KEYNOTE ADDRESS DELIVERED BY PROFESSOR KELFALA M. KALLON, GOVERNOR, BANK OF SIERRA LEONE, AT THE OFFICIAL LAUNCH OF ROKEL HERALD MAGAZINE AND THE EXECUTIVE MASTERS PROGRAM ON BANKING AND FINANCE BY IPAM ON FRIDAY 21ST JANUARY 2022 AT 9:30 AM.

Mr. Chairman
Ministers of Government
Members of Parliament
Senior Government Officials
Board of Directors, Rokel Commercial Bank
The Management and Staff of Rokel Commercial Bank
Faculty and Staff of the Institute of Public Administration and Management
Distinguished Guests
Ladies and Gentlemen.

Good afternoon.

I am pleased to have been invited here to give this keynote address on "The State of Financial Inclusion in the Country and its Effects on Deposit Mobilization". Before I commence my task, **Ladies and Gentlemen**, it is imperative that I first congratulate the Board, management and staff of the Rokel Commercial Bank for organising this seminar on financial inclusion in our country, a topic that is not only dear to me, but also currently in vogue in development economics. From the perspective of the Bank of Sierra Leone, this seminar could not have come at a better time than now, when the Bank of Sierra Leone is preparing to roll out its new *National Strategy for Financial Inclusion (2022-2025)*, which, unlike its predecessor, prioritizes women and the youth.

I also want to take this opportunity, on behalf of the Board, Management, and staff of the Bank of Sierra Leone, to thank our Darling Leone Stars for thrilling us at AFCON 2021 for two weeks and, more importantly, for demonstrating to the world that good things are indeed happening in this country.

I must add that I was very much humoured by the meme that went viral on social media after the heroics of the Leone Stars goalkeeper in the match against Algeria which said that "if Leone Stars goalie na bin Bank Governor, the dollar for don drop." My response, distinguished ladies and gentlemen, is that "if every Sierra Leonean would simply work half as hard as the Leone Stars, and with the same unity of purpose the team exhibited at AFCON21, the economy would be on auto pilot. And we might not even need a Bank Governor."

Mr. Chairman, Distinguished Guests, Ladies and Gentlemen, the financial sector plays an important role in the economic development of a country. It does so by efficiently channeling funds from households, firms, and government agencies that have spent less than their incomes (savers) to those that wish to spend more than their income (borrowers).

For example, suppose Santigie has saved one million leones. If he keeps those savings under his mattress, they would not grow, and may even lose purchasing power as a result of inflation. Meanwhile, Mammy Fattu, a petty trader at the Krootown Road Market, needs one million leones to build a stall, which she expects will increase her profit by two hundred thousand leones over its useful lifespan. Both Santigie and Mammy Fattu would be better off if the former were to lend his one million leones to the latter in return for a share of her profit. If the parties agree to share the profit equally (meaning that each gets one hundred million leones), Santigie would receive a 10 percent return on his savings while Mammy Fattu earns a 10 percent net return on her investment.

However, for the above transaction to occur, Santigie and Mammy Fattu would have to find each other, which might be highly unlikely. Hence, they would remain in their original positions and be worse off. Financial institutions would provide an avenue for Santigie's savings to reach Mammy Fattu without the two ever meeting. Santigie would only need to deposit his funds into a financial institution, which would then lend them to Mammy Fattu without the two ever meeting. In short, financial institutions reduce the cost of linking net savers with net borrowers. This process is known as financial intermediation.

Additionally, were Santigie to meet Mammy Fattu, he would need the assurance that the latter will service the debt being negotiated (pay principal and interest in a timely manner) over the tenor of the loan. Firstly, Santigie would have to know that Mammy Fattu will actually utilize his savings for the intended investment purpose, not for consumption, gambling, or other unproductive uses. He will also need information on Mammy Fattu's debt-paying habits in order to decide whether to lend his savings to her or continue keeping it under his mattress. Getting and processing the necessary information about Mammy Fattu obviously involve costs of information gathering and interpretation. Because Santigie is not in the business of lending, he would have no expertise in such activities. Hence, he would bear transaction costs. If those costs outweigh the interest return that Mammy Fattu offers, Santigie would keep his funds under the mattress. No investment would take place and both he and Mammy Fattu would remain worse off.

Because making safe loans is the primary objective of financial institutions, they have an inherent interest in gathering and analyzing information about their many customers at lower per-unit cost than Santigie can on his own. That knowledge and information enables them to spread risks across different risk-types and add appropriate risk premia into their loan contracts. This then enables them to pay Santigie interest on his savings and also lend to Mammy Fattu at a lending rate that compensates them for the inherent risk that befits her risk profile.

And even if the transaction costs of gathering and interpreting the available information were such that it would be mutually beneficial for Santigie to lend his funds directly to Mammy Fattu, he would need a lawyer to draft a contract that clearly spells out the terms of the agreement between them. If, for instance, Santigie's lawyer charges Le100,000 to draft the contract, Santigie would only lend his savings to Mammy Fattu if she is willing to pay the lawyer's fee as well as the Le100,000 interest payment he requires. In other words, Santigie would only lend to Mammy Fattu if she paid him the entire Le200,000 expected return from the investment. As such, she would have no incentive to borrow and invest Santigie's savings. In this case also, no investment would take place and both parties would remain in their worse-off respective original positions.

Here also, financial institutions can lower transaction costs. For example, a financial institution can hire a first-rate lawyer to draft an airtight contract for, say, Le10,000,000, which it can use in all its loan decisions. If it uses that contract to administer 100,000 loan contracts, the per-unit cost of the contract would be Le100, which would be much cheaper than the Le100,000 Santigie could negotiate on his own. Thus, by lowering the cost of the contract from Le100,000 to Le100, the financial institution is able to provide an incentive for Santigie to deposit his funds in the financial institution and receive the agreed interest payment of Le100,000. Mammy Fattu, meanwhile, would also have an incentive to borrow those savings for an additional Le100 interest payment, leaving her a net profit of Le99,900. Therefore, with the financial institution as the intermediary, Mammy Fattu's investment will take place, thus creating jobs, and improving livelihoods, all other things being equal.

As made clear already, the function of financial institutions is to intermediate between net savers and net borrowers. To do this effectively, they must be trusted by the public. As such, it is imperative that financial intermediaries ensure that those they hire have the highest levels of honesty and integrity. It is not enough to say that 99 percent of a financial institution's staff is honest because the dishonest 1 percent can ruin the reputation of the institution. Incidences of bank customers realizing that notes have been pilfered out of sealed bundles of notes they receive at our banks, something that is becoming nauseatingly frequent, must be eradicated in order to enhance the trust of the population in the financial sector.

Even where there is trust in the financial system, the net interest rate paid on savings must be high enough to convince net savers to make their funds available to the financial system. Additionally, bank charges for access to those savings should be minimized to increase their net returns.

On the demand side of the market, financial institutions must also ensure that the Mammy Fattus of the world find it beneficial to borrow from the financial sector. All other things being equal, economic theory and evidence tell us, investment demand is inversely related to lending rate. Thus, the higher the lending rate, which is a cost of borrowing, the lower the demand for funds for investment. Huge charges for loan processing, among others, which ultimately raise the cost of funds to borrowers, also inversely impact the demand for funds for investment.

Therefore, from both the demand and supply side, it is easy to see that the rate of financial intermediation is inversely related to the spread between the lending and deposit rates. The greater that spread, meaning a high lending rate and a low deposit rate, the lower will be the rate of financial intermediation.

How are financial institutions in this economy doing on this front? As of November 2021, the average lending rate at commercial banks was 20.5 percent while the deposit rate was 2.15 percent, creating a wide spread of 18.35 percent. When bank charges are added to this spread, it becomes palpably clear why the rate of financial intermediation in the country is quite low.

As the agency responsible for regulating the financial sector, the Bank of Sierra Leone is hugely interested in seeing true financial intermediation take place in this economy. As its Governor, my approach to financial industry regulation has been to first allow the industry to regulate itself in such a way that the interests of all stakeholders are well served. While we are aware of regulations that have been imposed on excessive bank charges in other jurisdictions within the region, we have opted to use regulation as a last resort to achieve a lower interest-rate spread and reasonable bank charges. The Sierra Leone Association of Commercial Banks will do its membership a lot of good to review both the interest rate spread and bank charges to bring them in line with what obtains elsewhere in the region. Otherwise, the Bank of Sierra Leone will be similarly forced to act.

Mr. Chairman, Distinguished Ladies and Gentlemen, economic theory teaches us that competition is the most reliable way to ensure the lowest possible prices for consumers. Therefore, to bring more competition to the financial services sector, the Bank will lobby Government to resuscitate the postal savings banks and empower SALPOST to provide financial services throughout its postal network in this country. For its part, the Bank intends to begin selling foreign exchange to the public through SALPOST in the near future. Because of its wide reach in the country, SALPOST's provision of financial services to the public will likely do much to speed-up the rate of financial inclusion in the country, in addition to lowering the cost of financial services to the public.

It goes without saying, **Distinguished Ladies and Gentlemen**, that efficient financial intermediation requires mopping up all available savings in the economy through formal financial institutions. As such, drawing the "unbanked" population into the formal financial system is a first requirement for efficient financial intermediation. It also involves giving access to financial services to the "unbanked" so that the Mammy Fattus of the world would also have access to the nation's savings. In short, financial inclusion is a prerequisite for efficient financial intermediation, without which sustainable private-sector-led economic growth would be impossible.

On this front, it is worth noting that only 20 percent of Sierra Leone's population of about 7.7 million (4.8 million of which are adults) is "banked" (*World Bank Findex Data Base, 2017*). The picture is even gloomier for women, youths, and the rural population, whose rate of access to formal financial services are 14 percent, 19 percent, and 15 percent, respectively (*United Nations Capital Development Fund Annual Provider Survey, 2018*). To help address this issue of access to financial services by women and young people, I recently issued a directive proscribing discrimination in lending by financial institutions within the country.

Distinguished Ladies and Gentlemen, financial inclusion has become an important global policy agenda item since early 2000s, when The United Nations (UN) set financial inclusion as one of the main goals in the Millennium Development Goals (MDGs). It is also worth noting that eight (8) out of the seventeen (17) Sustainable Development Goals (SDGs) are financial-inclusion related.

In this regard, I want to make it palpably clear that the Bank of Sierra Leone remains committed to creating an enabling environment for all players to operate with ease by facilitating the enactment of relevant laws and continually improving on the regulatory framework to ensure a viable, robust and development-oriented financial sector. Chief among these is our sacred commitment to fulfil our traditional role of ensuring and maintaining monetary and financial stability in the country. Moreover, the Bank continues to hone its regulatory reforms in order to strengthen the deposit-mobilising capacity of financial institutions in this country. In furtherance of this objective, it has amended and submitted the following legislative instruments for parliamentary ratification:

- The National Payment Systems Bill—to legitimise the implementation of the National Payments Switch, which should promote the digitisation of the payment system and thereby lower the cost of financial transactions in the country.

- The Deposit Insurance Fund Bill—to provide deposit insurance to savers in order to engender their confidence in the financial system and thereby help accelerate the rate of deposit creation in the formal financial system.

The Bank has also revised The Other Financial Services Act (2001), which is now being reviewed by the Law Officers Department for eventual submission for parliamentary action. Additionally, the Bank has developed and promulgated the following Guidelines to help create a conducive regulatory environment all for service providers to operate in a sound and healthy financial sector:

- The Agent Network Guidelines—to ensure availability of liquidity with the agents.

- The e-Money Guidelines—to ensure that other players apart from the MMOs provide digital financial services.

- The Tiered-KYC framework—to ensure easy account-opening procedures.

- The Financial Literacy Framework—to guide stakeholders in promoting financial literacy and education.

Distinguished Ladies and Gentlemen, allow me to dilate a little on the expected benefits of the National Payment Switch, which is expected to Go-Live by the second quarter of 2022. When in operation, the Switch will enhance interoperability across financial institutions. This will positively impact the rate of financial inclusion in this country by providing a payment gateway that will minimize the need for cash transactions and replace it with a more secure electronic payment system. By so doing, it will eliminate long queues in banking halls, enable financial institutions to achieve economies of scale in effecting inter-bank payments and bring about efficiency in financial services delivery. With the National Switch, customers will access funds from any Automated Teller Machines (ATMs) and/or transact from any point of sale (POS) deployed at any shop, supermarket or fuel station or even their mobile phones. Moreover, the imminent redenomination of the Leone, coupled with the National Switch, will expectedly go a long way in promoting financial inclusion in this country by reducing the transaction cost of sorting, keeping, and carrying huge stacks of currency around, thereby providing incentives for net savers to use financial institutions to keep their now-more-valuable savings and minimize the risk of loss due to theft, fire, and other disasters.

Distinguished Ladies and Gentlemen, the Bank of Sierra Leone is acutely aware of the importance of financial literacy in promoting financial inclusion. Consequently, it has sought to promote financial literacy in the country through Annual Financial Literacy Campaigns and collaboration with Non-Governmental Organizations (NGOs) to establish school savings clubs in order to inculcate the habit of savings in students at early ages. Expectedly, the students so educated will in turn educate their parents about the financial system.

Other financial-inclusion-induced initiatives that have been (or are being) undertaken by the Bank to enhance the development of the financial system infrastructure include:

- Yearly Fintech Challenges to encourage local financial technology providers to develop.

- Collaboration with NATCOM to provide the USSD facility to banks and OFIs, which initially used to be monopolised by mobile network operators.

- Setting up of the Collateral Registry to facilitate access to credit by providing both movable and immovable assets as collaterals.

- Establishment of the Credit Reference Bureau to facilitate credit status of customers.

Mr. Chairman, Distinguished Ladies and Gentlemen, on this note I would like to acknowledge the efforts of the Board, Management, and staff of Rokel Commercial Bank for their effort at promoting financial inclusion in this country. I further urge them and the entire financial services industry in this country to engage in more financial intermediation by abandoning their current business strategy of relying on government paper and foreign exchange transactions as the primary sources of profit and putting more emphasis on financial intermediation as the most sustainable source of profits.

Moreover, the Bank of Sierra Leone congratulates Rokel Commercial Bank for the launch of *Rokel Herald* and looks forward to the success.

We also congratulate IPAM on the official launch of its Executive Master's Program on Banking and Finance.

For your kind attention, **Distinguished Ladies and Gentlemen**, I sincerely thank you.