ADDRESS TO THE HOUSE OF PARLIAMENT ON THE POLICY ON FOREIGN CURRENCY NOTES WITHDRAWALS FROM COMMERCIAL BANKS AND WHAT LED TO THE ENFORCEMENT OF THE POLICY

BY

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Mr. Speaker, Honourable Members of this Noble House, I am honoured to be here today and to have the opportunity to address you on the recent developments in the economy in general and financial sector in particular, which is provided for under the Bank of Sierra Leone Act 2011 section 60 and 61. Permit me on behalf of the Board of Directors, Management and Staff of the Bank of Sierra Leone, to congratulate Hon. S. B. B. Dumbuya, on your recent appointment as Speaker of the fifth Parliament of the Republic of Sierra Leone. We wish you God's guidance and protection in this challenging position.

I would like to recognise the role of Parliament, in helping to strengthen and improve the financial sector through the enactment of robust laws which have gone a long way towards developing an effective and sound financial sector suitable for doing business and for investment. These laws have assisted the Bank in becoming proactive to effectively regulate and address financial sector issues, relating to financial stability.

Parliament assisted the Bank of Sierra Leone in the passage of the following seven (7) Acts:

(1) **The Companies Act 2009-** which provides for the registration, regulation and liquidation of companies and the establishment of the Corporate Affairs Commission;

(2) **The Bankruptcy Act 2009**- which sets out the legal procedure in relation to individuals rather than companies who are declared bankrupt or cannot pay their debts and the process of such declaration;

(3) **The Payments System Act 2009**- which establishes and supervises the electronic and other payment systems;

(4) **The Credit Reference Act 2011**- which provides a regime for credit information and reporting between financial institutions and for the establishment of a Credit Reference Bureau to oversee same;

(5) **The Bank of Sierra Leone Act 2011**- which ensures the autonomy of the Central Bank and sets out its role, administration and functions;

(6) **The Banking Act 2011** which makes provisions for licensing, regulating and supervising of financial institutions and ensures a safe and sound banking system, whilst protecting the interests of depositors;

(7) **The Anti-Money Laundering and Combating of Financing of Terrorism Act 2012** which makes provisions for the criminalization, suppression and combating of money laundering and the financing of terrorism, and the setting up of the Financial Intelligence Unit as an autonomous body to monitor and prevent the said crimes.

To further improve the doing business and investment climate the Bank has developed the following Bills which have received Cabinet approval and are currently with the Attorney General's Office in readiness for tabling before this Noble House:

(1) **The Borrowers and Lenders Act;**

The Borrowers and Lenders Act will facilitate the use of moveable assets as collaterals/securities for loans and establish a collateral registry for all moveable securities.

(2) The Securities Act;

The establishment of the Stock Exchange pursuant to the Securities Act is intended to trigger growth in the economy in line with Government's Agenda for Prosperity. The Securities Act makes provision for the establishment a Securities and Exchange Commission to oversee the operations of the Stock Exchange as practiced in other countries, allowing the Bank to relinquish supervision of the Exchange. This shall provide a platform to enable more trading on the Stock Exchange which will allow firms/businesses to raise long term capital for expansion and production. In addition, it will also provide a platform for citizens to invest funds for reasonable returns.

(3) The Collective Investment Scheme Act;

One of the primary activities envisaged upon the establishment of a Stock Exchange in Sierra Leone is the establishment and operation of a Collective Investment Scheme. A Collective Investment Scheme is a way of investing money jointly with other parties in order to benefit from the inherent advantages of working as part of a group.

In the area of regulations, the Bank also continued to prudently and rigorously supervise the financial sector through effective prudential guidelines and imposing penalties on non compliant banks. However, given the weaknesses observed in the sector despite the passage of these laws, the Bank in addition facilitated the following:

- Introduction of the Prudential Guidelines for Commercial Banks in line with the Banking Act 2011 and Basle Core Principles.
- The Bank has issued a schedule of penalties for the enforcement of compliance with the Banking Act 2011 and Prudential Guidelines. The Bank has since been imposing penalties for non compliance with the prudential guidelines by commercial banks
- In addition, the Bank is putting in place a risk based supervision framework for which the IMF has provided a Resident Consultant, coupled with further training for staff of the Banking Supervision Department.

- We have also promoted the setting up of the College of Supervisors of the WAMZ countries in 2011 for the harmonization of supervisory practices, which led to the introduction of joint on-site statutory examination with the Central Bank of Nigeria of the subsidiaries of Nigerian banks in Sierra Leone to promote effective supervision of banks. This has also helped to enhance the capacity of the staff of the Banking Supervision Department through co-ordinated training programmes organized by the Central Bank of Nigeria (CBN), WAIFEM, World Bank and IMF.
- With support from IFAD efforts to secure a regulatory compliance and supervision system (VRegCoss) software to enhance offsite supervision and strengthen off site analysis of banks are far advanced.
- The Credit Reference Bureau continues to be effective and strengthened with the introduction of additional directives to banks
- Facilitated the setting up of the FIU as an independent Government Agency headed by a Director and funded from the Consolidated Revenue Fund

The main purpose of my address is to explain the rationale for the Bank of Sierra Leone's intervention in the foreign exchange market.

Mr. Speaker, Honourable Members, you would agree that Sierra Leone though richly endowed with substantial mineral wealth had in the past failed to derive maximum benefit from this wealth. The new mining policies under the Agenda for Change have greatly improved the outlook from the mining sector. The Bank of Sierra Leone has observed that following the restoration of macroeconomic stability under the Agenda for Change and the consolidation of these gains under the Agenda for Prosperity, the increased FDI inflows from US$324.8million in 2012 to US$$483.44 in 2013 have not been reflected in the economy in particularly the exchange rate of the Leone against the US Dollar.

Mr. Speaker, Honourable Members, we need to address the problem of what do Sierra Leoneans want to do with foreign currency in the domestic economy, when they are not engaged in overseas transactions or are travelling? The Leone is a symbol of the country's sovereignty and pride. Why should we want to hold the currency of foreign countries especially for local transactions, even now when the Leone has been stable for over four years?

Mr. Speaker, Honourable Members, the Bank decided to intervene in the foreign exchange market to enforce an existing policy. You may want to ask "why did we intervene only now ?". We would like to point out that the widespread use of foreign currency in our economy started as far back as during the war, when we had ECOMOG soldiers and UN staff being paid in dollars, and also due to the then deteriorating economic situation, people priced certain transactions in dollars as a store of value in a period of rapid depreciation of the Leone and high inflation. However, with peace and macroeconomic stability, there is no reason to hold foreign currency for local transactions, especially when the Leone has been stable. However, our intervention was due to a number of observations:

- Despite the increase in foreign direct investment and inflows, the Leone has not appreciated and foreign exchange reserves have not increased significantly to reflect the increase in FDI inflows
- Unproductive use of our foreign exchange
- The Leone is legal tender but we observe pricing of goods and services such as rent, cars, land, satellite tv, school fees are denominated in foreign currency (dollarization) when the vast

majority of Sierra Leoneans are not paid in foreign currencies, giving rise to a second / parallel currency in our country.

- All the issues mentioned previously, if not checked it would reverse the macroeconomic stability which the economy now benefits from.

Dollarization has negative consequences. In the short term it puts the domestic currency under pressure as people demand more dollars for local transactions thereby distorting exchange rate on the foreign exchange market. In the long term, it leads to ineffective monetary policy, systemic risks, higher transaction costs, tax evasion and capital flight. These factors would result in loss of confidence in the economy with inherent negative implications.

As a result of this increased dollarization, the Bank has observed a number monetary and financial policy challenges including

(i) Speculation on the value of the Leone against foreign currencies, which gives rise to hoarding and illegal trading of currencies;

(ii) increased importation of USD notes by commercial banks which is expensive and risky for commercial banks;

(iii) frequent incidents of money laundering and financing of terrorism activities;

(iv) capital flight; and

(v) expanding parallel market activities

Against this background, the Bank resolved to address those issues by invoking the relevant Acts and Public Notices in the short term to arrest the situation.

Mr. Speaker, Honourable Members, the enabling Act governing the conduct of foreign exchange transactions is the Exchange Control Act 1965. The provisions in this Act have over the years been supplemented by various Public Notices.

Mr. Speaker, Honorable Members, quite recently, the Bank of Sierra Leone took the policy decision to revive full compliance with Public Notice No. 55 of 1992 pursuant to the Exchange Control Act (Cap 265) and paragraph 1.6 of the Bank of Sierra Leone Exchange Control Regulations, and issued a Circular reminding commercial banks on the use of Customer Foreign Currency Accounts in commercial banks. The circular clearly states that transfers from foreign currency accounts for the purpose of making payments shall be in accordance with regulations governing payments abroad for goods and services. The Circular further reminds commercial banks of the circumstances under which the withdrawal of foreign currency notes can be effected namely:

(a) Diamond transactions done by valid licensed diamond exporters;

(b) Payment for travel/per diem up to US$10,000; and

(c) Salaries and other emoluments to staff of international organizations.

Mr. Speaker, Honourable Members, let me give you a brief background to how the current operation of a foreign currency account has evolved over the years. It allows every person resident or non-resident to hold foreign currency accounts (CFC) with commercial banks. The purpose of CFC account is to make payments or transfers abroad supported by the underlying documentation for the transaction.

Under the liberalization of foreign currency account, from 1985 to 1989 the operation of foreign currency account was limited to non-residents and exporters that were earners of foreign exchange who were required to surrender their proceeds to the Bank of Sierra Leone. Thereafter, the operation of a foreign currency account was extended to both residents and non residents to legally hold a foreign currency account. However, foreign currency account was to be fed from the proceeds of exports, services, unrequited transfers, and from external sources. Payments from foreign currency accounts were restricted for the purpose of making payments abroad in accordance with the regulations. The surrender obligation was later abolished and replaced by repatriation of export proceeds, under which exporters were permitted to repatriate and hold 100% of their export proceeds in a foreign currency account operated with a licensed commercial bank in Sierra Leone.

In 1992, every person was allowed to operate a foreign currency account at a commercial bank and withdrawals were limited for the purposes of making payments for goods and services by SWIFT transfers abroad. In 1995, when Sierra Leone acceded to IMF Article VIII status, foreign currency accounts were allowed to be used to make payments for all current international transactions by transfers abroad.

Mr. Speaker, Honourable Members, the main features of a foreign currency account are as follows;

i. A foreign currency account is not a checking account and is to be used for making payments for goods and services abroad in a non cash mode using SWIFT, cheques or bank draft.
ii. Residents and Non-residents are allowed to maintain foreign currency accounts with a commercial bank.

iii. The accounts may be credited with transfers in foreign currency from abroad or deposits of foreign currency notes.

iv. Transfers between foreign currency accounts done within the banking system are permitted.

v. Foreign currency accounts can be used to make payments to non residents for all current international transactions.

vi. Holders of foreign currency accounts are permitted to withdraw up to US$10,000 cash for the purposes of travelling/per diem. Amounts above US$10,000 shall be done by transfers.

vii. Diamond transactions done by valid licensed diamond exporters who had brought in funds are permitted to conduct their operations in foreign currency.

viii. Foreign diplomatic missions accredited to Sierra Leone are exempted from this provision of the foreign currency accounts and are permitted to withdraw foreign currency bank notes to meet their operations.

Mr. Speaker, Honourable Members, it should be noted that the foreign currency account continues to meet the purposes for which it was introduced, including payments for goods and services abroad, and transfers between foreign currency account in a non cash mode. The concern of the Bank was that there was a monthly average of US$30milion of importation of bank notes which commercial banks were unable to justify that they were to meet the needs of their customers that had dire macroeconomic consequences such as capital flight, massive Anti Money Laundering and the uncontrollable use of foreign currency bank notes in the economy which undermines monetary management. Going forward, the objective of the Bank is to move to a non cash mode of payment consistent with the new payment system being deployed at commercial banks.

The main objective of this policy is to institute a culture of using the Leone for domestic transactions, thereby curbing the potential for a dual currency regime.

A successful implementation of this policy will lead to a de-dollarized economy with a number of benefits. In addition to creating national pride in the use of the Leone as the only legal tender, it would enhance its acceptability as a preferred medium of exchange and a store of value. It would minimize possibility of exposure to speculation which in itself leads to inflation and exchange rate depreciation. It is interesting to note that this policy has been adopted by several African countries with even stricter measures.

Mr. Speaker Honourable Members, we are aware of the consequences of enforcing the policy. In the short term, we anticipated an initial reaction leading to the hoarding of foreign currency which resulted in the depreciation of the Leone in the parallel markets. However, the Leone has now stabilized in the parallel market. Other expected outcomes include the appreciation of the Leone in all official markets, widespread availability of foreign exchange in the banking system. Foreign exchange is now being used to finance productive activities that foster growth, employment and poverty alleviation. So far most of the banks are now fully supportive of the policy despite initial resistance.

Mr. Speaker, Honourable Members, we can also confirm that following the issuance of the circular, there was observed under subscription in the first four weeks auction that resulted in the savings of over US$2million of foreign exchange which would have been sold to commercial banks.

However, there is need for complimentary measures from Government to ensure that the economy have something to show from the increased GDP growth. In that regard, one such complimentary measure would be to ensure that all companies that are benefiting from Government tax concessions would be required to repatriate their export earnings to the banking system. This will increase the availability of foreign exchange in the banking system to support productive activities in the economy.

In order to make the policy more effective, BSL will undertake further measures such as:

- Enforce the regulation requiring the use of the Leone as the Legal tender for all domestic transactions. This requires collaboration of the legal and law enforcement agencies;
- Develop the culture of using the financial sector for payments among economic agents. This requires increased bank branches, continued banking education and development of electronic points of sale infrastructure.
- Establish legally registered foreign exchange bureaus, and prohibit vigorously the selling/purchase of the foreign currencies on the streets;
- Continue sensitization and public education through the media about the Leone as the only legal tender for domestic financial transactions.
- Ensure the use of official exchange rate for dollar denominated services such as satellite TV, airline tickets, boat services etc.
- Strengthen mechanisms to help minimize capital flight
- Collaboration with the law enforcement and other relevant agencies to ensure strict compliance with the law requiring the use of the Leone as the only legal tender in Sierra Leone; and

- Sustain macroeconomic stability, to ensure the attractiveness of the Leone as a medium of exchange and store of value.

Mr. Speaker, Honourable Members, the Bank is aware that the current exchange control Act dates back to 1954/1965 and thereafter there have been series of foreign exchange liberalization measures over the years. In that regard, the Bank is currently reviewing the Exchange Control Act, and the new Foreign Exchange Bill after consultations with stakeholders will be forwarded to this noble House for enactment.

Mr Speaker, Honourable Members, the financial sector is critical for the economic development of a country and should therefore be effectively regulated and supervised. The support of this Noble House is therefore essential in implementing the laws, regulations directives and policies of the regulator. The Bank of Sierra Leone will continue to meticulously and painstakingly push well conceived and action oriented policies and programmes that endure the test of time. Let us encourage people and institutions to make the necessary sacrifices to move our country forward. In light of this, I have reminded all financial institutions of their corporate governance responsibilities as imposed on Board Directors by Section 27 of the Banking Act 2011 which states:-

> "(1) The board of directors shall be ultimately responsible for ensuring that the business of the bank is carried on in compliance with all applicable laws and is consistent with safe and sound banking practices.
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> (2) The board of directors may not delegate its ultimate responsibility for the safe and sound operation of the bank to others, and any actions

taken by the bank will be presumed to be actions taken by the board of directors".

I would like to appreciate the entire Noble House for the opportunity accorded to me to give this address. I do hereby express my profound gratitude for the support given to the Bank by this Noble House in enacting the aforementioned legislations and shall continue to look forward to your steadfast support as we collectively strive to improve the financial landscape of Sierra Leone.

I thank you for your attention.