

INTERNATIONAL MONETARY FUND

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**Evaluation of the Technical Assistance Program
(November 2001 to November 2004) for the Bank of Sierra Leone**

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EXECUTIVE SUMMARY

Over the period 2001–2004, Sierra Leone was a major recipient of MFD Technical Assistance (TA), generally among the 10 countries in the world receiving the most assistance. This involvement represented a substantial contribution by the IMF towards the reconstruction of the country after the devastating civil war that ended in 2000.

Implementation of the action plans

Particularly in regards to banking supervision, there has been substantial implementation of past action plans. The early stages of the banking supervision program focused on drafting manuals and guidelines, and training staff; this has been substantially completed. Measures regarding on-site supervision have also been implemented. The next stage—which will critically include enforcement of supervisory requirements and bank restructuring—will be particularly challenging.

Many of the elements on the early action plans on monetary operations were not implemented at the time. It seems that this was due in part to over optimism in regards to the Bank of Sierra Leone (BSL) and its staff capacity and resources. The action plan for this area has been refocused to set out more clearly the intervening steps toward full money market development.

Regarding the payments system, there have been important improvements in line with recommendations. Much more, however, remains to be done. One disappointment has been the apparent lack of interest from the banking sector, perhaps due to the banks' concerns about cost implications. Another is the series of delays on certain critical components of the program, such as the implementation of the contract to acquire the BankMaster system in order to fully implement an automated general ledger.

Other areas were rightly given lower priority in the TA program. The program focused on a limited number of areas, given that there was clear need in those areas, and that both delivery and absorptive capacity were limited.

There has been a considerable enhancement of staff capacity over the past three years. This has been helped by the fact that the BSL has so far managed to retain the bulk of its staff and ensure relative continuity in the occupancy of many of the key positions. On the other hand, there are staff shortages in some of the newly emerging subject areas, as staff redeployments toward those areas have not matched the increasing demands on them.

Risks to the program

While substantial progress has been made, there remain serious risks to the further enhancement of capacity at the BSL. Macroeconomic developments may make it hard for the BSL to operate monetary policy successfully. Also, in the coming period, the BSL will be increasingly dependent on other agencies, in particular the Ministry of Finance (MOF), for

carrying out its functions. While efforts have been made to involve the MOF, intensified cooperation will be needed.

A particular risk concerns the possible tenuousness in the transfer of skills in some areas. The enhanced capacity will only be sustainable if the newly acquired skills are passed from the individuals directly involved to the institution as a whole. The preparation of written manuals, guidelines, and documentation thus continues to be a central element of TA.

Summary Observations

Overall, the Sierra Leone TA program of 2001–2004 has demonstrated some remarkable successes. The completion of a range of off-site manuals and the development of capacity in on-site banking supervision should stand the BSL well for the challenges ahead in handling the banking sector. The development of the treasury bill market and initial steps toward secondary market activity are important steps for sound monetary management and the fostering of financial markets. Additionally, the introduction of a book entry system is an important milestone for enhancing the payments and settlement systems.

These successes may be linked to certain key elements in the design of the TA program and the responsiveness of the BSL. From November 2001, an integrated approach was adopted for the delivery of TA with careful prioritization and sequencing; clear specification of program objectives and interim stages; continuity and selectivity in expert assignments; and their integration with the periodic multi-topic missions.

That said, in some areas, developments have not moved as quickly as initially expected. Liquidity forecasting is still at a relatively early stage and there was limited initial progress in developing monetary instruments. On the payments side, too, there have been delays. While progress has been good on the banking supervision side, major challenges lie ahead as the program moves on to the enforcement and restructuring stage.

In some regards, the Sierra Leone program may serve as exemplary for other intensive TA programs designed to enhance monetary and financial capacity, but some lessons from the shortfalls might also be learned. First, experience from the monetary side indicates that capacity constraints may mean that one has to start at a rudimentary level in order to get a program going. Second, formalization of the process for taking a program forward—such as through a steering committee made up of all key participants that would meet regularly—could help maintain the momentum, including during periods when missions and experts are not in the country. And finally, explicit assertion of ownership by senior management at principal TA recipient institution—for instance, by signature on a document setting out the main elements of a program—could help motivate staff and encourage decisive action.

Assessment of MFD TA to the Bank of Sierra Leone (BSL)¹

I. INTRODUCTION

The evaluation of a TA program can provide important information both to those designing the TA program for a country and to those receiving the assistance.

Evaluations are increasingly seen as an integral element of assessing what works and what does not, helping validate or challenge past stages of a TA program, refine the remaining stages of that program, and provide guidance for other TA programs. For the recipient country, the evaluation can lead to a better understanding of the objectives of a program and reasons for any shortfalls, increasing the likelihood of more effective implementation in the periods ahead.

As part of the ongoing series of evaluations of MFD TA programs, an assessment was conducted of the MFD program to Sierra Leone over the period 2001–2004.

Sierra Leone has been a major recipient of MFD TA over this period, generally among the 10 countries in the world receiving the most assistance. This evaluation derives from a review of the relevant documents, a questionnaire sent to BSL, and discussions with individuals involved, both in Sierra Leone and among IMF staff.

In November 2001, an MFD-led mission visited Sierra Leone to identify priority areas for TA and to agree on an initial action plan to enhance capacity at the BSL. An earlier mission in 2000, in the immediate post-conflict period, focused on some specific issues, but the 2001 mission sought to broaden the process by undertaking a diagnostic review and identifying areas for priority assistance. The 2001 mission included experts in central bank organization and banking supervision, as well as MFD staff. While giving initial recommendations, the mission concluded that the central bank organizational structure was relatively sound and, hence, not a priority for further assistance at that time, but that assistance was urgently needed in banking supervision, monetary operations, and payments system.

II. INPUTS TO THE PROGRAM

Ownership of the program

While the various actions set out in the program were elucidated by the MFD missions, strong efforts were made to ensure that ownership was shared with the BSL. Given the initial lack of capacity in the BSL, identification of the broad areas for assistance, together with the specific details in the action plans, were undertaken by the IMF missions. The areas identified as priorities largely derived from observation and discussions on the state of capacity in the BSL. Also, the need for the BSL to implement the monetary component of the

¹ This section was prepared by staff not involved in earlier stages of the TA program, so as to ensure independence of the evaluation.

country's PRGF program generated a need for assistance, in particular, in liquidity forecasting. On the other side, the BSL evidently shared the objectives and structure of the program, as shown by the enthusiasm with which it has welcomed successive missions and expert visits, and by the various requests that have been made for taking the program forward and enhancing it further. That said, shortfalls in implementation in some areas have been ascribed by BSL staff to limited support on occasion from some of the BSL's higher management.

Strategy of the program

The 2001 mission sought to identify priority areas for assistance and to provide action plans in each of the priority areas that would represent a roadmap for the BSL to enhance its capacity in those areas. The action plan provided by the mission was designed to cover the following 12 months; it included, for instance, 15 topics for action in banking supervision, 9 in monetary operations and liquidity forecasting, and 3 in payments systems. These various topics together might be seen as providing a first phase of a capacity-building strategy. In banking supervision, this involved training and the preparation of regulations and guidelines, the second stage involved developing capacity in on-site supervision. The third stage will build on these and focus on enforcement as well as bank restructuring. A similar vision for a build-up in capacity characterized the plans for the other sectors.

Choice of areas for TA

Banking supervision, monetary operations, and payment systems were predictable and appropriate areas for priority assistance. All three of these are critical for the effective functioning of a central bank. Given resource constraints, focus on additional areas would have risked BSL overload. Also, work on central bank organization and on foreign-exchange-market issues had been undertaken earlier, and these areas were therefore not such high priorities at the time. As the program continues, however, it is likely that both areas could warrant consideration for incorporation at a later stage.

Counterpart for the program

The BSL has been the counterpart for the program. The BSL has responsibility for all the areas covered by Sierra Leone's TA program. Visits have been paid to other official bodies in order to foster their support for BSL as it implements the program, and to encourage coordination where necessary. The lack of such coordination has caused difficulties in many other countries where the central bank is trying to carry out a TA program. As the program continues, coordination will be increasingly necessary and the BSL is unlikely to remain the sole counterpart: banking sector restructuring, for instance, will also critically involve the MOF.

Design of the action plans

Each of the multi-topic missions included detailed time-bound action plans as a key component of their reports. Reports of the expert visits also included such action plans. Updates of these plans have been both backward-looking, i.e., reviewing implementation of the plans produced by the previous mission, as well as forward-looking. Successive action plans included substantial overlap with previous plans, including modifications in light of re-timings or changes in emphasis. In the areas where progress has been most evident, successive action plans reflect the sequencing underlying the TA strategy.

Interaction with other TA providers

MFD has been the principal supplier of TA to the BSL. There has also been assistance delivered through bilateral links between the BSL and the Bank of England, as well as assistance by experts financed through the FIRST Initiative. In general, the coordination between the various suppliers seems to have worked very well—for instance, the Bank of England expert’s visit coincided with that of an MFD mission and the FIRST Initiative-funded expert on payments systems worked closely with the MFD mission during its stay in Sierra Leone. There have, however, been a few suggestions that coordination could be further enhanced. For instance, the visit of the FIRST Initiative-financed expert on supervision of nonbank financial institutions was not coordinated with those responsible for supervision of the banks.

Modalities of delivery

MFD TA is delivered through a combination of staff from IMF headquarters and of experts identified by MFD, who generally have direct operational experience on the relevant topics from employment at national central banks, regulatory authorities, or similar institutions. The frequency of MFD staff visits has declined over the three-year period, with the December 2004, visit being the first since November 2003. At the same time, the pace of expert visits has been maintained and may even be intensified. This reflects the fact that the MFD staff involvement is largely to set the framework, review progress, and give guidance on strategic questions, while the ongoing capacity building is largely provided by experts.²

The Sierra Leone TA program has been delivered through a combination of ongoing visits from individual experts, staying up to four weeks at a time and of multi-topic visits, including both IMF staff and experts staying from one to two weeks. Since the initial visit in 2001, there have been four multi-topic visits and 28 expert visits. Prospective missions and visits have generally been roughly scheduled substantially in advance, up to a

² There are financing issues, which are not discussed here, concerning the availability of the various types of funding, and the fact that most expert visits are dependent on funding from outside donors; to date, most importantly from the Japanese government.

year, and in line with requirements under the action plans. These schedules have been adhered to much more closely than those in many TA programs elsewhere.

Particular efforts have been made to ensure continuity, as appropriate, in both MFD staff and expert involvement in the program. The benefits of this continuity are clear in the good relationships that have developed between staff and experts, and their BSL counterparts, as well as in the general consistency in successive action plans. There has also been substantial continuity of counterparts in the BSL, although rotation of staff—and indeed shortages of staff in some key areas—has caused some strains on occasion.

The program focuses on transfer of knowledge to BSL staff. The focus on the action plan reflects the fact that it is for the BSL staff to undertake actions, while Fund staff and experts maintain only advisory roles. The fact that the experts have visited peripatetically, rather than being assigned on a long-term basis, has served to emphasize that BSL staff themselves have to implement the policies.

Delivery of TA is through hands on, one-on-one involvement, presentations to BSL staff, meetings with BSL management, end-of-mission reports, and subsequent final reports. The BSL has indicated that it finds the hands on involvement particularly useful, with the meetings with management and the final reports important for setting out and discussing the overall frameworks. In addition, the BSL has much appreciated the remote assistance delivered largely through e-mail by some experts. It is evident that the continuity of relationships is an important part of the success of the TA program.

Selection of experts

MFD selects from the roster it maintains of experts in the various fields in which it delivers TA. Where necessary, it supplements its roster with experts with specific skills to meet particular needs, often identified through its links with central banks and regulatory institutions.

A major consideration in expert selection initially was related to the post-conflict environment in which experts were to work. In the early stages of TA delivery, Sierra Leone was classified by the UN as Phase IV in Freetown and Phase V elsewhere. The entire country was reduced to Phase III in 2003. The security situation never directly imperiled the experts, but logistics, communications, and living conditions were challenging. Health and safety concerns are still an issue, with four experts suffering from potentially serious diseases, and one staff suffering an accidental injury. Means of transportation in-country, particularly between the airport and Freetown, remain hazardous. All of these factors have restricted MFD's ability to attract peripatetic experts and precluded installation of a long-term expert.

The BSL has indicated that it has been very satisfied with most of the experts involved in the program, including all those active in the program at the moment. In the area of banking supervision, the first expert was a specialist particularly in assisting in drafting

regulations. With this work completed, an expert particularly experienced in on-site supervision was brought in. As banking work moves into issues of restructuring, there are plans for the supervision expert to be succeeded or supplemented by a restructuring expert. On the payments side, a single expert has been involved in various missions and visits since early 2003.³ Conversely, in the area of monetary operations, initial lack of progress was ascribed in part to the background of the experts; a third expert in this area has been working successfully with the BSL since mid 2004. The major factor stressed by the BSL in positive assessments of the experts was the expert's direct operational experience and the ability to transfer that direct experience; similarly, where the BSL gave less-than-positive evaluations of experts, this was ascribed to the expert's lack of operational experience or ability to transfer that experience. In that particular case, the mission decided that problems were more of appropriate fit, and the expert was rotated.

III. OUTPUTS OF THE PROGRAM

Implementation of the action plans

Particularly, as regards banking supervision, there has been substantial implementation of past action plans; as regards to monetary operations, experience is more mixed. The early stages of the banking supervision program focused on drafting manuals and guidelines, and training staff; later reports indicate that this has been substantially completed. Measures regarding on-site supervision have also been implemented. The BSL is well on the way to developing a high quality banking supervision function, although the next stage—which will critically include enforcement of supervisory requirements—will be particularly challenging.

Many of the elements on the early action plans on monetary operations were not implemented at the time. It seems that this was due in part to mis-sequencing, in the sense that the program was over-optimistic in its estimate of BSL staff capacity and resources. Some of the recommendations focused for instance on developing a repo market, although at the time there was still only limited understanding even of the workings of the primary government debt markets. The BSL only recently desisted from standing ready to buy back TBs without penalty. Continued issues concerning the financing of the fiscal deficits will also have complicated the operation of monetary policy. More recently, these problems seem to have been addressed and BSL staff have made good progress in establishing the framework for the successful operation of monetary policy and the fostering of secondary-market activity. As an example, the BSL has recently changed the formula for pricing of TBs submitted for early redemption to make redemption at the BSL penal, thus serving to stimulate secondary market activity. Meanwhile, the action plan for this area has been

³ During 2004 the expert was financed through the FIRST Initiative and was, therefore, not formally part of the MFD program, although the work was closely coordinated. As from early 2005, however, the expert will be financed by the Japanese subaccount at the IMF and will, therefore, come fully under the MFD program.

refocused to set out more clearly the intervening steps toward full money market development.

Regarding the payments system, there have been important improvements in line with the program recommendations. Much more, however, remains to be done. One disappointment has been the apparent lack of interest from the banking sector, perhaps due to banks' concern about cost implications. Another is the series of delays on certain critical components of the program, such as the implementation of the contract to acquire the BankMaster system for the BSL.

Other areas were rightly given lower priority in the TA program. The program focused on a limited number of areas, given that there was a clear need in those areas, and that both delivery and absorptive capacity were limited. Thus, the BSL organization was not pursued after the initial visit, and foreign exchange markets were handled only as a subsidiary element within monetary operations. At this stage, however, following BSL requests, foreign exchange and reserve management issues may be added into the program.

Enhancement of personnel capacity

The BSL staff, IMF staff, and experts, and outside observers consider that there has been a considerable enhancement of staff capacity over the past three years. Discussions now cover issues that are far along the development process compared with three years ago. As noted above, there has been substantial implementation of earlier action plans in all priority areas. This has been helped by the fact that the BSL has so far managed to retain the bulk of its staff and ensure relative continuity in the occupancy of many of the key positions. Interestingly, BSL staff has recently been used as an expert on MFD TA elsewhere in the region. On the other hand, there are staff shortages in some of the newly emerging subject areas, as staff redeployments toward those areas have not matched the increasing demands on them. Also, efforts continue to need to be made to ensure that skills transferred to direct TA counterparts are disseminated widely within the respective departments.

Risks to the program

While substantial progress has been made, there remain serious risks to the further enhancement of capacity at the BSL. The first is that macroeconomic developments make it hard for the BSL to operate monetary policy successfully. Excess fiscal borrowing or shortfalls in donor financing may reduce the ability of the authorities to manage the fiscal deficit, thereby impeding the development of money and debt markets. The second risk derives from the fact that, in the coming period of the program, the BSL will be increasingly dependent on other agencies, in particular the MOF, for instance, in any bank restructuring or forecasting of fiscal flows. While past missions have made efforts to involve the MOF as appropriate, intensified cooperation with the MOF will be needed. Establishing regular meetings of MOF/BSL committees, both at a policy and technical level, can serve to mitigate these risks.

A particular risk related to program performance concerns the possible tenuousness in the transfer of skills in some areas. The enhanced capacity in the BSL will only be sustainable if the newly-acquired skills are passed from the individuals directly involved to the institution as a whole. In that regard, the preparation of some written manuals, guidelines, and documentation on BSL continues to be a central element of the TA program. In the absence of these, past enhancements in capacity will be particularly vulnerable to staff turnover or to outside attempts to interfere with the proper carrying out of the BSL's function.

IV. SUMMARY OBSERVATIONS

Overall, the Sierra Leone TA program of 2001–2004 has demonstrated some remarkable successes. The completion of a range of off-site manuals and the development of capacity in on-site banking supervision should stand the BSL well for the challenges ahead in handling the banking sector. The development of the treasury bill market and initial steps toward secondary market activity are important steps toward establishing capacity for sound monetary management and the fostering of financial markets. And the introduction of a book-entry system is an important milestone for the initiation of enhancements to the payments and settlement systems.

These successes may be linked to certain key elements in the design of the TA program and the responsiveness of the BSL. From November 2001, an integrated approach has been adopted for the delivery of TA with careful prioritization and sequencing; clear specification of program objectives and interim stages; continuity and selectivity in expert assignments; and their integration with the periodic multi-topic missions.

That said, in some areas, developments have not moved as quickly as initially expected. Liquidity forecasting is still at a relatively early stage and there was limited initial progress in developing monetary instruments. On the payments side, too, there have been delays, for instance, in the implementation of the contract for introducing the BankMaster system. While progress has been good on the banking supervision side, major challenges lie ahead as the program moves on to the enforcement and restructuring stage.

To some extent, the delays may simply reflect the ambitious nature of the initial scheduling or the refocusing of the agenda as the program proceeded, but other explanations have been put forward. On the monetary side, initial recommendations may have overestimated the extent of capacity in the BSL. Not all experts may have been adequately skilled at transferring their expertise to their BSL counterparts. Capacity problems may have been exacerbated by resource problems, since there was only limited redeployment of staff toward the areas identified as priorities. And the lack of explicit ownership by some senior management may have led to less-than-full commitment by some of the staff responsible for taking the program forward.

In some regards, the Sierra Leone program may serve as exemplary for other intensive TA programs designed to enhance monetary and financial capacity, but some lessons from the shortfalls might be learned. First, experience from the monetary side indicates that capacity constraints may mean that one has to start at a rudimentary level in order to get

a program going. Second, formalization of the process for taking a program forward—such as through a steering committee made up of all key participants that would meet regularly—could help maintain the momentum, including during periods when missions and experts were not in the country. And third, explicit assertion of ownership by senior management at principal TA recipient institution—for instance, by signature on a document setting out the main elements of a program—could help motivate staff and encourage decisive action.

List of MFD Missions to Sierra Leone, 2001–2004

November 2001	Multi-Topic: Banking Supervision, Central Bank Organization	2 staff, 2 experts
March 2002	Monetary Operations	Expert
March/April 2002	Banking Supervision	Expert
March/April 2002	Payments Systems	Expert
April/June 2002	Monetary Operations	Expert
August 2002	Banking Supervision	Expert
December 2002	Multi-Topic: Banking Supervision, Monetary Operations	2 staff, 1 expert
May/June 2003	Multi-Topic: Monetary Operations, Banking Supervision, Payment Systems	1 staff, 3 experts
September 2003	Monetary Operations	Expert
September 2003	Payment Systems	Expert
November 2003	Multi-Topic: Monetary Operations, Banking Supervision, Payment Systems	1 staff, 3 expert
November/December 2003 ¹	Banking Supervision ¹	Expert ¹
February/March 2004	Banking Supervision	Expert
February/March 2004	Monetary Operations	Expert
February/March 2004	Payment Systems	Expert
April 2004	Banking Supervision	Expert
June 2004	Banking Supervision	Expert
June/July 2004	Monetary Operations	Expert
November 2004	Banking Supervision	Expert
December 2004	Multi-Topic: Monetary Operations, Banking Supervision, [Payment Systems], ² TA Assessment	3 staff, 3 experts, ²
1/ Expert's visit continued after multi-topic mission.		
2/ One expert financed by FIRST on a multi-country contract.		