Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 19-Nov-2018 | Report No: PIDISDSA25747

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Sierra Leone	P166601	Sierra Leone Financial Inclusion Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	05-Nov-2018	18-Dec-2018	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 increase the interoperability of digital payments and access to financial services for individuals.

Components

Enhancing Interoperability of Digital Payments
Ensuring the Viability of the Payments Infrastructure through Increasing Usage
Project Implementation Support

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	12.00
Total Financing	12.00
of which IBRD/IDA	12.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	12.00
IDA Credit	12.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

Sierra Leone is a low-income post-conflict country located in coastal West Africa with a population of 7.56 million inhabitants. Urbanization has increased significantly in recent decades, with the share of the population living in urban areas doubling from 21 percent in 1967 to 40 percent in 2015. The country is also young and growing rapidly, with 45.8 percent of the population under the age of 15 and 74.8 percent below 35. Sierra Leone has abundant natural resources, including forests, fisheries, and minerals (e.g., diamonds, gold, iron ore).

The economy of Sierra Leone grew significantly from 2002-14, but in 2015 the country was impacted by the Ebola outbreak and the downturn in iron-ore prices. Between 1991 and 2001, the country experienced a civil war that led to an economic contraction of 3.4 percent on average per year during this decade. This civil war resulted in an estimated 50,000 deaths and widespread displacement. The economy expanded significantly in the post-war years, with economic growth averaging 5.9 percent from 2002 to 2015 and driven primarily by agriculture and mining. In 2015, the economy contracted by 21.1 percent due to the Ebola outbreak and downturn in iron ore prices.

The economy began to recover in 2016 when the country was declared Ebola free. The economy grew by 6.1 percent in 2016. In 2017, growth moderated to 4.3 percent reflecting weak recovery of mineral production, particularly iron ore. Despite this growth, the country continues to face balance of payments challenges. The current account deficit increased during this period driven by increased private consumption of imported items and sluggish export growth. This put pressure on international reserves, and in response the Bank of Sierra Leone (BSL) reduced its intervention in the foreign exchange market, leading to a significant depreciation in the exchange rate. This, along with increased foreign direct investment, International Monetary Fund (IMF) resources, and higher portfolio investment have allowed the country to manage the current account deficit.

Monetary policy was initially loosened to support the recovery that began in 2016, but has tightened in response to growing inflationary pressures. The inflation rate declined to 15.3 percent in December 2017 down from 17.4 in December 2016 due to relative stability of the exchange rate, reinforced by the tight monetary policy stance of BSL. Food inflation also declined slightly as food supply constraints eased moderately during 2017. The BSL raised the monetary policy rate by 50 basis points to 14.5 percent in December 2017 to further contain inflation. This followed three consecutive 100 basis-point increases in March, June, and September, respectively. The tighter policy stance of BSL has led to tight liquidity conditions in money markets with some commercial banks facing increased liquidity constraints. Domestic credit has grown significantly due primarily to an increase in the claim on the central government. This is due to the Government reliance on substantial borrowing from commercial banks to finance the persistent fiscal deficit.

The country faces significant fiscal challenges due to shortfalls in revenue mobilization and spending overruns. The overall budget deficit including grants deteriorated to 9.4 percent of GDP from 8.1 percent in 2016, as revenue mobilization failed to keep pace with the rapid growth in expenditure in recent years. The increase in total government expenditure was driven by spending overruns in wages, transfer of goods and services and domestic capital expenditure. The recent shortfalls in revenue mobilization were driven by a decline in foreign aid, the lack of implementation of fuel price liberalization, and excessive duty waivers. The deficit was financed by external loan disbursements and grants as well as domestic borrowing, mainly from the banking system, which exceeded the 2.0 percent of GDP limit that is part of the Government's medium-term fiscal program. The worsening fiscal position of the Government and the underperformance of domestic revenue mobilization has led to a sharp rise in the stock of public debt. However, the most recent Debt Sustainability Analysis (June 2017) indicates that Sierra Leone remains at a moderate risk of debt distress.

Economic growth is projected to rise from 5 percent in 2018 to 6.5 percent by 2020. Growth is expected to be driven by increased private sector investments in agriculture and mining, coupled with improved spending on road construction and energy as well investment climate reforms. The fiscal deficit is expected to narrow to 3.8 percent of GDP by 2020 due to fiscal consolidation, implementation of Government's medium-term revenue mobilization strategy and new public financial management reforms. The BSL is expected to continue its tight monetary policy stance, complemented by fiscal consolidation, to bring down inflation to 9 percent over the medium-term. The current account deficit is projected to steadily decline to 15.1 percent of GDP by 2020 due to positive outlook of commodity prices which is expected to support export growth. Nonetheless there remain significant downside risks which could impede the growth outlook. The main risks to Sierra Leone's growth outlook are the persistent fiscal deficits, adverse debt dynamics, weaknesses in the banking sector, and the volatility of economic growth.

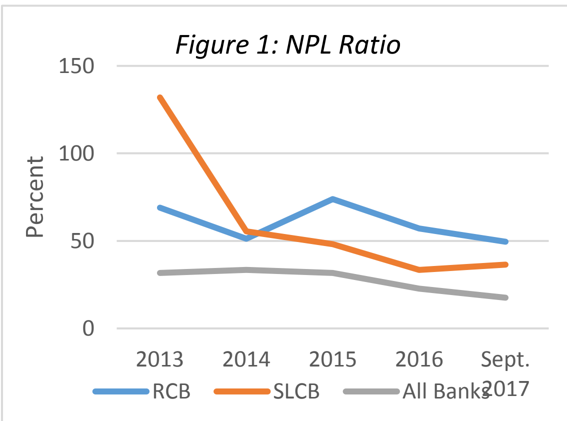
Based on the most recent household survey, the incidence of poverty has declined by 12.6 percent from 2003 to 2011. The 2011 Sierra Leone Integrated Household Survey (SLIHS) estimated the incidence of poverty to be 53.8 percent. However, the total number of poor remained relatively constant at 3.3 million people due to the increase in population. Poverty is also disproportionally rural, with the most recent household survey indicating that more than three-quarters of the poor live in rural areas.

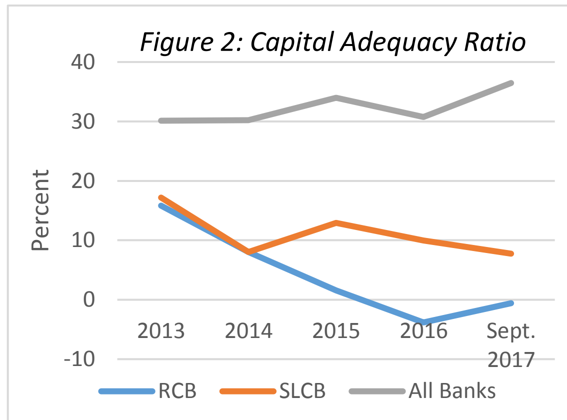
Sectoral and Institutional Context

The financial sector in Sierra Leone is one of the shallowest in the region, and has been declining. Credit to the private sector declined from 7.5 percent of GDP in 2011 to 5.8 in 2016 and to 5.1 in 2017. The major driver of this has been increased lending from the banking sector to the central government, which increased from 5.5 percent in 2011 to 16.18 in 2016 and 17.6 percent in 2017.

The banking sector is dominated by commercial banks. The banking sector in Sierra Leone includes 14 commercial banks, 17 community banks 59 financial services associations (FSA), 13 MFIs (2 deposit taking and 11 credit only), and three mobile money operators. The commercial banking sector accounts for 99 percent of all financial sector assets. There are 11 foreign banks, two state owned banks, and one domestic banks. Total assets of the commercial banking sector are Le5.29trillion, and account for over 99% of the assets in the financial system. The 11 foreign banks account for most than 60% of the industry's total assets.

Outside of the two state-owned banks, the banking system is broadly stable. The Capital Adequacy Ratio (CAR) for the banking system increased from 30.7 percent to 34.1 percent in 2017, indicating that the system has adequate buffers in the case of losses. Asset quality has also improved in recent years, although the absolute level remains problematic. The level of non-performing loans (NPLs) peaked at 33.4 percent at end-2014 and declined to 23 percent at end-2016 and 18 percent at end-2017. Profitability has also improved, with return on assets (ROA) increasing from 2.9 percent at end-2016 to 5.3 percent at end-2017 and return on equity (ROE) increasing from 22.3 percent at end-2016 to 25.6 percent at end-2017. Commercial banks are also growing, with new deposit accounts growing by on average in recent years partially due to an increasing branch network.





Two large state-owned banks pose challenges to financial stability. Despite the entrance of a number of foreign banks over the past decade, the two state-owned banks (Rokel Community Bank - RCB and Sierra Leone Commercial Bank - SLCB) continue to be key players with 28.6 percent of assets, 36.2 percent of deposits, and 23.8 percent of credit. Both RCB and SLCB had to recognize large and long-standing asset problems in 2014, which resulted in an erosion of their capital base and measures by the authorities to initiate their restructuring. This was the major driver of the system-wide NPL increase mentioned previously. BSL has intervened in the banks and has temporarily taken over management of the two institutions and has put in place mechanisms to limit new corporate lending. However, the underlying questions about their business model and their viability remains and needs to be addressed. The government is currently determining how to proceed with the restructuring of these two banks. The outcome of this restructuring will have significant impact on the financial stability of the country, which amongst other things, will likely increase risk taking amongst banks and decrease the cost of finance overall for enterprises.

The two large state-owned banks also pose challenges to increasing access to finance, and in particular for the enterprise sector. To finance the budget deficit, government borrowing from the banking sector has increased in recent years, which has limited the available credit available to the private sector. Credit to the private sector declined from 7.5 percent of GDP in 2011 to 5.8 in 2016 and to 5.1 in 2017. At the same time, credit to the central government increased from 5.5 percent in 2011 to 16.8 percent in 2016 and 17.6 percent in 2017. The major driver of this decreased lending to the private sector and increased lending to the central government has been the two state-owned banks. In addition, they often do so with government securities that have terms that are more advantageous that securities sold more broadly to the market. In by doing so are effectively limiting access to finance, and in particular the enterprise sector. The outcome of the planned restructuring of these two banks has the potential to greatly increase the funding available to the private sector, and could be a major driver of increased access to finance for the enterprise sector.

The 17 community banks, 59 FSAs, 2 deposit taking and 12 credit only MFIs are the primary branch based financial service providers in rural areas. Community banks, FSAs, and MFIs primarily cater to micro and small entrepreneurs and enterprises. These institutions also have a significant focus on agricultural lending and on rural areas. Women also make up a significant portion of loan recipients, 44.05 percent in the case of FSAs. The 17 community banks and 59 FSAs account for less than 1% of total assets in the financial system and have had uneven performance in recent years. BSL has indicated that this was due to poor corporate governance, internal controls, lack of basic infrastructures, weak information and communication technology. The BSL has increased on-site and off-site inspections of these banks and the International Fund for Agricultural Development (IFAD) has supported the restructuring of six (6) Bank of Sierra Leone pioneered community banks and also established eleven (11) more community banks and fifty-one (51) Financial Services Association (FSAs). The two deposit taking MFIs and 12 credit only MFIs. The two-deposit taking and twelve credit only MFIs have less than 1% of total financial sector assets and are relatively small, but have a total of 101 branches and a wide geographic reach. BSL took over supervision of these institutions in December 2015.

Access to finance is very limited in Sierra Leone. The 2018 Doing Business Report ranks Sierra Leone at 159th out of 190 countries in getting credit. Financial intermediation is very low and has been decreasing in recent years as indicated earlier due to in recent years due to the increasing reliance on government borrowing from the banking sector. Additionally, credit is scarce, particularly for MSMEs and entrepreneurs. A multitude of factors explain the low level of access to finance for entrepreneurs. First, Sierra Leone's nascent collateral movable registry has experienced little uptake. This situation precludes the securitization of loans and the guarantee for lenders on recovering assets in the event of default. As a result, lending is largely concentrated on corporate entities and trade as banks are less willing to lend to entrepreneurs and the agricultural sector due to their high perceived risk. Second, Sierra Leone lacks a modern credit registry, which is critical to ensuring financial institutions can obtain consumers' credit history to assess their risk profile. The current excel-based credit registry is prone to human error, susceptible to fraud, and time intensive, among others. Third, commercial banks do not offer products and services tailored to SMEs. In this context, banks are largely concentrated on corporate entities and trade.

Access to financial services remains low, at less than half the Sub-Saharan average. According to FINDEX 2017, only 19.8 percent of the adult population has an account with a formal institution or mobile money provider, compared to 42.6 and 34.9 percent for the Sub-Saharan and low-income countries averages, respectively. Further, there has been little improvement in the level of financial inclusion since 2011 (15.3 percent), highlighting the need to put in place the requisite financial sector infrastructure, policies, and investments, among others to help drive financial inclusion. 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). Access to financial services is even lower if one excludes mobile money, with accounts at financial institutions at 12.4 percent of the population, while 11 percent have mobile money accounts.

Usage of formal financial services also remains very low. In terms of credit, only 5.2 percent of adults borrowed from a financial institution or used a credit card, while 29.1 percent borrowed from a family or friend. Similarly, only 5.2 percent saved at a financial institution, while 33.6 percent saved with a club or person outside the family, and 54.2 percent did not save at all. In terms of remittances, 10 percent of the population sent or received remittances through an account, 7.7 percent through an over the counter service, and 14.5 percent as cash. Regarding digital payments such as mobile money, 15.6 percent made or received digital payments, 3.1 percent used an account to pay utilities, 4.1 percent the internet to buy something or pay bills, and 9.8 percent a mobile phone or the internet to access an account.

Although there has been only limited improvement overall in the level of financial inclusion in recent years, usage of mobile money has increased notably. There are now 1.9m customers using mobile cash-in cash-out transactions, with about 94,000 mobile wallet customers. This has grown rapidly in recent years, and is likely to be the largest source of improving access to finance in the coming years. In particular the migration of cash-in cash-out customers to other types of accounts and the development of other digital finance products than those currently available in the market. In order to drive this there is a need to allow for transactions between digital finance service providers and all other financial service providers (also known as interoperability).

Box 1: The importance of interoperability

Interoperability between financial service providers allows for users of the financial system, including households, enterprises, and the government to make payments to anyone else in a convenient, affordable, fast, seamless and secure way. Interoperability of retail payments is done through the creation of a payments switch through which all financial service providers are able to channel transactions between customer accounts. Effective interoperability requires a concerted effort to structure rules and processes, and there are often disincentives for larger market players to facilitate interoperability due to the fear of a loss of market share by creating a level playing field. On the other hand, interoperability has been shown to drive innovation in the financial service marketplace, especially in digital finance, as it creates a level playing field. There are both private sector and public sector led switches. The creation of switches is usually driven by industry association, private sector companies, or central banks. Private sector solutions are preferred as it ensure that these are not top-down driven mandates that create intransigence on the part of providers. However, in countries with shallow financial systems, the level of investment required to develop a payments switch is unviable for private sector actors unless fees charged by the switch are extremely high. In these cases, public sector solutions are preferred, but the development of the switch has to be done in close consultation with financial service providers and with appropriate governance and oversight mechanisms that ensure that the systems are value-added for financial service providers and customers.

Access to financial services is concentrated in urban areas with limited access points and varieties of financial services. Community banks, FSAs, deposit taking MFIs, credit only MFIs, and mobile money providers in rural areas. Overall mobile money comprises 75 percent of access points, while microfinance institutions (MFIs) and banks comprise only 7 and 6 percent. Commercial bank branches are primarily located in urban areas while community banks, FSA, and MFIs are primarily located in rural areas. There are also large parts of the country with no access points and these access points. The 2017 BSL geospatial mapping survey highlights that that 41.5 percent of chiefdoms in the country do not have any financial service access points.

One of the key priorities for the BSL in ensuring intermobility amongst financial service providers as part of its payments system modernization process that began in 2009. The development of an efficient payments system is one of the basic foundations of financial inclusion and development (see Box 2). The BSL has already made significant progress in modernizing the payments system. An efficient payments system includes a real time gross settlement system (RTGS) for the settlement of interbank transactions, an automated clearing house (ACH) system for processing retail payments; instruments, and a retail payment switch that can interface with different systems (e.g., ATMs, mobile money, etc.) and consolidate all electronic transactions to one more payment processers.

Box 2: The linkages between payments systems and financial inclusion

The World Bank's Group UFA2020 initiative's goal is to ensure that all working-age individuals and businesses can have access to at least one transaction account operated by an authorized and/or regulated payment service provider. The World Bank Group and the Committee on Payments and Markets Infrastructure (CPMI) of the Bank for International Settlements convened a task force on Payment Aspects of Financial Inclusion (PAFI) to comprehensively examine how payments system and services affect financial inclusion efforts. The task force found that efficient payments system is one of the basic foundations for financial inclusion[1] and that there are strong linkages between an efficient payment system and an increase in transaction accounts. Amongst the many reasons are that efficient payments systems can provide value added products. This includes digitizing social transfer payment that reduce travel and wait time for recipients receiving funds and convenience in transferring funds via mobile wallet products. These transaction accounts then serve as an entry point into the formal financial system and the opportunity for customers to receive additional value-added products, such as credit and insurance products.

Sierra Leone introduced an RTGS system in 2013, which currently includes participation by all 13 commercial banks operating in Sierra Leone. The system is responsible for processing large value transactions of above SL 50 Million or approximately US$ 6 million.[2] According to payment system statistics published by the BSL, 124,788 transactions at a total value of US$ 3.2 billion moved through the RTGS in 2015.

The ACH became operational in 2013. The system is an interbank system for retail payments (of less than SL 50 million). All commercial banks in the country participate in the ACH system. However, to date, usage of the system has been very low. A very small proportion of GDP flows through the ACH (0.2 percent), and the lack of volume is likely the result of the very low levels of bank account penetration in the country. Direct credit transactions totaled 126,481 in 2015, with a total value of US$ 7.6 million. While the ACH can facilitate direct credit; direct debit payments are yet to go live in Sierra Leone. Activating direct debit payments through the ACH has been delayed for a number of years, with a continued lack of momentum on defining agreements, mandate forms and other procedural and regulatory factors.

The automated cheque processing which was introduced as part of the ACH system brought about efficiencies in cheque processing and significantly reduced the cheque clearing cycles from T+9 to T+1. In 2015 over 227,000 cheques, with a total value of US$ 17,114,744, were cleared through the system. The average value of each cheque was US$ 75. Given that a large percentage of government payments are made using cheques, it is likely that public sector payments make up a significant proportion of the reported volumes

[1] As well as other infrastructures such as identification infrastructure, credit reporting and data-sharing platforms, and a robust communications and power supply system.
[2] August 23, 2018 exchange rate

and values reported by the BSL.

While Sierra Leone has put in place an RTGS and ACH system, a retail payment switch to facilitate interoperability is a missing element of the payments system. With the exception of a few banks, which are connected to each other through bilateral agreements and the various institutions connected by ACH, financial service providers, including banks, MFIs, and mobile network operators are not connected to each other. Concretely this means most consumers cannot transfer money between a bank account and their mobile wallet or send money from a MFI savings account to a family member whose only form of financial access is a mobile phone. For example, for the market vendor who would like to transfer funds from their mobile money account to their bank account, they can only do so if the two institutions have integrated with each other to facilitate such a transaction. This is especially important in areas that are not serviced by banks. For a teacher who is paid his/her salary at an FSA, the only point of access to these funds is the FSA alone which itself means many teachers have to walk long distances or pay for transport to collect their salaries, while other potentially more convenient locations, such as a mobile money agents or ATMs, are not currently possible. The BSL sees the switch as a solution to this problem by creating a common platform through which all service providers can have access to the payments system. This would allow for interoperability and ultimately contribute to financial inclusion and deepening.

The lack of access points and interoperability, and the resulting poor customer experience when using formal financial services, is further compounded by a significantly under-developed retail payment landscape with limited payment instruments available to the customer. Consumers face significant challenges paying bills given the lack of payment gateways available in the market. Secondly, many financial institutions do not issue domestic cards and for those that do, these tend to be domestic cash cards that are limited to cash withdrawals in Sierra Leone and cannot be used as a means of payment. The few banks that offer debit card services and/or cards do so through their membership with international cards schemes, and these solutions tend to be very expensive for the consumer.

The BSL is also taking other key steps to promote financial sector development and inclusion beyond developing the payments system. This includes the development and implementation of the Strategy for Financial Inclusion which was launched in 2016 and focuses on six strategic areas: 1) Responsive Policy, Regulations, and Coordinated Action; 2) Client-centric Products and Services; 3) Digital Financial Services (DFS); 4) Access to Finance for Micro, Small, and Medium Enterprise (MSMEs) in Growth Sectors; 5) Financial Literacy, Financial Education and Consumer Protection; and 6) Data and Measurement. The strategy is also supported by working groups, with more to be established. BSL is also working with a number of development partners to bolster the regulatory environment to facilitate financial sector development, including the development of Agent Banking regulations to promote financial inclusion.

Relationship to CPF

The proposed project is aligned with and supports several of the nine priorities identified in the Systematic Country Diagnostic (SCD). These priority areas are also expected to be reflected in the Country Partnership Framework, currently under preparation.

In particular, the project would directly support the achievement of Priority Area 4 -- Improving access to infrastructure (energy, transport, and ICT and credit) and improving labor market regulations. The SCD correctly notes that enterprises face significant challenges gaining access to credit, which is critical to stimulating the investment for private sector led growth. The project aims to increase the efficiency of the financial system by promoting the interoperability of financial services, which should increase usage and lower costs.

The project also will support two other priority areas identified in the SCD: Priority 8 -- Strengthen health institutions for service provision and resilience to public health emergencies; and Priority 9 -- Improve quality and access to education. The project also aims to facilitate the digitization of government payments to improve the efficiency of payments vis-à-vis the establishment of a national retail payment switch. This digitization can support the achievement of these two priority areas through an increase in the efficiency of the delivery of public services. For example, the digitization of payments can help achieve these efficiency gains through various mechanisms, including: i) decreasing government employee absenteeism caused by the need to travel long distances to collect salaries; and ii) improving accuracy of human resource records and reduce cases of ghost workers. The project will also help facilitate access to collect government payments by stimulating access point development (such as electronic portals) and ensure consumers utilize such innovative and new services.

The project will also support other key critical higher-level objectives. The project's component around the national retail payment switch and promoting the supply and demand of financial services will support progress towards the World Bank's Universal Financial Access 2020. Access to financial services will also help progress towards the achievement of the Millennium Development Goals, as such services enable households to invest in income generating activities, save, and insure against risk (insurance), which among others facilitates one's ability to afford healthcare and education, and promote women's empowerment, to name just a few. The project will also support objectives of other World Bank Global Practices' projects, such as Governance and Social Protection, through its activities on digitizing government payments and improving the efficiency of social payments, respectively. Additionally, the project will support the Government in its efforts to make electronic payments and increase revenue collection through electronic means.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The objective of the project is to increase the interoperability of digital payments and access to financial services for individuals.

Key Results

The project will allow for the interoperability of digital payments and access to financial services for individuals through: i) implementing the required hardware, software, and institutional improvements to payments system to allow for interoperability between financial service providers; ii) ensuring the usage and viability of that payments system; and 3) facilitating usage of the payments system in those areas that are underserved and where financial inclusion is particularly low.

PDO level indicators include:

- Interoperability: Volume of transactions processed through the retail payments switch
- Access: Number of institutions connected to the retail payments switch

D. Project Description

The project was designed to increase the interoperability of digital payments and access to financial services. The design of the project was informed by the country and sectoral context presented earlier: in particular the shallow financial system, low levels of financial inclusion, and dominance of mobile money operators and MFIs in rural areas. Facilitating interoperability between financial service providers will support an increase in usage of the financial system and innovation.

The project was designed to ensure sufficient usage to ensure that the sustainability of the improvements made to payments system and the project's impact on financial inclusion. The Payments and Financial Inclusion (PAFI) report that was produced jointly by the World Bank and the Bank for International Settlements highlights that improvements in the payments system need to be financially viable and have sufficient usage in order to facilitate broader adoption of usage and transaction accounts and in general higher levels of financial inclusion. Considering the shallow financial sector and low levels of financial inclusion, the project includes a component aimed at driving usage of the payments system, as well as a focus on facilitating usage of the payments infrastrucutre in those areas where financial inclusion levels are particulary low.

The project design also took into account the role that interopability in improving government payments in Sierra Leone, as well as the efforts that are ongoing Public Financial Management (PFM) reform efforts that is underway in the country. Digitizing government payments has been shown to have a significant savings for the government due to a reduction in transaction costs. It also has been shown to, in conjunction with other PFM reforms, to improve planning, planning, managing, and monitoring of domestic resource allocation and use. The government is in the process of a broad range of PFM reforms, including through the World Bank Public Financial Management and Improvement Project. The design of the project factored in the ongoing PFM reforms, and the opportunity to scale up the impact of these broader reforms.

The proposed project is a US$ 12 million IPF comprised of three components:

- *Component 1 - Enhancing Interoperability of Digital Payments:* finances the hardware, software, and consulting services required to successfully implement a switch.
- *Component 2 – Ensuring the Viability of the Payments System through increasing Usage:* supports the increased usage of the payments system through financing access points for the switch, including POS terminals, mobile wallets, and government payments. The component has a special emphasis on increasing areas of the country with particularly low levels of financial inclusion, and in particular rural areas. The component also supports other barriers to the usage of the payments system, including legal and regulatory barriers and financial awareness.
- *Component 3 – Project Implementation Support:* finances a project coordinator and oversight mechanisms for the project to ensure private sector stakeholder involvement.

Description of activities by component
Component 1: Enhancing Interoperability of Digital Payments:
• Introduction of a retail payment switch through acquiring the necessary hardware and software • Putting in place the required institutional framework for the retail payment switch to be developed and implemented as a sustainable business model
Component 2: Ensuring the Viability of the Payments System through Increasing Usage

Sub-component 2a: Supporting linkages to the payments system:
• Facilitating digital and other financial access points • Facilitating government payments and revenue collection via electronic methods
Sub-component 2b: Supporting rural connectivity with the payments system
• Assessing opportunities for underserved areas of the country to connect to the retail payments system • Facilitating connectivity to the payments system for rural financial service providers
Sub-component 2c: Overcoming Regulatory and Cybersecurity Hurdles to the Viability of the Payments System
• Implementing cybersecurity improvements needed for the payments system • Implementing needed guidelines and legal and regulatory reforms to support the development of the payments system • Implementing financial awareness efforts related to digital financial services
Component 3: Project Implementation Support
• Facilitating the successful implementation of the project through putting in place the institutional framework required (e.g., project coordinator, etc.) • Facilitating private sector involvement in the project through the creation of a private sector committee

E. Implementation

Institutional and Implementation Arrangements

The BSL will be the implementing agency, with support from consultants, and procurement and financial management will be led by MoF's PFMU. Project implementation will be mainstreamed into the work program of various BSL departments and units with overall coordination by the Financial Sector Development (FSD) unit. MoF's PFMU, which has experience with World Bank projects, which will oversee procurement and financial management. Given BSL's limited human resources and experience with World Bank projects, BSL will be supported by a Project Coordinator with relevant experience. Furthermore, the retail payment switch component (component 1) will be supported by an array of relevant experts, including a consultant to help provide inputs on procurement, get the switch up and running, and help become viable by ensuring adequate growth in electronic payments system using the switch.

The project will have a steering committee to ensure critical decisions are made, oversight, and inter-BSL coordination. A key challenge in BSL's previous project, FSDP, as identified in its ICR, was that it did not have an effective governance framework, which precluded coordination across BSL departments and critical decisions being made by BSL management. Consequently, the establishment of a project steering committee will need to take place prior to the project being effective and monthly meetings will be essential to project implementation, so that all key decisions are made with respect to the project in a timely and regularized manner. The proposed committee would consist of BSL departments and units who oversee implementing various activities and report to BSL senior management.

The project will also have a consultative private sector committee to facilitate dialogue between financial

institutions and project management. As indicated earlier, top-down mandates that do not have the appropriate buy-in by financial service providers is one reason that public sector solutions for retail payments switch can face difficulties as compared to industry led solutions. One of the major drivers of success of the project will be the extent to which the retail payment switch is utilized by financial service providers, and thus it is critical that project implementation involves close coordination with the private sector. As such, it is envisaged that a public-private sector advisory committee for the retail payments switch will be established comprised of key public and private stakeholders in the financial sector. This will include representation from commercial banks, MNOs, MFIs, the BSL and other relevant government MDAs. The committee will meet regularly and to provide feedback on the operationalization of the switch and jointly proffer solutions to any emerging challenges.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project activities are expected to be countrywide in scope.

G. Environmental and Social Safeguards Specialists on the Team

Gloria Malia Mahama, Social Specialist
Anita Bimunka Takura Tingbani, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The proposed environmental assessment category is proposed as C and OP4.01 is not triggered, this is because project activities will not have a physical footprint and hence the potential environmental impacts are minimal. Project activities are limited to promoting interoperability between financial services, rolling out POS in Freetown, NRA, and rural financial institutions, connecting MFIs to the payment systems infrastructure, supporting the legal, regulatory, and policy reforms around electronic payment systems, financial literacy efforts focusing on DFS, and enhancing Bank of Sierra Leone and Ministry of Finance’s efforts to Promoting Financial Inclusion. Hence there are no safeguards instruments required for this project, however the

		team will continue to monitor project activities to ensure that any changes that will require the change in safeguards approach are addressed.
Performance Standards for Private Sector Activities OP/BP 4.03	No	Private sector investment is not involved in the project.
Natural Habitats OP/BP 4.04	No	The project activities will not involve any natural habitats.
Forests OP/BP 4.36	No	The project activities do not involve forests.
Pest Management OP 4.09	No	The project activities do not involve forests.
Physical Cultural Resources OP/BP 4.11	No	The project activities do not have a physical footprint.
Indigenous Peoples OP/BP 4.10	No	The project activities will not impact indigenous groups.
Involuntary Resettlement OP/BP 4.12	No	There have been revisions to project activities since the concept stage. Project activities will no longer have physical footprints hence, OP4.12 is not triggered. Project activities will be limited to Procurement and support for operationalization of a switch, roll out of point of sale terminals, supporting capacity building on financial literacy, enhancing Bank of Sierra Leone and Ministry of Finance's efforts to Promoting Financial Inclusion etc.
Safety of Dams OP/BP 4.37	No	The project activities do not involve dams.
Projects on International Waterways OP/BP 7.50	No	The project activities will not occur in international waterways.
Projects in Disputed Areas OP/BP 7.60	No	The project activities will not occur in disputed areas.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project activities do not have a physical footprint and project activities are expected to have negligible environmental and social impacts and hence the policies on environmental assessment and Involuntary Resettlement are not triggered for this project. Project activities are limited to promoting interoperability between financial services, rolling out POS in Freetown, NRA, and rural financial institutions, connecting MFIs to the payment systems infrastructure, supporting the legal, regulatory, and policy reforms around electronic payment systems, financial literacy efforts focusing on DFS, and enhancing Bank of Sierra Leone and Ministry of Finance's efforts to Promoting Financial Inclusion. Hence there are no safeguards instruments required for this project, however the team will continue to monitor project activities to ensure that project activities remain within the scope as determined during appraisal. The team will ensure that the safeguards approach is reviewed should any change in project activities or scope occur during implementation.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
NA

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
NA

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
NA

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
NA

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

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