term debt instruments, to provide NASSIT with a suitable medium term investment vehicle and to provide the banks with more medium/long term funds than they now have.

4.3.3 With the government policy for NASSIT to enter the health care sector, there will be further contraction in the scope for voluntary contractual savings and, hence, the potential for capital market development.

4.3.4 In streamlining the role of the trust with the objective of achieving effective financial intermediation and deepening of the market, the following proposed actions are essential.

- First, the NASSIT Act should be reviewed and amended as appropriate to remove the de facto NASSIT monopoly and facilitate competition.
- Second, the Trust's responsibility to administer Social Security should be from its investment function.
- Third, a consultant should be recruited to conduct an institutional review of NASSIT's operation.
- Fourth, legislation should be introduced to ensure an equal playing field for private pensions and NASSIT with respect to the taxability of both contributions and benefits.

4.3.5 With separation of social security from investment functions, an investment fund should be created for managing NASSIT's investment and this fund should be subject to external supervision and regulation.

4.3.6 Transparency in accounting and reporting are essential in improving governance and facilitating an increased public opinion role in monitoring performance. NASSIT and all provident fund managers would be expected to adhere to IFRS accounting in all respects.

Summary 10: Strengthening NASSIT Governance

In summary, the strategy for strengthening NASSIT's governance and regulatory structure, as shown in the attached action plan (Annex 1), consists of the following actions:

- Review and amend Social Security Act and update as appropriate to separate social security from investment, improve governance structure and allow competition in the industry
- Develop a framework for regulation & supervision of investment arm of NASSIT
- Require NASSIT and all provident fund managers to adhere to IFRS
- Make NASSIT reporting more transparent
- Develop the market for long-term debt instruments
- Recruit consulting team and conduct overall institutional review of NASSIT

4.4 Strengthening the Insurance Industry

4.4.1 Sierra Leone's insurance sector is small, underdeveloped and inadequately regulated and supervised. There are 8 insurance providers, with two new ones entering the market. In addition, as of 2006, there were 8 insurance brokers and 15 agents. While the industry is reportedly profitable, its financial condition is not well understood: the supervisory authority, Sierra Leone Insurance Commission (SLICOM), does not have adequate data or analysis on the individual companies' financial condition. Total premiums written (based on 2006 data) was only Le 18,865 million (about US$6 million), representing less than 40% of NASSIT's contributions for the same year, and a very low insurance penetration of 0.4% of GDP, low even by sub-Saharan Africa standards. Industry premiums are growing at a modest 25% per annum. The industry association, the Sierra Leone Insurance Association (SLIA), is less effective than the bankers' association in its support for the industry.

4.4.2 Although the life insurance industry plays a far more important role in financial sector and capital market development internationally, it is small and poorly developed in Sierra Leone. Non-life insurance (primarily third party liability insurance) dominates the industry, with a 93% share of earned premiums. Only 3 companies are engaged in life insurance, and premiums grew at a rate of only 13% over the 3 years ending in 2006, virtually no growth in real terms. The life insurance business has stagnated with the entry of NASSIT into the market, with premiums in 2006 of only Le 1,323 million, i.e., less than 3% of NASSIT's contributions. Life insurers need access to a market for long-dated securities or mortgages, and related yield information to efficiently innovate and price its products, but do not generate a large enough pool of reserves to create significant demand for such instruments.

4.4.3 Our overall strategy for the industry is to ensure that it is well supervised and regulated, solvent and stable, and, particularly through life insurance, can play a meaningful role in mobilizing long term funds. A number of actions to strengthen SLICOM, insurance regulation and supervision and deepen the industry are suggested as follows.

4.5 Strengthening SLICOM and its Supervision of Insurance

4.5.1 In 2000, SLICOM was established by the Insurance Act with its main function being effective administration, supervision, regulation and monitoring of the business of insurance in Sierra Leone. Its functions include establishing standards of control of insurance companies, monitoring rates of insurance premiums and commissions, approving standards and conditions for the industry, and licensing insurers and insurance intermediaries.

4.5.2 SLICOM is governed by a Board of Directors and its day to day activities are carried out by a Board headed by a Commissioner of Insurance. It has responsibility for licensing and registration, solvency supervision, market place supervision and consumer protection, establishment of policy and industry guidelines, and public relations.

4.5.3 Despite being in existence for over 8 years, and some significant early accomplishments, SLICOM is still in its formative stage with relatively weak leadership, only 6 professional staff working on market oversight, inadequate training, limited use of technology, absence of manuals and analytical tools, and subject to undue influence from the industry it is responsible for supervising. There appears to be a consensus that SLICOM does not have the skills and resources to effectively regulate and supervise the industry, and does not have the tools to deal with important stability issues like identifying and addressing possible insolvency. Indeed, at this juncture, the financial condition of our insurance companies is not fully known.

4.5.4 Given the current situation, the government would seek donor technical support to finance a Commissioner and at least two professional staff for a period of two years. In addition, it would be extremely important that the executive secretary and supervision unit head have substantial relevant experience.

4.5.5 The alternative approach of placing responsibility with BSL for supervising insurance has not been pursued as this has the disadvantages that BSL, in the more important area of banking supervision, already has a huge challenge. It also does not have relevant experience with insurance, and having to deal with the problems of the insurance industry would distract senior management from focusing on its core responsibilities.

4.5.6 SLICOM institutional capacity, including information technology and supervision, would need to be strengthened by i) designing and installing hardware and software systems to improve information technology; ii) preparing a detailed 3 year business plan;

iii) moving to a risk-based supervision approach; and iv) enabling technical staff to analyze the financial condition of insurance funds.

Summary 11: Strengthening SLICOM and Insurance Supervision

In summary, our strategy for strengthening SLICOM and its supervision of insurance, as shown in the attached action plan (Annex 1), consists of the following actions:

- Recruit Insurance Commissioner financed by donors to give technical assistance
- Ensure SLICOM executive secretary and unit head have substantial relevant experience
- Engage other long-term TA in SLICOM for 2 years
- Review the Insurance ACT 2000
- Increase SLICOM independence from insurance companies
- Strengthen SLICOM institutional capacity including information technology and supervision
- Design and install SLICOM hardware and software systems
- Move to risk-based supervision of the insurance industry
- Train personnel engaged in supervising insurance companies
- Develop a comprehensive database on insurance transactions and obtain data on insurance company investment portfolios and put in SLICOM annual report

4.6 Strengthening Insurance Regulation and Supervision

4.6.1 While the Insurance Act of 2000 has been a significant and positive step, it needs some amendment and augmenting regulations. Many of the regulations required for effective oversight need to be finalized, and key prudential norms such as solvency guidelines, accounting standards, and uniform reporting formats need to be implemented. Considerable strengthening of the legislation and regulations will be needed to enable a strengthened SLICOM to do its job adequately.

4.6.2 High priority will be placed on finalizing and implementing all appropriate regulations and prudential norms needed to effectively implement the law. The law itself should be updated to address any gaps in IAIS core principle compliance as well as micro- and crop insurance.

4.6.3 Financial reporting needs to be improved by i) reviewing the financial reporting process and requirements; ii) designing an electronic platform for reporting; iii) requiring and ensuring that all insurance companies follow IFRS accounting standards; and iv) requiring insurers to submit full quarterly financial reports to SLICOM.

4.6.4 Addressing possible insolvency among insurance companies is an extremely high priority necessary to preserve financial sector stability. It is expected that the newly reconstituted SLICOM will take steps as quickly as possible to achieve this including:

- Creating, publishing and enforcing clear solvency/minimum capital requirements and a test for solvency;
- Determining financial condition and solvency of all insurers;
- Preparing contingency actions for dealing with companies that cannot meet solvency requirements; and
- Creating a best practice early warning system relating to financial condition and solvency of insurers.

4.6.5 The risk of insolvency would be reduced by increasing minimum capital and statutory deposit requirements (while giving existing companies time to meet the increased requirements) and by analyzing non-life total margin requirement adequacy on premiums vis. International practice. If necessary, some donor financing would be sought to audit troubled individual companies whose accounting is inadequate but suggests probable insolvency.

4.6.6 Another regulatory priority is licensing. SLICOM's requirements for licensing and reporting and its solvency test will be finalized and published. SLICOM will implement the new requirements before issuing any new licenses.

Summary 12: Strengthening Insurance Regulations and Supervision

In summary, our strategy for strengthening insurance regulations and supervision, as shown in the attached action plan (Annex 1), consists of the following actions:

- Finalize drafting of insurance regulations and key prudential norms
- Implement insurance regulations and prudential norms
- Review Insurance Act 2000 and update as appropriate
- Identify gaps in IAIS Core Principle compliance and amend legislation as needed to address the gaps
- Update insurance law to incorporate micro-insurance and crop insurance
- Require insurers to adopt relevant IFRS and international accounting standards
- Create, publish and enforce clear solvency/minimum capital requirements and a test for solvency
- Prepare contingency actions for dealing with companies that cannot meet solvency requirements
- Create a best practice early warning system relating to financial condition and solvency of insurers
- Increase minimum capital and statutory deposit requirements but give companies time to meet them
- Do not license new insurance companies until SLICOM insurance and licensing regulations are in place

4.7 Strengthening and Deepening the Insurance Industry

4.7.1 Our primary objective is creating a stable and efficient insurance industry that serves our people and economy well. Regulation and supervision are only a means toward achieving that end. SLIA, as well as the companies themselves, potentially play an even more important role than SLICOM in achieving that objective.

4.7.2 SLIA has been fairly active but lacks some of the basic capacities to be able to achieve the standards set for it, including a qualifications framework, professional conduct guidelines, and a discipline mechanism. In addition, SLIA lacks basic secretariat infrastructure as well as the systems, equipment and tools required to achieve its objectives. Establishing a twinning arrangement for SLIA, possibly with South Africa, is our primary strategy for assisting in strengthening the association.

4.7.3 Another objective, assisting the insurance industry to better serve the public, will be better served through:

- Introducing a requirement that insurance companies maintain a complaints register;
- Formalizing an insurer redress mechanism to better protect public interest; and
- Developing a long-term public education programme on matters regarding insurance and financial planning.

4.7.4 The industry will be assisted in mobilizing their resources more effectively and innovatively by requiring that they examine tax and other policies to ensure any structural biases causing life insurance companies to favour investment in real estate rather than in the capital market are reduced or eliminated.

Summary 13: Strengthening and Deepening the Insurance Industry

In summary, our strategy for strengthening and deepening the insurance industry, as shown in the attached action plan (Annex 1), consists of:

- Strengthen the Sierra Leone Insurance Association (SLIA)
- Ensure that a fully operational SLICOM compliance bureau is established
- Mobilize insurance company capital more innovatively for life insurance and pension products
- Agree on modalities for tax treatment of life insurance items including benefits paid under life policies

4.8 Strengthening the Capital Markets

4.8.1 Basic steps have already been taken to create a capital market infrastructure, albeit embryonic at this juncture, as it plays an important role in increasing the availability of long-term finance to support long-term development. It can also create investment opportunities for pensions, provident funds and life insurance companies, provide enhanced liquidity for equity and long-term debt instruments, and facilitate implementation of our privatization program. However, it is important to keep the facilitating infrastructure relatively simple and inexpensive to operate during the next five years, as Sub-Saharan African experience suggests that the volume of transactions is likely to grow relatively slowly initially.

4.8.2 The stock exchange, inaugurated in 2007, is now operational. The exchange has established detailed listing rules and is currently listing Rokel Commercial Bank. Efforts are underway for the listing of Standard Chartered Bank-SL, HFC, the Sierra Leone Brewery Ltd and a few other companies. One equity fund, Manocap, was established in 2006 and at present is unregulated; it is funded and maintained offshore. Other capital market-related entities include the two discount houses, which are regulated and supervised by the BSL under the OFSA.

4.8.3 A Securities and Exchange Commission (SEC) is expected to be established following the enactment of the Securities Bill 2009, which is currently being reviewed. Its main responsibilities like in other jurisdictions would include supervision and monitoring of the activities of the stock exchange to ensure an orderly market. Until the establishment of the SEC, the BSL has been empowered by the Other Financial Services Amendment Act (2007) to perform the role envisaged for the SEC. It is our goal to strengthen the SEC, and through it, strengthen the stock exchange to ensure an efficient and orderly secondary market.

4.8.4 Our strategy also places considerable emphasis on money market development (see Chapter 2) as an integral element in our capital market development strategy. A vibrant, liquid, efficiently functioning money market could be viewed as a necessary foundation for the development of long-term capital market facilities and instruments. With support from the IMF, the BSL has and is continuing to develop mechanisms to strengthen this market, as well as to utilize it to enhance the implementation of monetary policy.

4.9 Strengthening Capital Market Regulatory Structure

4.9.1 Our detailed strategy for strengthening Sierra Leone's capital markets involves detailed actions to strengthen the regulatory structure, facilitate the development of collective investment schemes, strengthen market participants, and pursue a phased plan to develop and deepen the market as described below.

4.9.2 It will take some time to establish an SEC that can play a meaningful role in overseeing the securities markets. Therefore, BSL (which has been empowered to take responsibility for overseeing and regulating the operations of the capital market) should quickly develop a strategic plan for managing its market responsibilities. In the near future, a new regulatory/supervisory commission (the SEC) should be established to take responsibility for all securities-related activities from BSL.

4.9.3 Two experts should be recruited for a period of two years to assist the SEC in performing its key functions. Consideration should be given to having these external efforts initially fill the roles of Commissioner and Unit Head and assigning them the responsibility of training their subsequent replacements. The SEC should be provided with the tools and equipment necessary to perform their functions. Computer hardware should be acquired and appropriate software developed.

4.9.4 Among the initial tasks to be accomplished by the stock exchange and the SEC are i) creating a new issues and placements unit; ii) developing an appropriate licensing and regulatory framework for securities' intermediaries; iii) improving the stock exchange listing regulations; and iv) developing an electronic trading system.

4.9.5 A central securities depository and the regulations and systems for trading government debt over the intermediate time frame will also be established. This will be followed later by regulations and systems for trading equities.

Summary 14: Strengthening Capital Market Regulatory Structure

In summary, our strategy for strengthening the capital market regulatory structure, as shown in the attached action plan (Annex 1), consists of :

- Develop a BSL strategic plan for managing its securities market supervision responsibilities
- Establish a new regulatory/supervisory commission structure for capital markets and phase out BSL's role
- Develop an appropriate licensing & regulatory framework for securities' intermediaries
- Align the SEC organization and mandate with its primary regulatory function
- Appoint a SEC Commissioner and Unit Head with substantial experience in securities market operations
- Provide two TA advisors for two years to assist with regulatory and other systems
- Provide the SEC with necessary equipment and tools
- Create and install appropriate computer hardware and software for the SEC
- Create a new issues and placement unit
- Improve stock exchange detailed listing regulations
- Develop an electronic trading system
- Establish a central securities depository
- Establish regulations and system for trading government debt
- Establish regulations and system for trading equities

4.10 Developing and Deepening the Capital Market

4.10.1 Providing the regulatory structure creates an enabling environment but it does not create a capital market. The market, itself, can only develop over time and will require attention from, and coordinated action among, the stock exchange, BSL, SEC, Government (primarily through MOFED), and private sector market players, all working together to develop and deepen the capital market.

4.10.2 In our view, creating a long-term debt market, depending initially on government debt instruments on the supply side, is the soundest and easiest approach to building a functioning capital market. MOFED, with technical assistance will develop and implement policy, procedures and strategy for issuing long-term government paper, which would enhance monetary policy implementation and provide a yield curve. On a parallel basis, the SEC and BSL will take steps to facilitate active market trading in shorter term t-bills among the banks, insurance companies and NASSIT.

4.10.3 Appropriate accounting, financial reporting and transparency are an important foundation for any capital market. From inception, it would be required that all listed companies and CIS schemes adopt IFRS accounting standards and international auditing standards. However, achieving this is not an easy task and ICASL would require guidance and technical assistance to strengthen its capacity and to promote the adoption of IFRS accounting for these market participants as well as all financial institutions supervised by BSL.

4.10.4 It is particularly important that voluntary contractual term savings for the purpose of purchasing homes, as well as for retirement, are encouraged by a favourable tax regime. The Income Tax Act should be reviewed to identify appropriate modifications that can be made to facilitate this process, in support of capital market development.

Summary 15: Developing and Deepening the Capital Market

In summary, our strategy for strengthening the long-term capital market, as shown in the attached action plan (Annex 1), consists of:

- Prepare and implement a policy, procedures and strategy for issuing long-term government debt
- Trade government debt instruments between banks, discount houses, insurance companies, NASSIT and other financial institutions
- Develop trading in equities
- Require IFRS accounting standards and audit standards for listed companies and all CIS schemes
- Strengthen ICASL and its standards
- Provide guidance to ICASL members on application of IFRS standards to market participants
- Review Income Tax Act with view to identifying modifications to facilitate capital market development
- Design tax-favoured voluntary contractual savings vehicles to help develop capital markets
- Clarify tax treatment of capital gains from inflation on sale or disposal of residential property

4.11 Strengthening Capital Market Participation

4.11.1 An effectively functioning securities market is highly dependent on the ability of participants, especially securities intermediaries, to be sufficiently knowledgeable and experienced to perform their roles correctly and efficiently, in accord with regulations, and with due regard to ethics considerations. An essential first step will entail training SEC staff who will, in turn, help to train other market participants. The BSL proposes to provide formal training for these participants by conducting short-term courses for stock market professionals.

4.11.2 The two discount houses will be the dominant players in the capital market and would be encouraged to strengthen their capacity to reflect this and assist them to analyze and formulate appropriate longer term roles.

Summary 16: Strengthening Capital Market Participants

In summary, our strategy for strengthening capital market participants and participation, as shown in the attached action plan (Annex 1), consists of:

- Establish a professional body for stock market participants
- Conduct training in financial market supervision and management for SEC staff
- Conduct training courses and programmes for stock market professionals
- Analyze and formulate long-term role for discount houses

4.12 Facilitating Collective Investment Schemes

4.12.1 The Collective Investment Schemes (CIS) Bill is pending and needs to be enacted and made effective through implementing supporting regulations to allow the formation of investment companies and unit trusts. In our view, passage of this bill may facilitate privatization of some government holdings and sale of NASSIT holdings to reduce their ownership share in some companies.

Summary 17: Collective Investment Schemes

In summary, our strategy for strengthening Collective Investment Schemes, as shown in the attached action plan (Annex 1), consists of:

- Enact CIS Bill (2008) to regulate collective investment schemes
- Finalize and implement CIS regulations

5 STRENGTHENING ENABLING ENVIRONMENT, CAPACITY BUILDING

5.1 Enabling Environment

5.1.1 It is critically important that we establish an enabling environment largely in line with best international practice, as a precondition for implementing a financial sector reform programme consistent with Sierra Leone's long term objectives. We must then ensure that the implemented programme achieves these objectives. Getting the enabling environment right, and developing the financial sector players' capacity and skills, are essential for developing comprehensive, efficient and internationally competitive financial infrastructure, institutions and systems. We also need to ensure that our laws, policies and institutional framework are aligned with our obligations under the World Trade Organization and the Economic Community of West African States (ECOWAS), and with the requirements of the West African Monetary Zone (WAMZ).

5.1.2 Our strategy for strengthening our enabling environment, financial skills and capability will focus on establishing an appropriate legal framework, including those aspects relating to debt recovery and land-related issues. Other enabling environment issues to be addressed include:

- Developing an education, training and communications capability,
- Establishing a high profile, focused FSDP structure and process to ensure that all key stakeholders have a voice
- Ensuring that the FSDP strategy and its actions are implemented largely as envisaged and scheduled.

5.2 Establishing the Legal Framework for the Enabling Environment

5.2.1 A legal team would be engaged to work with the Attorney General's Office to update and prepare draft laws such that they are ready for Cabinet. Many of these laws and the reasons for amending or enacting them have been discussed previously; the following is a complete checklist of the laws which the legal team will be working on. They are:

- The Bank of Sierra Leone Act 2000, in order to enhance BSL's ability to conduct monetary policy, and to extend its supervisory role of the financial sector, as well as to give it the authority to contract-out some of its supervisory functions, and to resolve distressed banks.
- The Banking Act 2000, in order to reflect the fact that there are both deposit-taking and non-deposit-taking institutions, which will require different regulatory frameworks, and to make specific provisions for microfinance institutions.
- The Other Financial Services Act (2001), to cater for new players in the market and to reflect the fact that there are deposit-taking and non-deposit-taking institutions that require different regulatory frameworks; to allow trading of debt securities on the stock exchange; and trading of standardized interbank lending instruments.
- The Anti-Money Laundering Act 2005, to reflect the recent AML review.
- The NASSIT Act 2001, to remove NASSIT's monopoly over provision of pensions and facilitate establishment of private pension alternatives.
- The Income Tax Act 2000, to make bad debt provisions by lending institutions tax deductible.

- To update or enact the following in line with international best practice: Insurance Act 2000, Securities Bill, Companies Bill, Cooperative Societies Act 1977, National Revenue Authority (NRA) Act 2002, Bankruptcy Bill, Credit Information Bill.

5.3 Strengthening the Debt Recovery Environment

5.3.1 An inadequate legal structure for collecting loans in default is one of the biggest constraints to increasing the flow of credit to the private sector. This exacerbates the already high risks lenders must take to provide credit. The authorities will improve lenders' ability to utilize the court system and better protect borrowers by making loan foreclosure more understandable. This would be done by i) establishing an effective commercial court system to be used inter alia in loan collection enforcement; ii) causing these commercial courts to fast track banking cases; and iii) improving judiciary and ancillary agency working conditions, accountability and efficiency.

5.3.2 We will also introduce a better non-court self-enforcement mechanism for mortgages and other secured transactions and make these mechanisms more flexible. Finally, to ensure banks put more emphasis on collections, the income tax law will be amended such that provisions for bad debts are in accordance with international best practice.

Summary 18: Debt Recovery Environment

In summary, our strategy for strengthening the debt recovery environment, as shown in the attached action plan (Annex 1), consists of:

- Establish effective commercial court system for contract, enforcement, etc
- Cause commercial courts to fast track banking cases
- Improve judiciary and ancillary agency working conditions, accountability and efficiency
- Introduce non-court self enforcement mechanisms for mortgages and other secured transactions
- Make loan foreclosure rules more flexible, understandable, better communicated
- Make BSL required provisions for bad debt tax deductible
- Implementation of the Mortgage Finance Act (2009)

5.4 Strengthening the Land-Related Legal Environment

5.4.1 Issues associated with land-titling, registration and the ability to use land as collateral for borrowing are a major constraint to increasing credit to the private sector, particularly to agricultural and rural finance. The issues and considerations relating to land are far broader than their impact on the financial sector alone would suggest. Therefore, in an effort to sensitize all stakeholders to these issues, the FSDP implementation secretariat will prepare an FSDP paper on the importance of land titling and registration for the financial sector.

5.4.2 Government efforts are currently underway to introduce a land titling system, rather than a document registration system, and to promulgate and implement effective national land tenure legislation.

Summary 19: Land-Related Legal Environment

In summary, our strategy for strengthening the land-related legal environment, as shown in the attached action plan (Annex 1), consists of the following actions:

- Prepare an FSDP policy paper on the land titling and registration
- Support the Introduction of a land titling system rather than document registration
- Finalize and enact law on commercial use of land
- Extend the commercial use of land beyond agriculture

5.5 Other Important Issues for the Enabling Environment

5.5.1 In addition to making changes in the legal framework, other developments are crucial to ensure a permissive and facilitating enabling environment for the financial sector. These relate to accounting and auditing, AML and Countering of the Financing of Terrorism (CFT), the capital markets regulatory framework, taxation and telecommunications.

5.5.2 ICASL would be encouraged to develop and implement action plans for enforcement of IFRS, and improved accountancy training; and to implement the AML framework, including CFT regulations. The FIU, which is hosted by the BSL, would be expanded to include law enforcement and related agencies, and eventually become independent of the BSL.

5.5.3 The BSL will also facilitate achieving the nation's stock exchange development goals by strengthening the company registrar, valuator, and real estate regulatory capacity. It will amend the stock exchange memorandum and articles of association accordingly.

5.5.4 Tax reform, like land reform, affects a far broader set of stakeholders than the financial sector. Therefore, the FSDP secretariat will begin in this area by preparing an FSDP paper on tax reform to support the financial sector and its objectives.

5.5.5 Finally, the BSL supports NATCOM's efforts to upgrade to GPRS for land and mobile telephone companies as it is essential to our objectives relating to mobile banking and payments systems.

Summary 20: Other Enabling Environment Aspects

In summary, our strategy for strengthening other enabling environment aspects, as shown in the attached action plan (Annex 1), consists of:

- Work with ICASL to develop and implement an action plan for enforcement of IFRS and improved accountancy training
- Implement AML framework to include CFT & regulations
- Make the FIU independent and effective
- Strengthen company register, valuator and real estate regulator capacity
- Amend Stock Exchange Memorandum and Articles of Association
- Prepare FSDP policy paper on tax reform to support the financial sector and its objectives
- Support NATCOM efforts to upgrade to GPRS for land and mobile telephone numbers

5.6 Capacity Building

5.6.1 Capacity building at the individual as well as the institutional level, to increase skills and the ability to operate effectively, is essential for an effective enabling environment. Our financial sector and institutions cannot function effectively unless adequate human capacity is in place.

5.6.2 Establishing a financial sector training institute is one of our strategies in this area. The BSL will complete the Tokeh Training Facility and turn it into a viable training institute for bankers and other financial sector professionals. The BSL, commercial banks and others in the financial sector hope to jointly develop a comprehensive curriculum for Tokeh including professional training courses.

5.6.3 Universities and other tertiary institutions would be encouraged, where applicable, to include in their curriculum courses on microfinance, SME lending, agricultural finance and market research. The BSL would support a financial sector internship programme for students on these courses.

5.6.4 MITAF's training initiatives for the microfinance sector and other proposed activities in this area would be important and useful contributions to the FSDP. In addition, MITAF's proposal of a scholarship fund to support staff training for small institutions is welcomed.

5.6.5 The BSL also intends to develop and implement a financial sector communications and public media strategy, to generate understanding of and support for the FSDP programme and financial sector objectives. This strategy will include i) holding an annual financial sector conference for all stakeholders; ii) designing and Implementing a financial literacy programme and iii) releasing financial sector news regularly to the public media.

Summary 21: Education, Training and Communications

In summary, our strategy for enhancing education, training and communications capability, as shown in the attached action plan (Annex 1), consists of the following actions:

- Complete the Tokeh training facility
- Convert Tokeh into an effective training institute for bankers and other financial sector professional
- Develop professional training courses on behalf of each of the various professional bodies
- Support curriculum development in universities, educational and training institutes
- Hold an annual financial sector conference for all key stakeholders
- Set up scholarship fund to support small institution staff training
- Establish internship programme for banks, MFIs and CBs for training
- Design and Implement a financial literacy programme strategy
- Develop and implement a financial sector communications and public media strategy
- Release financial sector news regularly to the public media

5.7 Establishing the FSDP Implementation Structure and Process

5.7.1 Designing the FSDP strategy and its associated action programme is only the first step of the process. The next and more difficult step is implementation. Critical considerations must be addressed through an FSDP implementation structure, if satisfactory results are to be achieved. All important stakeholders must feel they are directly or indirectly participating and their views are taken into account.

5.7.2 First, the FSDP must be approved by cabinet. Following cabinet approval, the plan will be sent to all prospective donors with an invitation to participate in a joint evaluation and appraisal of the FSDP. The aim of the joint appraisal is to draft the framework for a well focused and coordinated support program. This framework would spell out joint priorities, objectives and the division of labour including, funding of different components, counterpart contributions, TA, general implementation and contribution arrangements

5.7.3 We intend to form a Financial Sector Steering Committee (FSSC) with overall responsibility for final approval of the FSDP strategy and for leading and monitoring the implementation process, under the Chairmanship of the Governor of the BSL, with representatives from each of the key participating ministries, and financial institutions. The FSSC, once it has approved a final FSDP strategy, will:

- Establish a Financial Sector Reform Secretariat (FSRS);
- Approve the FSRS operational plan and budget;
- Review FSRS quarterly reports on implementation progress; and
- Take decisions as needed on mid-course corrections, strategies for overcoming obstacles, and other issues that may arise.

5.7.4 The FSRS will be located within BSL, headed by a senior BSL official for whom this will be a primary responsibility, and will be staffed with at least three additional officials with responsibilities, respectively, for i) the bank strengthening program; ii) the access to credit strengthening program; and the iii) capital market/long term finance program. The FSRS will assist the individual responsible agencies in detailed design of implementation programmes for each action, interact with organs of government and donors whose participation may be necessary for a particular action, monitor implementation progress on a quarterly basis; and prepare a quarterly report for the steering committee with recommendations to address obstacles to implementation and to identify situations for which programme redesign may be needed.

5.7.5 Individual financial sector entities and governmental entities will be assigned primary responsibility for implementation in accord with the FSDP strategy. Each institution which is responsible for more than 1 or 2 actions should name a change management team for those actions. The team should be assigned primary responsibility for ensuring the action is implemented as scheduled (in accord with the FSDP Action Plan) and for coordination with the FSRS.

Summary 22: FSDP Implementation

In summary, our strategy for establishing the FSDP implementation structure and process, as shown in the attached action plan (Annex 1), consists of:

- Create a Financial Sector Steering Committee (FSCC) reporting to the President and give it responsibility for overseeing the FSDP implementation
- Assign BSL the responsibility for chairing the FSSC and to form and lead a Financial Sector Reform Secretariat (FSRS)
- Make the FSRS accountable to the Steering Committee
- Establish Change Management Teams (CMTs) in each financial sector entity responsible for implementing FSDP actions
- Prepare a quarterly FSDP progress report to be reviewed by quarterly Steering Committee meetings
- Agree on guidelines for recruitment of technical assistance and implement

Annex 1 – Draft Action Plan

1. FINANCIAL SECTOR OBJECTIVES:

- To build a strong, sound effectively functioning banking system;
- To increase access to finance by broadening its outreach, strengthening microfinance and rural credit governance and supervision, and addressing the community banks;
- To improve mobilization and investment of long term funds, through strengthening our contractual savings institutions and the capital market;
- To establish an enabling environment in line with best international practice;
- To implement a financial sector reform programme consistent with Sierra Leone's long term objectives and ensure that the implemented programme achieves these objectives.

SECTOR STRATEGIES

2. Strategy for Building Banking System Capacity

- Increase efficiency in government-controlled commercial banks, and support and facilitate the process of privatization
- Adopt a credit reporting law and regulations relating to credit reference reporting
- Introduce an interim credit bureau in BSL with uniform reporting format and data base
- Make moveable properties as security for bank loans a part of the legal/regulatory framework
- Establish an arbitration and alternative dispute resolution (ADR) facility and establish a commercial court
- Encourage greater coordination & cooperation among commercial banks, through strengthening the ACB, including establishing a secretariat
- Hold bankers' meetings between the BSL Banking Supervision Committee and the ACB at least quarterly
- Establish a comprehensive banker training programme, including internationally accredited banking qualifications
- Standardize corporate governance codes in banks in line with international best practice
- Enhance transparency through disclosure requirements and enforcing IFRS
- Establish a code of ethics for the banking industry
- Design, prepare documentation and seek funding for a deposit insurance scheme
- Establish a permanent private credit reference bureau
- Introduce a deposit insurance scheme

3. Strategy for Strengthening Banking Supervision And Regulation

- Restructure the BSL Banking Supervision Department to reflect the current demand for financial supervision in Sierra Leone, and recruit the appropriate number of staff with an aggressive recruitment and retention program
- Recruit one or two long-term technical advisors to work for at least 2 years with the Banking Supervision Department
- Prepare & implement a training plan for supervision staff
- Focus central bank supervision on deposit-taking institutions
- Develop a new licensing policy for issuing commercial banking licenses
- Increase commercial bank minimum capital requirements
- Create and use an electronic platform for bank reporting and acquire appropriate hardware and software technology for on-site and off-site banking supervision
- Revise supervision manual to reflect migration towards risk-based supervision including incorporating a risk-focused policy statement and a risk-based bank rating system
- Implement policies for the declaration of unclaimed assets to Government
- Enable commercial banks to lend to MFIs, through changes in banking regulations
- Finish agenda for compliance with BCPs
- Update Banking Act 2000
- Issue regulatory guidelines on permissible activities for commercially oriented NBFIs
- Conduct a study to ascertain the volume of remittances from abroad
- Review regulations and implement fuller reporting requirements for foreign exchange bureaus
- Support government efforts to rationalize remittances and create a framework for the use of remittances for developmental purposes

4. Strengthening Payments Systems

- Establish NPC to represent stakeholders in broad payments system decision-making
- Develop BSL capacity to provide payments system oversight
- Establish BSL regulation and oversight of the national payments switch, ACH, and mobile payments systems
- Develop a framework for international, local electronic and mobile payments systems
- Include credit cards, point of sale systems, internet banking and ATMs in the national payments switch
- Ensure that the capacity exists to process local bank payments in local currency electronically
- Finalize RTGS analysis/design focusing on business needs
- Install RTGS
- Design and install an ACH system

5. Strengthening Short-Term Markets, Monetary Policy and Financial Stability

- Upgrade and modernize the BSL research and analytical capacity and recruit high-calibre staff
- Implement a forward looking inflation, output and money supply forecasting methodology with the objective of moving to a forward looking monetary policy framework in the long-term
- Develop a BSL financial system stability assessment framework, produce a biannual FSR and formalize the BSL market intelligence function
- Provide BSL with sufficient government securities to implement monetary policy
- Implement forward looking liquidity forecasting methodology and regularly monitor bank reserves
- Encourage better MOF forecasting of revenues and expenditures
- Support interbank trading in government paper
- Establish a central bank-set benchmark (or prime) interest rate
- Increase BSL rediscount facility rates to above-market penalizing rates
- Encourage interbank lending and trading in local and foreign exchange
- Develop a policy and regulation to allow banks to lend in foreign exchange

6. Strengthening Central Bank Infrastructure

- Continue recapitalization of BSL with a timetable for completion
- Ensure operational independence of the BSL
- Modernize information and communications equipment, software and technology
- Implement recent BSL change management and functional review
- Request technical assistance for identified skills gaps in research, banking supervision, management information systems and internal audit
- Review Bank of Sierra Leone Act
- Review and Update Other Financial Services Act
- Further equip and strengthen the BSL Financial Intelligence Unit (FIU)
- Strengthen BSL capacity and working environment

7. Strengthening Microfinance and Rural Credit Delivery Outreach

- Coordinate closely with the Ministry of Agriculture on agricultural and rural finance and lending
- Coordinate with the Ministry of Trade on non-financial services for SMEs

- Commission an agricultural sector diagnostic study for a comprehensive rural finance strategy including, mobilizing long-term finance
- Create a challenge (competitive grant) fund to provide long-term loans, partial guarantees and MFI refinancing to support SME and agriculture
- Continue MFI institutional strengthening and market research under new MITAF arrangement
- Design and implement a credit guarantee scheme to incentivize more commercial bank SME and agricultural lending
- Link rural lending with specific market opportunities like out grower schemes
- Link banks and MFIs through equity participation, guarantees & improved credit risk assessment
- Mainstream microfinance/rural finance awareness in education initiatives to broad financial sector audience

8. Strengthening Microfinance and Rural Credit Delivery Governance and Supervision

- Amend OFSA as appropriate for MFIs
- Review & finalize prudential and non-prudential regulation & supervision for deposit-taking and non deposit-taking MFIs
- Regulate all MFIs, but supervise only those that take deposits
- Review and, as necessary, refine MFI common reporting requirements
- Determine accounting and auditing standards for MFIs
- Provide general training to MFIs including training by MITAF
- Adopt and implement clear MFI licensing policies
- Introduce regulations on transparency in pricing and procedures facilitating access for low income clients
- Eliminate BSL development coordination role in MFIs and community banks by restructuring and strengthen MITAF, and provide it with additional funding
- Establish a MITAF small grant facility for training and technical assistance
- Strengthen the Association of Community Banks
- Encourage the development of Sierra Leone Association of Microfinance Institutions (SLAMFI)
- Separate Post Office Savings Bank from SL Post Office and resolve Post Office Savings Bank issues
- Determine the legal structure and framework for Financial Services Associations (FSAs)
- Update the Cooperative Societies Act of 1977

9. Restructuring Community Banking

- A license would not be issued to any new CB whose proposed structure does not address the weaknesses of existing CBs.
- Draft an action plan and timetable for BSL exit from CBs; improve governance and ensure long-term sustainability
- Strengthen the existing CB/MFI Supervision wing in the BSL, to ensure regular supervision of CBs and MFIs
- Encourage communities to participate in CB/MFI capitalization and management
- Support CB/MFIs to stabilize operations with limited range of services
- Ensure that CBs/MFIs have agricultural lending skills
- Set up a formal CB/MFI training programme including training on agricultural lending

10. Strengthening NASSIT Governance

- Review and amend Social Security Act and update as appropriate to separate social security from investment, improve governance structure and allow competition in the industry
- Develop a framework for regulation & supervision of investment arm of NASSIT
- Require NASSIT and all provident fund managers to adhere to IFRS
- Make NASSIT reporting more transparent
- Develop the market for long-term debt instrument
- Recruit consulting team and conduct overall institutional review of NASSIT

11. Strengthening SLICOM and Insurance Supervision

- Recruit Insurance Commissioner financed by donors to give technical assistance
- Ensure SLICOM executive secretary and unit head have substantial relevant experience
- Engage other long-term TA in SLICOM for 2 years
- Review the Insurance ACT 2000
- Increase SLICOM independence from insurance companies
- Strengthen SLICOM institutional capacity including information technology and supervision
- Design and install SLICOM hardware and software systems
- Move to risk-based supervision of the insurance industry
- Train personnel engaged in supervising insurance companies
- Develop a comprehensive database on insurance transactions and obtain data on insurance company investment portfolios and put in SLICOM annual report

12. Strengthening Insurance Regulations and Supervision

- Finalize drafting of insurance regulations and key prudential norms
- Implement insurance regulations and prudential norms
- Review Insurance Act 2000 and update as appropriate
- Identify gaps in IAIS Core Principle compliance and amend legislation as needed to address the gaps
- Update insurance law to incorporate micro-insurance and crop insurance
- Require insurers to adopt relevant IFRS and international accounting standards
- Create, publish and enforce clear solvency/minimum capital requirements and a test for solvency
- Prepare contingency actions for dealing with companies that cannot meet solvency requirements
- Create a best practice early warning system relating to financial condition and solvency of insurers
- Increase minimum capital and statutory deposit requirements but give companies time to meet them
- Do not license new insurance companies until SLICOM insurance and licensing regulations are in place

13. Strengthening and Deepening the Insurance Industry

- Strengthen the Sierra Leone Insurance Association (SLIA)
- Ensure that a fully operational SLICOM compliance bureau is established
- Mobilize insurance company capital more innovatively for life insurance and pension products
- Agree on modalities for tax treatment of life insurance items including benefits paid under life policies

14. Strengthening Capital Market Regulatory Structure

- Develop a BSL strategic plan for managing its securities market supervision responsibilities
- Establish a new regulatory/supervisory commission structure for capital markets and phase out BSL's role
- Develop an appropriate licensing & regulatory framework for securities' intermediaries
- Align the SEC organization and mandate with its primary regulatory function
- Appoint a SEC Commissioner and Unit Head with substantial experience in securities market operations
- Provide two TA advisors for two years to assist with regulatory and other systems

- Provide the SEC with necessary equipment and tools
- Create and install appropriate computer hardware and software for the SEC
- Create a new issues and placement unit
- Improve stock exchange detailed listing regulations
- Develop an electronic trading system
- Establish a central securities depository
- Establish regulations and system for trading government debt
- Establish regulations and system for trading equities

15. Developing and Deepening the Capital Market

- Prepare and implement a policy, procedures and strategy for issuing long-term government debt
- Trade government debt instruments between banks, discount houses, insurance companies, NASSIT and other financial institutions
- Develop trading in equities
- Require IFRS accounting standards and audit standards for listed companies and all CIS schemes
- Strengthen ICASL and its standards
- Provide guidance to ICASL members on application of IFRS standards to market participants
- Review Income Tax Act with view to identifying modifications to facilitate capital market development
- Design tax-favoured voluntary contractual savings vehicles to help develop capital markets
- Clarify tax treatment of capital gains from inflation on sale or disposal of residential property

16. Strengthening Capital Market Participants

- Establish a professional body for stock market participants
- Conduct training in financial market supervision and management for SEC staff
- Conduct training courses and programmes for stock market professionals
- Analyze and formulate long-term role for discount houses

17. Collective Investment Schemes

- Enact CIS Bill (2008) to regulate collective investment schemes
- Finalize and implement CIS regulations

18. Debt Recovery Environment

- Establish effective commercial court system for contract, enforcement, etc
- Cause commercial courts to fast track banking cases
- Improve judiciary and ancillary agency working conditions, accountability and efficiency
- Introduce non-court self enforcement mechanisms for mortgages and other secured transactions
- Make loan foreclosure rules more flexible, understandable, better communicated
- Make BSL required provisions for bad debt tax deductible
- Implementation of the Mortgage Finance Act (2009)

19. Land-Related Legal Environment

- Prepare an FSDP policy paper on the land titling and registration
- Support the Introduction of a land titling system rather than document registration
- Finalize and enact law on commercial use of land
- Extend the commercial use of land beyond agriculture

20. Other Enabling Environment Aspects

- Work with ICASL to develop and implement an action plan for enforcement of IFRS and improved accountancy training
- Implement AML framework to include CFT & regulations
- Make the FIU independent and effective
- Strengthen company register, valuator and real estate regulator capacity
- Amend Stock Exchange Memorandum and Articles of Association
- Prepare FSDP policy paper on tax reform to support the financial sector and its objectives
- Support NATCOM efforts to upgrade to GPRS for land and mobile telephone numbers

21. Education, Training and Communications

- Complete the Tokeh training facility
- Convert Tokeh into an effective training institute for bankers and other financial sector professional
- Develop professional training courses on behalf of each of the various professional bodies
- Support curriculum development in universities, educational and training institutes

- Hold an annual financial sector conference for all key stakeholders
- Set up scholarship fund to support small institution staff training
- Establish internship programme for banks, MFIs and CBs for training
- Design and Implement a financial literacy programme strategy
- Develop and implement a financial sector communications and public media strategy
- Release financial sector news regularly to the public media

22. FSDP implementation

- Create a Financial Sector Steering Committee (FSCC) reporting to the President and give it responsibility for overseeing the FSDP implementation
- Assign BSL the responsibility for chairing the FSSC and to form and lead a Financial Sector Reform Secretariat (FSRS)
- Make the FSRS accountable to the Steering Committee
- Establish Change Management Teams (CMTs) in each financial sector entity responsible for implementing FSDP actions
- Prepare a quarterly FSDP progress report to be reviewed by quarterly Steering Committee meetings
- Agree on guidelines for recruitment of technical assistance and implement

October 31, 2009

Annex 2 – Commercial Banks in Sierra Leone

	Name of Bank	Origin
1	Sierra Leone Commercial Bank Limited	100% Government of Sierra Leone
2	Standard Chartered Bank (SL) Limited	81% SCB Holdings, 18% publicly owned, & 1% Directors
3	Rokel Commercial Bank (SL) Limited	51% Government of Sierra Leone, 40% Public, & 9% Staff
4	Union Trust Bank (SL) Limited	100% Private individuals
5	Guaranty Trust Bank (SL)	100% owned GTB PLC (Nigeria)
6	Skye Bank (SL) Limited	100% Skye PLC (Nigeria)
7	International Commercial Bank (SL) Limited	100% Malaysian
8	Ecobank (SL) Limited	100% Ecobank transnational
9	ProCredit Bank (SL)	79.2% ProCredit Holding AG, 12.1% KfW (both Germany), & 8.7% DOEN Foundation (Netherlands)
10	Access Bank (SL) Limited	85% Access Bank PLC & 15% Senator Polycarp Nwite (Nigeria)
11	United Bank for Africa (SL)	100% United Bank for Africa PLC (Nigeria)
12	First International Bank (SL) Limited	87% FIB Group (Gambia), 12% Individuals & 1% FIBank Gambia
13	Zenith Bank (SL) Limited	100% Zenith Bank PLC (Nigeria)
14	Bank PHB (SL) Limited	100% Bank PHB PLC (Nigeria)

Source: Bank of Sierra Leone