



## Highlights from the Sierra Leone

# Development Finance Assessment (DFA) and Integrated National Financing Framework (INFF)

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## DFA AND INFF DEVELOPMENT

**Development Finance Assessment (DFA)** is a UNDP tool to build on development financing principles of the Addis Ababa Action Agenda, from the 2015 'Financing for Development' conference

Three types of development finance are examined by the DFA:

1. Public Finance
2. Private Sector Finance and Investment
3. Development Cooperation

These were assessed in the context of Sierra Leone by a team of specialists during a consultative process in 2018

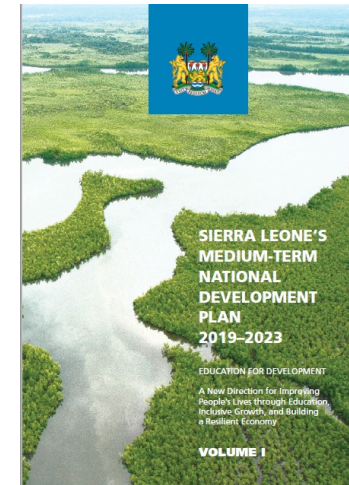


## DFA AND INFF DEVELOPMENT



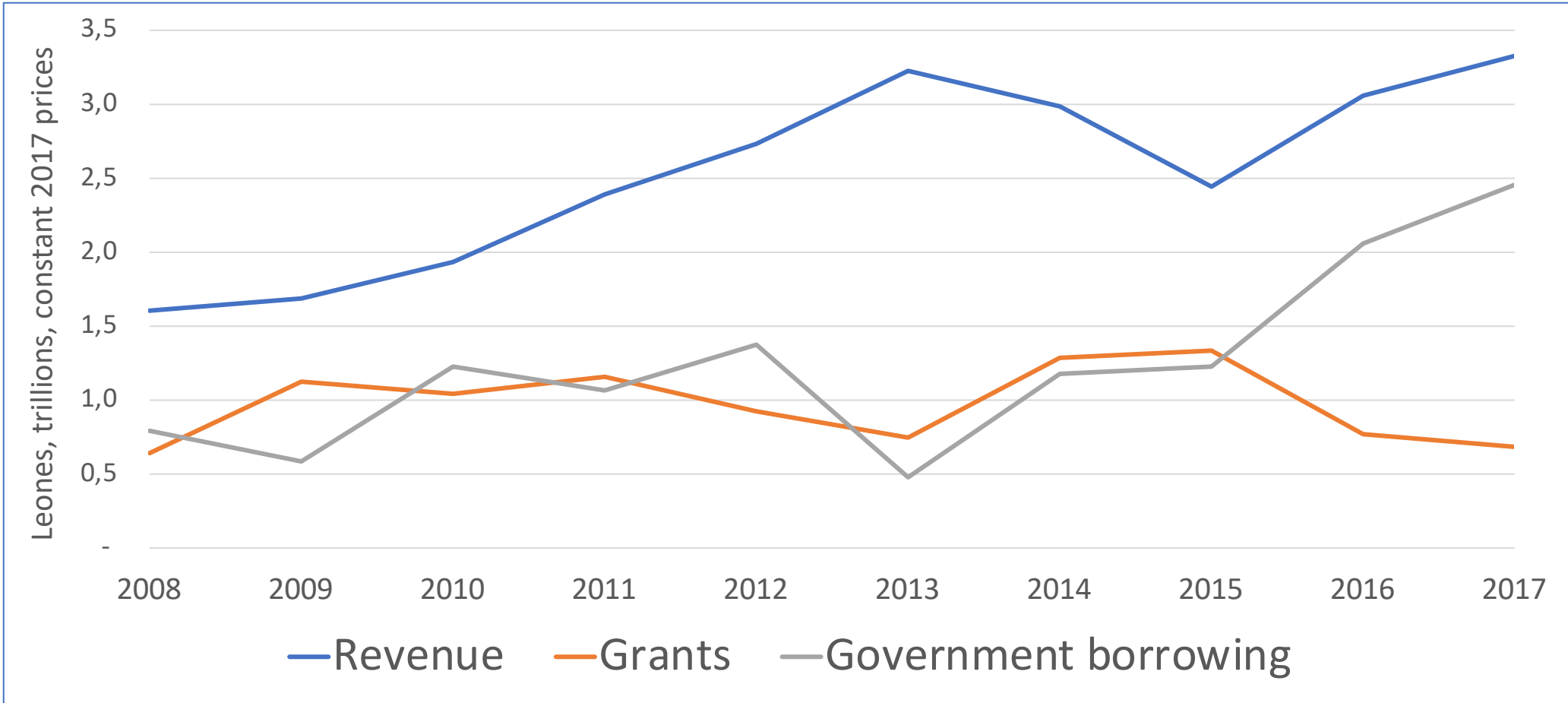
The **DFA** concluded with 18 recommendations to finance the Medium-Term National Development Plan (MTNDP) and Sustainable Development Goals (SDGs)

These recommendations were taken forward by an **Integrated National Financing Framework (INFF)** which details actions and timelines for implementing each recommended Financing Option



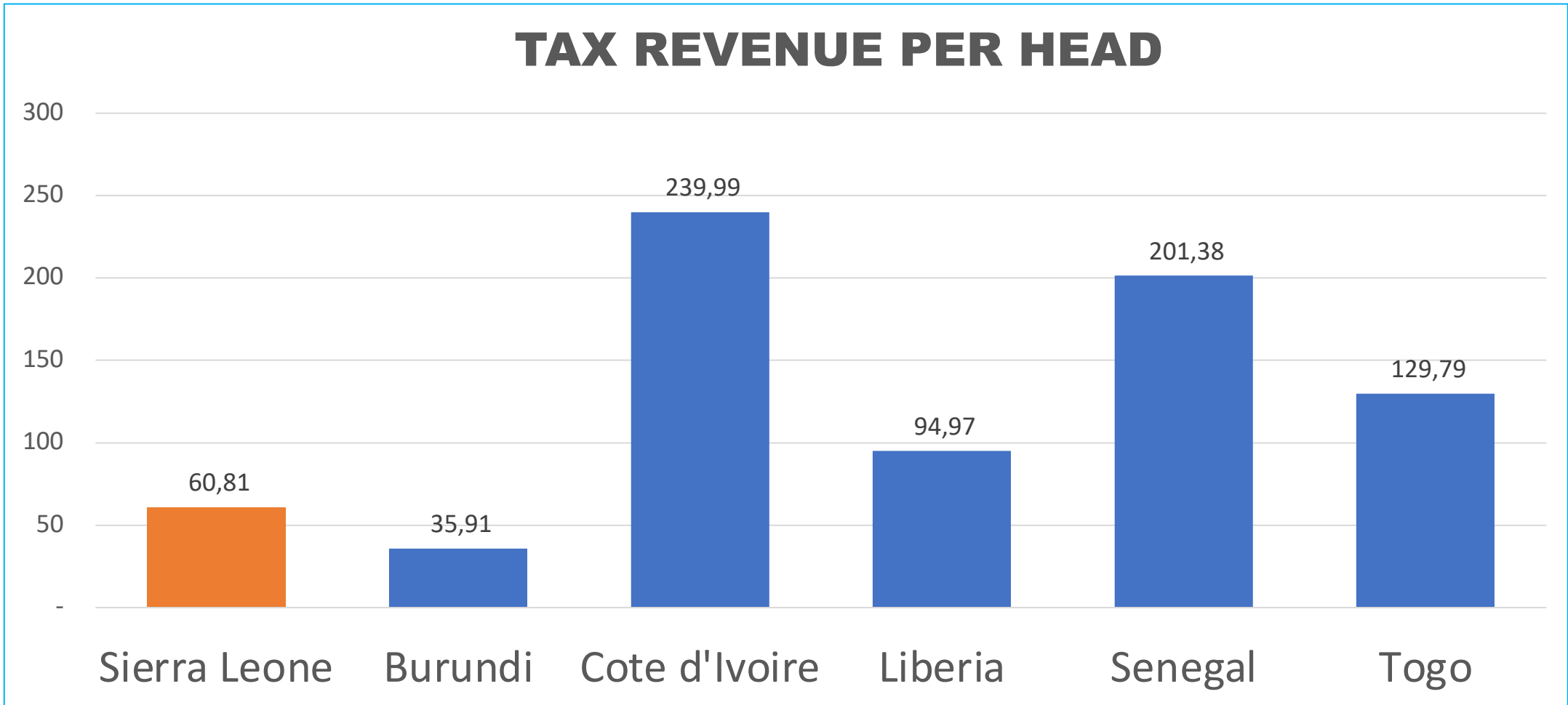


# 1. PUBLIC FINANCE





# 1. PUBLIC FINANCE – CONT.





## 2. PRIVATE SECTOR FINANCE AND INVESTMENT

Credit to the private sector, a proxy for domestic investment, is below 10% of all bank credit issued.

Increasing lending, including long-term lending, is critical for growth in the private sector, job creation, and realizing key objectives of the MTNDP

Borrowing by Government 'crowds out' loans to the private sector, because they cannot pay the same high interest rate as Government

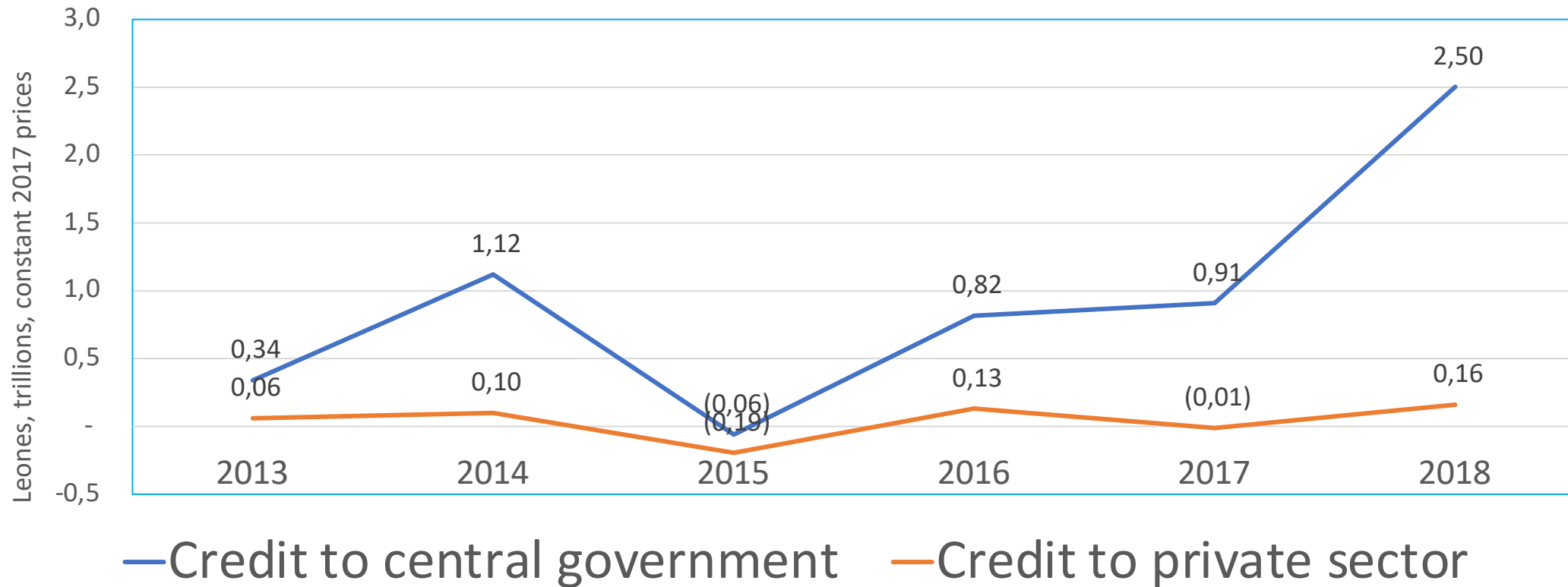
Fully activating stock exchange would also help private sector to acquire investment capital



## 2. PRIVATE SECTOR FINANCE AND INVESTMENT – CONT.



### DOMESTIC BORROWING MARKET





## 2. PRIVATE SECTOR FINANCE AND INVESTMENT- CONT.



### DIASPORA FUNDS - REMITTANCES

Remittances are a vital source of finance for many communities.

Most are thought to come from Diaspora members in three countries: Guinea, USA, and UK (more than 75% in 2017)

*Formal* remittances in 2017 totaled nearly US\$ 50 million, but it is difficult to know the value transmitted through *informal* channels

*Informal* remittances are partly due to the 20% GST tax charged -- higher than neighbouring countries

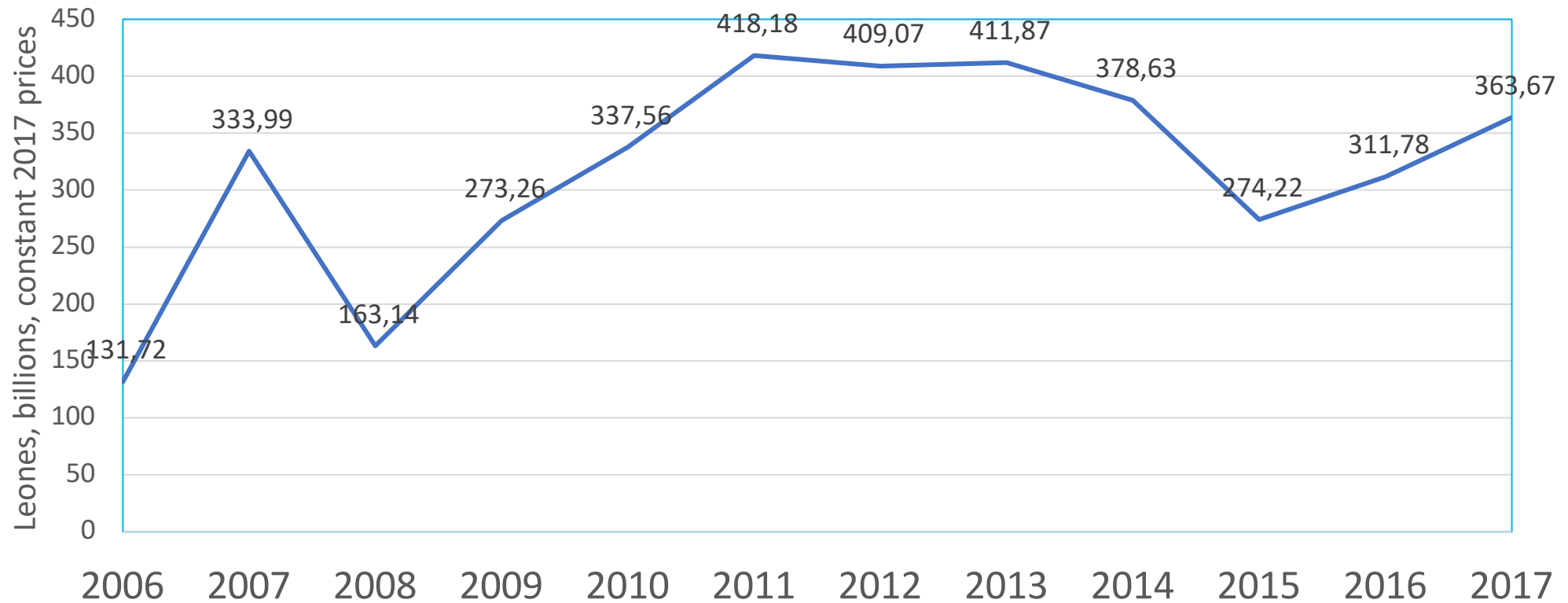




## 2. PRIVATE SECTOR FINANCE AND INVESTMENT – CONT.



### REMITTANCE LEVELS





## 2. PRIVATE SECTOR FINANCE AND INVESTMENT- CONT.



### **DIASPORA FUNDS – Option for Bonds**

Remittance funds channeled in alternative ways could be a significant source of funds for development investmentx

Government could issue Diaspora Bonds, used in other countries for long-term finance for development projects.

Overall, Investment from abroad, including the Diaspora, can be further developed and channeled towards investments identified as having the greatest impact on MTNDP objectives



### 3. DEVELOPMENT COOPERATION



Official Development Assistance (ODA) is significant for Sierra Leone

- accounts for about 25% of all development spending
- most in the form of grants

Reliance on ODA works against sustainability of finance, as it can fluctuate depending on the global economy and the situation of bi-lateral donors

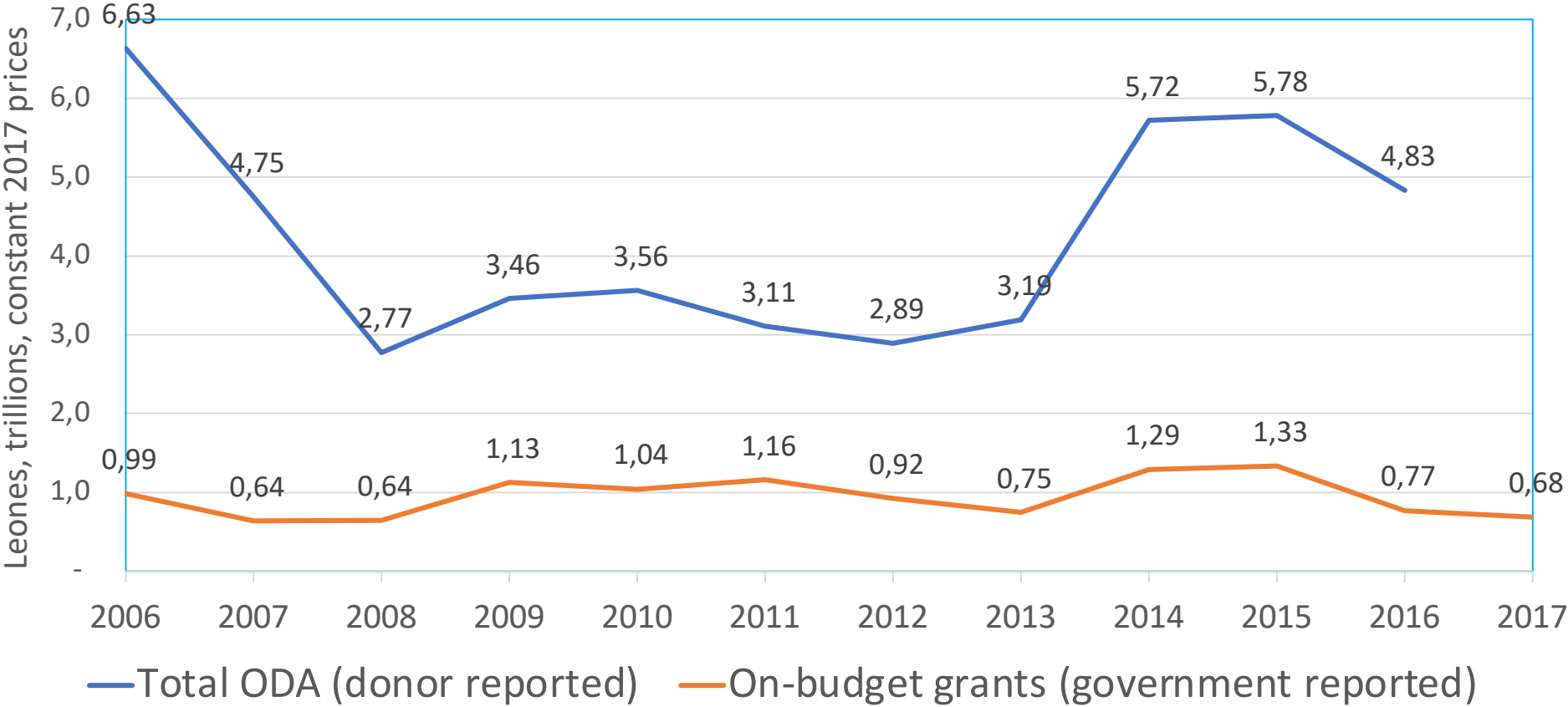
Some ODA comes through global thematic funds, such as for health, vaccines, education, and climate

Most ODA for Sierra Leone goes to the health sector, but there is potential in others as well, particularly funds focused on climate change



# 3. DEVELOPMENT COOPERATION

## ODA LEVELS





Based on the DFA analysis, the INFF includes 18 Financing Options to  
**BOOST DEVELOPMENT FINANCE IN SIERRA LEONE**



## Public sector revenue

Introduce a GST lottery using customer receipts as entries to encourage compliance
Boost large taxpayer auditing capacity of National Revenue Authority
Revise levies and departmental charges to ensure costs are covered
Build outcome information into the budget process to align more with MTNDP
Create systems to track public spending on gender and climate
Publish tax expenditure reports, including revenue foregone through tax exemptions
Establish a diaspora bond to fund strategic development investments
Promote the investment of a portion of pension assets in infrastructure

## Private sector investment and financial services

Promote longer-term lending to businesses with financial sector reforms
Encourage public sector banks to lend more to private sector and limit purchases of public sector debt
Promote diaspora investment through one-stop shop, diaspora bank accounts, and relaxed capital controls to promote business investment
Conduct public-private dialogues on how to mobilize inclusive, sustainable private investment and design positive business-related reforms
Reduce tax on remittances and promote digital services to lower transaction costs
Reduce illicit financial flows through anti-corruption, auditing, and customs detection

## Strategic Development Cooperation

Engage South-South Cooperation partners and establish a secretariat for such
Access US Millennium Challenge Corporation Compact funding
Introduce development impact bonds to support investments in key MTNDP sectors
Access support from untapped global thematic funds, especially for climate finance



## THE 18 INFF FINANCING OPTIONS EACH HAVE AN IMPLEMENTATION MATRIX



FINANCING OPTION	ACTIONS
<p><i>Promoting long- term lending to businesses with financial sector reforms</i></p> <p><i>Encouraging public sector banks to increase private sector lending</i></p>	<p><b><u>Ongoing Actions in Pursuit of these Options</u></b></p> <ul style="list-style-type: none"> <li>• Introducing <i>Know your Customer</i> (KYC) strategy by Central Bank</li> <li>• Operationalizing collateral register by Central Bank</li> <li>• Increasing regulatory capital from Le 30-80 billion by Central Bank</li> <li>• Establishing agriculture financing desk at Sierra Leone Commercial Bank</li> <li>• Operationalizing collateral register</li> <li>• Embarking on huge investments in gilts</li> </ul> <p><b><u>Additional Actions Needed to Mobilize Resources under these Options</u></b></p> <ul style="list-style-type: none"> <li>• Establish a quota system for banks in relation to the amount of government debts (bonds) that they can buy annually</li> <li>• Revisit the KYC criteria and make it support financial inclusion by enabling all income groups to access financial products and services</li> <li>• Establish a desk for agriculture, tourism, fisheries and entrepreneurship financing in state banks</li> </ul>
<p><b><u>Key Stakeholders Identified for Pursuing these Options:</u></b> Ministry of Finance; Central Bank; Association of Commercial</p> <p><b><u>Existing Coordination Structures to Follow up:</u></b> Ministry of Finance, Cash Management; Presidential Economic Briefings</p> <p><b><u>Timeline for the Delivery of these Options:</u></b> These actions could take up to <b>18 months</b> to actualise from initiation</p>	



## GUIDING PRINCIPLES FOR SUCCESSFUL INFF IMPLEMENTATION

### ***Enhance integrated development planning and reporting***

- Build capacity in integrating international framework with national, sectoral and local development plans
- Increase alignment of non-state actors' frameworks with national plan
- Support integrated M&E system and report

### ***Strengthen Financial Systems***

- Support implementation of Automated Payment Gateway and Reconciliation System Linking banking systems with public sector systems to enhance reconciliation of tax assessment, collections and transfers
- Strengthen and deepen the financial sector through enhanced supervision by the central bank.
- Support liberalisation of the bonds market, inter-bank market and re-establishing the stock market.
- Provide support for Electronic Funds Transfer to enable the Accountant General's Department possess capability to make cashless and paperless disbursements



## GUIDING PRINCIPLES FOR SUCCESSFUL INFF IMPLEMENTATION



### ***Enhancing Public-Private Dialogue***

- Support public-private dialogue to build mutual understanding between the government and private actors to catalyse collaboration and sharpen policy reforms for increased private investment
- Support government agencies such as the NRA to establish mechanism to enhance cooperation with businesses in the private sector

### ***Monitoring and Review***

- Build capacity for monitoring public and private finance, and their contributions to sustainable development outcomes. Work with the SLINFF Oversight Committee to develop solutions and recommendations for building capacity to develop and strengthen monitoring frameworks for the SLINFF

### ***Governance and Coordination***

- Provide broad coordination and develop recommendations for strengthening institutional structures and capacity for more integrated management of financing policies





Support from these partners for this High-Level Dialogue is gratefully acknowledged:

