

JUNE 2018



# The Regulator

*Promoting financial inclusion, consumer protection and financial sector development*

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## FROM THE EDITOR'S DESK

The June 2018 edition of the ***Regulator*** is a departure from previous newsletters published by the Central Bank of Liberia (CBL) in that it is a reflection of activities and developments within CBL whereas previous newsletters were more academic, containing complex graphs, tables and topics that may have not been attractive to the ordinary readers.

This change in editorial policy is because the CBL would like to see itself and to be perceived by its stakeholders as an institution that actively promotes financial inclusion and financial sector development. This philosophical outlook is reflected in the Bank's 2017-19 Strategic Plan and will serve as a guiding principle for the ***Regulator***, the Bank's official newsletter.

CBL will however continue to meet the information needs of academics, financial experts and researchers via its other publications such as the Economic Bulletin, Monthly Economic Review, Financial Statistical Reports, and Factsheets, just to name a few.

The emphasis of this edition, indeed its theme, is on electronic payment systems. The articles highlight the potential of electronic payment systems in creating savings, monetary stability and an efficient financial system. It is therefore important for the CBL to continue to encourage all Liberians to take advantage of the banking system rather than continue to carry a lot of cash with them.

*The Regulator is the official newsletter of the Central Bank of Liberia, produced by the Corporate Communications Unit, Central Bank of Liberia, Lynch & Ashmun Streets, Website: <http://cbl.org.lr>*

## CBL Convenes Brainstorming Session on Liberia's Digital Financial System

The Liberian economy is currently heavily cash-based. This means that most financial transactions are carried out in cash rather than through use of direct debits, standing orders, bank transfers, credit/debit cards or other electronic payment methods.

Although it is not likely that cash will ever be totally eliminated in carrying out financial transactions, the advantages of an electronic payment system outweigh those of a cash-based payment system. Such advantages include:

- ~ A higher level of transparency that could reduce illegitimate transactions
- ~ Ability to serve the under-banked and unbanked population through such channels as mobile wallets
- ~ Reduction in the risk and cost of carrying cash
- ~ Reduction in the cost of printing and distributing Liberian dollar notes

Tapping into the benefits of a cash-lite payment system in Liberia will require the establishment of a digital infrastructure. Such infrastructure will include Point of Sale (PoS) terminals for card payments and digital mediums to facilitate internet and internet-enabled devices.

Liberia is preparing to launch a full-scale digital financial system and, in so doing, bring itself in line with international standards. To do this, there needs to first of all be public education about the full-range of digital payment options that are available.



*CBL Executive Governor, Milton A. Weeks speaking at the National Payments Stakeholders' Forum in January this year*

As part of this public education campaign, a National Payment Systems Stakeholders Forum was held at the Bella Casa Events Center in Monrovia on 18 January 2018. The Forum brought together all the key players involved in creating a seamless digital financial systems, including financial institutions, business houses, government ministries and agencies, educational establishments, utility companies and mobile operators.

CBL Executive Governor Milton Weeks spoke at the Forum, encouraging stakeholders to make use of the current payment system rather than withdraw huge amounts of cash from the banking system.

In addition to providing public awareness about CBL's initiatives to modernize Liberia's payments system, the Forum also paved the way for the establishment of the National Payments System Council that will be the highest decision-making body for Liberia's National Payment System.

## CBL Financial Inclusion Program Gathers Momentum

~ By James B. Wilfred

The Central Bank of Liberia (CBL) has intensified efforts to build an inclusive financial system by improving access to an array of financial services to meet the individual needs of the population. In fulfillment of one of the three key pillars of its 2017-19 Strategic Plan, which is Financial Inclusion, the Central Bank is using technology as the catalyst in accelerating the efforts to promote financial inclusion. In so doing, CBL is investing and supporting innovations in developing and expanding the technological infrastructure.

The different technological developments CBL is embracing include:

**The National Electronic Payments Switch** - a system where financial transactions can be made using any POS (Point of Sale) system, ATM (automated teller machine), or EFT (electronic fund transfer) technology, irrespective of which bank through which the payment is made.

Efforts are being made to fully digitize the payment of civil servant salaries and allowances into bank accounts through the automated clearing house (ACH), thereby improving the savings culture and creating opportunities for accessing a variety of financial products to meet the specific needs of the population.

**Financial Inclusion Monitoring Database** – containing information that is used to prepare regular financial inclusion statistical bulletins and progress reports. The Database will also be used to establish and operationalize a credit reference system for microfinance institutions (MFIs).

**Digital Financial Service Working Group** – established in the latter part of 2017, it brings together the key stakeholders, including regulators, service providers and users, as well as local support partners, for the purpose of working as a forum to build commitment and consensus on digital financial service delivery.

**Agent and Community Banking** – brings banking to the doorsteps of the unbanked and under-banked population.

CBL is intensifying efforts to expand banking services through Agent and Community banking. As a result, commercial banks are increasingly providing banking and financial services to the unbanked and under-banked. The services used by these agents are also increasingly technology-driven and have resulted into bringing more and more of the financially excluded into the mainstream of the financial sector.



*The author, Mr. James Wilfred is head of CBL's Financial Sector Development Unit, with responsibility for driving the Financial Inclusion Pillar of CBL's 2017-19 Strategic Plan*

## Current Digital Financial Services in Liberia

As the Central Bank of Liberia (CBL) makes a push towards a cash-lite economy, its partners and many stakeholders are encouraged to take advantage of the existing digital financial services available and benefit from the savings and efficiencies to be gained.

By taking advantage of the Central Bank's digital financial services, digital financial service users can:

- Reduce the risk and cost of carrying money, because their cash could be lost, stolen or even damaged.
- Improve financial transparency as there is a trace for all financial transactions, reducing the possibility of illegal financial transactions.

By taking advantage of CBL's digital financial services, digital financial service users can enable the Bank to make savings in the cost of running a cash-based economy. The printing and distribution of money across the country would be significantly reduced if digital financial services are used.

Financial institutions, business houses, government agencies and educational establishments are therefore invited to take advantage of the digital financial services that the Central Bank of Liberia currently has to offer.

The current digital financial services on offer in Liberia include:



*Mobile money service – currently the most popular digital financial service in Liberia.*

### **Real Time Gross Settlement System (RTGS)**

is a system used to transfer money from one bank to another on behalf of a bank or one or more customers. It is currently being used for the payment of taxes by large tax payers (institutions, companies etc.)

### **Automated Check Processing & Automated Clearing House (ACP/ACH)**

is used to process paper-based instruments mainly checks and other direct debits and direct credits, with settlement taking place at a designated time. With the introduction of the Automated Clearing House (ACH), which went live on March 7, 2016, there is now enhanced efficiency in check clearing, making funds readily available to customers across the country within 48 hours.

***Cont'd on page 5***

## Current Digital Financial Services in Liberia (Cont'd from Page 4)

### **Scripless Securities Settlement System (SSSS).**

This is an electronic system for processing securities (treasury bills, treasury bonds, and stocks) transactions. Previously, securities were issued using paper certificates but are now processed electronically and require minimum human intervention, thereby eliminating virtually all risks. Funds are transferred instantaneously to a customer's account through the RTGS system, and information about the transaction confirmed electronically.



*Treasury bills serve as an example of how the Scripless Securities Settlement System is used for processing*

**The National Electronic Payments Switch (NEPS)** is a system that can interface with any POS (Point of Sale) system, ATM (automated teller machine), Mobile Payment System and Internet-based portals, consolidate all electronic transactions and then intelligently channel them to one or more payment processors for authorization and settlement.

This enables digitization of financial services in the economy through the integration of all financial institutions, mobile money service providers, and billers who connect to the Switch.

ATM switches of four banks currently issuing cards (Visa, MasterCard) have been connected, making it possible for customers of any of the banks to withdraw money from any of the ATM machines of the four banks using the NEPS. The switch provides ATMs, POS, E-Banking, Mobile Banking, Mobile Money and bill payment services.

Together, these digital financial services represent the beginning of Liberia's entry into the international system of digital financial services. With the cooperation and involvement of the stakeholders mentioned earlier, Liberia can make a move from a predominantly cash-based economy to a cash-lite economy.



*A POS (Point of Sale) Machine, which, along with a debit card, can be used to purchase without cash*



## CBL Strategic Plan – One Year On

At the beginning of 2017, the Central Bank of Liberia (CBL) launched its 2017-19 Strategic Plan, erected on three key pillars – Financial Sector Reform, Financial Inclusion and CBL Reform. One year after the launch of the Plan, CBL convened an Senior Staff Retreat in December 2017 to take stock of progress made in the implementation of the Plan under each of the three pillars highlighted in the Plan.

### CBL Reform

Prior to the launch of the 2017/19 Strategic Plan, CBL conducted a comprehensive review of its organizational structure in late 2016, and, as a result, established:

- the Financial Markets Department to develop Liberia's capital markets
- the Macro Forecasting Unit to focus on macroeconomic forecasting
- the Central Security Depository Unit to register, settle and transfer ownership of securities
- The Financial Sector Development Unit to foster financial inclusion.



As a result of the organizational review, a number of units were elevated to full departmental status, including: Enterprise Risk Management; Internal Audit; Management Information Systems; and the Human Resource Development.

Under the internal reform pillar, CBL formulated several policies, with a view to enabling the Bank to achieve its vision. Among the policies formulated were: Training and Development, Performance Management and Risk Management Policies.

The internal reform that CBL embarked upon in 2017 encompassed technological improvements and a modernization of the payment system. CBL also upgraded its credit reference system to track the credit history of customers of commercial banks. In addition to improving the credit reference system, CBL has now established an enterprise and cyber security function within Liberia's financial sector. CBL's Research, Policy and Planning Department has seen an enhancement of its capacity with the acquisition of an E-View Software to automate its econometrics and macroeconomics analysis.

### Financial Inclusion

In striving to deepen financial inclusion, CBL identified four key areas for improvement, namely: microfinance reform, agent banking, consumer protection, expansion of digital financial services, and access to finance for micro, small and medium-sized enterprises.



## CBL Strategic Plan – One Year On (Cont'd)

In the first year of the implementation of the Financial Inclusion Pillar of the CBL Strategic Plan, CBL:

- Conducted a diagnostic assessment of the microfinance sector, evaluating the nature of their operations, as well as their policy and regulatory and supervision framework, so as to pinpoint challenges and opportunities. An action plan was designed and will be implemented in 2018.
- CBL officials and representatives of microfinance and non-governmental institutions as well as the private sector took part in a workshop in 2017 to enable CBL's Regulation & Supervision Department to design a regulatory framework for agent banking. This led to the issuance of a revised agency banking regulation.
- A three-year work plan was drafted to commence the implementation of a financial literacy program
- In collaboration with a donor partner, CBL drafted and validated a digital financial services strategy
- CBL, along with the Ministries of Finance & Development Planning and Commerce & Industry, commenced the implementation of the Post-Ebola Financing Facility for micro, small and medium-sized enterprises, with a US\$ 4 Million World Bank facility, which benefited three commercial banks and four microfinance institutions.

### Financial Sector Reform

The aim of the Financial Sector Reform Pillar of CBL's Strategic Plan is to modernize Liberia's financial system and bring it in line with international standards. In advancing this strategic goal, CBL has:

- Developed a consumer protection and market conduct regulation in a bid to enhance the regulatory framework for consumer protection.
- Established consumer protection helpdesks at the CBL and head offices of all commercial banks as well as a Consumer Data Portal on the CBL website to address complaints of commercial bank customers.
- Largely completed the framework, guidelines, rules and regulations for the establishment of financial and capital markets
- Developed a roadmap for the establishment of the Liberia Banking Institute to serve the current and future needs of the financial sector. Board members of the Banking Institute have been appointed and an inaugural meeting held.



The above achievements, one year after the launch of CBL's 2017-19 Strategic Plan, put CBL on course to fully implement its Strategic Plan by the end of 2019.

## ‘Digital Financial Services Consistent with Pro Poor Agenda’

~ CBL Governor Tells Stakeholders during DFS Validation Workshop

Following a National Payment Systems Stakeholders Forum at the Bella Casa Events Center in Monrovia on 18 January 2018, the Central Bank of Liberia (CBL) convened a validation workshop of the Liberian National Digital Financial Services Strategy on 27 February 2018.

Like the National Payments Systems Stakeholders Forum, the Digital Financial Services Strategy represents the overarching tool for rolling out a series of activities that will usher in a cash-lite economy in Liberia.

Mrs. Erica Williams, CBL Assistant Director for Digital Financial Services and Consumer Protection gave an overview of CBL’s Digital Financial Services Strategy during the validation exercise. She said digital payments promote economic growth, lower transactions costs, increase transparency and reduce waste of public resources, consequently expanding financial inclusion.



*Assistant Director Erica Reeves Williams*

Mrs. Williams defined digital financial services as the use of innovative technology to expand the delivery of basic financial services.

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*A digital financial system will be consistent with the Government’s pro-poor policy by expanding financial services for the poor.*

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*Executive Governor Milton A. Weeks*

In his remarks, CBL Executive Governor Milton Weeks said a digital financial system will be consistent with the Government’s pro-poor policy by expanding financial services for the poor through the use of innovative technologies like ATMs (automated teller machines), POS (point of sale) terminals, QR (quick response) Code, and phone-enabled solutions such as mobile money and other mobile apps. The Central Bank Governor called on both those with and without bank accounts, as well as government institutions, to use digital financial services for remittances, salary and bill payments.



## Roadmap for Achieving Cash-lite Economy Unveiled

The Central Bank of Liberia has developed a Roadmap that will bring Liberia a step closer to a cash-lite economy by the year 2019. The Roadmap requires cash transaction limits for both individuals and corporations, respectively, and are contingent on meeting a number of conditions.

It is expected that prior to implementing the recommendations of CBL's Financial Stability Committee for a cash-lite economy, there will be PoS (point of sale) and other electronic payment systems set up in schools, hospitals, and government centers around the Country. Electronic payment regulations/guidelines will also need to be developed and the National Electronic Payments Switch fully operational before implementing the FSC recommendations in 2019. Effective domestic cards must also be issued.

The CBL Roadmap has set targets for each stage in the run-up to a cash-lite Liberian Society and for expansion of the membership to the National Electronic Payment System.

*The Roadmap will require cash transaction limits for both individuals and corporations, respectively, as of 2019 and are contingent on meeting a number of conditions.*

Currently only Ecobank, LBDI, UBA and GT Bank are members, but it is anticipated that an expanded membership will include all banks, mobile network operators, and utility bill payment companies.



A cash-lite Liberian Society has many advantages, not least because it will reduce the cost of printing new money, but because it will reduce the risks of robbery, and facilitate financial inclusion.



Unfortunately, Liberia is still largely a cash-based economy with a total of 12.23 million transactions involving US dollars and 9.65 million transactions involving Liberian dollars from June 2012 to June 2017.

There has been a recent decline in US dollar cash transactions owing mainly to UNMIL's drawdown and the drop in Liberia's commodity prices. This reduction has been accompanied by an upsurge in Liberian dollar transactions. This has contributed to the wear-and-tear of Liberian dollar banknotes which has increased the need to print Liberian dollar banknotes more frequently, along with the resultant increase in the cost of printing banknotes. It is therefore all the more necessary for Liberia to transition to a cash-lite economy.

## Why Liberia Must Accelerate Its Move to a Fully Digitized Payment System

The transition to a digital payment system has many advantages, including monetary stability and an efficient financial system, things that CBL was set up to achieve.

There is a consensus among economists that an efficient payment system can reduce the cost of exchanging goods and services. More than that, a digital payment system enhances interbank and capital market functioning, while a non-digital system of payments can lead to an inefficient use of financial resources and loss of confidence in the financial system, adversely affecting economic stability.

At the center of the digital payment system is the Real Time Gross System (RTGS), operated by the Central Bank of Liberia, which does not require any physical exchange of money for CBL to make adjustments in the electronic accounts of participating banks. Furthermore, it has been proven to lower the risk of settlement, as transactions are settled across accounts held at CBL on a continuous basis and settlements are immediate and irrevocable.

Although there is steady progress in the use of digital payment systems in Liberia, the pace needs to be accelerated. The marked progress made in 2017 needs to be sustained and even built upon in 2018.

*There is a consensus among economists that an efficient payment system can reduce the cost of exchanging goods and services.*



*Time is up for Liberia to move towards a cash-lite society*

2017 saw an expansion in new mobile money agents, increasing from 2,110 in November 2016 to 3,162 in October 2017, with at least 674,711 new users of mobile money services in 2017. Mobile money transactions in 2017 totaled US\$20.4 Million and L\$12.85 Billion. These figures were unveiled by Central Bank Governor Milton A. Weeks when he spoke at the National Payment Systems Stakeholder Forum at the Bella Casa Hotel & Suites on 18 January 2018.

In view of the inherent benefits of digital payment systems and their record use in 2017, the Central Bank Governor is encouraging more and more people to make use of digital financial services in 2018 rather than withdraw huge sums of money from the banking system. He said: “Liberia spends huge amounts of funds to print, import, distribute and collect currency. If we can push our people towards a cash-lite society, we could benefit in terms of cost-savings and financial efficiency in the long run”.

## CBL Is Proud Sponsor of National High School Football and Kickball Championship

The Central Bank of Liberia (CBL) is using the ongoing National High School Football and Kickball Championship to reach out to young people nationwide to support their development and financial literacy.

CBL will sponsor the National High School Football and Kickball Championship for a period of three years, beginning May 2018. During that period, CBL will roll out a financial literacy program that will give young people the knowledge, skills and motivation they need in order to be able to manage their money well.



*The 2017 Launch of the National High School Kickball and Football Championship*

A recent financial inclusion survey found that only:

- 28% of Liberians had an account in a formal registered financial institution
- 56% were aware of non-bank financial institutions
- 3% had sufficient funds to cover their expenses
- 38% had knowledge of insurance and its benefits
- 55% had knowledge of mobile money

A CBL Financial Literacy Program that targets young people over the next three years will therefore enable them to save more and borrow less, safeguarding them from financial risks and scams.

It is not only young people that will benefit from the financial education that will be provided during the National High School Football and Kickball Championship over the next three years. The Government stands to benefit if a financially literate population is able to manage its finances and increase its savings. The economy, too, will receive a boost in the process. The financial services industry will benefit too because a financially literate population will have more confidence in the financial sector and remain engaged with it rather than being suspicious of it.



*The Worldwide Mission High School Football Team - the reigning Liberian High School Football Champions*

Employers will benefit immensely from a financially literate working class because their productivity will increase.

CBL is happy and proud to be sponsoring the National High School Football and Kickball Championship over the next three years because of the immense benefits already mentioned and because young people, who are the prime beneficiaries of the sponsorship are the future of Liberia, which means that Liberia will have a bright future if those who represent its future are financially literate and able to manage their finances.



## Re-elected, CEBSA President Pledges to Work Closely with CBL Management

Mr. Mathias Cooper, who was re-elected unopposed in October 2017 and inaugurated January 2018, used his inaugural address to pledge a close working relationship with CBL management in support of the Bank's strategic objectives. He also expressed his gratitude to CBL Executive Governor, Milton Weeks, under whose administration CEBSA saw an increment in its allotment from the Bank, which has enabled it to undertake outreach both within CBL and within different communities.

During his inaugural address, Mr. Cooper mentioned CEBSA's achievements, which, he said, included increasing access to finance and birthday gifts for CEBSA members.



*CEBSA President, Mr. Matthias Cooper*

Mr. Cooper appealed to CBL management to provide more scholarships and training opportunities for CBL staff as well as introduce cost of living adjustments for them.

In inducting into office the newly elected corps of CEBSA leadership, CBL Executive Governor, Milton Weeks called on the new CEBSA leadership to take the lead in adopting CBL's core values of integrity, efficiency, innovation, inclusiveness, team work, transparency and fairness.



*CBL Executive Governor, Milton A. Weeks*

He said if CEBSA leadership can lead by example, the rest of CBL staff will follow them and the entire CEBSA membership will become shining reflections of CBL core values and CBL ambassadors to the wider community.



*A cross section of CEBSA members at the induction ceremony*