

ACTION PLAN TO ADDRESS THE CORPORATE GOVERNANCE ISSUES IN THE STATE-OWNED BANKS (SOBS)

BACKGROUND

As a Performance Criterion under the IMF Sixth Review, Government is required to develop an **Action Plan to Address the Corporate Governance challenges in the State-owned Banks (SOBs)**: Sierra Leone Commercial Bank, and Rokel Commercial Bank Ltd.

To ensure the robustness of the assignment, as well as transparency in the process, Government requested the World Bank (WB) to provide technical assistance for the review of the corporate governance framework of the two SOBs with the aim to identify the current corporate governance challenges and proffer remedial measures.

Upon the request of the Government, the WB recruited a consultant to work with an advisory committee, comprising the Deputy Governor, Financial Stability of the Bank of Sierra Leone (BSL) and his staff, the Financial Secretary and team from the Ministry of Finance, and the Managing Directors of the two SOBs. The team was able to produce an Inception Report, a Gaps Analysis and a Final Report with recommended actions to be taken by BSL, MOF and the two SOBs. The table below presents the action plan developed to address the current governance challenges of the two SOBs.

ACTION PLAN FOR THE TWO STATE-OWNED BANKS

Comments	Action to be Taken	Comment	Timeline
<i>1.1 Rationale for Government involvement:</i> Government ownership should be justified in a mandate addressing market failure, financing gap, and pursue development goals, which should be clearly stipulated in laws or regulations. Such laws and regulations should provide the objective for Government ownership and justify use of scarce public resources.	BSL will incorporate this issue into the examinations after the regulation is issued	The process of formulating the regulation for the SOE Ownership has started and is expected to be completed by May, 2023	2 nd Quarter 2023
<i>1.2 Role of state-owned banks:</i> SOBs should focus on complementing rather than substituting for services provided by private banks.			2 nd Quarter 2023

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<p>1. Levelling the playing-field: Apply general laws and regulations universally to all banks, including SOBs; to clearly separate functions performed by SOBs on behalf of the state; and to remove any privileged access by SOBs to indirect financial support otherwise unavailable to their private counterparts. Develop a strong CG structure to strengthen the independence of the SOB and protect against potential political/ government interference.</p>	<p>The industry is regulated by the Banking Act and the Prudential Guidelines, which has been finalised and will become effective on 1st January 2023. A schedule of penalties will also be published consistent with the new Prudential Guidelines. Corporate Governance Guidelines/ Regulations are also being developed for the industry, which will address all banks irrespective of ownership.</p>	<p>All banks including the SOBs are subject to the same Banking Act 2019, the Prudential Guidelines 2022, and other laws and regulations with no discrimination. Where SOBs have violated regulations, they will be accordingly penalised as any other bank based on the schedule of penalties or will benefit from general forbearance as the case may be.</p> <p>BSL is currently developing its capacity to implement and enforce existing laws and regulations with TA from IMF and addition to its staff compliment</p>	<p>2nd Quarter of 2023</p>
<p>2. Financial sustainability and risk management: SOBs <i>should be given</i> financial autonomy, i.e., to be financially self-sustainable in the longer term. This includes limiting the extent to which SOBs crowd-out private sector intermediation reduce potential exposure of the Government as shareholder by providing incentives to avoid poor performance and allow SOBs to leverage private capital once they have built a sufficient track record.</p>	<p>The regulation emanating from the SOE Ownership and Governance Policy is partly aimed at enhancing private sector participation into the operations of SOEs</p> <p>BSL will include this as part of their examinations going forward</p>	<p>Next examination is scheduled for early 2023</p>	<p>2nd Quarter 2023</p>

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<p>1.3 Measuring outcomes: SOBs cannot be judged by the profitability benchmark alone but specific performance criteria must be set to measure SOB performance including KPIs allowing for transparency and measurability.</p>	<p>The Ministry of Finance in collaboration with the BSL is working with IMF AFRITAC West 2 to develop performance KPI for the entire SOE sector</p> <p>BSL will include this as part of their examination going forward</p>	<p>Next examination is scheduled for early 2023.</p> <p>A Mission from AFRITAC West 2 will visit Freetown from 30th January to 10th February to work on the Monitoring Framework for each SOE, including the two SOBs</p>	<p>2nd Quarter 2023</p>
<p>1.4 Operational implementation of Corporate Governance (CG): SOBs require professionally qualified, competitively selected, effective Board of Directors and management that are independent and as far as possible free from political interference.</p>	<p>BSL is developing Corporate Governance (CG) Guidelines/ regulations, which will address qualification, selections and roles of the Board & Management. This will be applicable to all banks. This regulation will provide the Boards & Management with sufficient authority to execute their functions and will provide the yardstick to allow BSL to examine and measure performances. This regulation in addition will consider the role of audit, risk management and compliance.</p>		<p>2nd Quarter 2023</p>
<p>3. Enabling environment recommendations:</p> <ul style="list-style-type: none"> ➤ Strengthening efforts to update and enhance the overarching legal and regulatory framework for financial intermediation. ➤ BSL to update the Prudential Guidelines for Commercial Banks. ➤ Developing a legal and regulatory framework specific 	<p>The Banking Act 2019 is operational and BSL has recently concluded the Prudential Guidelines 2022 which considers recent best practices relating to regulatory frameworks and this is being supported by other guidelines, for example consumer protection,</p>	<p>BSL is currently improving on its capacity to implement and enforce laws and regulations with TA from the IMF and increase in the number of staff.</p> <p>Next examination scheduled for early 2023 but the examination of</p>	<p>The Prudential Guidelines for commercial banks have been completed and will take</p>

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<p>to SOEs in Sierra Leone</p> <ul style="list-style-type: none"> ➤ SOBs to develop written, operative business/strategic plans. ➤ GoSL to remove Government representation on the Boards of SOBs ➤ To update the banks' financial reporting systems. ➤ To ensure the independence of the Internal Audit department. ➤ To mandate that the Audit Committee conducts a review of the reports filed by the internal auditor. ➤ To ensure that external auditing of the SOBs is done by experienced, professional, and internationally reputable firms. ➤ To make sure that financial statements produced by the SOBs are published. ➤ Strengthening macroeconomic management to ensure reduced reliance on bank financing. 	<p>cyber security, anti-money laundering and corporate governance.</p> <p>Both SOBs are updating/upgrading their core banking applications which should ensure better financial reporting and monitoring</p> <p>BSL will include these issues as part of their examination going forward even though this is not part of its mandate</p> <p>BSL will issue a reminder to all banks that financial statements are to be published on banks' websites</p>	<p>these aspects will depend on whether MOF and the banks have completed the framework(s) which covers the suggestions.</p> <p>External auditing of the banks are currently being done by international audit companies with local representation eg BDO, Baker Tilly</p> <p>Financial statements are currently published in widely circulated local newspapers as banks have challenges with maintaining a website due to technical problems among others.</p>	<p>effect on 1 January 2023.</p> <p>Immediate</p>
<p>2.2 Corporate Governance (CG) recommendations:</p> <ul style="list-style-type: none"> ➤ GoSL to (i) conduct an assessment of the most acute financing gaps/market failures in Sierra Leone and (ii) tailor the mandates of the SOBs. ➤ GoSL to clearly reflect the rationale resulting from the assessment of financing gaps and market failures in written documents. ➤ SOBs to develop written, operative business/strategic plans. ➤ BSL/MoF/SOBs to eliminate practices that sanction the de facto un-level playing field around the SOBs' operations. 	<ul style="list-style-type: none"> • BSL is developing Corporate Governance (CG) Guidelines/regulations which covers all banks including the SOBs and will address issues raised here • BSL in the course of examination will check to ensure these issues not under BSL's purview but raised are being complied with 	<p>With more capacity, the BSL will be able to ensure better supervision and monitoring of all banks including SOBs to ensure compliance with laws and regulation and penalise violations</p>	<p>CG Guidelines/Regulations will be implemented by end Q2,2023</p>

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<ul style="list-style-type: none"> ➤ The SOBs to improve and update their internal controls and risk management systems. ➤ BSL/MoF to include a requirement to be financially self-sustainable. ➤ The SOBs to be mandated to charge market-conform risk-reflective interest rates. ➤ BSL to ensure that SOB oversight encompasses core assessment areas. ➤ GoSL to specify core responsibilities of bank Board and management as specified in the Banking Act. ➤ GoSL to remove Government representation on the Boards of SOBs ➤ SOBs/BSL/MoF to ensure that key policies, operations manuals, and procedures are implemented. ➤ To ensure strict compliance with key policies. ➤ To ensure that members of all Board committees meet at least quarterly. ➤ Strengthening macroeconomic management to ensure reduced reliance on bank financing ➤ The SOBs with support from BSL to identify any financial advantages. ➤ SOBs to include M&E frameworks in their governance frameworks when reporting to MoF/BSL. ➤ BSL/MoF/SOBs to implement comprehensive M&E frameworks. 			