THE ROLE OF THE FINANCIAL SECTOR IN FOSTERING TRADE AND INVESTMENT IN SIERRA LEONE
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• Background
• Sierra Leone Trade
• Sierra Leone's Financial Sector
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Background

- Sierra Leone covers an area of over 71,000 sq km with a population of over 5 million.
- Natural resources include mineral, marine, agricultural resources and beautiful beaches.
- A land resource of which 75 per cent is suitable for cultivation, but only 15 per cent is actually cultivated.
- 20 per cent of the cultivated land is devoted to cash crops mainly coffee, cocoa and some palm oil.
- Sierra Leone also produces modest quantities of other agricultural products e.g. piassava and ginger with potential for diversification into other activities.
- Prior to the rebel war in 1991, Sierra Leone was almost self-sufficient in the production of rice, but with the advent of the rebel war, rice production was severely affected as a result of the fighting and displacement of people.
Background

- In the aftermath of the war in 2002, rice production has surged to pre-conflict levels and by 2006 had more than doubled compared to 1990 pre-conflict levels.
- Non-agricultural activities in Sierra Leone include mining, fishing and small scale manufacturing.
- The mining sector is dominated by diamonds but with prospects of oil, while iron ore, platinum, nickel, illeminite, bauxite, gold as well as rutile mining have been on the increase.
- The mining sector also suffered from the rebel war especially with the closure of rutile, iron ore and bauxite mines.
- Since 2002, the mining sector has been revived with investment from big mining companies in activities such as diamonds, iron ore, rutile, gold, oil and bauxite.
- The implementation of the Kimberley Process Certification Scheme for diamonds and The Mining Lease Agreement have created a transparent and stable atmosphere for mining activities.
Sierra Leone Trade

• Sierra Leone maintains an open trade regime with partially liberalised capital accounts while the current account is fully liberalised.
• Sierra Leone has adopted the ECOWAS Common External Tariff (CET) thereby limiting the use of tariffs as a trade policy instrument.
• Sierra Leone is also benefitting from schemes such as the African Growth and Opportunity Act (AGOA) and the Generalized System of Preferences (GSP).
• Sierra Leone's trade is concentrated in few markets, and since 2000, the direction of trade structure has not changed:
Sierra Leone Trade

• Challenges to Trade
  – complex and costly procedures for starting a business,
  – the lack of quick dispute settlement institutions,
  – outdated legal provisions with respect to land and property ownership which do not reflect current realities,
  – numerous and lengthy customs procedures which increases cost of imports and discourages doing business in Sierra Leone,
  – poor infrastructure including energy, communications and roads.
  – The bulk of business activities are in the informal sector which does not benefit from formal institutional support particularly related to accessing finance.
Sierra Leone Trade

• Measures to Increase Trade In Sierra Leone
  – The country has made strides to improve the environment for doing business by implementing the following reforms in four key areas:
    • starting a business;
    • dealing with construction permits;
    • registering properties; and
    • trading across borders.
  – There have been a number of institutional and legal innovations:
    • particularly the development of the Companies and Bankruptcy Act; and
    • the Investment Promotion Act which gave rise to the setting up of the Sierra Leone Investment and Export Promotion Agency (SLIEPA) as the key gateway and source of information.
Sierra Leone Trade

– a commercial court to fast track commercial disputes,
– the ASYCUDA++,
– a one stop shop for business creation,
– the introduction of GPS Technology and survey maps, and
– streamlined procedures for construction permits.

• The Bank of Sierra Leone in collaboration with SLIEPA is introducing the export forms to encourage more exporters to use the banking system, giving them increased access to export finance facilities including export credit, export insurance and export guarantees which are essential to producers and exporters, especially non-traditional exporters.

• All this fits into a wider campaign to get the informal sector to utilise and benefit from banking services as the bulk of Sierra Leone’s productive sector is in the rural areas where the use of the bank and other formal channels for doing business and exporting products are still not widely accepted out of fear or suspicion.
Sierra Leone Trade

• Sierra Leone has, in recent years been improving in its import and export trade thereby demonstrating the effectiveness of its trade policies and reforms.

• However the global financial crisis of 2008 presented a setback from which the country is slowly recovering.
Sierra Leone Trade Openness
(Imports and Exports as % of GDP)

2001 2002 2003 2004 2005 2006 2007 2008 2009

Bank of Sierra Leone
SIERRA LEONE’S FINANCIAL SECTOR

• Generally, a country’s financial sector, in addition to its traditional role of financial intermediation, is also key to the development of trade and investment in an economy, through the following: provision of information to buyers and sellers, settling trade transactions, making advance payments, issuing letters of credit and managing currency risks resulting from exchange rate fluctuations.

• The financial sector of Sierra Leone, like other sectors, was hard hit by the rebel war worsening the problems of a very shallow and narrow financial system which was mainly urban based.

• The key function of the financial system was intermediation but this was restricted to mostly the urban elite with trade and investment receiving limited support through the provision of basic facilities such as letters of credit, and provision of foreign exchange.
SIERRA LEONE’S FINANCIAL SECTOR

• The current financial system of Sierra Leone is dominated by the banking sector and consists of thirteen (13) commercial banks, nine (9) community banks, over seventy foreign exchange bureaus, two (2) discount houses, a stock exchange, twenty six (26) financial services associations (FSA), six (6) microfinance institutions and a mortgage savings bank.

• This constitutes significant progress compared to only four (4) commercial banks, one (1) discount house, thirty one (31) foreign exchange bureaus when the rebel war ended in 2001.

• Financial innovations over this period include mobile banking e.g. Splash and Zap, more bank branches, and more automated teller machines.
SIERRA LEONE’S FINANCIAL SECTOR

• The banking sector is skewed towards commercial banking activities with very little in the area of investment or other specialised banking activity.
• Activity on the stock exchange is limited, with only one listed company.
• The Sierra Leone economy remains principally a cash-based economy with high currency/narrow money ratio typically above 55 percent,
• Recent trends indicate a move towards other forms of payments as the ratio has come down to around 50 percent.
• There is also evidence of financial deepening with the M2/GDP ratio increasing from about 15 percent to over 26 percent over the period 2001 to 2010.
SIERRA LEONE’S FINANCIAL SECTOR

Financial Deepening and Currency Usage

- M2/GDP
- Currency/M1

Bank of Sierra Leone
SAVINGS AND INVESTMENT

Savings in Sierra Leone

• Savings from within the official financial system are low, but have been increasing since 2001.
• The reasons for the low savings range from mistrust of the banking system, low interest rates, few commercial banks and concentration of branches in urban areas and low incomes.
• However, like most developing countries the informal sector is also able to mobilise savings.
• The low levels of bank savings have resulted in limited supply of funds being loaned out to the private sector.
SAVINGS AND INVESTMENT

• However since the end of the war, there have been marked improvements in the level of formal savings through
  – increased competition by banks to mobilise more savings,
  – greater financial literacy campaigns,
  – government policies to pay workers through the banking system, and
  – expansion of bank branches into previously “unbanked” areas.
SAVINGS AND INVESTMENT

Financial savings /GDP (%)

Sierra Leone savings /GDP

Bank of Sierra Leone
SAVINGS AND INVESTMENT

• With the increasing trend in savings, commercial bank credit to the private sector has also been increasing, but is low compared to the other countries in the sub region, particularly in the WAMZ region, in spite of the influx of more banks.
SAVINGS AND INVESTMENT

• The main recipients of commercial banks loans have been manufacturing, commerce and finance, services and construction, which reflect the economic rebuilding in the aftermath of the war.

• There has been a recent shift in the direction of credit towards the service sector, but commerce & finance along with construction still remain major beneficiaries whilst loans towards manufacturing have shrunk.

• It is important to note here that loans to agriculture, forestry, fishing and mining sectors, that are potentially very lucrative to the economy, have been minimal.
SAVINGS AND INVESTMENT

Sectoral Distribution of Loans and Advances 2001-2005

- Commerce & Finance: 39%
- Construction: 19%
- Services: 11%
- Agric, Forestry & Fishing: 2%
- Miscellaneous*: 7%
- Mining & Quarrying: 0%
- Manufacturing: 14%
- Transport, Storage & Communication: 6%
- Electricity, Gas & Water: 2%

Sectoral Distribution of Loans and Advances 2006 - 2010

- Commerce & Finance: 29%
- Construction: 16%
- Services: 27%
- Transport, Storage & Communication: 10%
- Agric, Forestry & Fishing: 5%
- Mining & Quarrying: 2%
- Manufacturing: 8%
- Miscellaneous*: 2%
- Electricity, Gas & Water: 1%
SAVINGS AND INVESTMENT

• Despite the low levels of credit, the banking system retains a high level of non performing loans (NPL), mostly above the 10 percent and the cost of borrowing is high with interest rates on loans and advances ranging between 24-31 percent.

• The high NPLs is attributed to the lack of credit information, and the inability of the judicial system to speedily arbitrate between credit institutions and loan defaulters.
SAVINGS AND INVESTMENT

• Challenges to Investment
  – Foreign direct investments (FDI) have also been very low, even against other countries in the ECOWAS sub region and almost negligible compared with the average African country.
  – The low FDI could be attributed to poor perception of the country due to the rebel war, poor infrastructure, weak macroeconomic fundamentals and competition from neighbouring states.
  – However the level of FDI is gradually increasing and most of it, about 90 per cent, is directed towards the mining sector
SAVINGS AND INVESTMENT

Foreign Direct Investments ($)

- Cote d'Ivoire
- Ghana
- Nigeria
- Senegal
- ECOWAS
- Sierra Leone
- Africa

Bank of Sierra Leone
SAVINGS AND INVESTMENT

• Domestic private investment is also low, mostly below 10 percent of GDP, and has suffered even more from the global financial crisis.
• The main factor driving the low level of domestic private investment in Sierra Leone is low level of savings.
• Other factors operating are limited access to finance especially in the rural areas and the following:
  – high costs of borrowing;
  – lack of collateral for securing loans;
  – limited range of financial products;
  – high volume of non-performing loans;
  – inadequate judicial procedures for loan recovery;
  – inadequate credit risk evaluation mechanisms for bank clients; and
  – high intermediation costs.
Domestic Private Investment (% of GDP)

- 2001: 2%
- 2002: 3%
- 2003: 5%
- 2004: 4%
- 2005: 11%
- 2006: 10%
- 2007: 10%
- 2008: 9%
- 2009: 8%

Bank of Sierra Leone
SAVINGS AND INVESTMENT

• Measures to Increase Investments
  – The country can now boast of peace and stability, the observance of fundamental human rights and respect for the rule of law.
  – Since the end of the war, the country has embarked on a series of reforms endorsed by the donor partners evidenced by the increased levels of financial aid.
  – Government has focused on improving the relevant institutions, including the legal framework, to attract domestic and foreign investors, as well as putting in place an encouraging and stable macroeconomic environment.
  – The commercial court should provide quick dispute settlement mechanisms and hasten processes such as liquidation and business closure.
  – The Companies Act helped to ease the set up and registration of companies as well as laying down guidelines for liquidation and closure of companies.
SAVINGS AND INVESTMENT

• Measures to Increase Investments contd...
  – The Bankruptcy Act deals with insolvency issues for non corporate bodies.
  – Under the General Law, the Business Start-up Amendment Act details steps for easy start-up of businesses which are not incorporated.
  – Efforts are also underway to revise existing laws relating to land ownership and collateral usage in order to allow more people particularly the women to use land as collateral for obtaining loans.
  – Government has an on-going privatisation programme involving up to sixteen public enterprises across a wide range of sectors including banks, utility companies, insurance and transportation companies and even parts of the ports particularly the container handling section.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• These initiatives are in line with the Financial Sector Development Plan (FSDP) and focus on creating an effective and functioning commercial banking system, increasing access to finance, improving the mobilization of long-term funds for investment, establishing an enabling financial environment in line with international best practice, through legislative and regulatory reforms.

• Bank of Sierra Leone (BSL) as part of its responsibility in partnership with the government is dedicated to maintaining sound and stable macroeconomic conditions but in addition to this, has also sought to develop a financial system which can generate confidence and trust by all stakeholders.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

- Given the problems highlighted, BSL as the apex financial institution, is undertaking the following initiatives to improve the landscape for more savings and ultimately investment:
  - BSL is spearheading a financial sensitisation campaign to acquaint the general population on the financial services available
  - BSL has recently established the FSDP Secretariat for coordinating all activities relating to the financial sector with support from partners particularly the World Bank, who made US$4 million available to fund some components of the project.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

- Access to Finance
  - BSL has been actively involved in initiatives to enhance access to finance in the rural areas which constitute mostly the informal but substantial proportion of the economy.
  - In addition to the increase in the number of banks, BSL has encouraged the growth of a number of microfinance institutions (MFIs), Financial Services Associations (FSAs), the opening of new branches of commercial banks, and the introduction of mobile banking, to improve rural financial intermediation.
  - BSL is also encouraging the commercial banks to extend credit facilities to SMEs.
  - BSL has facilitated the establishment of six community banks to extend banking activities into the rural areas not covered by commercial banks in collaboration with International Fund for Agriculture Development (IFAD).
  - Numerous micro-finance schemes are also being implemented to promote small-scale enterprises and informal sector activities in manufacturing, trade and services.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Access to Finance (contd)
  – Going forward, BSL is encouraging potential investors in the banking sector to diversify from retail banking into other forms of banking to give customers increased and improved options.
  – In addition, BSL has provided foreign exchange to commercial banks and importers through weekly foreign exchange auctions.
  – These auctions have increased the flow of foreign exchange and provided the benchmark exchange rate for the other foreign exchange markets in the system.
  – The amount available for these auctions are being constantly reviewed in line with the demands of the importers, but considered against the limited foreign exchange reserves as the bulk of Sierra Leone foreign exchange earnings are currently from donor inflows.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Long Term Funding
  – The Bank of Sierra Leone, with in the context of the FSDP, intends to address the issue of lack of long term funds in consultation with insurance companies, National Social Security and Insurance Trust (NASSIT) and other potential medium to long term fund holders to see how such funds could be mobilized.
  – The establishment of the stock exchange could serve as a source of funds through the collective investment scheme. In the meantime, the Bank is working closely with the Ministry of Finance and Economic Development for the issuance of long term bonds to assist Government in financing its development programmes.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Development of Specialised Institutions for Investment
  – The Bank of Sierra Leone has also noted another area of concern, which is the absence of specialized institutions that finance activities in key sectors that contribute to growth, for example in agriculture.
  – To address this shortcoming, the Bank and the Ministry of Finance and Economic Development are involved in efforts to revive the National Development Bank, which initially existed to provide funds for local activities such as agriculture, fishing, small scale manufacturing and mining.
  – This resuscitated bank will be able to provide longer term funds for such projects on more flexible terms to investors.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Credit Reference Bureau
  – The problems of high cost of finance and the reluctance of banks to lend outside an elite group remain.
  – BSL has made substantial progress towards reducing the risk and costs of borrowing by setting up a credit reference bureau.
  – This will allow commercial banks to exchange information on customers to reduce the incidence of nonperforming loans, high interest rates on loans and eventually help stimulate private sector credit flows.
  – The Bill has since been passed by parliament and has received presidential assent. The Bank of Sierra Leone is currently hosting the bureau, which is now fully operational.
  – This will be supported by the development of a collateral register, for immovable collateral, in the near future.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Legislative Reforms
  – BSL has realised that various legislative and structural inadequacies still handicap the financial sector.
  – BSL has undertaken a series of reforms including a revision of the Bank of Sierra Leone Act, with assistance from the IMF, consistent with a more independent central bank.
  – The Banking Act is being reviewed to provide a sound legal framework for the banking system, protect the interests of depositors and to strengthen the Bank’s supervisory, directive and enforcement powers to ensure the stability of the banking system.
  – New prudential guidelines have been introduced, to address issues relating to capital adequacy, asset quality, liquidity, corporate governance, market risks, etc, which will be strictly enforced.
  – Guidelines for financial leasing have also been issued to enable businessmen and investors to obtain assets for investment and trade without an outright purchase.
  – The Other Financial Services Act has been revisited to incorporate the Stock Exchange and deposit-taking microfinance institutions (MFIs) which are under the supervision of the Bank.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Financial Sector Regulatory and Supervisory Reforms
  – The Bank and the IMF has conducted a stress tests on the banking system, and the results show that our banking system is fairly stable and robust, but a number of banks were identified as being vulnerable to certain shocks.
  – BSL in response, is in strict compliance with the Basel Core Principles, revising prudential regulations and guidelines, encouraging the commercial banks to do self stress tests and develop their own contingency manuals.
  – BSL has a contingency plan for dealing with distressed banks and will be signing a Memorandum of Understanding with the Ministry of Finance and Economic Development for a national response to any financial crisis.
  – The Bank will also be putting in place a deposit insurance scheme which will protect ordinary depositors, stabilize the liabilities of the banks and ease any liquidation process.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Financial Sector Regulatory and Supervisory Reforms (contd)
  – Other supervisory reforms include shifting the supervisory strategy from compliance based to risk focused supervision.
  – BSL has adopted two complementary approaches to addressing governance and risk management issues:
    • Firstly, the Bank has focused on risk factors originating within the financial system.
    • Secondly, mechanisms are being adopted and implemented to address risks originating mainly from unlicensed financial institutions.
  – The introduction of the Electronic Financial Analysis and Surveillance System (E-FASS) will make off site supervision more effective added to current efforts to enhance the capacity in the Banking Supervision Department.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

- In an effort to make the financial sector more robust to finance large projects, BSL has doubled the required minimum paid-up capital over a five year period and most commercial banks are on course to meet this minimum capital.

- Furthermore, the Bank has adopted the International Financial Reporting Standards (IFRS) as its financial reporting framework with the commercial banks being requested to do likewise.

- Sierra Leone is now a member of The College of Supervisors of the West African Monetary Zone, an institution set up to coordinate and harmonize supervisory information and practices among central banks of WAMZ member countries.

- This initiative should assist in the monitoring of the activities of commercial banks originating from the sub region or with a strong sub regional presence. In this regard, joint supervision exercises involving the Bank of Sierra Leone and the Central Bank of Nigeria have since commenced.

Bank of Sierra Leone
Bank of Sierra Leone Initiatives to Improve Savings and Investments

• Financial Sector Regulatory and Supervisory Reforms (contd)
  – Another key development in the banking sector which will ensure efficiency and transparency is the development of a revised Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Bill.
  – The Bank of Sierra Leone has spearheaded The AML/CFT Bill 2009, which has been approved by Cabinet and is now awaiting parliamentary enactment.
  – In the interim, the Bank has however been proactive and is enforcing the current Anti-Money Laundry Act 2005 through its Financial Intelligence Unit (FIU) and is working in close collaboration with the Anti-Corruption Commission and is about to sign a Memorandum of Understanding geared towards enhancing exchange of intelligence.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

- Payment and Settlement System Reforms
  - BSL realises the importance of a prompt and efficient payment and settlement system to increase trade and investment.
  - BSL with the support of its development partners, particularly the African Development Bank (AfDB) and the West African Monetary Institute (WAMI), has embarked on modernization of the payments, clearing and settlement systems by implementing a SWIFT FIN Copy Service, for the settlement of large value interbank transactions faster and reduce the risk element.
  - The infrastructure of the Bank is being upgraded to state-of-the art IP-based data communication networks, supported by a reliable uninterrupted power supply.
  - Other measures involve deploying the payment system components of core banking application, automated cheque processing (ACP), automated clearing house (ACH), real time gross settlement and scriptless security settlement.
Bank of Sierra Leone Initiatives to Improve Savings and Investments

- Payment and Settlement System Reforms (contd)
  - Arrangements are well advanced for the printing of cheques in compliance with the West African Monetary Zone (WAMZ) cheque standards for the implementation of the ACP/ACH components.
  - To set the regulatory framework, the Bank, in collaboration with WAMI, will prepare the Payments System Regulations which will support the Payments System Act.
  - The commercial banks have been brought on board and BSL is reviewing the state of preparedness of the commercial banks for connectivity in a bid to ensure the efficiency of the payment system.
  - BSL has also embarked on implementation of a National Switch, in collaboration with the commercial banks, to ensure interconnectivity and interoperability among the banks.
  - The deployment of fibre optic cable will be utilised for connectivity between the commercial banks and the Bank of Sierra Leone.
Institutional Developments

• BSL has benefitted from IGC support to carry out an assessment for restructuring the Bank
• Following this assessment a change management structure was implemented
• This involved internal restructuring based on qualifications and performance in addition to the recruitment of professionals in areas of ICT, procurement, accounting and in the legal unit
Conclusion

- Sierra Leone has huge potential in terms of resources for trade and investment but has been faced with a number of challenges notably lack of infrastructure, low savings, lack of access to finance by the bulk of the informal but productive sector and high interest rates.
- In response, a number of structural and legislative reforms have been undertaken by government and the Bank of Sierra Leone.
- The Bank of Sierra Leone’s policies and measures will not only ensure the financial sector is more robust and stable but also more conducive to trade and investment.
- Going forward, the Bank will be spearheading the development of a collateral register as an additional instrument to ensure a safer lending environment.

- THANK YOU