

## SIERRA LEONE

*Sierra Leone is an almost circular territory lying on the Atlantic coast of West Africa. Area: 72,740 km<sup>2</sup>. Population (on the basis of a June 1969 estimate): 2,512,000. Formerly a British colony and protectorate, it became independent on 27 April 1961 and remained in the Commonwealth. Diamond and other mining.*

### ORIGINS OF THE CENTRAL BANK

The establishment of the West African Currency Board<sup>1</sup> in 1912 put an end to the disorders in Sierra Leone's monetary system. The various kinds of money which had circulated in the country until then were replaced by the African pound, issued by the Currency Board, which were legal tender also in Gambia, Nigeria and Ghana.

In the expectation of approaching political independence, the government of Sierra Leone asked a group of experts from the Bank of England to advise it on the possible establishment of a central bank and a national currency. On the basis of the resulting Loynes Report, the Bank of Sierra Leone Act was approved on 27 March 1963. On 4 August 1964 the Bank of Sierra Leone started issuing the new currency, called the leone, and to substi-

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<sup>1</sup> For the working of the West African Currency Board see under the heading NIGERIA.

tute it for the Currency Board's money, which lost force of legal tender on 4 February 1966.

#### ORGANIZATION OF THE CENTRAL BANK

The Bank's authorized capital of 1,500,000 leones is entirely in the hands of the state, which appoints the Bank's top-ranking officers.

By virtue of the 1963 Act, the highest authority of the Bank of Sierra Leone is its Board of Directors, which consists of the Governor and the Deputy Governor, both appointed by the Governor-General of Sierra Leone, and of three other directors, appointed by the Prime Minister.

The Board of Directors has overall responsibility for the management of the Bank and for monetary and credit policy. The Governor and Deputy Governor, however, have specific personal responsibilities as regards continuity in the management of the Bank and supervision of its activities.

#### FUNCTIONS OF THE CENTRAL BANK

The principal purposes of the Bank of Sierra Leone are to issue legal tender, to pool and manage the country's foreign exchange reserves with a view to safeguarding the external value of the currency, to collaborate with the government in the latter's financial policy, to maintain the purchasing power of money and promote the formation of an efficient credit market.

The Central Bank has the exclusive right to issue legal tender in the country. The 1963 Act required it to keep a reserve of gold and sterling, or other foreign assets freely convertible into gold or sterling, expressed as a proportion of the total bank note circulation.

On 25 June 1965 the Bank was, in addition, put in charge of the country's foreign exchange reserves and of exchange control functions which had until then belonged to the Minister of Finance.

#### THE CENTRAL BANK'S RELATIONS WITH THE STATE

The Bank of Sierra Leone acts as the government's banker in two respects. First of all, it takes care of most of the cash transactions and credit operations connected with the budget of the state and other public authorities. Secondly, it helps in public finance policy by lending to the government and by measures designed to ensure the placing, and support the price, of public loan stocks, especially Treasury bonds.

Direct lending by the Central Bank to the government is subject to a number of restrictions. It is meant merely to bridge temporary cash deficiencies. The government's debit position, furthermore, must not exceed a certain percentage of estimated recurrent budget revenue—at present 5 per cent, under the 1970 Bank of Sierra Leone (Amendment) Act. These advances have to be repaid as soon as the cash position of the Treasury allows, and in any event by the end of the financial year during which they were made, by default of which the Bank may make no further advances until all outstanding debit balances have been repaid.

The Bank issues and services government securities, among which Treasury Bills are important as a means of stimulating active dealings on the credit market and, once this is well established, as a basis for open market operations and rediscounting by the Central Bank. The success of Treasury Bill issues is assured by the Central Bank, which takes up any part of an issue which is not subscribed by the public, the commercial banks and other financial intermediaries.

The first issue of Treasury Bills took place on 5 November 1964; the total amount involved was 1 million leones, and the maturities were graded up to a maximum of 90 days. While most of the 30-days bills were taken up readily by the commercial banks, the 60-day and 90-day ones had to be subscribed almost entirely by the Central Bank.

### MONETARY AND CREDIT POLICY

Monetary stability and the creation of an efficient credit market are among the prime objectives of the Bank of Sierra Leone.

To this end the bank has powers, under the 1970 Act, to accept bills for rediscount from the commercial banks and to purchase and sell securities and foreign exchange on the open market.

The Bank was also given powers to establish a ceiling on bank credits and control their destination, as well as to set and vary the amount and composition of the liquidity reserves to be held by commercial banks. However, the Bank did not use this method of monetary control before 1 November 1966, when it raised the reserve ratio from 15 to 20 per cent. At the same time it ruled that bills acceptable for rediscount by the Central Bank could be included in the computation of liquid assets up to 2 per cent of the total liquidity reserve. On 31 December 1966 the reserve ratio was raised to 25 per cent, and on 31 January 1967 to 30 per cent.

The use of this instrument of credit control became imperative in order to stem the excessive expansion of bank credit, counteract inflationary pressures and halt the diminution of foreign exchange reserves. To make good the losses sustained by the latter, the Government obtained stand-by arrangements from the International Monetary Fund, and the Central Bank encouraged commercial banks to borrow abroad.

The Central Bank, furthermore, has taken steps to create a structurally and functionally efficient credit market as a prior condition of success for its own monetary control measures. It worked out a system of call money operations with the banks (November 1964), managed to broaden dealings in Treasury Bills and set up a clearing house at Freetown (12 January 1965).

#### THE BANKING SYSTEM

Apart from the Central Bank, the banking system of Sierra Leone consists of commercial banks, Post Office savings banks and, for industrial credit and medium- and long-term loans, the National Development Bank Ltd. Agricultural credit is handled by several co-operative banks and by the Agricultural Loans and Credit Scheme.

The commercial banks accept money on current accounts and on deposit accounts, either as demand or time deposits. Savings deposits go mostly to the Post Office savings banks. Current balances bear no interest, and the rate paid on time deposits varies between 2.50 and 4 per cent depending on the time for which they are tied.

The National Development Bank was set up on 9 March 1968 with a capital of 1 million leones, plus an interest-free loan of the same amount from the government. The bank is intended to finance in the first place the development of industrial, commercial and agricultural enterprises, whether private or in mixed public and private ownership; it does so mainly by mortgage loans and the purchase of shares, subject to certain limitations. Shareholdings must not exceed 25 per cent of the equity of the companies concerned, and their amount must be in the range between 7,500 and 50,000 leones.



## BANKING REGULATIONS

Banking activities in Sierra Leone are governed by the Banking Act of 1970, which in some respects amends its predecessor of 1964. Its provisions concern mainly the establishment, capital, assets and liquidity reserves of banks. Banking business is subject to a licence issued by the Governor of the Central Bank after consultation with the Minister of Finance. For banks whose head office is in Sierra Leone, paid-up capital must be at least 400,000 leones, whereas foreign banks must keep deposited with the Central Bank at least 800,000 leones, in the form of cash or securities of the Sierra Leone government.

The Banking Law furthermore requires banks to keep a constant ratio between specified categories of assets (legal tender, balances at the Central Bank, Treasury Bills issued by the government, and rediscountable bills of exchange and promissory notes) and their combined demand and time liabilities.

The Central Bank has powers to vary the proportion and the composition of compulsory reserves, and this helps it in supervising the banking system. Banks are obliged to submit periodic reports to the Central Bank on their liquidity position and, in case they are unable to comply with the reserve requirements, must obtain its prior approval for further credit operations.

The Banking Act finally imposes various restrictions on certain credit operations. For instance, banks are not allowed to grant advances on the security of their own shares, to grant unsecured credit in excess of 1,000 leones to any of their officers or to any firm in which they have an interest, or in excess of one year's emoluments to any of their own employees. No single client may be extended credit exceeding 10 per cent of the lending bank's total deposit liabilities.