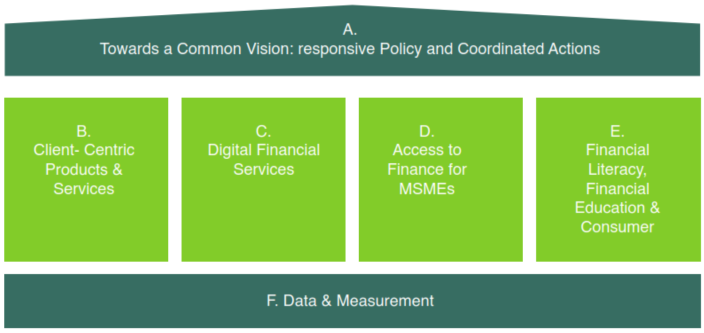
SIERRA LEONE: MARKET POTENTIAL AND AVAILABLE DATA SOURCES

80% of Sierra Leoneans still face financial exclusion even with the emergence of mobile money. However, recent survey data from the World Bank (Global Findex 2017) suggests that financial inclusion is increasing for a segment of the population while others are being left behind. This annex unpacks these trends and uses other local data sources to characterise both the challenges and opportunities that result from uneven levels of access evident across the country's regions.

The National Strategy for Financial Inclusion (NFIS) 2017 – 2020 aims to transform the financial sector to serve the underserved and unserved segments of Sierra Leone and contribute to a more inclusive, resilient and economically vibrant country. It highlights data and measurement as the foundation for all its key implementation priorities. Use of data presents an opportunity for accomplishing at least three of the six key NFIS implementation areas illustrated above: client-centric products and services, digital financial services and access to finance for SMEs.

Key areas of intervention in NFIS 2017-2010



External data sources

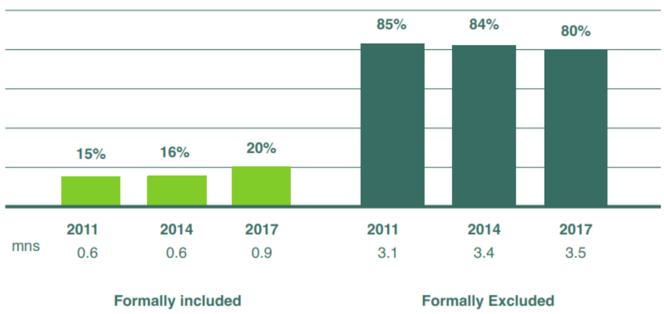
The DMAC team has identified four high-quality local data sources that all have a potential relevance to financial inclusion, plus one global source. The table overleaf looks at relevant publicly available data sources and their relevance to the three NFIS key implementation areas addressed by DMAC identified above.

Our initial analysis of the data sources identified has produced the following **key findings**:

NFIS Area B: Client Centric Products & Services – ***Characteristics of who is and is not being served and how this is changing over time using World Bank data sources***

Growth in formal inclusion rebounded strongly after Ebola with numbers reached growing at a compound 11% per year since 2014. However, even this rapid growth has not been enough to keep up with population growth so formal exclusion is still growing in numbers terms albeit much more slowly.

Trends in formal exclusion/inclusion



Other key points in terms of formal inclusion include:

- Male access grew by enough to keep the actual number of excluded men unchanged;
- Women and older adults accounted for all the growth in overall exclusion;
- The real gainers were young adults, with 19% served by 2017, up from 6% in 2014;
- The poor gained access much faster than the better-off but there are still large numbers of unserved adults at all income levels; and
- Right along the income spectrum, more value passes as cash and barter through the hands of the unserved than is handled by the served more formally via accounts or mobile wallets.

With so much value in the hands of the unserved this represents a real opportunity for FSPs to bring cash circulating in the informal economy into the formal sphere.

Mapping of five key public domain data sources for their relevance to three of the NFIS key implementation areas

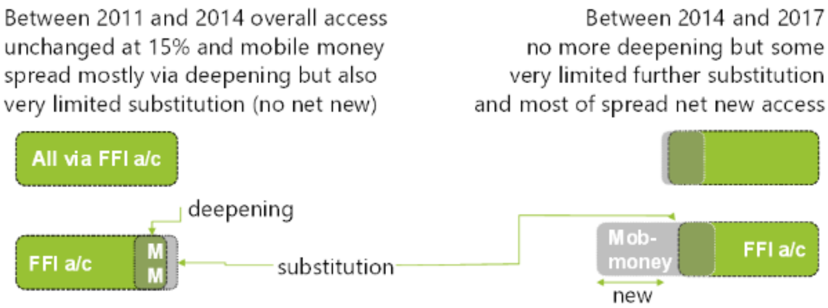
	National Census (2015)	Integrated Household Survey (2011 + 2018 due)	Labour Force Survey (2014)	MIS-DHS (2016)	Findex (2011/2014/2017)
General relevance	Very fine microdata on who lives where and basic characteristics that can support access point catchment area planning	Wealth grading data + income/expenditure at household level plus educational status and employment status of household members	Labour force survey with full detail on employment and un/ under-employment plus relative formality/ informality	Malaria Indicator Survey / Demographic and Health survey with relatively up to date household profiling	World Bank Group's triennial Global Financial Inclusion database – small sample but gives trends/ benchmarks
Particular relevance to NFIS Area (B) – Client centric Products and Services	*No direct relevance*	Has basic question on access to both formal/ informal saving and credit and allows profiling of served / unserved by region Including age profiling	May be possible to provide extra detail on sources of income for individual household members by education/ employment status	Basic question on bank account/informal saving with some extra detail on women's empowerment	Adds mobile money to IHS formal/ informal definitions (to which it broadly reconciles) and adds some use data to basic access but only at national level
Particular relevance to NFIS Area (C) – Digital Financial Services	Combine with access point geolocation to get population within 2km, 5km, 10km, etc. (already being done within BSL)	Limited – asks about ownership of mobile phones in household (up to two) and access to internet	No questions on mobile phones in either survey		See above re mobile money and also allows estimates of mobile access to other formal finance
Particular relevance to NFIS Area (D) – Access to Finance for MSMEs	Fine granularity market scoping for different levels of involvement in SME and informal MSE	Links level of MSME involvement to formal/ informal access to savings and credit down to regional level	Detail on family (MSE) farming and non-farm activities (including a borrowing question but no other FI data)	*No direct relevance*	Some very basic questions on saving/ borrowing for business plus receiving agri-payments via mobile
Access/ caveats	Special tabulations have to be requested from SSL; no access to individual records	Databases and questionnaires/ reports downloadable from World Bank Microdata (need to register for databases but questionnaires/ reports are publicly available). Statistical software needed to analyse data.			Openly available – from World Bank Group Global Findex with 2011/2014 microdata available

NFIS Area C: Digital Financial Services – How mobile money is reaching previously unserved segments

The fact that so much value circulates beyond the direct reach of formal finance, even in the bottom half of the income spectrum, creates an opportunity for mobile network operators (MNOs) to reach poorer sections of a society in ways that formal financial institutions (FFIs) cannot.

This is already happening in Sierra Leone and Global Findex data was used to draw a distinction between people who have FFI accounts and/ or mobile money. Mobile money makes a real difference to how people access financial services in three ways:

- *deepening existing access* – people mixing mobile money with existing access to FFIs;
- *substitution* – where people use mobile money instead of FFI accounts; and by
- *providing new access* to people who would otherwise never have been served.



- The rapid growth of formal inclusion for young adults between 2014 and 2017 was all due to the spread of mobile money, with very little *deepening* or *substitution* and a lot of net *new access* being created. In contrast, older adults just *substituted* increased use of mobile money for previous FFI access.
- The difference between improving rates of male inclusion and lagging female inclusion appear to have nothing to do with differences in patterns of uptake. Both have *deepened* a bit and *substituted* as well but proportionate rates of expansion in access have been broadly the same. The problem is that women are being left behind by both formats.

Mobile money is clearly working for young adults (and is working in a similar way for the poor). Women, however, constitute a big opportunity for all kinds of FSPs to target.

NFIS Areas B and C: Client Centric and Digital Financial Services – ***Using StatsSL survey data to identify the opportunities and challenges of going regional***

Findex data can provide good national insights but involves too small a sample to say anything meaningful about the very uneven access available across the country. This is a key challenge identified in NFIS 2017-2020. The DMAC team therefore used NFIS data and two large national household surveys (the MIS-DHS 2016[1] and the 2011 SLIHS[2]). The DMAC team started with the SLIHS and used this to project forward differences around national averages as indicated by Findex.

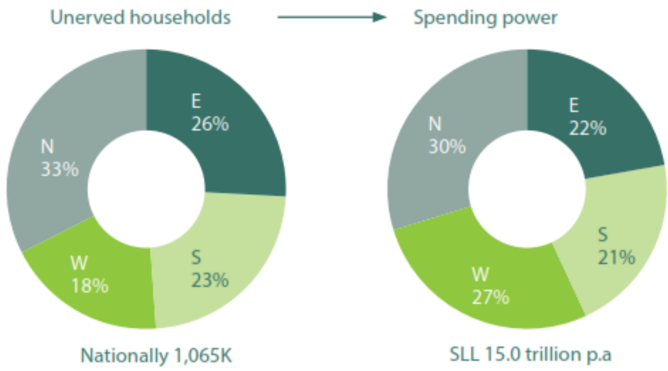
- The main focus of the DMAC team work has been to get a regional split of both the number of served and unserved adults and a value split of the spending power passing though the hands of each group. To do this, adjustments had to be made for the differences between individual and household access to formal

[1] Malaria Indicator Survey (MIS-DHS) 2016

[2] Sierra Leone Integrated Household Survey (SLIHS) 2011

finance. The rates in the chart above are household access rates and average 11% across all regions, whereas 2011 Findex data indicated that formal inclusion at an individual level averaged 15% nationally;

➢ These differences are indicative of rich potential pathways for well designed and marketed products to either get into apparently unserved households or spread through them once one household member signs up.[3] Understanding them and their impact on measured data is a potential competitive advantage that DMAC aims to bring to supported partner FSPs. For the purposes of this call for proposals, however, our analysis focuses on the split of served and unserved households by region and their total household spending power.



Conclusions

The purpose of this annex is to demonstrate the potential for public domain data to help FSPs find genuinely commercial opportunities to start doing business with the 3.5 million Sierra Leonean adults who currently have no FFI account or mobile money wallet. Our initial analysis suggests a number of opportunities for FSPs to reach potential customers from the unserved/ underserved market segment:

- The 80% of adults who go unserved translates one for one into 80% of all household expenditure passing through their hands – FSPs could bring more of this into the formal sphere by offering bank accounts, mobile wallets and other services to those currently only using cash and other informal financial alternatives;
- The unserved are not particularly poor – the bulk of the unserved circulating value is moving around in the mass-middle and upper-mass middle market (i.e. not the top quintile nor the bottom two quintiles);
- Moving outside the relatively well-served Western region will not mean going particularly downmarket as the regional splits of both served and unserved spending power are not much different from the matching regional splits for served and unserved households;
- Women control much of the circulation of household spending power but are lagging behind in terms of financial inclusion – this market segment represents a real opportunity for FSPs to expand their customer base and capture cash flow but neither FFIs nor MNOs do particularly well in this market;
- Young adults across the income spectrum are responding very well to mobile money and now make up roughly half of total take-up but there are still eight unserved young adults for every young-adult mobile wallet user. MNOs might consider value added financial services specifically designed for young adults. FFIs might consider whether it would be better to work with MNOs to reach the young-adult market rather than trying to reach them directly;
- Insurance companies might also explore using mobile phone technology to increase the spread and depth of their services generally; and
- Given the uptake of mobile money services and other technology, there is also an opportunity for financial technology companies (fintechs) to work with MNOs, FFIs or insurance companies to facilitate digital financial services.

We would encourage FSPs to do further research into these potential new market areas drawing on the external sources we have highlighted in this document.

[3] Where the individual penetration ratio is higher than the household one it can often indicate either heightened levels of adults within a household all taking some sort of account/wallet or unserved heads of household being unaware of undisclosed account/wallet-holding by other adults in the household.