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Report No: ICR00004410

IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IDA-H6620)

ON A

GRANT

IN THE AMOUNT OF SDR 2.6 MILLION

(US$ 4 MILLION EQUIVALENT)

TO THE

Ministry of Finance and Economic Development

FOR A

SIERRA LEONE - FINANCIAL SECTOR DEVELOPMENT PLAN SUPPORT PROJECT (P121514)

May 31, 2018

Finance, Competitiveness and Innovation Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective {November 30, 2017)

Currency Unit =	SLL
SLL 7665.8888742571 =	US$1
US$1.415420 =	SDR 1

FISCAL YEAR
July 1 - June 30

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
AfDB	African Development Bank
AIR	African Institute for Remittances
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BCP	Basel Core Principles
BSL	Bank of Sierra Leone
CAS	Country Assistance Strategy
CMU	Country Management Unit
CORDAID	Catholic Organization for Relief and Development Aid
CPSS	Committee on Payment and Settlement Systems
ERP	Enterprise Resource Planning
EU	European Union
FCV	Fragile, Conflict and Violence
FIRST	Financial Sector Reform and Strengthening Initiative
FM	Financial Management
FSAP	Financial Sector Assessment Program
FSCF	Financial Sector Consultative Forum
FSDP	Financial Sector Development Plan, but FSDP refers to the Financial Sector Development Plan Support Project (FSDPSP) in ICR
FSSC	Financial Sector Steering Committee
GDP	Gross Domestic Product
GIZ	Gesellschaft fuer Internationale Zusammenarbeit
HR	Human Resources
ICR	Implementation Completion and Results Report
IDA	International Development Agency
IFC	International Finance Corporation
IMF	International Monetary Fund
IPAU	Integrated Project Administration Unit
IPF	Investment Project Financing
ISR	Implementation Status and Results Report

IT	Information Technology
KfW	Kreditanstalt fuer Wiederaufbau
M&E	Monitoring and Evaluation
MITAF	Microfinance Investment and Technical Assistance Facility
MoFED	Ministry of Finance and Economic Development
MSME	Micro, Small, and Medium Enterprises
MTR	Mid-Term Review
NASSIT	National Social Security Investment Trust
NPLs	Non-Performing Loans
PAD	Project Appraisal Document
PCN	Project Concept Note
PDO	Project Development Objective
QER	Quality Enhancement Review
RCB	Rokel Commercial Bank
RFP	Request for Proposal
RTGS	Real Time Gross Settlement System
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SLCB	Sierra Leone Commercial Bank
SLICOM	Sierra Leone Insurance Commission
SLSE	Sierra Leone Stock Exchange
SME	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SSS	Securities Settlement System
STC	Short-Term Consultant
TA	Technical Assistance
TOR	Terms of Reference
TTL	Task Team Leader
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
US$	United States Dollar
WAMZ	West African Monetary Zone
WB	The World Bank

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DATA SHEET

BASIC INFORMATION

Product Information

Project ID	Project Name
P121514	Sierra Leone - Financial Sector Development Plan Support Project
Country	**Financing Instrument**
Sierra Leone	Investment Project Financing
Original EA Category	**Revised EA Category**
Not Required (C)	Not Required (C)

Organizations

Borrower	Implementing Agency
Ministry of Finance and economic development	Bank of Sierra Leone (central bank)

Project Development Objective (PDO)

Original PDO

The project development objective is to strengthen the capacity of the Bank of Sierra Leone and contribute to improve efficiency infinancial intermediation, safeguard financial sector stability, reduce transaction costs of money transfer and expand access to financial services.

PDO as stated in the legal agreement

The objective of the Project is to strengthen the capacity of the Bank of Sierra Leone and contribute to improving efficiency in financial intermediation, safeguarding financial sector stability, reducing transaction costs of money transfer and expanding access to financial services.

FINANCING

	Original Amount (US$)	Revised Amount (US$)	Actual Disbursed (US$)
World Bank Financing			
IDA-H6620	4,000,000	2,516,595	2,235,426
Total	**4,000,000**	**2,516,595**	**2,235,426**
Non-World Bank Financing			
Borrower	0	0	0
Total	**0**	**0**	**0**
Total Project Cost	**4,000,000**	**2,516,595**	**2,235,426**

KEY DATES

Approval	Effectiveness	MTR Review	Original Closing	Actual Closing
07-Apr-2011	20-Jul-2011	31-Jul-2015	31-Dec-2015	30-Nov-2017

RESTRUCTURING AND/OR ADDITIONAL FINANCING

Date(s)	Amount Disbursed (US$M)	Key Revisions
28-Dec-2015	.79	Change in Loan Closing Date(s)
17-Oct-2016	1.14	Change in Results Framework Change in Loan Closing Date(s)

KEY RATINGS

Outcome	Bank Performance	M&E Quality
Moderately Unsatisfactory	Moderately Satisfactory	Modest

RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US$M)
01	21-Sep-2011	Satisfactory	Satisfactory	0

02	10-Jul-2012	Moderately Satisfactory	Moderately Satisfactory	.40
03	31-Dec-2012	Moderately Satisfactory	Moderately Satisfactory	.40
04	28-Jun-2013	Moderately Satisfactory	Moderately Satisfactory	.40
05	31-Dec-2013	Moderately Satisfactory	Moderately Unsatisfactory	.44
06	29-Jun-2014	Moderately Satisfactory	Moderately Unsatisfactory	.44
07	28-Jan-2015	Moderately Satisfactory	Moderately Unsatisfactory	.79
08	23-Dec-2015	Moderately Unsatisfactory	Moderately Unsatisfactory	.79
09	14-Jul-2016	Moderately Unsatisfactory	Moderately Unsatisfactory	1.14
10	04-Feb-2017	Moderately Unsatisfactory	Moderately Unsatisfactory	1.27
11	31-Aug-2017	Moderately Unsatisfactory	Moderately Unsatisfactory	1.83

SECTORS AND THEMES

Sectors

Major Sector/Sector	(%)
Financial Sector	**97**
Banking Institutions	26
Other Non-bank Financial Institutions	16
Public Administration - Financial Sector	55
Industry, Trade and Services	**3**
Services	3

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)

Private Sector Development	**57**
Business Enabling Environment	51
Investment and Business Climate	6
Regulation and Competition Policy	45
Jobs	2
Job Creation	2
Enterprise Development	4
MSME Development	4
Finance	**39**
Financial Stability	35
Financial Sector oversight and policy/banking regulation & restructuring	35
Financial Infrastructure and Access	4
MSME Finance	4
Urban and Rural Development	**4**
Urban Development	2
Urban Infrastructure and Service Delivery	2
Rural Development	2
Rural Infrastructure and service delivery	2

ADM STAFF

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I. PROJECT CONTEXT AND DEVELOPMENT OBJECTIVES

A. CONTEXT AT APPRAISAL

Context

Emerging from a decade long civil war in 2002, Sierra Leone's economy initially saw significant economic growth, but this slowed to four percent in 2009 as the global financial crisis triggered a decrease in demand for its resources. In this context, there was a need to diversify the economy away from its dependence on mineral exports and promote sustainable growth and employment, so as to promote economic prosperity and maintain peace. Key to supporting these objectives, was and is a well-functioning, sound, efficient, and stable financial sector capable of facilitating financial intermediation and providing access to affordable financial services to help meet businesses' and households' financial needs. Yet, the post-civil war financial sector did not function in a manner to sufficiently fulfill these needs.

At the end of the civil war in 2002, the financial sector was in disarray, but it experienced significant growth in the following years. Between 2006 and 2011 bank branches per 100,000 adults doubled from 1.5 to 3, marginally behind the Sub-Saharan Africa (SSA) median of 1.6. and 3.6, respectively. As of 2010, there were 13 banks with approximately 75 branches, which marked a significant increase from 57 branches in 2009. The microfinance sector also experienced significant growth with international MFIs entering the market and The Microfinance Investment and Technical Assistance Facility (MITAF – who supported the majority of institutions), reporting an increase from 13,000 to 120,000 clients since 2003.

Private credit to Gross Domestic Project (GDP) averaged 4 percent between 2004 and 2008, compared to the SSA median of 10.7, eventually reaching 7.5 by 2011, which still lagged the SSA median of 15.3.[1] In terms of intermediation, the loans to deposit ratio, averaged 38.7 between 2004 and 2008 and increased to 46.5 in 2011.[2] The loan to deposit ratio also lagged behind the 2004-2008 SSA median of 65.6 and the 2011 median of 73.5. Yet, despite such growth, access to financial services remained limited primarily to urban areas and with only 15.3 percent of adults with an account at a formal financial institution in 2011, just below the SSA median of 16.9.[3] Additionally, financial services were not meeting the needs of key market segments like Small and Medium Enterprises (SMEs) and agriculture, respectively. The post-civil war growth saw credit to the urban and small number of firms' segments became excessive, resulting in the growing absolute value of Non-Performing Loans (NPLs) increasing, while profitability as measured by returns on assets and equity decreased significantly between 2007 and 2009. A 2008 study from EU BizClim (European Union) also noted that money transfers were the most common form of financial service used.

This growth in the financial sector, limited inclusion of small segments of consumers, and concerns about overheating in credit to certain segments, highlighted the need to steer the sector in the right direction through innovation, policy, and capacity building to promote stability, development, and access. At the same time, the Bank of Sierra Leone (BSL) was in need of significant capacity building to support its mandate to maintain stability

[1] IMF Regional Outlook
[2] Ibid.
[3] Finstats

and facilitate growth through regulation and supervision and provide the requisite infrastructure to support a developing financial system.

To address such challenges and shortcomings in the financial sector and to more broadly support financial sector development, BSL developed the Financial Sector Development Plan in 2009, financed by Financial Sector Reform and Strengthening Initiative (FIRST), to guide sectoral reform. Championed by BSL, the FSDP is a long-term strategic plan for broad-based financial sector reform in post-civil war Sierra Leone. The FSDP envisioned critical high-level support from a robust governance framework (comprised of a high-level Financial Sector Consultative Forum (FSCF), Financial Sector Steering Committee (FSSC), and Financial Sector Reform Secretariat) to support project coordination and implementation across actors and had critical political support as it was approved by Cabinet.

To support the implementation of the Financial Sector Development Plan, the Government requested World Bank to develop the Financial Sector Development Plan Support Project (FSDPSP, hereafter referred to as FSDP). The FSDP builds off a wealth of analytical work, including: the Financial Sector Development Plan (2009), the World Bank/ International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) in 2006, a Growth Diagnostic from Harvard (2006), an assessment of the demand for microfinance (2008), a Ministry of Trade and Industry private sector diagnostic(2008), a Microfinance Technical Assistance Facility Evaluation Report (2009), and various others International Finance Corporation (IFC), IMF, and Kreditanstalt fuer Wiederaufbau (KfW). All of this work, highlights the key role of the financial sector in promoting growth. FSDP is an extension of the government's prioritization of financial sector development as pillar of their economic strategy. Additionally, FSDP complemented efforts by various donors, including the IMF, African Development Bank (AfDB), IFC, and a joint KfW, United Nations Capital Development Fund (UNCDF), United Nations Development Program (UNDP), and Catholic Organization for Relief and Development Aid (Cordaid) project, while Gesellschaft fuer Internationale Zusammenarbeit (GIZ) also made plans to support the FSDP plan and project through the provision of a long-term consultant to the FSDP Secretariat and funding an evaluation of compliance with Basel Core Principles (BCP). FSDP also has synergies with the joint Country Assistance Strategy (CAS; 2010-2013) which identified job creation and private sector development as priority areas, within which it advocated support to the financial sector to bolster private sector development, improve the ease of doing business and enabling environment, and promote growth.

Theory of Change (Results Chain)

The Project Appraisal Document (PAD) has a results framework, but does not have an explicit theory of change or results chain. The following theory of change is constructed from the PAD.

Activities →	**Outputs →**	**Outcome →**	**Impact**
<u>1a) Credit Information Infrastructure</u> i) Develop bad debtor database ii) Develop credit information bureau	i) Bad debtor database ii) Credit information bureau	Increased ability to assess customers' risk profile	**Enhanced access to financial services**
<u>1b) Payment Systems and Remittances Policy Framework</u> i) Draft payment systems regulations and policies ii) TA and capacity development for payment systems and mobile money supervision	i) Payment systems regulations and policies ii) BSL trained on supervision of payment systems and mobile	Regulations and policies in place to facilitate payment system and mobile	

iii) Draft mobile payment regulation and designing oversight mechanisms	money iii) Mobile money regulations and oversight mechanisms	money development, along with BSL capacity to supervise	
1c) MSME/Value Chain Finance Capacity Development of Commercial Banks i) Analysis of product development needs and enabling environment constraints for MSME and agricultural finance ii) Develop policies and support dialogue to enhance access to financial services iii) Pilot product development and capacity development for banks iv) Draft secured lending law and regulations to support MSME finance	i) Analysis of product development needs and enabling environment constraints for MSME and agriculture finance ii) Sector policies and dialogue on financial services iii) Bank pilot products and capacity development conducted iv) Secured lending law and regulations	Greater understanding of product needs and potential, and enabling environment constraints. Secured lending supporting responsible lending	
2a) Financial Sector Legal Environment i) Review and update sector legal framework ii) Support drafting, amending and implementing revised sector legislation iii) Fund training and capacity development for BSL Legal Department	i) Updated financial sector legal framework ii) Sector legislation drafted and implemented iii) BSL Legal Department trained	Improved financial sector reform and BSL capacity to drive this process	**Financial sector reform with adequate sectoral oversight**
2b) Implementation of Institutional Development Plan i) Review of HR policies and practice and drafting new policy ii) Staff capacity needs assessment and preparation of development plan iii) Broad-based training program for BSL iv) Review functional and business processes and support for their re-engineering v) Review and develop IT strategy and implementation plan, along with the purchase of IT equipment vi) TA for implementing AML/CFT framework vii) Design and implement efficient supervisory processes	i) HR review and new policy ii) Capacity needs assessment and development plan iii) BSL staff trained iv) Review of business and functional processes and support their re-engineering v) IT Strategy and Implementation Plan, and equipment vi) AML/CFT framework vii) Supervisory processes designed and implemented	BSL has capacity to meet its central bank obligations	
2c) Support to the FSDP Secretariat i) Project management, M&E, and capacity to enable FSDP to coordinate sector reforms	i) FSDP provided capacity to coordinate reforms ii) FM and procurement	BSL has in house capacity to drive and manage	

(ii) Develop FM and procurement capacity (iii) Purchase FSDP equipment	capacity developed iii) Equipment purchased	financial sector reform	
2d) Strategy and analytical support for BSL i) Support BSL in developing financial sector development strategies	i) Support provided for developing sector development strategies	BSL has increased capacity to develop sector reforms	

Project Development Objectives (PDOs)
The objective of the Project is to strengthen the capacity of the Bank of Sierra Leone and contribute to improving efficiency in financial intermediation, safeguarding financial sector stability, reducing transaction costs of money transfer and expanding access to financial services.

Key Expected Outcomes and Outcome Indicators
Objective 1: Strengthen the capacity of the Bank of Sierra Leone
Objective 2: Contribute to improving efficiency in financial intermediation
Objective 3: Safeguarding financial sector stability
Objective 4: Reducing Transaction cost of money transfer
Objective 5: Expanding access to financial services

The following four indicators aimed to measure achievement of the PDO:

1. The Doing Business Depth of Credit Information Index is in line with Sub-Saharan Africa average (Baseline: No credit information infrastructure; Doing Business Depth of Credit Information Index = 0)
2. 25 percent increase in outstanding MSME loan portfolio of commercial banks supported through capacity development activities of the project and stable portfolio-at-risk. (Baseline: To be established once commercial banks have been identified)
3. A comprehensive payment system policy and regulatory framework has been established. (Baseline: No payment system policy and regulatory framework in place; Implementation of electronic payment system initiated)
4. Compliance with Basel Core Principles (BCPs) for Banking Supervision for 10 out of 25 BCPs has improved (Baseline: BCP compliance to be established through BCP assessment by the end of end of 2011).

The PAD notes that the achievement of the PDO is predicated on implementation of other donor projects,[4] which raises a question of the attributability of observed changes in PDO indicators to the Project. More broadly, this highlights that FSDP was envisioned as supporting a few key areas of the 2009 Financial Sector Development Plan that were deemed to be a comparative advantage for the World Bank (WB) within the context of broad donor support. That said, the PDO was too broad, reflecting the broader Financial Sector Development Plan and envisioned donor support, and not limited to FSDP-supported activities. In hindsight, the PDO should have focused on two objectives, strengthening BSL oversight capacity and improving efficiency for financial intermediation, not five.

[4] In particular, the AfDB WAMZ payment system project, MITAF activities in the MFI sector, GIZ and IMF TA for banking supervision and IFC TA for MSME finance.

Components

Component 1: Enhancing access to financial services

Credit information infrastructure: i) development of a basic bad debtor database operated by the BSL, and ii) development of comprehensive credit information bureau funded either entirely by the private sector or in a public-private partnership model, along with supporting regulation and capacity development for BSL oversight
Estimated Cost: US$ 250,0000
Actual Cost: US$0

Implementation of payment systems and remittances policy framework: i) draft payment systems regulation and policies, (ii) training, TA and capacity development for payment system and mobile payment supervision, and (iii) draft mobile payment regulation and designing oversight mechanisms
Estimated Cost: US$ 850,000
Actual Costs: US$ 341,839.15

SME/value chain finance capacity development of commercial banks: (i) analysis of product development needs and enabling environment constraints to support Micro, Small, and Medium Enterprises (MSME) and agricultural finance, (ii) development of sector policies and support for sector dialogue on enhancing access to financial services, (iii) pilot product development and capacity development for selected commercial banks, and (iv) draft secured lending law and regulation to support MSME finance
Estimated Cost: US$ 400,000
Actual Costs: US$ 0

Component 2: Building financial sector reform and oversight capacity of the BSL

Financial Sector Legal Environment: i) review and update the financial sector legal framework, including the Other Financial Services (Amendment) Act, Banking Act and BSL Act; ii) support the drafting, amending and implementation of revised sector legislation, including potentially a Microfinance Law, and iii) fund training and capacity development for the BSL legal department
Estimated Cost: US$ 250,000
Actual Costs: US$0

Implementation of Institutional Development Plan: i) review of Human Resources (HR) policies and practice and drafting new HR policy, ii) assessment of staff capacity needs and preparation of a staff capacity development plan as a framework for training and capacity development program, iii) broad-based training program for BSL staff, iv) review of functional and business process and support for business and functional process re-engineering, v) review and development of IT strategy and implementation plan, along with the purchase of IT equipment, vi) TA support for the implementation of the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework, and vii) design and implement efficient supervisory processes.
Estimated Cost: US$ 1,000,000
Actual Costs: US$ 561,771.73

Support to the FSDP Secretariat: i) project management, monitoring and evaluation (M&E) and implementation capacity to enable the FSDP Secretariat to coordinate financial sector reforms under the FSDP, (ii) the development of financial management and procurement capacity, and (iii) the purchase of select equipment for the FSDP Secretariat.
Estimated Cost: US$ 220,000
Actual Costs: US$ 261,585.23

Strategy and analytical support for BSL: i) support BSL in developing financial sector development strategies
Estimated Cost: US$ 200,000
Actual Costs: US$ 0

Note: The total estimated cost provided in the PAD procurement plan is US$ 3,170,000.

B. SIGNIFICANT CHANGES DURING IMPLEMENTATION (IF APPLICABLE)

The project was restructured twice, first in December 2015 to extend the closing date to account for lost implementation time as a result of the Ebola crisis, and a second time in October 2016, to reorient project activities around new BSL priorities and to extend the closing date to provide time to complete new activities. The PDO indicators were revised in the second restructuring to better reflect project activities.

It should be noted that during this period, the World Bank provided and attempted other support to the Sierra Leonean financial sector, which were outside the scope of FSDP. This support included, support to set up payments to Ebola health workers, conducting an assessment on remittances, and developing a Financial Sector Reform and Strengthening Initiative (FIRST) proposal to support payment systems, the latter of which was ultimately unsuccessful. Outside donor support did not materialize to support implementation of the FSDP plan and project. Of particulate note, the GIZ consultant to support the FSDP unit in implementing this project did not materialize.

Following the October 2016 restructuring, the Government decided to finance the following activities with its own or other donor resources: i) modern credit registry; and ii) collateral registry. Furthermore, the activity to support implementation of the national switch was subsequently dropped after BSL’s unsuccessful procurement of the switch hardware. Given limited implementation time following the restructuring, the funds could not be reallocated to new activities and the project closed with a large undisbursed balance.

Revised PDOs and Outcome Targets
No revision was made to the PDO under the project restructuring. Thus, the objectives remained the same. As the ensuing report makes the case, the PDO should have been revised under the project restructuring to ensure the “unpacked” objectives were more in line with the restructured project components.

Revised PDO Indicators

The PDO Indicators were revised under the October 2016 project restructuring as follows:
Maintained: PDO indicators 1 (developing a credit information system) and 3 (comprehensive payment system policy and regulatory framework 3)

Dropped: PDO indicators 2 (25 percent increase in outstanding MSME loan portfolio of commercial banks) and 4 (Compliance with Basel Core Principles (BCPs) for Banking Supervision for 10 out of 25 BCPs has improved) from the PAD were both dropped.
Added: as new PDO indicator 2: “effective implementation of the collateral registry supporting MSME finance.”

Thus under the restructured project, the PDO indicators were:
The Doing Business Depth of Credit Information Index is in line with Sub-Sahara Africa average
Effective implementation of the collateral registry supporting MSME finance
A comprehensive payment system policy and regulatory framework has been established

As with the original project, the revised PDO indicators broadly support the PDO and the five “unpacked” PDO objectives. The restructured FSDP did not support a modern credit registry or a collateral registry, thus PDO indicators 1 and 3 should have been dropped, as any observed impact in these areas would not be directly attributable to the project. Hence, more appropriate indicators could have been developed which reflected project components and assessed the project’s impact thereon. Per the Implementation Completion Report (ICR) guidelines, the following PDO indicators have been selected to assess achievement of the five “unpacked” PDO indicators.

The original project design also had PDO indicators on: i) 25 percent increase in outstanding MSME loan portfolio of commercial banks (Original PDO indicator 2) and ii) Compliance with BCPs for Banking Supervision for 10 out of 25 BCPs has improved (Original PDO Indicator 4); however, these were dropped during the restructuring. That said, these can still be used to assess achievement of the PDO prior to restructuring. Thus, the original PDO indicators 2 and 4, will also be used to gauge the impact of the project and henceforth referenced as indicators A and B in the ensuing analysis.

PDO Objectives	**PDO Indicators Used to Assess Achievement of PDO Objective**				
	1	2	3	A	B
1	X	X	X		X
2	X	X	X	X	
3					X
4			X		
5	X	X	X	X	

Revised Components

Under the restructured project, the four new components were introduced:

Special diagnostics of two state-owned banks

Conduct special diagnostics of two state-owned banks, Sierra Leone Commercial Bank (SLCB) and Rokel Commercial Bank (RCB).
Estimated Cost: US$ 200,000
Actual Costs: US$ 768,025.79

Collateral registry
Support the establishment of a collateral registry by financing the hardware to operate the registry (IFC- funded the software) and, where needed, provide capacity building.
Estimated Cost: US$200,000
Actual Costs: US$0

Switch infrastructure
Provide project management support through a consultant to facilitate the successful implementation of the national switch infrastructure.
Estimated Cost: US$ 200,000
Actual Costs: US$ 0

Financial inclusion
Support: i) the preparation of a financial inclusion strategy, ii) conducting a baseline financial inclusion survey, and iii) as well as other relevant financial inclusion activities to facilitate the definition and implementation of structured activities to foster financial inclusion.
Estimated Cost: US$ 850,000 (not including financial inclusion strategy)
Actual Costs: US$ 313,766

Justification for New Components

Special diagnostics of two state-owned banks: The purpose of the diagnostics was to develop a better understanding of the challenges faced by these institutions (which combined had 28 percent of banking sector assets in 2015) and advance efforts to take decisive measures to promote financial stability and foster sound financial intermediation.
Collateral registry: A collateral registry would make it possible to easily and rapidly register and execute movable collateral, thereby facilitating MSME finance. A collateral registry could also contribute to reducing defaults on credit.
Switch infrastructure: The restructured FSDP also included funding for a long-term resident advisor to support implementation of a National Switch to be funded by BSL.
Financial Inclusion: Under financial inclusion, the restructured project aimed to support financial inclusion efforts in Sierra Leone by financing the development of a National Financial Inclusion Strategy, baseline financial inclusion survey, and other related activities; the latter later ultimately resulted in the financing of a geospatial mapping survey on financial inclusion.

Other Changes

Note: As the original project had no theory of change, no changes could be made thereto.

Rationale for Changes and Their Implication on the Original Theory of Change

After five years of implementation and minimal impact, the FSDP project was restructured in October 2016 in an attempt to better reflect BSL's current priorities in the project, its implementation capacity constraints, and focus efforts. FSDP had only disbursed 11 percent of available funds by Q4 2014. Slow implementation was due to an array of challenges, including the outbreak of Ebola, which prevented consultants from visiting Sierra Leone for approximately a year, capacity constraints at BSL (e.g., FSDP unit had only one staff member for approximately the first three years of its existence and other donor support to the Unit and broader FSDP Plan, did not materialize), and project components did not reflect new senior BSL management's priorities. While implementation began to pick up in 2015, the World Bank and BSL agreed to restructure the project during the mid-term review that same year with the objective to narrow the focus of project activities. As previously noted, the original project objectives were too broad reflecting overall FSDP priorities. Additionally, there were too many project activities, yet they were still insufficient to meet the ambitious PDO. In October 2016, after approximately 18 months of deciding on new project components, restructuring was completed with the four new focused components. In light of the more focused scope of the restructured project, a level one restructuring should have taken place to narrow the PDO.

Lastly, the new components also reflected up to date CBL priorities and that were relevant to the country's needs. Moreover, the diagnostics of the two state-owned banks aimed to provide BSL a better understanding their financial state so that it could take appropriate actions to safeguard financial stability and promote financial inclusion. Given the negative impact these institutions posed to the health of the financial sector in terms of NPLs and limited intermediation of deposits into credit, the financial sector was contributing little to private sector growth and job creation. Similarly, a key constraint to providing individuals and firms credit had been the absence of the collateral registry to promote secure lending. Support for a long-term consultant to help with the operationalization of the switch aimed to complement investments under West African Monetary Zone (WAMZ) project to modernize payments infrastructure and promote interoperability among financial services providers, and thus access to financial services. As financial inclusion was a key objective among the restructured project components and BSL demand, the project aimed to support financial inclusion policy and diagnostics through support of a financial inclusion strategy and baseline financial inclusion survey, and other related activities; ultimately the latter entailed a geospatial mapping of financial service access points.

OUTCOME

A. RELEVANCE OF PDOs

Assessment of Relevance of PDOs and Rating

Rating: High

The relevance of the project's PDOs to the Systematic Country Diagnostic (SCD) is rated as high given the alignment of the PDOs with the SCD (the Country Partnership Framework is under development as of March 2018), and the broader challenges to the financial sector. Moreover, the SCD identifies access to credit as a binding constraint to the entry of new entrepreneurs into the market and for preexisting businesses. Additionally, the SCD notes that economic diversification requires access to credit and other financial services. To bolster financial intermediation, the SCD noted the need to bolster financial sector supervision and address impediments to the growth in credit. Among issues that impede credit growth are the excel-based credit registry and the underutilized collateral registry, which was launched in 2016. The SCD notes how such infrastructure and enhanced supervision should aid market expansion, such as branches and community banks. It also highlights the need to address weak performance of the two state-owned banks (RCB and SLCB), which despite their large market share, do not adequately convert deposits into credit, all the while posing stability concerns. Additionally, the SCD discusses the potential of digital financial services to promote financial inclusion, as it notes this market is underdeveloped and has high communication costs. Developing payment systems is critical given the role it can and has played in social transfers.

The SCD storyline mirrors the project's PDOs. Moreover, the need to enhance BSL's capacity (PDO 1) is captured in the SCD's argument to enhance financial sector supervision. PDO 2 (Contribute to improving efficiency in financial intermediation) is aligned with the issue of addressing the two state-owned banks and putting in place a modern credit registry to more effectively link Sierra Leoneans to their credit history. PDO 3 (Safeguarding financial sector stability) is found in the need to address the two state-owned banks. It should be noted that the weak financial position of the two state-owned banks lies at the heart of the financial sector challenges. With the inclusion of the diagnostics of the two state-owned banks in the restructured project the project has remained critically relevant and responsive to the country's needs. PDO 4 (Reducing Transaction cost of money transfer) is tangentially captured in the SCD, as it notes the high cost of communication and the critical role of social transfers. PDO 5 (Expanding access to financial service) is captured in the binding constraints, economic diversification and job creation.

Given FSDP is in line with the SCD and that the restructuring also helped the project remain relevant to the country, it is clear that the World Bank's implementation support was responsive to the client's needs throughout its lifecycle.

B. ACHIEVEMENT OF PDOs (EFFICACY)

Assessment of Achievement of Each Objective/Outcome

Objective 1: Strengthen the capacity of the Bank of Sierra Leone

Efficacy Rating: Modest

The project had a modest impact on strengthening BSL's capacity. The project supported improved capacity in BSL, particularly as related to its function as a steward of payment systems, which have been substantially modernized with project support, and a HR strategy and Information Technology (IT) strategy have also made tangible impacts. As regards to the BSL's critical function in ensuring financial sector stability, despite important contributions – mainly the diagnosis of the insolvent state-owned banks – the project accomplished little in terms of building BSL supervision capacity.

The FDSP project contributed to the substantial strengthening of the BSL's capacity in payment systems. The contributions were in 3 areas: 1) institutional building, 2) regulatory framework, and 3) critical implementation support of modern payments infrastructure (Real Time Gross Settlement (RTGS), Automated Clearing House (ACH), and Securities Settlement System (SSS)).[5] PDO indicator 3, supporting the development of the payment systems regulatory framework, is considered to be partially achieved.

Organizational building. The project supported the development of an organizational chart for the establishment of payment systems department, which is currently a unit under the Banking Supervision Department. The unit has been staffed with dedicated staff. The project supported several consultancies (see point 2 and 3) which contributed to capacity building of this unit. At the time of this work, BSL was acquiring modern payments systems infrastructure, financed by AFDB. Hence, it was critical to establish, staff, and train a dedicated unit to successfully implement this infrastructure.

Regulatory framework. The project conducted a comprehensive review of the regulatory framework surrounding payment systems and then provided recommendations for the Payment Systems Act (2009), but these were never incorporated into the Act, as the consultant for this deliverable's contract ultimately expired and the Ebola outbreak precluded visits to Sierra Leone, despite efforts to remedy the situation to complete the task. Lastly, the project also provided capacity building for the payment systems unit staff.

Implementation support for new payments infrastructure. The project provided implementation support to AfDB-funded BSL acquisition of RTGS, ACH, SSS, and core banking application systems by helping BSL acquire the right systems and helping the systems to go live by conducting site visits to financial institutions and telecommunication systems. The RTGS and ACH, in particular, help clear and settle interbank transfers, such as the RTGS for large sums in real time and ACH, which has the potential to facilitate direct deposits/credits, respectively. FSDP implementation support proved instrumental in the successful launch and operation of this payment infrastructure. It should be highlighted that planned AfDB implementation support was cancelled, and FSDP stepped in to ensure that these large infrastructure investments, and essential building blocks for developing

[5] The infrastructure was financed by AfDB funded Infrastructure under the WAMZ project.

a robust payment ecosystem, were successfully implemented.

As the project did not fund the development of a bad debtor base nor the development of a comprehensive information bureau as planned (related to PDO indicator 1). Additionally, the project did not fund the collateral registry (PDO Indicator 2), thus the launch of the collateral registry with support from the IFC, is also not attributable to this project. While the restructured project aimed to finance the hardware for the collateral registry, the component was dropped due to BSL's desire to procure the hardware in a time frame that was not consistent with World Bank procurement procedures. It is important to note that as a result of the collateral registry and national switch being dropped after restructuring was finalized in late 2016, the project was unable to allocate the remaining project funds. Between the inability to reallocate these funds and overall low implementation, the project ultimately only disbursed US$ 2,408,590.72 million (63.62 percent of project funds). That said, the project's role in helping implement the FSDP and build the capacity of BSL staff may have indirectly facilitated the adoption of the credit registry and the collateral registry. Lastly, the project did not fund any activities related to compliance with BCPs for banking supervision (related to PDO indicator B and in support of BSL capacity to promote financial stability), hence any observed changes thereto are not attributable to the project.

Additionally, other non-payment system activities helped to strengthen the capacity of the Bank of Sierra Leone. First, the development of the human resource review helped identify a number of changes that BSL needed to undertake with respect to human resources and with many of the recommendations being adopted in a phased approach. HR department views the review, which was approved by the BSL executive board, in a positive light and many recommended actions that are being implemented will make BSL a more efficient and a more effective institution; such as, the establishment of a Risk Management Unit, while other recommendations such as separating core and support functions, has helped streamline decision-making such as the establishment of a second Deputy Governor and Financial Stability Department in 2018. The project also funded a stocktaking exercise on the implementation of FSDP, which provides BSL an update on the status of the reform agenda. Additionally, the project funded the development of an IT Strategy with recommendations. The Strategy was adopted by the Executive Board, disseminated at a management retreat, and BSL has begun actions to begin implementation, such as hiring six new staff and updating their Enterprise Resource Planning (ERP) systems. The restructured project also supported various trainings and study tours for the FSDP unit and others, including, but not limited to on the following areas: financial inclusion, Leading change: Strategy through implementation, Project and Program Management, Cash and Treasury Management, Leadership and Strategy for Senior Managers, and Development Finance, Microinsurance & Microfinance for Business Development. While such short-term projects may not have the same impact as long-term trainings, they can provide key sensitization of issues in critical areas of BSL's purview. In total, the project spent US$ 346,779.74 on such trainings and study tours, or 14.4 percent of the total funds disbursed in the project (US$ 2,408,590.72).

Objective 2: Contribute to improving efficiency in financial intermediation

Efficacy Rating: Modest

The project had a modest impact on improving efficiency in financial intermediation. Improvements in payments systems infrastructure, supported by the project in coordination with the AfDB WAMZ payment system support project, support efficiency in financial intermediation, but key activities to support this outcome, such as the credit registry and technical assistance (TA) to banks were never implemented, or are not attributed to the project (collateral registry). Furthermore, there is little evidence that financial intermediation has improved in Sierra Leone during project implementation, as interest rate spreads, a standard measure of efficiency in financial intermediation, actually increased overall.

With its initial sub-component on payment systems, the project modestly contributed to improving the efficiency in financial intermediation by providing support around the ACH, RTGS, and SSS. As noted under Objective 1, the project did not support the development of a bad debtor base nor the development of a comprehensive credit information bureau (credit registry) as planned (related to PDO indicator 1), or a collateral registry (PDO indicator 2), so the establishment of a manual a credit registry and a collateral registry are not attributable to this project; see also the possible indirect influence of the project on the adoption of the credit registry and collateral registry under the efficacy analysis for component 1. The project did, however, have a significant impact on improving the efficiency in financial intermediation by helping establish the rules and procedures for the ACH, RTGS, and SSS systems, while also helping these systems go live. In doing so the project helped reduce settlement risk with the RTGS, facilitating growth in interbank transactions, and provided a platform for the digitization of direct debits and credits; these specific activities are noted in detail under the assessment of achieving objective 1.

Additionally, the original project did not end up providing TA to commercial banks to help increase MSME lending, which would have been captured in PDO indicator A and could have helped improve the efficiency of financial intermediation. The activity was never fully implemented due to limited cooperation among the commercial banks in the diagnostic phase, despite the World Bank team's efforts to jump-start the activity.[6] As a result, the original proposed project activities were not implemented,[7] and any changes observed in banks' MSME lending portfolio are not attributable to project's goal of contributing to improving efficiency in financial intermediation. However, the IFC took the lead on the proposed activity of drafting the secured lending law and regulation to support MSME finance.

Outside of the PDO indicators, no other project outputs (from the original or the restructured project) appear to have had an impact on improving efficiency in financial intermediation.

Objective 3: Safeguarding financial sector stability

Efficacy Rating: Modest

The project made important contributions to safeguarding financial sector stability. The main output under this objective, added in the October 2016 project restructuring, was the diagnostics (including audits) for the two state-owned banks, RCB and SLCB. The diagnostics provide the analytical basis for Authorities to take decisive measures and "forcefully restructure the two-state owned banks". The terms of the reference for the diagnostics were jointly agreed with the IMF, and included as a structural benchmark in the IMF Extended Credit facility.[8] The banks, which have significant market share (28.6 percent of assets, 36.2 percent of deposits, and 23.8 of credit,

[6] The World Bank team developed a questionnaire on MSME finance, which was distributed to banks. The response rate and quality of data, however, was poor, even after the World Bank developed and conducted a more simplified questionnaire.
[7] i) analysis of product development needs and enabling environment constraints to support MSME finance and agricultural finance, (ii) development of sector policies and support for sector dialogue on enhancing access to financial services, and (iii) pilot product development in cooperation with selected commercial banks (secured lending, leasing, value chain finance) and capacity development for selected commercial banks.
[8] IMF (2017), IMF Country Report No. 17/154.

as of September 2017), had suffered significant losses for several years, prompting BSL intervention in 2014. Prior to the diagnostics, BSL actions to address the distressed situation of the banks, including recapitalization, had failed to improve performance, and weak governance of the banks was not adequately addressed. The intervention involved BSL joint management of the institutions, rather than outright resolution. The diagnostics revealed a worsening situation, RCB had 83 percent NPLs and SLCB 76 percent as of June 2016. It appears that these diagnostics helped escalate the severity of the issue to policymakers and financial sector stakeholders including donors. Subsequently, BSL took further actions, including instituting a lending freeze and increased efforts to recover NPLs. With TA from the IMF, BSL is working to enhance banking supervision capacity by migrating to risk-based supervision and building up top-down stress testing capacity.[9] Given that high NPLs are the biggest challenge to financial sector stability, it appears the diagnostics have been instrumental in spurring action to address the issue. While critical actions remain, the project had a significant impact in spurring action to address this critical issue.

While other intended activities meant to contribute to achieving the objective were limited, the World Bank/BSL worked with the IMF to ensure that critical activities, such as strengthening banking supervisory function were covered under IMF TA program. The PAD stated that this objective would be supported by the implementation of the Institutional Development Plan of the BSL, including banking supervision, strengthening the legal environment of the financial sector, and building BSL capacity to lead implementation of the FSDP activities. The project did undertake relevant TA to contribute to objective, such as the HR review and the IT strategy, and attempted to hire a long-term banking supervision resident advisor,[10] but limited actions have been taken to strengthen BSL's capacity to safeguard financial sector stability. The relevant PDO Indicator B (improvement in compliance with BCPs for Banking Supervision) was a good measure for the objective; however, no project activities surrounding BCP were implemented prior to the project restructuring, nor was the baseline or follow up BCP conducted.[11] In coordination with the World Bank and BSL, however, the IMF did step in to initiate a TA program to enhance banking supervision capacity by migrating to risk-based supervision and building up top-down stress testing capacity (IMF, 2017).

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<u>Objective 4: Reducing transaction cost of money transfer</u>

Efficacy Rating: Negligible

The FSDP project had a negligible impact on reducing the transaction cost of money transfers. While no project deliverable supported any work on mobile money transfers or remittances to help facilitate such an impact, in January 2012, the World Bank, under the framework of the African Institute for Remittances (AIR) project, undertook an assessment of the market for remittances in Sierra Leone against the WB-Committee on Payment and Settlement Systems (CPSS) General Principles for International Remittances Services. The assessment provided the BSL and the other relevant authorities in the country with a set of recommendations on how to improve the market for remittances and increase the efficiency, safety, and reliability of these flows, ultimately aiming at reducing the cost of receiving remittances in Sierra Leone. It is important to note that the project did

[9] IMF (2017).

[10] Prior to the October 2016 restructuring, the project did attempt to bring in a long-term resident advisor on banking supervision, but no qualified applicants applied. At the time of the preparation of the ICR, the IMF was supporting enhance banking supervision capacity through its TA program.

[11] According to the PAD, GIZ was to finance the BCP under a banking supervision TA, but it never materialized. BSL intended to undertake a self-assessment, but this also did not take place.

fund a review of the Payment Systems Act and provided recommendations to improve it. However, the consultant did not return to Sierra Leone after the Ebola Outbreak to conduct consultations and the amendments were never incorporated into the Act.

Objective 5: Expanding access to financial services

Efficacy Rating: Negligible

Financial intermediation declined in recent years, while risks accumulated. Credit to GDP is very low and declined in recent years. Between 2010 and 2017, the ratio of credit to the private sector to GDP declined from 7.7 to 5.6. The project had a negligible impact in expanding access to financial services, and credit to the private sector declined during the project implementation. The project did not fund the implementation of credit information systems or a collateral registry, thus PDO indicators 1 and 2, respectively, do not provide any insight as to whether the project supported increased access to financial services; see also the possible indirect influence of the project on the adoption of the credit registry and collateral registry under the efficacy analysis for component 1. As the only area of the project's support in payment systems that was completed was for developing the rules and procedures for the ACH, RTGS, and SSS, and to helping them go live, there is not much of a case that PDO indicator 3 was achieved in support of promoting the PDO objective. Under the original project design, PDO Indicator A would have helped capture any of the original project's impact, or lack thereof, on expanding access to financial services; however, as previously noted, no activities surrounding MSMEs were implemented, thus any changes observed in banks' MSMEs lending portfolio are not attributable to the project and its goal of expanding access to financial services.

While no project deliverable had a tangible impact on promoting access to financial services, the project did support some valuable diagnostic activities that will support the government's efforts to increase access to financial services. The restructured project aimed to support access to financial services with the inclusion of a new component on financial inclusion, which had activities of a financial inclusion strategy, a baseline financial inclusion survey, and a left some flexibility for related activities. Ultimately, the project funded a baseline survey and a geospatial mapping of financial service access points. The survey, however, did not employ the proper methodology to have a national representative sample.[12]

Conversely, the geospatial mapping exercise was conducted in a rigorous and comprehensive manner, yielding rich insights into the geographical dimensions of access to financial services in Sierra Leone, including the service types. The geospatial mapping study was formally launched at a public event by the BSL Governor and Deputy Governor and it critically informs BSL's understanding of the state of financial inclusion. Additionally, the mapping will serve as a public good to assist the private sector and international development partners in determining areas lacking financial services and possible opportunities to provide these services. The project also funded the mapping to be publicly available on an interactive online platform, which can be updated by BSL to help track progress in expanding access to financial services overtime. Lastly, the mapping is also being used to inform the design of a planned World Bank financial sector project, which will have a focus on financial inclusion.

[12] An in-depth World Bank review of the survey's methods determined that the survey was flawed and could not be used to inform policy on financial inclusion.

Justification of Overall Efficacy Rating

Pre-Restructuring Efficacy Rating: Modest

Per the analysis in the prior section, "Assessment of Achievement of Each Objective/Outcome," it is clear that the project had a modest impact on the five unpacked objectives from the PDO over the life of the project. Prior to the October 2016 restructuring, the project saw very little implementation and thus little disbursement. In fact, only 30.01 percent, or US$ 1,138,000, was disbursed between project effectiveness (July 2011) and restructuring (October 2016). However, the project clearly made significant contributions to BSLs capacity to manage payment systems, which played a critical role in the successful launch and continued operation of the new payments infrastructure financed by AfDB. It should be noted that while the above outputs are not development outcomes, many of them are paving the way to achieve them, such as the HR review and IT Strategy, the impact of which is discussed more in the section "Achievement of PDOs."

Post-Restructuring Efficacy Rating: Modest

Between project restructuring in October 2016 and closure in November 2017, implementation picked up significantly, with disbursement slightly more than doubling to 63.6 percent in total. During this period, the outputs included the diagnostic of two state-owned banks (related to Objective 3: Safeguarding financial sector stability), and the geospatial mapping of financial service access points (supporting Objective 5: Expanding access to financial services). While these are critical outputs, they have yet to contribute to any development outcomes. At the same time, the restructured project had planned to support the hardware for a collateral registry, national switch, a financial inclusion strategy, and a baseline financial inclusion survey, but the former three were dropped, while the financial inclusion survey did not yield nationally representative results. Despite challenges in implementation post restructuring, the ability to double disbursement in approximately one year, which resulted in key outputs in support of the Project Objectives, facilitates a post-restructuring rating listed as modest.

Overall, three objectives are rated as Modest and two are rated negligible.

Overall Efficacy Rating: Modest

C. EFFICIENCY

Assessment of Efficiency and Rating

Efficiency Rating: Modest

The PAD does not include an economic analysis, but notes that a substantial body of empirical evidence that successful financial sector reforms that result in a deepening of financial sector development and increased access to financial services can be expected to have a high impact on growth and poverty eradication. The 2006 growth diagnostic suggested that alleviating the binding constraint of access to credit would support growth and poverty reduction. However, the project produced few results, suffered lengthy delays in implementation notwithstanding exogenous shocks (Ebola), and in the end, did not fully utilize available resources (approximately US$1.4 million or 36.4 percent, was undisbursed at closing). As a result, there is a large unfinished agenda, and the BSL has requested a new project to address needed reforms and investments, which if FSDP had been more efficient, many of the items on the unfinished agenda would not be necessary. As an example, the national switch infrastructure was never procured, and hence the supported TA was cancelled at a late stage in the project such that resources could not be reallocated for other productive purposes.

However, despite a large amount of undisbursed funds, project expenditures in critical areas are considered to be highly cost effective. In particular, support to the Payment Systems unit was instrumental in providing necessary capacity to successfully implement the AfDB funded payments infrastructure. While this work accounted for a small amount of expenditures, without this support, AfDB's large investments may not have been successfully implemented. In addition, the project's support of the Bank diagnostics has been critical in spurring action to address the most pressing challenge to a stable and efficient financial sector. Without project support, the financial system's vulnerabilities would likely have increased. Though the cost of the bank diagnostics was four time higher than budgeted, the higher expense is warranted based on the absolute necessity of the activity as providing the analytical basis upon which to address the most critical vulnerability in the financial sector. Time-overruns (total of 23-month extension) were largely attributed to the Ebola crisis, and thus outside the control of the project. The frequent change of Task Team Leaders (TTLs), which the client noted as a problem, is found to have had a marginally negative impact on economic efficiency, as the impact was mitigated by smooth handovers and strong documentation of project implementation through the MTR, Aide Memoires, and others. On this basis, the rating for efficiency is Modest.

<u>Design and Implementation</u>

Project design and implementation capacity played a significant role in impacting project efficiency. As is documented in the MTR and the restructuring paper, the ambitious design of the original project, supporting a myriad of unprioritized interventions, played a key part in slowing down project implementation as the long list of activities to implement was not manageable. In terms of implementation, multiple challenges diminished efficient project implementation. As previously noted, with just one FSDP full time staff for approximately the first three years of the project and rotating support staff, and little institutional knowledge at BSL on how to manage a World Bank project, implementation was slow. Additionally, the envisioned governance structures to support implementation either never became operational or met only a few times, despite their importance. The FSSC met just twice (prior to restructuring), and the high-level FSCF never met. In lieu of the FSSC, the FSDP Unit reported directly to the Governor and the heads of department. The lack of an effective governance structure, compounded with frequent changes in BSL leadership, slowed down project implementation through long delays in determining, and shifting, priorities. For example, the efficiency of the October 2016 restructuring was diminished by BSL's decision to drop multiple activities immediately after the restructuring.

The outbreak of Ebola also significantly disrupted project implementation. As the restructuring paper correctly notes, project implementation slowed and effectively stalled out for approximately a period of one year between 2014 and 2015. During this period, consultants could not visit Sierra Leone to provide implementation support. After Ebola, multiple consultants providing support to payment systems did not return, leaving some activities unfinished, despite efforts to have them return.

While Ebola undoubtedly played a significant part in impacting the project's efficiency and outcomes, challenges to implementation persisted before and after the Ebola outbreak. After the crisis, the project was extended for 23 months in December 2015. Ultimately, the project was restructured in October 2016 by at which time only 30.01 percent or US$1,138,000 of funds had been disbursed. Between restructuring and project closure, disbursement approximately doubled 63.62 percent.

D. JUSTIFICATION OF OVERALL OUTCOME RATING

Overall Outcome Rating: Moderately Unsatisfactory

The ICR Guidelines state a project is "moderately unsatisfactory" if "There were significant shortcomings in the operation's achievement of its objectives, in its efficiency, or in its relevance."

The previous sections highlight that the project received a PDO relevance rating of high, while its marginal achievement of objectives (efficacy) and low efficiency in doing so, were both rated as marginal. While the Project's Objectives were highly relevant, the project had few successes relative to the money, time, and flexibility of project design (i.e., restructuring process), and project efficiency was diminished by a complex design, and BSL capacity, project ownership, and implementation structures. It is also clear that Ebola impacted efficiency and finishing some project outputs where there was traction, but the other aforementioned challenges impacting efficiency appear to have persisted throughout the project cycle before and after Ebola. The combination of the high PDO relevance and negligible efficacy and efficiency ratings, with consideration for the impact of Ebola on project implementation, justify the overall outcome rating as moderately unsatisfactory.

E. OTHER OUTCOMES AND IMPACTS (IF ANY)

Gender

No project component directly provided targeted funding to support women or had an observable outcome or impact on women. While the project ultimately hoped to analyze the "benefit to the ultimate beneficiaries of the project" by examining the change in number of women borrowers belonging to MFIs, it would be imprudent to attribute any observed impact on women given the project design, even after restructuring.

Institutional Strengthening

Note: this is covered under the analysis of PDO Objective 1: Strengthen the capacity of the Bank of Sierra Leone.

Mobilizing Private Sector Financing

No private sector financing was mobilized as a result of this project to knowledge of the team.

Poverty Reduction and Shared Prosperity

In general, the activities financed under this project supported policy work and capacity building for BSL, both of which are prerequisites for financial sector intermediation and stability, which support poverty reduction and shared prosperity. The economic analysis section discussing the benefits of this project in reference to the PAD correctly note this importance of such financing.

Other Unintended Outcomes and Impacts

None

III. KEY FACTORS THAT AFFECTED IMPLEMENTATION AND OUTCOME

A. KEY FACTORS DURING PREPARATION

The impetus for the project emerged from the 2006 FSAP, which identified a number of weaknesses in the financial sector, and 2009 FSDP plan, which aimed to create a framework to address those weaknesses to promote a sound and well-functioning financial sector. Given this background, project preparation was based on solid diagnostics, and involved close consultation with the BSL Governor, Deputy Governor, the broader BSL team, and development partners. The key challenge during project preparation was to operationalize the solid diagnostics through a World Bank project and other development partners' interventions, given the known capacity constraints. The preparation process was robust and focused significant attention on designing robust implementation arrangements to manage the World Bank project and coordinate other donor interventions.

Prior to the development of the Project Concept Note (PCN), at least two missions were undertaken to develop the project, in addition to missions related to preparation of the FIRST funded FSDP. Of note, the project TTL changed prior to the PCN review. Also, of note, the project changed substantially from the pre-PCN Aide Memoire, which had the following components: i) enhancing access to financial services; ii) building financial sector reform and oversight capacity; iii) expanding the provision of long-term financing; and iv) a component that was not allocated, but meant to allow the project to be flexible to new priorities or "back-up or substitute implementation activities planned to be undertaken by other donors…" The Quality Enhancement Review (QER) Meeting for the PAD noted two important points for the purpose of the ICR: 1) that Integrated Project Administration Unit (IPAU) at MoF could support BSL if needed, this however, does not appear to have materialized. 2) A key recommendation of the QER was to reduce the number of activities, which highlights that at this advanced stage and post review, the project still had an array of activities, and reviewers noted this.

FACTORS DURING IMPLEMENTATION

Factors subject to government and/or implementing entities control

-FSDP Coordination Mechanisms and Leadership: A previously noted, the FSDP Governance structures never fully materialized, stripping the project of key project coordination and implementation mechanisms. The FSSC met twice and the high-level FSCF never met. In the absence of the FSSC, the FSDP unit reported directly to the Governor, during which time there were multiple changes in this leadership position, including gaps between. This structure also resulted in the FSDP unit needing to coordinate with individual department heads. In one case, this resulted in another department requesting and receiving support from UNCDF for a financial inclusion strategy, while it was also included in the restructured project; as previously noted, this resulted in the activity being dropped after project restructuring and the inability to reallocate funds. Overall, it appears that this context made determining priorities a challenge for BSL and may have contributed to the prolonged period of the restructuring (almost 18 months) in which priorities for the project were not laid out by BSL despite WB efforts. Lastly, there were significant delays in the signing of the IT Strategy contract.

-Human Resources and Organization Capacity: A key challenge to project implementation was the limited capacity to implement a World Bank project. The FSDP unit was created to provide support to the broader FSDP Plan and this project and had one senior staff member for approximately the first three years of the project, then a rotation of supporting staff thereafter. While the original project design envisioned providing a consultant for the unit, this never materialized. The lack of the consultant is a critical part to the project commencing activities late (the first disbursement was not until over 10 months after the project began), as the unit did not have capacity and experience in implementing World Bank projects.

-Fiduciary
There were two critical fiduciary challenges with BSL implementing the project. First, payments to project consultants were consistently delayed. For example, despite the consultants having completed the audits of the two state-owned banks and subsequently incorporating feedback of the banks into the annex of the report in early 2017, the final payment was not made until February 2018. Procurement presented challenges throughout project implementation, from the design of Terms of Reference (TORs), to the issuance of Requests for Proposals (RFP), to attracting qualified consultants. On the latter point, the project was unable to attract a qualified candidate for the long-term banking supervision consultant. Furthermore, the procurement selection committee selected a firm for the baseline financial inclusion survey, which lacked the capacity to design and conduct a national representative household survey, resulting in money being spent without a useable survey.

Factors subject to World Bank control
-Adequacy of Supervision:
The various TTLs throughout the life of the project fielded a multitude of missions, held frequent video conferences, and were in regular correspondence via email to help supervise the project, yet missions were less frequent. Additionally, a Short-Term Consultant (STC) was hired soon after project implementation to help support implementation. In reviewing the project, it appears that the project could have benefited from additional supervision missions and discussing the project with the Country Management Unit (CMU); however, given issues like delays on procurement, BSL deciding on components of the restructuring, and others, it is clear that additional implementation support missions would have helped advance project implementation, but would have also had limits.

-Adequacy of Reporting:
The Implementation Status and Results Reports (ISRs) adequately and accurately report the key challenges to project implementation to the extent they are expected to.

-Changes in TTL: Throughout the project, including preparation, there were five TTLs, which may have disrupted implementation, due to time required for new TTLs to get up to speed on project opportunities and hurdles and build relationships with clients. During the ICR mission, BSL noted that this presented a challenge for project implementation.

Factors outside the control of government and/or implementing entities

-Ebola: As noted throughout this ISR, the outbreak of Ebola completed stalled project implementation for at least one year, as it precluded the ability to get consultants in country to facilitate implementation and the ability to sign contracts for future implementation with such uncertainty as to the severity and duration of the outbreak.

IV. BANK PERFORMANCE, COMPLIANCE ISSUES, AND RISK TO DEVELOPMENT OUTCOME

A. QUALITY OF MONITORING AND EVALUATION (M&E)

M&E Design

The original project's M&E Framework lacked clear linkages between activities, intermediate results, PDOs/ PDO indicators, and ultimately does not properly assess progress towards the achievement of the PDOs as they are not linked to the Framework. As previously noted, there is no explicit theory of change, which traces the causal relationship between project activities, project outputs, and PDOs (unpacked from the PDO) as captured by PDO indicators. In the case of the original project design, the lack of a theory of change appears to have impacted the construction of a results framework whereby the PDO indicators do not accurately capture or serve as accurate proxies for the PDOs. Furthermore, some indicators (e.g., Compliance with BCPs and increase in MSME finance) were clearly dependent on activities to be supported by other donors. As a consequence, the M&E design does not have the proper PDO indicators, which made it difficult to use them to assess progress on the achievement of the PDOs. Second, there is no articulated connection between the PDO indicators and the multitude of intermediate results. While this connection can be inferred to some extent, this relationship should be clearly articulated to accurately assess whether achievement of intermediate indicators ultimately helped achieve the PDOs as captured by the proxy variable PDO indicators (which themselves were not robust as noted above). Furthermore, there is no articulated connection between all project activities and the intermediate indicators, and it appears not all project activities are captured in the intermediate indicators. For example, many of the critical activities of the project that relate to strengthening of the capacity of BSL which would have had direct implications for implementing the project (e.g., project management and procurement) do not appear to be captured in the Results Framework's intermediate results.

With the project restructuring, the new project activities supported the PDO, but the linkages between intermediate results and PDO indicators remained unclear. Additionally, given that the project ultimately did not support the development of a credit registry or bad debtor base nor a collateral registry, these two PDOs should have been dropped, as any observed changes to them, is not attributable to the project.

M&E Implementation

M&E data was collected throughout the life of the project and appears to accurately capture updates, where possible (see previous section). It should be noted, however, that some updates such as the implementation of a bad debtor database, collateral registry, or legislation such as the New Central Bank Act being signed in law are not attributable to the project, as these were not supported by the project.

M&E Utilization

Slow progress on project implementation is clearly noted throughout the project's ISRs in the M&E section. Generally, there appears to be a strong correlation between the M&E framework inputs, the analysis in the ISRs on project implementation, and the project ratings. The combination of these three factors appears to have been instrumental in supporting the case for project restructuring.

Justification of Overall Rating of Quality of M&E

Rating: Modest

Per the ICR guidelines, this overall quality rating of the project's M&E Framework is rated as modest given the Framework's significant design shortcomings, but its regular updating and correlation with ISR analysis and project implementation.

B. ENVIRONMENTAL, SOCIAL, AND FIDUCIARY COMPLIANCE

As noted and explained in greater detail in section 3, there were fiduciary challenges with BSL implementing the project, delay in payments to consultants, and excessive time on procurement for project activities.

C. BANK PERFORMANCE

The project was developed in close consultation with counterparts. While the project targeted the key issues in Sierra Leonean financial sector after the civil war, the project design was too ambitious given key issues like capacity, frequent changes in BSL leadership, and the extent of challenges in the sector, among others. While the project theoretically had adequate risk mitigation efforts, successful project implementation was too heavily conditional on these, and as many appear to have never panned out such as those on building BSL capacity to implement the project, implementation suffered greatly. In this context, a number of fiduciary issues resulted, including payment and procurement delays. Ebola did delay project implementation for a year, but it appears that the aforementioned challenges largely influenced project implementation. At the same time, World Bank supervision of the project was robust and without which the project would most likely not even have accomplished what it was even able to. Yet, more supervision missions may have helped advance implementation.

Quality at Entry

Post conflict, the Sierra Leonean financial sector was in dire need of broad and far reaching reforms, infrastructure, and capacity building of the supervisors (BSL) and private sector. In this respect, the project proposed to address such issues and many of its unimplemented actions are still very relevant and needed in the financial sector. Given the challenges in the sector, the proposed activities represented straight forward World Bank interventions that had the potential to achieve the desired results and for reasonable values. While this project did not contain components to directly impact poverty alleviation and key groups like women or the poorest of the poor, its proposed interventions are critical prerequisites to a sound and stable financial sector and intermediation, which are critical to flourishing businesses, the ability to save, and consumption, among others; all of which ultimately have critical implications for poverty alleviation and promoting socio-economic well-being.

From the fiduciary standpoint, the PAD correctly notes that BSL did not have the requisite capacity to manage procurement on the project. The initial approach was to have the procurement led by the respective departments in BSL, have Ministry of Finance and Economic Development (MOFED) provide back up support, and to have BSL staff trained in procurement. As previously noted, procurement was a challenge in the project despite training, and significantly delayed project implementation throughout the course of the project.

Similarly, the PAD notes that BSL had limited capacity to implement the project. The plans to contract a long-term resident consultant, funded by GIZ, to support implementation, never materialized. Additionally, project-funded short-term trainings and study tours did not necessarily facilitate implementation on a day to day basis. Hence, while risks related to project implementation (including procurement) capacity were well documented in the PAD, mitigation measures were insufficient, nor were adequate adjustments made to provide capacity in project management.

Finally, as noted in the M&E assessment, the M&E framework before and after project restructuring needed to be bolstered.

Quality of Supervision

As previously noted, World Bank supervision of the project was robust, with TTLs fielding regular missions and maintaining frequent contact with BSL through regular video conference calls and email; however, additional supervision, including more missions and mobilizing local staff to support implementation between missions, may have helped advance implementation. In its supervision work, the various teams carried out extensive due diligence of fiduciary aspects, ranging from reviewing procurement plans, updating the M&E Framework and completing ISRs, updating project financials, urging BSL to speed up the payment of consultants and procurement process, and reviewing the relevancy of capacity building efforts. In this process and the status of project implementation, the team was very candid with the client on these issues, which at time caused some tension. The World Bank continued this close cooperation with the client leading up to project closure and immediately after, such as following up with the payments to consultants, helping BSL launch the geospatial mapping study, and helping BSL to begin thinking about the contents of a new investment project that builds off the lessons learned from this project. While frequent changes in TTLs did present challenges to the client, the ICR finds that the changes were managed effectively through handover and strong documentation of project implementation.

Bank supervision played an instrumental role in the project's main achievements, including mobilizing implementation support for the modern payment systems financed by AfDB and forging agreement with authorities to include the diagnostics of the two state-owned banks in the October 2016 restructuring. While both of these activities were not planned in the PAD, they emerged as opportunities during implementation. Mobilizing support for these activities ensured that the project remained relevant to the changing context in the financial sector. Without strong Bank engagement and dialogue with client to identify solutions and mobilize project support in a timely manner, these project achievements may have been missed opportunities.

Justification of Overall Rating of Bank Performance

Rating: Moderately Satisfactory

In summary, while the project rightfully aimed to address the key issues facing the financial sector with technical interventions, its design was overambitious given the number of risks identified in the design and others in a post conflict context. At the same time, it is clear that the World Bank's supervision efforts contributed to many of the project achievements and ensuring continued relevance of the project despite significant changes in context. In short, the project had key design flaws and many risks identified in the PAD did materialize, but robust supervision efforts contributed to the project's achievements.

D. RISK TO DEVELOPMENT OUTCOME

While the project achieved limited successes, these appear to stand to have a lasting impact in bolstering the financial sector. In payment systems, the project helped operationalize and develop the rules and procedures for RTGS, ACH, and SSS, which will continue to play an important part in facilitating the settlement of interbank transfers, payments, and possibly even more so if the Government moves to digitize government payments. Additionally, the various studies/strategy conducted under the project are having a significant impact on financial sector development. The IT Strategy is guiding BSL's IT department's efforts, while the HR Review is helping BSL refine its structure, promoting key policies like the establishment of a second Deputy Governor. Similarly, while the diagnostics faced some challenges in being mainstreamed into BSL's policy efforts, it is clear that they helped elevate the dialogue surrounding these institutions' risk to financial stability, and ultimately addressing these institutions challenges was adopted as a structural benchmark in the IMF Program during the time of project closure. The FSDP assessment has also provided a critical reflection on the progress made on implementing the broader Financial Sector Development Plan. Lastly, the geospatial mapping study was recently launched by the Governor and Deputy Governor and serves not only to inform BSL policy, but it is a public good that lays out the business case for financial institutions to serve non- or underserved areas. Furthermore, the mapping is helping to inform the development of a new World Bank investment project.

Conversely, the major output that faces risk of not having a lasting development impact is that of the array of the short-term trainings and study tours, for which 14.4 percent of disbursed project funds were used.

V. LESSONS AND RECOMMENDATIONS

The project offers a number of valuable lessons not just for future projects in Sierra Leone, but elsewhere. In terms of design, the project demonstrated the importance of having a strong champion and an effective governance structure. It is clear that the lack of a FSDP governance structure and frequent changes in BSL leadership had a significant impact on implementation. Particularly, for projects with components across multiple BSL departments, but also with multiple financial sector stakeholders, there is a need to have an effective governance structure with an FSSC with direct lines of communication to decision makers, who in turn provide timely direction during project design and implementation. The absence of an effective governance structure contributed to slow implementation and failure to correct course post mid-term review.

Second, project design should take into account client capacity. FSDP was overly ambitious and should have focused on a narrower set of objectives. Despite the country's vast needs in the financial sector at appraisal, better prioritization and sequencing of reforms would have contributed to more effective implementation. Future projects could consider tackling broad reform efforts through a series of projects, instead of trying to accomplish too much in a single project. Further, support should be focused on areas where the World Bank has the relevant expertise and government ownership is strong.

Third, the project had a need for robust implementation capacity in the implementing unit, which largely seems to not have occurred beyond some short trainings. Ultimately, making successful project implementation conditional on capacity building of a new unit within the scope of the project itself was risky and resulted in limited implementation. Moving forward, priority should be given to utilizing units with project management experience in implementing such projects, especially World Bank projects, and capacity building should have a sustained focus on or around implementation support, such as procurement and financial management, not only building technical capacity or funding short-term technical trainings and study tours.

Fourth, the project highlighted that traditional project supervision can only help advance implementation so much, when client capacity is weak, there is no effective governance structure to oversee implementation, and client leadership over the project is missing or frequently changing. That said, the project highlights the need for staff working on Fragile, Conflict, and Violence (FCV) affected states to have sufficient budget and time to work on supervising such projects to advance implementation to the extent possible. This argument also lends credence to the need for having in-country staff responsible for such projects and to ensure there are not frequent changes in the TTLs, which can diminish momentum.

Fifth, the project highlights the need for the World Bank and clients to consider a broader set of instruments to accompany an Investment Project Financing (IPF) to accomplish financial sector reform. Long procurement delays and slow decision-making contributed to weak performance, and ultimately the failure to fully utilize available resources. The World Bank has other instruments at its disposal, which are more appropriate in such contexts, including World Bank executed Trust Funds to help implement TA programs that can provide support in critical areas like banking supervision, regulatory frameworks, and capacity building. Development Policy operations can also be effective in addressing key policy issues that can be challenging to address through an IPF.

Lastly, this project highlights the need for projects to be adaptable to the changing priorities of countries, key challenges in implementation, and unexpected shocks, such as Ebola. In any of these cases, the restructuring process should be streamlined to ensure it is done in a timely manner, so as to not become outdated or incapable of being successfully implemented.

ANNEX 1. RESULTS FRAMEWORK AND KEY OUTPUTS

A. RESULTS INDICATORS

A.1 PDO Indicators

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Indicator One: The Doing Business Depth of Credit InformationIndex is in line with Sub-Sahara Africa average	Text	0 14-Apr-2011	In line with SSA average (yr. 4) 30-Nov-2017	In line with SSA Average (DB 2015 4.5 percent) 17-Oct-2017	0 SSA Average = 3 (Source: DB 2018) 30-Nov-2017
Indicator Two: effective implementation of the	Text	No collateral regisrry	15% (yr. 4)	Collateral registry is operational	Collateral registry launched in Dec. 2016

collateral registry supporting MSME finance		14-Apr-2011	30-Nov-2017	(demonstrated by the registration of at least five security interests (since its inception) and the receipt of at least five inquiries from financial institutions (since its inception). 17-Oct-2017	30-Nov-2017
Indicator Three: Acomprehensivepayment system policyand regulatoryframework has beenestablished.	Text	No framework 14-Apr-2011	Yes 30-Nov-2017	Yes 17-Oct-2017	No 30-Nov-2017

Comments (achievements against targets): Not achieved. The project did not fund a bad debtor base or an information bureau, so any observed impact is not attributable to the project.

A.2 Intermediate Results Indicators

Component: Component 1: Enhancing access to financial services

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
indicator One: CreditInformation Infrastructure	Text	0	0	In line with SSA average	0

					SSA Average = 3 (Source: DB 2018)
		14-Apr-2011	30-Nov-2017	30-Nov-2017	30-Nov-2017
Intermediate Resultindicator Two: security interests registered with the collateral registry (MSME finance)	Text	0 14-Apr-2011	0 30-Nov-2017	at least five 5 security interests (since its inception) 30-Nov-2017	107 30-Nov-2017
indicator Three: inquiries to the collateral registry received from financial institutions (MSME finance)	Text	US$0 14-Apr-2011	0 30-Nov-2017	receipt of at least five inquiries to the collateral registry from financial institutions (since its inception) 30-Nov-2017	62 30-Nov-2017

Comments (achievements against targets): Not achieved. The project did not fund a bad debtor base or an information bureau, so any observed impact is not attributable to the project.

Component: Component 1: Enhancing access to financial services

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
indicator One:	Text	0	0	In line with SSA	0

CreditInformation Infrastructure		14-Apr-2011	30-Nov-2017	average 30-Nov-2017	SSA Average = 3 (Source: DB 2018) 30-Nov-2017
Intermediate Resultindicator Two: security interests registered with the collateral registry (MSME finance)	Text	0 14-Apr-2011	0 30-Nov-2017	at least five 5 security interests (since its inception) 30-Nov-2017	107 30-Nov-2017
indicator Three: inquiries to the collateral registry received from financial institutions (MSME finance)	Text	US$0 14-Apr-2011	0 30-Nov-2017	receipt of at least five inquiries to the collateral registry from financial institutions (since its inception) 30-Nov-2017	62 30-Nov-2017

Comments (achievements against targets): Not achieved. The project did not fund a bad debtor base or an information bureau, so any observed impact is not attributable to the project.

Unlinked Indicators

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised	Actual Achieved at

				Target	Completion
Special diagnostics of two state-owned banks (completion of special diagnostic reports on two state-owned banks (Sierra Leone Commercial Bank and Rokel Commercial Bank) and their submission to BS)	Text	No diagnostic 28-Sep-2016	0 30-Nov-2017	Two reports 30-Nov-2017	Draft report delivered, shared with WB in June 2017. 30-Nov-2017

Comments (achievements against targets): As noted in the ICR proper, these diagnostics appeared critical to elevating the dialogue surrounding these two institutions.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
adoption of the financial inclusion strategy by cabinet	Text	no strategy 28-Sep-2016	0 30-Nov-2017	adopted strat 30-Nov-2017	financial inclusion strategy adopted by BSL in Dec. 2016 23-Jan-2017

Comments (achievements against targets): : Achieved, but not attributable to the project. The strategy was dropped after the project restructuring as another BSL unit (not FSDP) requested and received support from UNCDF for a financial inclusion strategy.

Note to Task Teams: End of system generated content, document is editable from here. ***Please delete this note when finalizing the document.***

B. KEY OUTPUTS BY COMPONENT

Note to Task Teams: Organize the indicators and outputs around each Objective/Outcome captured in the PDO statement. ***Please delete this note when finalizing the document.***

Objective/Outcome 1 Enhancing access to financial services	
Outcome Indicators	1. The Doing Business Depth of Credit Information Index is in line with Sub-Sahara Africa average 2. Effective implementation of the collateral registry supporting MSME finance
Intermediate Results Indicators	1. Credit Information Infrastructure 2. Security interests registered with the collateral registry 3. Inquiries to the collateral registry received from financial institutions. **4.** Adoption of the financial inclusion strategy by cabinet**.**
Key Outputs by Component (linked to the achievement of the Objective/Outcome 1)	1. Implementation support for Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH), and Securities Settlement System (SSS), and core banking application systems 2. Geospatial mapping of financial service access points
Objective/Outcome 2 – Building financial sector reform and oversight capacity of the BSL	
Outcome Indicators	1. A comprehensive payment system policy and regulatory framework has been established

Intermediate Results Indicators	**1.** Special diagnostics of two state-owned banks (completion of special diagnostic reports on two state-owned banks (Sierra Leone Commercial Bank and Rokel Commercial Bank) and their submission to BS)
Key Outputs by Component (linked to the achievement of the Objective/Outcome 2)	1. Capacity Building for BSL and FSDP unit, plus FSDP unit assets 2. HR Review 3. IT Strategy 4. Diagnostics of 2 state-owned banks

ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION

Note to Task Teams: The data in this section has been pre-populated for the first time for your convenience, but it is completely editable. ***Please delete this note when finalizing the document.***

A. TASK TEAM MEMBERS

Name	Role
Preparation	
Supervision/ICR	
Michael Corlett	Task Team Leader(s)
Innocent Kamugisha	Procurement Specialist(s)
Sydney Augustus Olorunfe Godwin	Financial Management Specialist
Magalie Pradel	Team Member
Salieu Jalloh	Team Member
Demba Balde	Social Safeguards Specialist
Daniel Rikichi Kajang	Team Member
Cedric Mousset	Team Member
Alice Dubiwa Zanza	Team Member
Sheikh Alhaji Yayah Sesay	Team Member
Nicholas Timothy Smith	Team Member
Balakrishnan Mahadevan	Team Member
Anita Bimunka Takura Tingbani	Environmental Safeguards Specialist

B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY10	1.250	62,866.25
FY11	24.556	146,447.26
FY12	0	4,442.67
FY13	0	741.63
Total	**25.81**	**214,497.81**
Supervision/ICR		
FY11	0	14.25
FY12	26.376	123,168.63
FY13	23.183	118,621.51
FY14	32.632	106,903.51
FY15	19.715	88,557.26
FY16	20.545	125,120.75
FY17	15.034	98,915.61
FY18	15.548	110,861.24
Total	**153.03**	**772,162.76**

ANNEX 3. PROJECT COST BY COMPONENT

Components	Amount at Approval (US$M)	Actual at Project Closing (US$M)	Percentage of Approval (US$M)
Component 1: Enhancing access to financial services	1.6	655,605.15	16.39%
Component 2: Building financial sector reform and oversight capacity of the BSL	2.4 0	1,591,382.75	39.78%
Total	**4.00**	2,246,987.9	56.17%

ANNEX 4. EFFICIENCY ANALYSIS

N/A

ANNEX 5. BORROWER, CO-FINANCIER AND OTHER PARTNER/STAKEHOLDER COMMENTS

The Borrower produced a report entitled "Comprehensive Stock-Taking of The Implementation and Impact of The Financial Sector Development Plan (FSDP) and FSDP Implementation Program" and was carried out by A2F Consulting. Below are relevant passages from the Executive Summary, the Highlights and Key Achievements, and Assessment of Project Management Structure, from BSL's stocktaking of progress made on the Financial Sector Development Plan, including its implementation, which was the aim of the World Bank FSDP project, and which is also discussed.

Executive Summary[13]

The Financial Sector Development Plan (FSDP) is a comprehensive multi-year, interagency program approved in late 2009 with the aim of providing a framework for creating a sound, diversified, responsive and well-functioning financial system that would provide appropriate support to productive activities, thereby contributing to economic growth and poverty alleviation. It was designed under the leadership of the Bank of Sierra Leone with the support of the FIRST Initiative, The World Bank Group, The German Development Cooperation and in collaboration with the Sierra Leone Business Forum. The objective was to address the issues identified by FSAP diagnostic carried out by the IMF and World Bank in 2006. The World Bank was the lead sponsor, but other development partners included the German Development Cooperation, the African Development Bank, CordAID, UNCDF, UNDP and IFAD.

This report takes stock and presents an assessment of progress made on implementing the FSDP. Recommendations outlined by the FSDP have been categorized under 21 subgroups that describe the intended outcome. The stock-taking exercise aims to assess the effectiveness, relevance, and associated impacts of work carried out under the FSDP in meeting the intended outcomes. The assessment is based on insights from a field visit carried out by A2F Consulting from September 18-29th, during which semi-structured interviews were carried out with key stakeholders at BSL and all other agencies in charge of implementing project components such as SLICOM, NASSIT and the Stock Exchange, as well as other stakeholders such as The Sierra Leone Bankers' Association and SLAMFI. Extensive data analysis was also carried out as well as secondary research. The evaluation team is grateful for critical logistical support provided by BSL, in particular the FSDP Secretariat.

Twin external shocks in the form of the Ebola epidemic and a collapse in iron ore prices weakened Sierra Leone's economy over the implementation period further exposing the fragility of the financial system. During the design and early implementation stages, the Sierra Leone economy was enjoying robust economic activity on the back of its iron ore deposits and foreign investment. The onset of the Ebola epidemic in 2014 and the commodity price bust led to negative growth and pullback in already low credit to the private sector. Lower growth and foreign receipts resulted in twin deficits (current account and fiscal), filtering through the financial sector. The large role of the state in the financial sector combined with weak governance structures of state-owned institutions, domestic financing of government budgets, and depreciation of the Leone have led to rampant inflation, crowding out in bank lending, and exacerbated stability risks.

Against this backdrop, the FSDP has made significant achievements. Overall, activities geared towards updating regulatory framework, payment systems, and improving financial infrastructure have been the most effective,

[13] Note, FSDP is in reference to the FSDP Plan and not the project.

relevant, and impactful. Significant achievements have been made on the legislative front improving the regulatory and enabling environment. Several acts were passed over the implementation period, including the Borrowers and Lenders Act which, among others, established updated framework for credit agreements including collateral registry for moveable properties and updates to use of credit information. Critical elements of the national payment system were launched and now operating including the ACH and RTGs. New credit information structures and collateral registry are seeing increasing usage by lenders. Some improvements have also been made to BSL supervision in terms of software upgrades and implementing updated prudential standards

Despite these achievements, overall objectives of the FSDP have gone largely unmet. Interventions to develop capacity in the banking sector as well as BSL's financial stability division have been negligible which is evident in the negative real growth rates of private sector credit and poor portfolio quality of the banking sector. Meaningful progress on increasing efficiency of the two struggling government-controlled commercial banks (RCB and SLCB), a key initiative of building banking system capacity, has proved elusive.
Similarly, there has not been much movement on building capacity in the MFI sector following termination of the MITAF and strategies to leverage community banks and MFIs for agriculture lending seem misplaced. An APEX Bank has been set up to supervise community banks but supervision capacity is limited. Elsewhere, supervision capacity of the SLICOM, the insurance supervisor, has not been strengthened by FSDP nor has there been much activity on strategies supporting remaining objectives.

A more effective project management structure would have ensured closer monitoring and forward-looking views on potential risks. Broadly, implementation has suffered from capacity issues and lack of robust project management framework. None of the governance instances proved effective in carrying out their roles and did not meet regularly**.** The project had foreseen the elaboration of a Change Management component to facilitate project implementation. This also failed to materialize. The World Bank explicitly foresaw several risks, but the subsequent support on implementation was inconsistent, leading to spotty monitoring of FSDP activities and poor reporting and tracking against the results' framework. FSDP strategies that encompassed coordination and management of intervention activities across jurisdictions outside the direct influence of the BSL, involving political uncertainty for advancing reforms, and coordination with other donor projects were more difficult to implement.

Looking ahead, a future FSDP II should focus on a select few areas to achieve the original objectives and simplify institutional requirements to support implementation. An overarching theory of change should be elaborated to clearly describe the vertical logic or causal chain from inputs to outputs and outcomes to long-term impact, and it should ensure that the activities selected are those likely to lead to expected outputs, outcomes, and impacts. Among the recommended areas of focus, the next phase of the FSDP should develop targeted interventions on women MSMEs and leveraging digital finance, addressing the role of the state in the financial sector, and utilizing PPPs with external support to mobilize long-term finance. An in-depth functional review of BSL is also strongly recommended to be an integral part of any future program.

Highlights & Key Achievements

FSDP has supported important updates to the national payment system setting the foundation for growth in interbank transactions and digital finance. Over the implementation period, two key components of the NPS, the RTGS and ACH, were installed and operational. The RTGS will be critical to reducing settlement risks, facilitating growth in interbank transactions. Key informant interviews indicate that the ACH is having a positive effect on electronic-based transactions, particularly in processing local bank payments, and should support increases in innovative e-finance products. These are essential building blocks for developing a robust payment ecosystem, and one of the intervention objectives of GoSL's recently launched Financial Inclusion Strategy 2017- 2020. Further work is needed on developing a framework for international, local electronic and mobile payments systems and providing effective oversight and enabling environment for new technologies.

Significant achievements have also been made on the legislative front improving the regulatory and enabling environment. Several acts were passed over the implementation period, including Borrowers and Lenders Act, which among others, established an updated framework for credit agreements including collateral registry for moveable properties and updates to use of credit information. Additionally, the Act led to the creation of an autonomous financial intelligence unit (FIU), charged with oversight on AML/CFT issues including enforcement powers. A credit reference act was passed in 2011 and the BSL has operationalized an interim credit bureau which is seeing increasing usage by banks for large borrowers. Credit information may serve as a useful additional data set for the BSL to augment supervision analysis. Further work on consolidating data of all collateral registries under one roof was mentioned as a strong desire by the banking community.

Some improvements have been made to BSL supervision in terms of software upgrades and implementing updated prudential standards. BSL adopted and updated prudential norms such as liquidity and capital requirements, improved off-site technical capacity by upgrading reporting via software installation, and developed new reporting tools and formats. The BSL has reallocated resources and oversight capabilities on deposit-taking institutions. Additional work is needed to improve the interface between off-site and onsite, including feedback loops and sound intervention strategies. An overarching risk assessment framework with risk-rating techniques and tools will be needed to increase effectiveness of supervision. This is particularly important as BSL moves towards risk-based supervision.

Signs of growth in outreach by the MFI sector may have more to do with international backing of a select few market leaders, but BSL licensing of deposit-taking has been a positive development. The BSL updated operating guidelines, began licensing deposit-taking institutions, and refocused supervision efforts on deposit-taking MFIs. Broadly, these efforts appear to be catalyzing further development in the sector in terms of formalization and transparency. There has not been much movement on building capacity in the MFI sector following the termination of the MITAF, but international partners have stepped in for a select few of the market leaders. Loan portfolios, borrowers, and savers have increased over the implementation period. An APEX Bank has been set up to supervise community banks, but supervision capacity is limited.

BSL is building capacity in terms of monitoring of systemic risks, but the impact on the financial system has so far been negligible. Performance of the banking sector over the implementation period suggests a weak correlation between intervention activities and bank sector capacity. Banks have struggled to grow loan portfolios, remained concentrated in a few sectors, and currently hold a substantial amount of assets in government treasuries, the yields of which are crowding out private sector credit. The composition of assets held in investments has grown suggesting high liquidity; however, most of this consist of illiquid government securities. NPLs remain high and the sector has required recapitalization plans in 2014. Efforts to develop capacity to oversee and analyze financial stability risks failed to take root as interest and commitment waned. While information sharing between NASSIT, SLICOM, and BSL exist, these arrangements are not sufficiently formalized nor is there frequent coordination to assess systemic risks.

Meaningful progress on increasing efficiency of the two government-controlled commercial banks (RCB and SLCB), a key initiative of building banking system capacity, has proven elusive. These two banks, representing approximately 28% of the total banking sector assets, have been weighed down by rising non-performing loans and poor financials. Capital adequacy, asset quality, profitability, and efficiency indicators of the government-owned banks pale in comparison to the averages of the next top 5 banks by assets (**Table 8**). The real risk, however, is in potential contagion given interconnectedness with other banks and financial institutions and the real sector. Financial stability, a key component of the FSDP, has not been adequately addressed by activities carried out thus far, and capacity building is very much needed to operationalize the financial stability unit.

Table 8: Government-owned banks and next Top 5 by assets comparison

Indicator	RCB	SLCB	Avg of next Top 5
CAR	10.8	10.7	35.5
Tier 1	6.4	5.6	25.9
NPL ratio	49.4	53.0	11.9
Net NPL / capital	18.8	218.0	23.5
5-yr average ROA	1.4	1.3	3.1
5-yr average ROE	24.7	16.4	16.6
Personnel Expenses % noninterest expenses	53.6	53.3	32.9
Net Loans/Deposits	10.9	21.9	38.6
Liquid Assets/Total Assets	84.7	70.7	59.9
5-yr growth in assets	4.9	14.7	23.3
5-yr growth in loans	-8.8	5.1	19.1
5-yr growth in deposits	6.7	16.6	24.2

Source: BSL

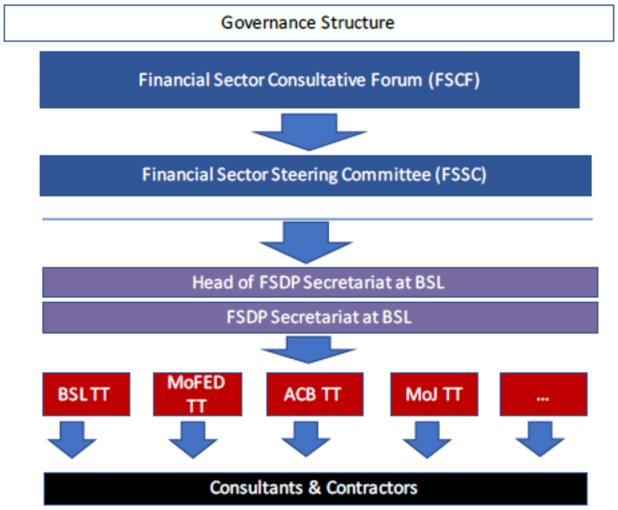
Minimal work has been carried out on strengthening contractual savings, mobilizing long-term finance, and other enabling environment enhancements. This objective received minimal focus, as several strategies have yet to be initiated. SLICOM has not been a recipient of much technical assistance which has left it with only internal resources to meet the stated objectives. Key areas that have not been sufficiently addressed are updates to supervision methodology and framework, IT infrastructure, software, and lack of resources to redesign and implement relevant prudential norms and regulations.
External developments have affected the insurance sector, which has been battered by mudslides, Ebola outbreak, and slowdown in economic growth.

Recommended strategies to strengthen links between MFIs, community banks, and rural and agriculture lending have not been fully pursued. While these institutions continue to have a significant presence in rural areas (compared to commercial banks), there has not been a large push to build capacity nor to coordinate with stakeholders on effective strategies to offer suitable financial services in these areas. There has not been much movement on building capacity in the MFI sector following termination of the MITAF. Expertise supported by the MITAF was not institutionalized to ensure continuity of learning and knowledge transfer. Similarly, there has not been any movement on the recommended use of a guarantee facility to extend loans to the rural and agriculture sectors. Links between commercial banks and MFIs remain elusive within the context of long-term borrowings.

Overall, results of the FSDP are mixed, whereas project implementation has suffered from capacity issues and a lack of robust project management framework. Despite the FSDP SP, resources have remained constrained and funding delayed affecting coordination of all FSDP strategies and carrying out proper monitoring and evaluation procedures and processes. The project had foreseen several risks, but support on implementation was inconsistent and inadequate leading to spotty monitoring of FSDP activities and poor reporting and tracking against the results framework. FSDP strategies that encompassed coordination and management of intervention activities across jurisdictions outside the direct influence of the BSL, involving political uncertainty for advancing reforms, and coordination with other donor projects were more difficult to implement. Furthermore, there have been issues with regards to disbursement of FSDP SP funds to advance the work.

Assessment of Project Management Structure

The governance structure of the FSDP is as follows:



The **Financial Sector Consultative Forum (FSCF)** was set-up and included representatives from the Bank of Sierra Leone, the Ministry of Finance and Economic Development, Ministry of Trade & Industry, AGO, Ministry of Agriculture, and Chief Executive Officers of other stakeholder institutions and representatives of the Development Partners. It is chaired by the Governor of the BSL and is responsible for the overall strategic direction and oversight of the program. The role of the FSCF was to review policy and legislative proposals under the FSDP and submit them to the government for consideration. It is also tasked to advise the government on potential implementation issues of the FSDP, as well as the main interface between the Government and the Development Partners.

The direct oversight of project implementation was entrusted to a **Financial Sector Steering Committee (FSSC)**. The FSCC is made up of the Governor of BSL (Chair), the Deputy Governor, Head of the FSDP Secretariat, Heads of Departments of the BSL, Heads of Technical Teams from all Implementing Agencies and representatives of the donors to the multi-donor fund. The **FSDP Secretariat** houses the team in charge of day to day project management, including project coordination, financial management, and procurement. The Secretariat Head is responsible to the FSSC for overall implementation of the FSDP and in particular ensuring that technical teams are established and have clear terms of reference, that consultant are mobilized and work effectively and efficiently, and that the FSSC and FSCF function effectively.

This project management structure did unfortunately not work as originally intended. Neither the FSCF nor the FSCC did meet in a regular manner. The FSCC was created in 2011, but held only two meetings, the last being in 2013. The meetings were discontinued, since it proved difficult to bring the relevant people together for such meetings on a regular basis. The project had foreseen the elaboration of a Change Management component to facilitate project implementation. This also failed to materialize. The monitoring and evaluation function has been very spotty and focused almost exclusively on BSL activities. Quarterly FSDP progress reports were supposed to be produced and reviewed during Steering Committee meetings. The last such report shared with the evaluator was completed in December 2012.

The World Bank recognized the limited capacity of BSL to implement the project and financed the FSDP SP to aid in building capacity. Furthermore, the potential political obstacles in some of the reforms were highlighted as was the interdependency of recommended strategies on other donor projects including AfDB WAMZ payment system project, MITAF activities in the MFI sector, GIZ and IMF TA for banking supervision and IFC TA for MSME finance.

BSL reportedly made a request to the World Bank to hire a consultant to build-capacity in project management as foreseen in the original project design. Unfortunately, this support never materialized in the wake of two changes of task managers from the side of the World Bank. The need for such technical support was clearly identified in the project appraisal document of the World Bank support project. At that time, the World Team team indicates that “the broad, complex reform undertaking of the FSDP considerably challenges BSL capacity and limited resources”. As mitigation measure, it was recommended that the World Bank project supports the strengthening [sic] of reform governance and invests in BSL capacity. While the first World Bank task manager agreed with such a need, the second did apparently not see it as necessary. The World Bank offered some clinics and training workshops, but these have clearly been insufficient. It is also worth noticing that the request is not reported in any project document availed to the evaluator. It however should have been noticed during project monitoring visits by the World Bank Team.

Another project management issue is the fact that disbursement from donor funds have also reportedly lagged behind forecasts in spite of significant progress on a number of components. The AfDB project closed in 2015, and the financial data could not be seen by the evaluator. In the case on the World Bank, the financial reporting seems to have been done in a regular manner probably by the World Bank Team itself. The project status reports available online indicate that a significant chunk of the grant resources provided by the World Bank to support the FSDP remain unused. Discussions with stakeholders suggest that BSL used internal resources to fund most initiatives instead of going through the “complex” administrative processes of the World Bank.

ANNEX 6. SUPPORTING DOCUMENTS (IF ANY)

A2F Consulting, Comprehensive Stock-Taking of the Implementation and Impact of the Financial Sector Development Plan (FSDP) and FSDP Implementation Program, 2017.

Bank of Sierra Leone, Strategy for National Financial Inclusion 2017-2020, 2016.

Republic of Sierra Leone, Financial Sector Development Plan, 2009.

World Bank, Financial Sector Development Plan Support Project (FSDPSP), Project Appraisal Document, 2011.

World Bank, Restructuring Paper on a Proposed Project Restructuring of Sierra Leone - Financial Sector Development Plan Support Project, 2016.