

**THE ROLE OF THE BANK OF SIERRA
LEONE IN PRIVATE SECTOR
DEVELOPMENT IN SIERRA LEONE**

PRESENTED

BY

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VENUE: MIATTA CONFERENCE HALL

ON

MONDAY, 25TH OCTOBER, 2004

Mr. Chairman, Governor of the Bank of Sierra Leone
Distinguished Participants
Ladies and Gentlemen,

I want to thank the organizers for inviting me to present a paper at this all-important forum.

My presentation will be divided into four parts. Part one will provide a brief overview of the economy. The second part will provide a description of the Financial Sector of which the Bank of Sierra Leone is the apex. The third part of the presentation will examine the development of the private sector in Sierra Leone, while the final part will focus on the role of the Bank of Sierra Leone in the context of Sierra Leone's development in which the private sector should play a critical role.

Additional reference materials are provided in the power points presentation as a complement.

I. **Brief Overview of the Sierra Leone Economy**

Mr. Chairman, Sierra Leone has an estimated population of 5.0 million of which over 70% are self-employed in the rural economy. Similarly, about 70% of those who dwell in the urban economy are also self-employed and largely in the informal sector. By and large, the Informal Sector accounts for about 75% of the country's labour force.

Sierra Leone has an abundant supply of fertile soil although agricultural activities continue to be dominated by small-scale producers largely for subsistence. The country is also endowed with a wealth of marine and mineral resources. With such an endowment, the potential for development in Sierra Leone is great. With fertile land in abundance, rich

marine and mineral resources base, Sierra Leone should not be a poor country – let alone be classified as one of the poorest and be placed at the bottom of the UN's Human Development Index.

However, the emergence of a civil conflict, which led to eleven years of a brutal and senseless war laid waste the country's economy and devastated the physical, human and social infrastructure. In the immediate post-war-period, the emphasis of economic management was on rehabilitation and reconstruction. This effort has yielded positive results and while there is still a lot to be done, the situation now permits focus on other developmental requirements. The GDP has increased steadily from \$760m in 2001 to \$850m in 2003, and continues to grow at an estimated rate of 9.4%. Exports are picking

up, although they still lag behind the level of imports, thus putting pressure on the balance of payments. A measure of inflationary pressure has accompanied this growth, with the year-on-year inflation rate having reached double-digit level at an estimated 14%.

The foreign exchange market has been characterized by increased demand for foreign exchange to finance economic activities. This excess demand has been reflected in the continued depreciation of the Leone/U S Dollar exchange rate. The current position is that the demand for foreign exchange continues to run ahead of supply even though the diamond sector has indeed registered increased exports.

The stringent monitoring of the foreign exchange reserves by the Central Bank has

kept the reserve position within target. In the light of the prevailing scarcity of foreign exchange in the Banking System vis-à-vis pressure exerted by the demand in the market leading to the consequent depreciation of the Leone, Bank of Sierra Leone has continued to use its foreign exchange auction as a mechanism to efficiently inject foreign exchange into the market. The foreign exchange auction was introduced in February 2000 and was meant to complement the supply of foreign exchange available to importers of capital and consumer goods, and also to help maintain stability in the exchange rate. Government's relations with our development partners, including the Bretton Woods Institutions continue to be sound. Some of these institutions do have a private sector window for the funding of businesses i.e. ADB, EU, OPEC, WB- IFC,

AFREXIMBANK. These are all indicators of good performance and the confidence the International Community has in the economy.

Economic Performance

Selected Macroeconomic Indicators

	2001	2002	2003	*2004
GDP at market price (Lebn)	1,508.70	1,658.72	1,907.86	2,040.9
GDP at market price (US\$m)	759.90	790.20	849.80	879.8
Real GDP Growth (%)	5.4	6.6	6.5	9.4
Consumer Price Inflation (ave.%)	3.0	-3.2	8.0	14.0
Population (m)	4.57	4.76	4.96	5.2
Export fob (US \$m)	29.2	48.50	60.20	70.53
Imports fob (US \$m)	185.5	264.3	284.5	317.5
Current A/C Bal. (US \$m)	135.0	-142.0	-153.2	-165.4
Reserves excl. gold (US \$m)	51.3	84.7	75.0	74.7

* **Projection**

II. Financial Sector

Mr. Chairman, Distinguished Ladies and Gentlemen, the core financial structure in Sierra Leone, like any other financial systems, comprises the Central Bank (The Bank of Sierra Leone), the Commercial Banks and the Non-Bank financial institutions. The Banking Sector within the financial system comprises

six (6) commercial banks namely: the Sierra Leone Commercial Bank Ltd. (SLCB); Rokel Commercial Bank (SL) Ltd. (RCBSL); Standard Chartered Bank (SL) Ltd. (SCBSL); Union Trust Bank Ltd. (UTB); Guarantee Trust Bank Ltd. (GTB); and First International Bank Ltd. (FIB). A seventh bank, the International Commercial Bank (ICB), is expected to commence operations before the end of this year - 2004.

The rural bank scheme, which got to an abrupt halt during the civil conflict, has been revived with the establishment of pilot community banks. Already, four such Community Banks have been opened in Lunsar, Mile 91, Mattru and Segbewema. Progress is being made to establish two more, one each in Kabala in the far North and Zimmi in the far South.

As the apex of the financial system, in a liberalized economic environment, Bank of Sierra Leone will continue to encourage commercial banks to establish branches to cover all economic regions of the country. At the moment, there is a branch network of a little over twenty, including the four Community Banks. Needless to emphasize that most of these branches are located in Freetown, and a few other provincial towns. Given this low proportion of branches to the countrywide need for banking services, the Bank of Sierra Leone has embarked on the establishment of community banks country wide with a view to providing financial intermediation facilities in areas where they are non-existent. A key feature of the community banks is that they are community owned and driven.

III. Development of the Private Sector in Sierra Leone

It is generally agreed that the private sector is the engine of growth in all free market economies. Its nurturing and development could lead to the following economic benefits:

- ❖ increase in employment
- ❖ increase in income
- ❖ increase in consumption
- ❖ increase in GDP

The private sector constitutes the largest productive activity in Sierra Leone. Unfortunately, however, its potential contribution to the nation has not been fully realized for a number of reasons, including the following:

- ❖ Predominance of informal activities.
- ❖ The relatively small formal sub-sector is dominated by small single proprietor businesses.
- ❖ A good number of businesses maintain neither good records of their activities nor bank accounts.
- ❖ Indigenous enterprises are reluctant to form strategic partnerships and take advantage of economies of scales, which are attractive for bank lending.
- ❖ Consequently, small businesses which are largely not diversified in their activities do not have collateral to secure advances from the banking sector.

The Government of Sierra Leone fully realizing that the private sector has to take a lead role in the country's growth and development has revisited the legal framework, which regulates the activities and procedures governing business investments in the country. The Investment Promotion Act 2004 has been formulated, approved by Cabinet, and currently awaiting promulgation by Parliament.

Furthermore, in order to eliminate the bureaucratic bottlenecks and cumbersome administrative procedures which had come to characterize the establishment of businesses, the Sierra Leone Export Development and Investment Corporation (SLEDIC) has been transformed into a one-stop shop with a view to facilitating business registration, assist

investors in obtaining permits, licenses, and certificates required for the commencement of businesses; and providing relevant information to potential investors.

In addition, the Investment Promotion Act 2004 provides meaningful investment incentives, including 100% foreign participation, although joint ventures with Sierra Leonean partners are encouraged.

The nature of financial inflows in the private sector and the forces driving them is very important to ascertain their macroeconomic impact, their likely volatility, and the balance of payment problem they could engender. There has been an increase in FDI and ODA in Sierra Leone. This has brought with it some financial inflows in the private sector and as

such, a lot of gains have been achieved from these inflows notably;

- Transfer of technological know-how and managerial skills.
- Contribution towards strengthening the productive capacity of the economy and to improving efficiency in production.

ODA is intended to support infrastructure and human capital building, alleviate the foreign exchange constraint on growth by contributing to the financing of imports, easing the service of an otherwise excessive external debt-burden and raising foreign exchange reserve levels.

However, it also brings along some problems, risk of reversal that could lead to balance of payment difficulties or currency crisis, upward

pressure on inflation, or loss of control over the monetary base and the appreciation of the real exchange rate. Nonetheless, with sound monetary and fiscal management, these could be controlled.

The private sector in Sierra Leone is characterized by self-employment. The promotion of self-employment is a basic but minor component of economic development. It is recognized as one way of bringing a person into the main stream of society as a productive and contributing individual. A sizable portion of the population is now self-employed. The significance of tiny “micro-enterprises” which have often been characterized as insignificant in terms of their economic impact are now being recognized. Although such businesses have yet to make a meaningful impact on the local economy and

rarely create new jobs, they do provide one person with employment and self-sufficiency at a minimal cost to society, and they sometimes mark the start of a path to more significant entrepreneurial activity in the future that does impact on the economy and create jobs for others.

IV. **Contributions by Bank of Sierra Leone in Private Sector Development**

Central Banks are being reformed to meet the demands of present day globalization. They do not just regulate money growth, or act as fiscal agent to government, nor do they only provide liquidity to the economy. They are also actively involved in building the private sector, which is the engine for economic growth that should spur public sector activities.

One of the pre-requisites of building a healthy private sector is the creation of conducive condition through demonstrated political stability, sound economic and financial management and the establishment of legal systems that have clear rules and effective enforcement of contracts. The power to create a sound economic and financial system lies not just with the political leadership but also with the Central Bank which as the apex of the banking system is pivotal in the financial and hence the economic system.

In view of this, the Bank of Sierra Leone has worked hard at maintaining a safe and sound financial system to forster economic growth. The banking system plays a major role in the mobilization of savings and the channeling thereof to investment

opportunities. In executing our mandate of maintaining financial stability we have firstly to ensure the existence of a relevant regulatory framework and, supervise and regulate operators in the financial sector, notably the banks and non-bank sectors. This is done to strengthen public confidence in the system. We have moved a step further to supplement the activities of the commercial banks by providing community banks in areas that lack the levels of financial intermediation we desire. Presently, we have four community banks in Yoni, Marampa Masimera, Mattru and Segbwema. Support to the Community Banks has included:

- Long-term loan towards their establishment.
- Training of core staff.

- Technical advice.
- Provision of basic inputs - computers and software.

Furthermore, the Bank of Sierra Leone has set up a separate unit that would be responsible for the administration of Community Banks countrywide as well as monitoring their operations on a regular basis.

We have put modalities in place for the money market to work efficiently. But our financial system would not be strong without a complementary capital market. In order to broaden and deepen the financial market and enhance the transmission of monetary policy, the Bank of Sierra Leone is currently spearheading the establishment of a Stock Exchange and a Venture Capital Company. When fully operationalised, the Stock Exchange will facilitate medium and long term lending as well as

borrowing transactions in money and money denominated instruments, leading to the development of both the private and public sectors. Implementation of the country's privatization program will also be facilitated by the development of the capital market through the establishment of a Venture Capital Company.

In recognition of the challenges faced, the Bank of Sierra Leone has also established a Private Sector Development Unit with the mandate to act as facilitator to private sector development in Sierra Leone. The Unit oversees the development of the capital market, community banks and the activities of micro finance institutions in the development of small-to medium scale enterprises.

Mr. Chairman, Ladies and Gentlemen, the Bank of Sierra Leone in furtherance of its support to the

development of the private sector participates in, and has been supporting the following ventures:

- ❖ WTO
- ❖ AGOA
- ❖ Commonwealth Business Council
- ❖ AFREXIMBANK (Export and Import for Africa)
- ❖ Homecoming/Diaspora Involvement (non-ODA)
- ❖ NASSIT
- ❖ NCP

Participants should also be aware that the following facilities are available in the global market:

- ❖ Pre-shipment export advances
- ❖ Post-shipment acceptances and advances
- ❖ Project-related loans
- ❖ Assurance of payment for exports
- ❖ Guarantee facilities

It is our intention to strengthen our efforts in supporting private sector development and we would continue to explore both traditional and innovative modalities in pursuit of this goal.

I thank you all for your attention.

The end