Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-May-2022 | Report No: PIDC33936

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Sierra Leone	P177947		Sierra Leone Financial Inclusion Phase 2 (P177947)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
Western and Central Africa	Dec 09, 2022	Mar 09, 2023	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Sierra Leone	Bank of Sierra Leone	

Proposed Development Objective(s)

The objective of the project is to facilitate the financial inclusion of individuals and micro, small and medium sized enterprises (MSMEs)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	30.00
Total Financing	30.00
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	30.00
IDA Grant	30.00

Environmental and Social Risk Classification	Concept Review Decision

Moderate	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Sierra Leone is a small country in West Africa with a population of 8.3 million[1], 43 percent Urban[2].** The country has rich mineral, agricultural and blue resources. However, Sierra Leone is facing multiple development challenges, including poverty, growing youth population and high youth unemployment, weak institutions, and a North-South ethno-regional divide. About 40 percent of the total population lives under the poverty line (US$1.9 per day)[3], and its per capita GDP at US$400 remains almost the same level as it was after independence in 1961. Sierra Leone is ranked nearly at the bottom of most development metrics and has the fifth lowest life expectancy globally (54 years). A decade of Civil War (1991-2002) and later a devastating Ebola epidemic in 2014-2016 which infected over 13,000 Sierra Leoneans and claimed the lives of at least 4,000 left the country nearly paralyzed economically and socially.

2. **Sierra Leone's economy is highly dependent on mining and agricultural activities, making it vulnerable to external (commodity prices and global demand) and domestic (weather) shocks.** Prior to the Ebola epidemic, mining, primarily iron ore, accounted for 15 percent of GDP and about 80 percent of merchandise exports. However, the sector has exhibited significant volatility in recent years, with iron ore output declining to almost zero in 2018–20. Thus, while growth averaged 4.2 percent over the past decade, it has fluctuated widely (by 10.3 percent from the mean, two-thirds of the time). In 2015, the economy was hit simultaneously by a collapse in global commodity prices and the continued Ebola epidemic. In 2020, the COVID-19 pandemic affected domestic and external demand concomitantly. Mobility restrictions adversely impacted private sector employment and incomes, especially in urban areas, leading to a likely increase in poverty.

3. **The authorities have struggled to restore macroeconomic stability and fiscal balance since the Ebola shock.** Since 2014, the budget deficit has exceeded 5.5 percent of GDP, due to low domestic revenue mobilization (average of 12.6 percent of GDP) and expenditure overruns (average of 22.0 percent of GDP). Sierra Leone is at high risk of (public) debt distress, with debt dynamics partly affected by increased reliance on expensive domestic borrowing. The ratio of interest payments to domestic revenue was estimated at 19.8 percent in 2020.

4. **Since 2014 economic growth has translated into modest per capita income gains because of rapid population growth (averaging 2.1 percent per annum).** Poverty (measured using the international poverty line of US$1.9 per day, 2011 PPP) fell by an impressive 11.7 percentage points over the last decade to 43 percent in 2018. About 80 percent of the population is under the age of 35 years, making efforts to accelerate job creation and increase access to public services (for example, healthcare and education) a critical challenge.

[1] United Nations Population Fund, 2022.
[2] World Bank, 2020
[3] World Bank, 2018.

5. **After contracting by 2 percent in 2020, the economy grew by 3.1 percent in 2021, as a result of the easing of mobility restrictions as well as fiscal stimulus and structural reform efforts.** Agriculture contributed more than half of overall growth (1.9 percentage points) due to increased private sector participation in input markets. Both industry and services contributed 0.6 percentage points each, reflecting a gradual recovery of mining and manufacturing as well as trade and tourism. On the demand side, growth was driven by final consumption and gross investments (mainly public investment following the resumption of capital projects). Headline inflation declined to 8.9 percent in March 2021, before it accelerated to 17.9 percent (year-on-year) by end-December, reflecting global food price increases as well as a combination of recovering domestic consumer demand and enduring supply chain disruptions. High food inflation increased the share of the food insecure population from 50 percent (3.6 million) in 2015 to 57 percent (4.7 million) in 2020. The share of the population living in poverty is estimated to have increased during the early stages of the pandemic in 2020 (especially in urban areas among the self-employed) by about 2 percentage points, before it fell marginally in 2021.

6. **The overall fiscal deficit increased slightly by 0.1 percentage points to 5.9 percent of GDP in 2021, mainly due to higher-than-expected expenditure on wages, goods and services, and subsidies for electricity generation.** The expenditure overruns were aggravated by inflation as the price of goods and services rose. However, revenue collection improved remarkably, and tax revenue reached 15.3 percent of GDP, up from 13.8 percent of GDP in the previous year, due in part to one-off mining revenues. Public debt increased from 76.3 percent in 2020 to an estimated 76.9 percent of GDP in 2021, mainly because of new multilateral borrowing. The current account deficit widened with the recovery in domestic demand and the depreciation of the Leone (by 11 percent against the US dollar, and 9 percent in the parallel market). However, gross external reserves increased to US$933 million (6.1 months of imports), with the new International Monetary Fund Special Drawing Rights allocation (US$281 million) enhancing the country’s ability to cushion external shocks.

Sectoral and Institutional Context

Overall

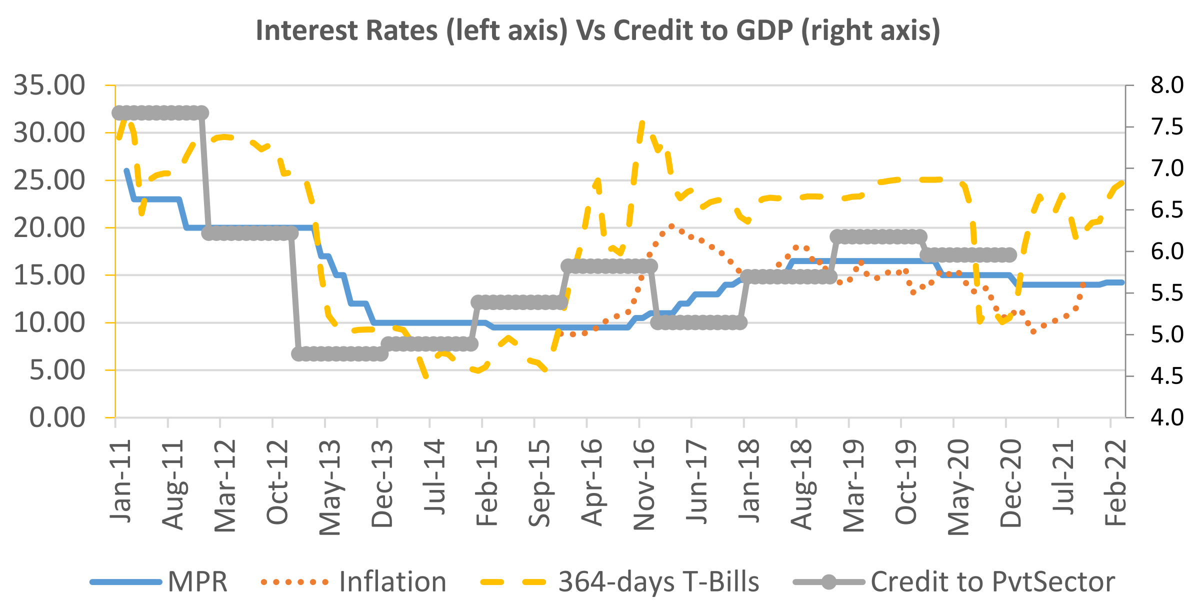
7. **The private financial sector in Sierra Leone's is the second shallowest in Africa (after South Sudan)[4] primarily due to a crowding out by government securities.** Private sector credit to GDP peaked at 8.2 percent in 2009 and fell to 4.8 percent in 2013. While it had recovered to 6.2 percent in 2019 driven by the resumption of infrastructure projects, it fell again to 6.0 percent in 2020 partly due to a COVID-19 induced decline in real sector activities. This places the ratio fourth from bottom out of 185 countries with data, and less than a sixth of the average for SSA (exc. high-income countries), which was 37.9 percent. The main culprit is that Government T-bills yield around 25 percent per year, such that around half of all commercial bank assets are invested in government securities. Figure 1 shows how Credit to the Private sector slowly recovers in 2018-2019 when there is a drop in the ‘risk-free’ government securities rate to below the MPR (Monetary Policy Rate).

8. **The financial sector is dominated by commercial banks.** The sector includes 14 commercial banks, 17 community banks, 28 credit unions, 59 financial services associations (FSAs), 57 microfinance institutions (MFIs) (five deposit taking and 52 credit only), a leasing company, insurance companies, two discount houses, and three mobile money operators.

[4] World Bank, 2020, Domestic Private Credit to GDP, of 185 countries with data

Ten of the 14 commercial banks are subsidiaries of foreign banks (mostly Nigerian), and 4 are locally owned with the government being the majority shareholder in 2 of the locally owned banks. Commercial banks account for 85 percent of the financial sector assets; and the two state-owned banks hold about 30 percent of the total financial sector assets.[5] Additionally, the financial sector comprises of 69 money exchanges and one stock exchange

Figure 1: Prime and T-bill Interest Rates relative to Credit to the Private Sector



Financial Inclusion and DFS

9. **Financial inclusion among adults is low and growing at a significantly lower rate compared to peer countries.** Only 19.8 percent of the adult population have an account with a formal financial institution or a mobile money provider, which is significantly below the average for Sub-Saharan Africa (42.6 percent) and low-income countries' average (34.9 percent). This ratio increased by 4 percentage points (p.p.) from 2014, significantly lower than the Sub-Saharan Africa average. Financial inclusion levels are lower for women (15.4 percent), the poorest 40 percent (12.9 percent), and those living in rural areas (14.4 percent).

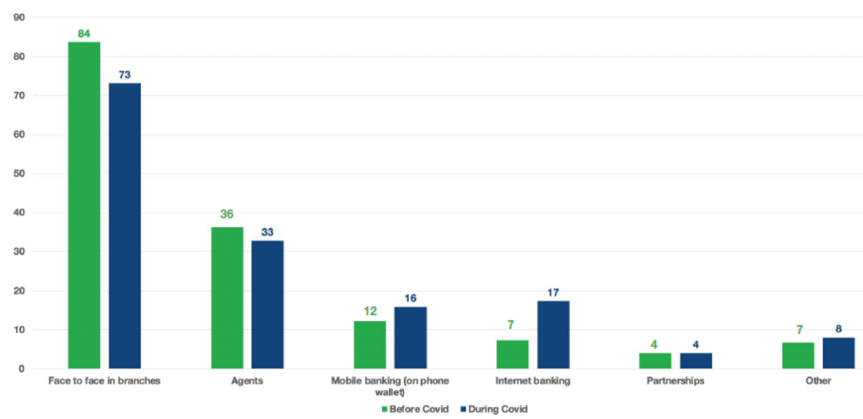
10. **The use of financial services decreased from 2014 to 2017 and indicates high usage of informal mechanisms.** Only 5 percent of adults reported saving at a financial institution during the past year. This ratio decreased in 6 p.p. from 2014, and it is significantly below the ratio of Sub-Saharan Africa (15 percent). In terms of credit, only 5.2 percent of adults reported borrowing from a financial institution or used a credit card during the past year, similar to the ratio reported in 2014. This is in contrast with around 50 percent of adults reporting having borrowed or saved any money during the past year. A similar pattern can be observed regarding the use of remittances. While 35 percent of adults reported having sent or received remittances during the past year (2017), only 6 percent used a financial institution. Furthermore, this percentage decreased from 54 percent in 2014, to 35 percent in 2017.

[5] Sierra Leone Digital Economy Diagnostic, World Bank Group (2020) https://openknowledge.worldbank.org/handle/10986/35805

11. **A lack of financial access points throughout the country appears to be a significant barrier to converting the demand for financial services – especially in rural areas – into actual usage.** The overall number of financial service access points is low and concentrated in the urban areas.[6] In 2018, there were 1,811 access points throughout the country, of which over 75 percent were mobile money agents, while MFIs and banks are trailing far behind at just 7 and 6 six percent, respectively. [7] Most of these financial access points are concentrated in Freetown and other urban centers. Forty-two percent of chiefdoms in the country did not have any financial services access points, while 41 percent of access points are in Western Urban and Bo alone, including mobile money. Community Banks (CB), Financial Service Associations (FSA), deposit-taking microfinance institutions (MFIs), credit-only MFIs, and mobile money providers, have a greater presence in rural areas than banks, although their outreach is still quite limited and their scale of operations could be significantly larger.

12. **Digital Financial Services (DFS) development in Sierra Leone is still at an early stage (stage 1 of 4 in DFS development using the trajectory of the World Bank's 2020 DFS report) and constrained by a number of supply and demand side factors.** Cash continues to be the main payment instrument especially for small-value payments. According to Global Findex, in 2017, only 16 percent of adults had made or received a digital payment in the previous year, behind the SSA average (34 percent) and regional comparators, including Guinea (20 percent), Liberia (34 percent), Nigeria (38 percent), and Ghana (58 percent). Sierra Leone has historically lagged its counterparts in West Africa in the adoption of DFS. Compared to an average mobile money uptake of 36 percent across West Africa in 2017, only around 11 percent of the Sierra Leonean population had a mobile money account in 2017. These low ratios are explained by a set of factors including barriers from the regulatory framework, limited financial system and connectivity infrastructure,[8] low levels of innovation on the supply side and low degree of financial literacy to push forward customer uptake.

Figure 2. Delivery mechanisms by FSPs before and during COVID-19



Source: Toronto Center Survey of FSPs (2021)
Note: % represents number of FSPs out of FSP respondents in Sierra Leone using this delivery channel

13. **The use of mobile money grew during the Ebola crisis and through the COVID-19 pandemic.** During the Ebola outbreak of 2014-16, mobile money adoption was encouraged among response workers, and it has grown over the next half a decade. In 2020, during the first wave of the COVID-19 pandemic, the country saw 59 percent growth in the number

[6] Sierra Leone Economic Update, 2019, World Bank
[7] DE4Ahttp://documents1.worldbank.org/curated/en/219761541351080983/text/Concept-Project-Information-Document-Integrated-Safeguards-Data-Sheet-Sierra-Leone-Financial-Inclusion-Project-P166601.txt
[8] Only 23 percent of households have electricity at a national level, but only 2 percent in rural areas. See Sierra Leon 2019. Demographic and Health Survey.

of active customer accounts (90 days). As of December 2021, there were over 3 million active mobile-money accounts relative to an adult population of just under 5 million. The increase in activity was evident in the number of transactions as well as in the amounts transacted through DFS accounts: in December 2020, 14.3 million DFS transactions were conducted, which corresponds to a 32 percent yearly growth.[9] The growth in DFS is due to a decline in face-to-face (F2F) delivery by financial service providers (FSPs). As shown in Figure 2 below, overall face-to-face delivery in branches during COVID-19 was significantly reduced from 84 percent to 73 percent. Almost all commercial banks operating in the country have rolled out digital financial products to ease banking transactions for customers, in response to COVID-19 restrictions, resulting in increased usage of digital finance. Most non-bank providers kept their operations thanks to preventive rules set up during the Ebola crisis ("less touching policy") to contain the spread of the virus, but since they lack digital channels, they kept offering brick and mortar financial services.

14. **The ongoing Bank-funded Financial Inclusion Phase 1 Project has supported the improvement of the legal and regulatory framework for advancing DFS over the past three years.** The recently gazetted National Payments Systems Act, 2021 (NPS Act) covers the spectrum of important payment system issues, including recent innovations in the market such as fintech, payment systems oversight, and remittances among others. The Bank of Sierra Leone (BSL) has also recently adopted several DFS-related new guidelines on e-money services, the digital termination of remittances into accounts and the use of agents. Despite these improvements, most of which have been supported by the ongoing Financial Inclusion Phase 1 Project, additional regulatory and policy reforms are required, including on e-KYC, financial consumer protection, cybersecurity, among others.

15. **The BSL is also working on strengthening the existing national payment system (NPS) infrastructure by procuring a new National Electronic Payments Switch (NEPS) under the Phase 1 Project.** The NEPS is a critical yet missing element of the payment system that is expected to be implemented in the second half of 2022.

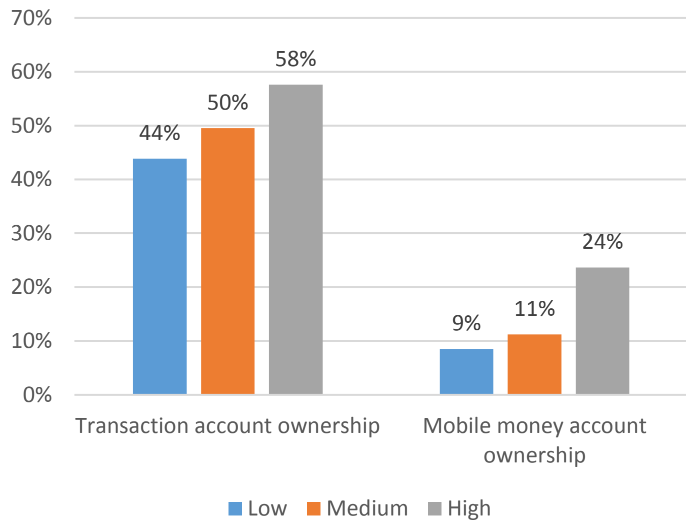
16. **Additional core NPS infrastructure elements need to be upgraded, including the real-time gross settlement (RTGS) and automated clearing house (ACH), both of which were introduced almost a decade ago.** Both the RTGS and ACH systems include participation by all 14 commercial banks.

17. **Digitization of government payments and services could further help increase uptake of DFS.** Digitization of G2P payments to response workers during the Ebola crisis showed digitization of payments can reduce leakages, and result in time and cost savings for the government.[10] Digitization of relief payments – both government-to-person (G2P) and government-to-business (G2B) payments to MSMEs – have also proven to be a game changer during the COVID-19 pandemic.[11] Additionally, digitization also helps bring informal entrepreneurs and MSMEs into the formal economy, therefore paving a way for their formal access to finance. Government collections, including both person-to-government (P2G) and business-to-government (B2G) payments, can also be leveraged to help PSPs and the NPS infrastructure achieve stronger commercial viability of their low-cost payment solutions due to higher levels of transactions. Broadening the acceptance of electronic payment instruments for a wide variety of government collections can be a natural and

[9] UNCDF State of Digital Financial Services Market in Sierra Leone (2020)
[10] Saving Money, Saving Lives: A Case Study on the Benefits of Digitizing Payments to Ebola Response Workers in Sierra Leone, Better Than Cash Alliance (2016)
https://reliefweb.int/sites/reliefweb.int/files/resources/Better_Than_Cash_Alliance_Ebola_Case_Study_May_2016.pdf
[11] Responding to crisis with digital payments for social protection: Short-term measures with long-term benefits, World Bank Blog (2020) https://blogs.worldbank.org/voices/responding-crisis-digital-payments-social-protection-short-term-measures-long-term-benefits;

meaningful means of making the accounts and other products issued in connection with government transfer programs – and, in general, all transaction accounts – more useful to account holders. [12]

Figure 3. DFS uptake and usage metrics (%, 2017) at various levels of financial and digital literacy



Note: Percentages show averages for each level of implementation

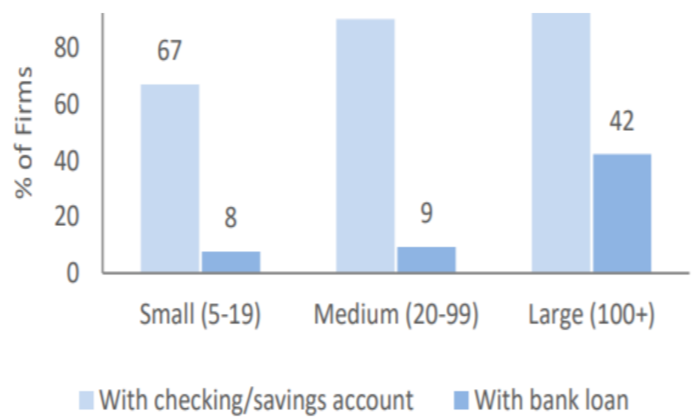
18. **The Ebola crisis and the ongoing COVID-19 pandemic have served as a reminder of the importance of financial literacy and financial consumer protection in increasing the uptake of digital channels.** Financial literacy is found to be a clear enabler for greater uptake of DFS.[13] Higher ratios of financially literate populations have demonstrated positive and strong relationships with higher percentages of the population owning an account as well as making or receiving digital payments (see Figure 3?). As of 2014, only 21 percent of the adults in Sierra Leone were financially literate, compared to 70 percent in more advanced countries.[14] At the height of the Ebola crisis, Sierra Leone turned to mobile wallets to make fast, accurate, and secure payments to response workers. A study conducted by the Better than Cash Alliance on digitization of payments during the crisis found that improving financial literacy could reduce resistance to digital payment products and channels. During the Ebola crisis, response workers often did not use their electronic accounts either to save or access other financial services. In a few other cases, FSPs did not treat response workers with low levels of literacy fairly, which led to lack of trust in DFS.[15] During the COVID-19 pandemic, faced with a similar situation, FSPs in Sierra Leone embarked on financial literacy campaigns using short videos, radio, and field ambassadors to fill in the knowledge gaps of customers that has so far hindered the uptake of DFS.[16]

MSME Access to Finance

[12] Payment Aspects of Financial Inclusion, CPMI (2016)
[13] Chien et al, 2022 (forthcoming)
[14] https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf
[15] Saving Money, Saving Lives: A Case Study on the Benefits of Digitizing Payments to Ebola Response Workers in Sierra Leone, Better Than Cash Alliance (2016)
https://reliefweb.int/sites/reliefweb.int/files/resources/Better_Than_Cash_Alliance_Ebola_Case_Study_May_2016.pdf
[16] Toronto Center 2021

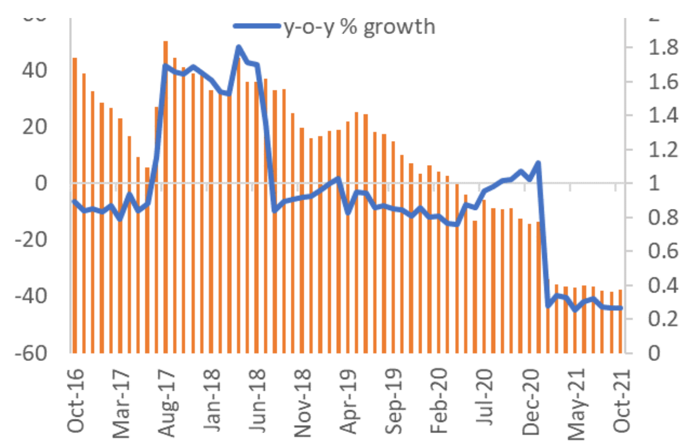
19. **In addition to low levels of financial inclusion for adults, MSMEs in Sierra Leone are also characterized by low levels of access to finance and scare credit options, resulting in a high unmet demand for MSME funding.** Based on the 2017 WB enterprise survey in Sierra Leone, access to finance was identified by 44 percent of small firms as the most significant constraint. It is likely to remain the major challenge considering COVID-19 caused disruptions and persistently high government security yields of around 25 percent that disincentivize banks from lending to the private sector. According to latest available data, only 17 percent of the SMEs in Sierra Leone have outstanding loan or line of credit. In 2017, about 70 percent of SMEs had an account at a formal financial institution, but this did not translate to access to credit (Figure 4).[17] Further, BSL data shows that the proportion of private sector credit to the total outstanding credit in Sierra Leone has been declining since 2018 (See Figure 5). Financial intermediation is extremely low and has been decreasing in recent years due to the increasing reliance on government borrowing from the banking sector.

Figure 4. Use of financial services by firms - by size



Source: Enterprise Survey (2017)[18]

Figure 5. Private Sector Credit in Sierra Leone



Source: BSL

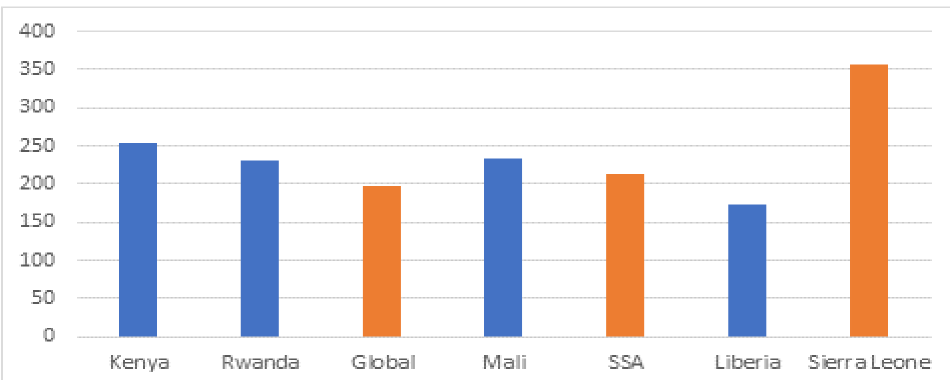
20. **MSMEs struggle for financing due to a range of factors, including limited suitable financial products, high collateral requirements, and high interest rates offered by commercial banks and MFIs.** Most FIs have high collateral requirements, typically in the form of immovable assets such as land. Although FIs indicate that their required loan to collateral value ratios range from 130 to 150 percent, the Enterprise Survey found that these rates were in practice upwards of 355 percent, against a regional SSA average of 213 percent (see Figure 6). This constrains the ability of most MSMEs to borrow, as they do not typically own significant real estate. In addition, FIs frequently require letters of support from reputable sponsors. Moreover, typical loans to MSMEs are offered for six-month terms at interest rates ranging from 22 to 30 percent per annum, requiring repayment begin after a 30-day grace period. MSMEs are competing with government for the limited funds commercial banks offer. The risk aversion from banks and microfinance institutions towards serving the MSME segment could be related to the latter's high credit risk, historically high default rates and high nonperforming loans (NPLs) in their portfolios, although analysis of whether these NPLs have been related to MSME activity has not been undertaken based on lack of segmented portfolio data.[19]

[17] Sierra Leone Enterprise Surveys (2017)
[18] https://openknowledge.worldbank.org/bitstream/handle/10986/30299/WP-PUBLIC-Sierra-Leone-2017.pdf?sequence=1&isAllowed=y
[19] Sierra Leone Agro Processing Competitiveness Project (WB Project Docs)

21. **Specifically, with regards to the high interest rates which are a sum of Cost of Funds, Credit Risk, Operational Expenses and Profits, it should be noted that:**

- **The cost of funds is extremely high**, especially for longer term local currency funds, partly as there are limited long-term funds and inflation is high, but more so due to the opportunity cost imposed by risk free government one-year securities consistently yielding around 25 percent.
- **The credit risk is high**, particularly for non-bank financial institutions (NBFIs) as most of them are currently not served by BSL's credit registry. This lack of NBFI inclusion could result in high over-indebtedness of some MSME clients. This is also exasperated by some banks that are lending at the same rate regardless of credit risk level; and the repayment culture is not strong in some parts of the market.
- **Operational expenses are also high** partly due to the need to invest in increasing outreach and improving financial literacy, and in some cases low volume of activity due to risk aversion by financial service providers, and unattractive loan products (or conditions?), such as high collateral requirements.

Figure 6. Value of collateral needed for a loan, percent of loan amount



Source: Enterprise Survey (2017)

22. **While Other FIs (OFIs) tend to provide financing to MSMEs, but they have more limited capital bases and corresponding regulatory constraints**. BSL Guidelines for Other Deposit Taking Institutions cap the maximum loan size to individual borrowers at 0.1 percent of the institution's capital base, and to group loans at a limit of 0.5 percent, constraining the potential loan size to MSMEs. For those OFIs serving MSME clients, many report difficulty in retaining clients as they graduate to larger ticket sizes and have more sophisticated financing needs.

23. **The provision of financial products and services through digital channels, is widely considered an essential enabler to close the MSME financing gap.** For starters, technology innovations can serve as the foundation for the development of new business models and digital financial products, which include digital loans and other credit products, as well as equity capital. New financial sector players and traditional FIs alike can use technology to transform the traditional lending process by automating the underwriting and loan servicing tasks making it significantly cheaper, faster, and easier to provide financing to MSMEs. But most importantly, for MSMEs, digitization facilitates improved access to information—both within the firm, to increase efficiency and profit maximization, and to create data for external partners such as equity investors and lenders. Digitizing payments generates massive amounts of detailed transactional data which can be used as a basis to estimate income, evaluate risk, and extend financial services. Accelerating the development of

digital payments for MSMEs also strengthens the ecosystem for financial inclusion for consumers, allowing them to pay electronically.[20]

24. **A targeted line –of credit, in line with international good practice, could provide longer-term liquidity and lower the cost of funds for sound Participating FIs (PFIs).** The longer-term liquidity support provided through the line of credit needs to be accompanied by technical assistance to further improve credit risk screening and operational efficiencies.. Consultations indicate that a line of credit offering longer maturities, a grace period, and technical assistance to improve credit analysis to avoid extremely high collateral requirements would be well received by the PFIs and potential MSME clients.

Credit infrastructure

25. **There is a need for putting in place a modern credit registry, which is critical to ensuring that FIs can obtain consumers' digital credit history to assess their risk profile to support credit underwriting.** Credit registries serve a critical function of capturing consumers' credit histories to inform credit risk profile development to support loan underwriting. The establishment of the digital credit registry will also help with the digitization of the credit underwriting process by FIs and NBFIs, leverage data and algorithms to develop credit scores that will increase reach and improve risk management and thus improve the effectiveness of the financial intermediation process and boost access to finance.

26. **Although the collateral registry for movable assets has been enhanced, its uptake is still limited.** Effective movable asset secured transaction reforms can facilitate the use of movable assets by businesses, especially women-led ones as collateral for loans and thus increase access to credit. The 2020 amendment to the B&L Act expanded the scope of the law to cover NBFIs and individual lenders, although in practice there have been delays in covering the NBFIs. The enhanced collateral registry was launched in December 2021, but its uptake is still limited. Awareness raising activities are critical to shape the market and embed the reforms to deliver the envisaged increased access to finance especially for MSMEs.

Gender

27. **Sierra Leone ranks 121 out of 156 countries in the United Nation's 2021 Gender Equality Index[21], and women face additional constraints to accessing financial services and expanding their businesses.** A 2015 study by the IFC found that about 70 percent of economically active women in the country worked for micro or small businesses. Yet most struggled to access the training and financing products they needed to grow, including payments and credit facilities. Existing evidence pointed to the difficulties faced by women in accessing even the most basic financial services. For instance, in 2017, only 15.4 percent of women had an account at a formal financial institution compared to 24.8 percent of men. The female account ownership rate in Sierra Leone is lower than the averages for SSA and low-income countries. Likewise, significantly more men than women (19 vs. 12 percent) reported in 2017 to have made or received a digital payment in the past 12 months. Root causes for exacerbating women's inability to access adequate financing and use DFS include lack of collateral and credit history, limited awareness of financial products/services and inadequate documentation in terms of business and accounting records that financial institutions would need to assess their credibility and borrowing capacity.[22] Moreover, women-led MSMEs are less likely than their male counterparts to use bank loans or other sources of formal credit to finance working capital (4 vs. 9.5 percent) because of unconscious self-defeating beliefs

[20] How can digital financial services help a world coping with COVID-19? World Bank Blog (2020) https://blogs.worldbank.org/psd/how-can-digital-financial-services-help-world-coping-covid-19

[21] For more info see: https://data.unwomen.org/country/sierra-leone

[22] https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=24527#:~:text=The%20National%20Study%20on%20Women's,launching%20or%20growing%20a%20business.

and lack of skills that are required to apply for commercial financing and use it for business purposes. Through component 1, the proposed project will also focus on DFS reforms and financial literacy/capacity enhancing interventions to facilitate the adoption and usage of basic transaction accounts, which are expected to benefit women more than men. For instance, comprehensive financial consumer protection reforms will be supported that address women's needs, such as requirements to disclose product prices and terms in clear language, while at the same time women's financial literacy/capacity will be strengthened to help them choose DFS products that meet their needs and help them avoid financial fraud. Component 2 will facilitate access to finance, in particular for women-led MSMEs, through a line of credit (LOC) and TA to FIs to develop innovative credit products that do not on traditional forms of collateral that women typically lack. Moreover, credit infrastructure investments are considered that will facilitate the digitization of the credit underwriting process by FIs and NBFIs, leverage data and algorithms to develop credit scores that will help increase reach to women-led MSMEs.

Relationship to CPF

28. **The proposed project supports the development of an inclusive financial system in line with strategic objectives of Sierra Leone's Medium Term National Development Plan (MTNDP) as well as the recently launched National Strategy for Financial Inclusion (NSFI) 2022-2026.** The MTNDP emphasizes the importance of advancing financial inclusion of un- and underserved segments of the population through access to and usage of affordable financial products and services which will be supported through project activities. Moreover, the proposed project directly supports achievement of several key objectives of the NSFI 2022-2026, including "to improve access to finance for MSMEs", "to promote the development of client-centric financial products and services geared towards unserved and/or underserved population groups such as women, rural-based communities, and MSMEs", "to promote and leverage digital technology to accelerate the delivery, availability and use of appropriate digital financial products and services", and "to ensure all Sierra Leonians have access to appropriate financial education which allows them to confidently access and utilize financial products and services, while ensuring their safety and protection".

29. **The proposed project is an explicit contributor to key objectives of Sierra Leone's FY21-26 Country Partnership Framework (CPF).** Specifically, it directly supports achievement of objective 1 under the CPF's focus area 1: "Sustainable Growth and Accountable Governance", which seeks to strengthen macroeconomic stability, fiscal and financial management, including through support in building a modern financial architecture and fostering financial inclusion. In addition, the project would directly support the achievement of Objective 3.2 under the CPF's focus area 3: "Economic Diversification and Competitiveness with Resilience", which seeks to boost productivity for a diversified economy, including through activities aimed at increasing access to finance for businesses. It is also grounded in the World Bank Systematic Country Diagnostic (SCD) for Sierra Leone from 2018, which identifies broadening of financial access as a measure with substantial impact on the World Bank twin goals twin goals of eliminating poverty and boosting shared prosperity.

30. **The proposed project also contributes to the World Bank's Western and Central Africa Region Priorities (2021-2025).** Access to basic financial services supports the "4 Big Goals" to transform the economy and inclusive growth, including improve service delivery, support critical infrastructure, promote private sector investment, and promote green cities. Specifically, by supporting the BSL and FSPs in the financing of MSMEs, the project is expected to contribute to the region's objective of promoting private sector investment and job creation, therefore contributing to the goal of more and better jobs. In addition, by supporting increasing access to accounts and DFS, which will lead to substantial reduction in

travel by all economic actors to physical locations (for example, to the bank, drive to pay bills or receive payments), the project will support climate change mitigation and adoption.

31. **The proposed project is well- coordinated with other WBG interventions.** The proposed project will support objectives of other World Bank Global Practices' projects, such as Governance, Digital Development and Social Protection, including, for instance, through its support to digitization of government payments. The proposed project is also complementary to the Development Policy Operation (DPO) series led by Macroeconomics, Trade, and Investment (MTI), and the Agriculture GP's projects that support competitive value chains. The proposed project, in particular the access to credit for MSMEs component, is also coordinated with IFC's access to finance program.

32. **The proposed project would build upon the investments, experiences, and lessons from the Sierra Leone Financial Inclusion Phase 1 Project (P166601) and beyond.** While the phase 1 project mainly supports the interoperability of digital payments through financing of the hardware, software and consulting services required to successfully implement the national switch, the proposed project design will focus mainly on supporting increased usage of the payments system addressing key barriers related to limited financial access points and other payment systems infrastructure development needs, as well as legal and regulatory barriers and low financial literacy/capability levels. The proposed phase 2 project will also expand the scope of beneficiaries of project activities from individuals to businesses by facilitating sustainable access to credit for MSMEs.

33. **Finally, the design of the project is aligned with some of the preliminary findings and recommendations of the ongoing Financial Sector Assessment program (FSAP)**. Initial findings of the ongoing FSAP, carried out in close cooperation with the Government of Sierra Leone, suggest that low levels of digital financial inclusion, shortcomings of regulatory and supervisory frameworks for DFS and MSME A2F, and limited supervisory capacity are some of the key financial sector challenges for Sierra Leone. Thus, the sector is underdeveloped with less than 20 percent of the adult population having an account in a formal financial institution (Findex 2017) and a pronounced difficulty for the poorest part of the population and MSMEs to access financial services compared to similar countries. This project will support priority FSAP recommendations, including supporting regulatory reforms and upgrading the national payments and credit reference systems.

C. Proposed Development Objective(s)

The objective of the project is to facilitate the financial inclusion of individuals and micro, small and medium sized enterprises (MSMEs)

Key Results (From PCN)

1. Increase in the percent of adults with basic transaction accounts at a formal financial institution or mobile money provider (gender disaggregated)
2. Increase in the percent of adults that made or received a digital payment in the last year (gender disaggregated)
3. Volume of MSMEs loans provided by PFIs through the LOC (gender disaggregated)

D. Concept Description

34. **The project proposes to finance activities to support financial inclusion in Sierra Leone over five years for US$30 million.** Under component 1, the proposed project supports activities to faciliate adoption and usage of basic transaction accounts. The core strategy is to faciliate the expansion of digital financial access points and further development of the national payment systems infrastructure. Supported by a stronger enabling environment, these measures aim to contribute to broader adoption of transaction accounts and digital finance in Sierra Leone – including as a store of value and as steppingstone for the poor to access more advanced financial services. Under component 2, the proposed project facilitates sustainable access to credit for MSMEs. The proposed project would include a mix of technical assistance, training, specific investments in payments and credit information systems, and a line of credit for MSMEs. Component 3 supports Project Management, Monitoring and Evaluation and while component 4 would house the Contingent Emergency Response Component (CERC).

35. **The main project beneficiaries are those Sierra Leonian individuals and businesses that are currently not financially included.** A specific focus is on targeting women and women-owned enterprises, to reduce disparities in access to finance for women. Direct beneficiaries of the project will include: (i) Individuals and businesses; (ii) MSMEs; (iii) Financial institutions; (iv) Mobile money operators; (v) BSL and MoF.

36. **The proposed project design will support a range of IDA19 corporate priorities, including gender and climate change.** The Project will aim to monitor the extent to which activities are contributing toward closing gender gaps by measuring, among other things: (a) the number credit registry users who are women; (b) the number of women-led MSMEs that get trained; and (c) the number of women-led MSMEs that get a loan through the Line of Credit supported under the Project. By supporting increasing adoption and usage of transaction accounts and DFS which will to substantial reduction in travel by all economic actors to physical locations (for example, to the bank, drive to pay bills or receive payments) the project will support climate change mitigation and adoption. The project activities will also help to build resilience to the effects of climate change by enabling services such as payments, savings, credit, insurance, remittances, and government transfers that can provide critical support for those managing new environmental realities. For instance, the modern credit registry will help to offer lending in a more efficient and affordable way to help manage new environmental realities.

Component 1: Adoption and usage of transaction accounts

37. **The objective of this component would be to support adoption and usage of transaction accounts.** These measures aim to contribute to broader adoption and usage of transaction accounts and digital finance in Sierra Leone – including as a store of value and as steppingstone for the poor to more advanced financial services.

Sub-component 1.1: Enhancing access points for digital payments

38. Sub-component 1.1 would seek to facilitate the expansion of access points, including point of sale (POS) terminals, mobile wallets and other digital financial access points that facilitate government and other payments.

Sub-component 1.2: National payments system infrastructure development

39. Sub-component 1.2 would seek to facilitate a safe and efficient payment system with the latest features and functionalities and support ancillary system and participants’ access to the payment system through a combination of TA and investment financing.

Sub-component 1.3 Enabling environment for increased adoption and usage of transaction accounts

40. Sub-component 1.3 would seek to facilitate an enabling environment for increased adoption and usage of transaction accounts through a combination of technical assistance and investments.

Component 2: Increasing access to credit for MSMEs

41. The objective of this component is to facilitate sustainable access to credit for MSMEs, in particular women-led businesses.

Sub-Component 2.1: Enhancing the supply of and demand for MSME A2F

42. Sub-component 2.1 is centered around an MSME line-of-credit to competitively selected Participating FIs (PFIs) and accompanying TA to all eligible FIs so they can better serve MSMEs.

Sub-Component 2.2: Enhanced supervisory capacity

43. Sub-component 2.2 will invest in the supervision capacity of financial sector regulators (especially the BSL's Other FI Supervision Department, and potentially others such as Apex Bank based on further scoping) so they are better able to support sustainable MSME access to finance.

Sub-Component 2.3: Enabling a modern credit infrastructure

44. This sub-component aims to facilitate the establishment and operationalization of a modern credit reference system and support increased uptake of the newly launched collateral registry.

Component 3: Project Management, Monitoring and Evaluation

45. This component will support: (i) Government and other actors capacity strengthening for the coordination, design, and implementation; (ii) the administrative, technical, and financial management of the project by Project Implementation Unit (PIU) under the oversight of Project Steering Committee; (iii) the coordination among all institutional partners to ensure the efficient flow of information among all actors and coordination with the private sector; (iv) the establishment of monitoring and evaluation mechanism of the project's results and impact; (v) the development of communication activities to publicize and disseminate project results, best practices, and success stories.

Component 4: Contingent Emergency Response Component (CERC)

46. In line with the World Bank's Operational Policy OP8.00, it would also house a CERC. This is a provisional zero amount component to allow for rapid reallocation of loan proceeds from other project components during an emergency such as a natural or constructed disaster or crisis that has caused or is likely to cause a major adverse economic or social impact. To trigger this sub-component, the Government must declare an emergency or provide a statement of fact justifying the request for activating the use of emergency funding.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

CONTACT POINT

World Bank

Siegfried Zottel, Nancy Chen
Senior Financial Sector Specialist

Borrower/Client/Recipient

Republic of Sierra Leone

Implementing Agencies

Bank of Sierra Leone
Sheikh A. Y. Sesay
Deputy Governor
saysesay@bsl.gov.sl

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Siegfried Zottel, Nancy Chen

Approved By

Practice Manager/Manager:		
Country Director:	Abdu Muwonge	03-Jun-2022