



Financial Inclusion for Sustainable Innovation and Performance of Enterprises in Sierra Leone

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Key messages

- Policies should improve effort to increase mobile money penetration rate in Sierra Leone.
- The adoption and use of mobile money improve firms' ability to innovate.
- Credit constraint hinders firms' ability to innovate and improve performance.



Context and importance of the problem

According to the World Bank's Global Findex data¹, only 20 percent, 25 percent, and 15 percent of Sierra Leone's total population aged above 15 years, male population and female population own a bank account in 2017, respectively. This is well below the average of 42.6% for SSA (WB, 2020) and implies that a significant proportion of the population, and women in particular, are financially excluded. Furthermore, mobile money penetration rate is low in the country. Only 11 percent of the population aged more than 15 years own a mobile money account. Also, only 14 percent of male population and 9 percent of female population own mobile money account (WB, 2020).

The low financial inclusion pattern is also reflected among MSMEs in the country. The World Bank Enterprises Survey data collected in 2017 for Sierra Leone suggest that of the 150 firms surveyed, only 48 (32%) use mobile money for their transactions. Also, the majority of these firms only used the mobile money services to receive payment from customers. This situation has compelled the government to roll out relevant interventions to promote financial inclusion in recent years. These include the adoption of a national strategy for financial inclusion (2017-2020) and the provision of support for FinTech innovation. The national strategy has a broad vision "to make financial services available, accessible and affordable to all Sierra Leoneans and enterprises, and support inclusive and resilient private-sector-led growth (BoSL, 2016).

This study sought to investigate the linkages between mobile money use, credit constraints, innovation, and performance of MSMEs in Sierra Leone. The study also assessed the gender dimension of these linkages.

Results and implications

Summary of the evidence

- The use of mobile money significantly increases the likelihood of MSMEs to innovate by 34 percent in average.
- Credit constraints have negative and significant effect on firms' ability to innovate.
- Firms facing credit constraints have 32 percent less chance to introduce process innovation in their business.

1 https://globalfindex.worldbank.org/index.php/#data_sec_focus

- Businesses managed by men and using mobile money have a greater chance to introduce process innovation than businesses managed by women and using mobile money.

Critique of policy option(s) (policy implications or options)

- The use of mobile money saves time and cost related to financial transactions that requires physical travel. The time and financial cost saved can be invested in developing innovative ideas which will improve business operations to increase performance (Lorenz and Pommet, 2021). Therefore, efforts from government in improving mobile money adoption among enterprises will lead to a significant improvement of their performance.
- While evidence shows a significant impact of mobile money use on innovation, such evidence has not been translated into improving access to credit. This highlights the currently low levels of mobile money uptake and the implementation challenges that have reduced its effectiveness. This implies that there remains much work to be done to fully exploit the benefits that mobile money services have to offer in the context of Sierra Leone.

Policy recommendations

- Beyond government efforts, an important component of driving the country's recovery from the effects of civil war will involve providing a supportive environment for entrepreneurship and innovation that will make MSMEs to access credit for investment and rapid innovation purposes. This action will respond adequately to reducing the challenges of financial inclusion.
- Credit facilities and insurance services have now been integrated into mobile money platforms to bring the formal financial services closer to majority of the people, especially those who do not operate any bank accounts. Report by BoSL (2021) shows that about 30% of adults were actively using digital payment accounts by the end of 2019. While this is a good progress, it is also relevant to ensure that the services offered on the platform provide a variety that will help improve productivity among entrepreneurs.
- There exists a consistent lack of significant gender gap in the impact of mobile money and credit constraint. While evidence from elsewhere have showed that female owned businesses are likely to be left behind in the financial inclusion agenda (Islam and Muzi, 2020), this could not be confirmed in this study. This may be because mobile money adoption and its use are currently low in Sierra Leone and therefore both males and females are equally constrained. There is need to accelerate efforts to harness the benefits of the industry while ensuring these efforts are gender sensitive.

Sources consulted

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