MICROFINANCE POLICY AND REGULATORY & SUPERVISORY FRAMEWORK FOR LIBERIA

CENTRAL BANK OF LIBERIA
MONROVIA
JUNE 2009

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 Robust economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

1.2 In Liberia, the formal financial system provides services to a small percentage of the economically active population while the remaining lacks access to financial services. This segment is often served by the informal financial sector, through Non-Governmental Organizations (NGOs); microfinance institutions, moneylenders, rotating savings clubs, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Liberia's (CBL's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

1.3 A microfinance policy and regulatory and supervisory framework which recognizes the existing informal institutions and brings them within the supervisory purview of the CBL would not only enhance monetary stability, but also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). Such framework would create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions, promote appropriate regulation, supervision and adoption of best practices. In these circumstances, an appropriate policy has become necessary to develop a long-term, sustainable microfinance sub-sector.

1.4 The purpose of this document, therefore, is to present a National Microfinance Policy and Regulatory and Supervisory Framework for Liberia that would enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. The framework would create a platform for the establishment of microfinance institution; improve the CBL's regulatory/supervisory performance in ensuring monetary stability and liquidity management; and provide appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Liberia.

1.5 This policy and regulatory and supervisory framework has been prepared in exercise of the powers conferred on the Central Bank of Liberia by the provisions of, Part II, Section 3, of the New *Financial Institutions Act of 1999.*

2.0 THE MICROFINANCE POLICY

2.1 Policy Objectives

The specific objectives of this microfinance policy are the following:

(i) Make financial services accessible to a large segment of the potentially productive Liberian population which otherwise would have little or no access to financial services;
(ii) Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
(iii) Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;
(iv) Contribute to rural transformation; and
(v) Promote government's poverty reduction strategy.

2.2 Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

(i) To cover the majority of the poor but economically active population by 2020 thereby creating thousands of jobs and reducing poverty.
(ii) To increase the share of micro credit as percentage of total credit to the economy.
(iii) To eliminate gender disparity by improving women's access to financial services; and
(iv) To increase the number of linkages among commercial banks, specialized finance institutions, and microfinance institutions.

2.3 Policy Strategies

A number of strategies have been derived from the objectives and targets as follows:

(i) License and regulate the establishment of Microfinance institutions (MFIs);
(ii) Promote the establishment of NGO-based microfinance institutions;
(iii) Promote the establishment of institutions that support the development and growth of microfinance service providers and clients;
(iv) Establish the regulatory and supervisory framework for MFIs;
(v) Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;
(vi) Mobilize domestic savings and promote the banking culture among low-income groups;
(vii) Strengthen the capital base of the existing microfinance institutions;
(viii) Broaden the scope of activities of microfinance institutions;
(ix) Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives;

(x) Define stakeholders’ roles in the development of the microfinance sub-sector; and

(xi) Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

2.4 GOALS OF MICROFINANCE INSTITUTIONS

The establishment of microfinance institutions has become imperative to serve the following purposes:

(i) Provide diversified, affordable and dependable financial services to the active poor in a timely and competitive manner that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living; and

(iv) Encourage and enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process.

2.4.1 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE

2.4.1.1 COMMERCIAL BANKS

Commercial banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary, shall be required to set up a department/ unit for such services and shall be subjected to the provisions of the New FIA of 1999 and/or MFI regulatory and supervisory guidelines.

2.4.1.2 CREDIT UNION AND COOPERATIVES

This framework recognizes the existence of credit unions and financial cooperatives whose lending activities shall be required to come under the supervisory authority of the CBL.

In the case of credit unions, the Central Bank is prepared to go as far as incorporating within its supervisory authority- within the mandate contained in its law and the Financial Institutions Act 1999- those credit unions that are found to be engaged in receiving funds from persons of the general public without the existence of a common bond among them, in volumes significant enough to be considered relevant, from the perspective of the overall soundness of the financial sector and the monetary stability of the country.

2.4.1.3 NON-GOVERNMENTAL ORGANIZATION - MICRO FINANCE INSTITUTIONS (NGO-MFIS)

This framework recognizes the existence of credit-only, microfinance institutions which shall also be required to come under the supervisory purview of the Central Bank of Liberia. Such institutions may engage in the provision of micro credits but not to mobilize deposits from the general public.

No NGO-MFI shall offer microfinance services without an authorization from the Central Bank. The penalty for unregistered NGO-MFIs shall be L$50,000 or prison term not exceeding one year or both.

All registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBL.

NGO-MFIs that wish to obtain the operating license of a microfinance bank shall be required to meet the specified provisions as stipulated in the New FIA of 1999.

2.4.1.4 TRANSFORMATION OF THE EXISTING NGO-MFIS:

Existing MFIs who have not registered with the CBL will be required to regularize their status within sixty days of the coming into being of this framework.

Existing NGO-MFIs which intend to operate a Bank MFI can either incorporate a subsidiary while still carrying out its NGO operations or fully convert into a commercial bank.

NGO-MFIs that wish to convert fully into a commercial bank must obtain an operating license and shall be required to meet the specified provisions as stipulated in the New FIA of 1999.

2.5 STAKEHOLDERS AND THEIR ROLES AND RESPONSIBILITIES

2.5.1 GOVERNMENT

Government shall be responsible for:

(i) Ensuring a stable macro-economic environment, providing basic infrastructures (electricity, water, roads, telecommunications, etc), political and social stability;
(ii) Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions; and
(iii) Instituting and enforcing donor and foreign aid guidelines on microfinance to streamline their activities in line with this policy.

2.5.2 CENTRAL BANK OF LIBERIA (CBL)

The roles of the CBL shall include the following:

(i) Establishing a National Microfinance Steering Committee;

(ii) Evolving a clear micro-finance policy that spells out eligibility and licensing criteria, provides operational/prudential standards and guidelines to all stakeholders;

(iii) Evolving a microfinance sub-sector and institutional policies aimed at providing regulatory harmony, promoting healthy competition and mainstreaming micro financing with formal intermediation;

(iv) Adopting a regulatory and supervisory framework;

(v) Minimizing regulatory arbitrage through periodic reviews of the policy and guidelines;

(vi) Promoting linkage programmes between commercial banks, specialized finance institutions and the microfinance institutions; and

(vii) Implementing training programmes for bank regulators, Microfinance Unit staff, other promoters and practitioners in the sub-sector, in collaboration with partners.

2.5.3 MICROFINANCE INSTITUTIONS (MFIs)

Microfinance service providers shall:

(i) Provide efficient and effective financial services, such as credit, savings, commodity/inventory collateralization, leasing, and innovative transfer/payment services;
(ii) Recruit and retain qualified professionals through transparent and competitive processes;
(iii) Adopt continuous training and capacity building programmes to improve the skills of staff; and
(iv) Strictly observe their fiduciary responsibility, remain transparent and accountable in protecting savers' deposits.

2.5.4 DONOR AGENCIES

Donor agencies shall provide subsidized funds, donations or technical assistance for the development of the microfinance industry in Liberia. They include bilateral institutions, multilateral institutions, and NGOs with a pro-poor orientation.

These donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of this policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro financing initiative, donors are expected to direct most of their assistance to licensed MFIs to ensure an orderly resource injection, transparency and synergy.

2.5.5 MICROFINANCE NETWORK OF LIBERIA

Microfinance Network of Liberia shall serve as a forum for practitioners' coordination and setting performance standards and benchmarks, and facilitating capacity building.

3.0 FRAMEWORK FOR SUPERVISION OF MICROFINANCE INSTITUTIONS

3.1 DEFINITIONS

For the purpose of these guidelines unless the context provides otherwise, the following definition suffice:

(i) Microfinance means the provision of financial services to the poor and low income earners;

(ii) A microfinance institution means any individual or company licensed/registered to carry on the business of microfinance services, such as, loans, savings, insurance, fund transfer and other financial services that are needed by the micro-enterprise and small and medium enterprises.

(iii) Microfinance client is any low-income people who use financial services to finance their businesses, manage emergencies, acquire assets, improve homes and fund consumption.

(iv) Microfinance loans are generally considered to be unsecured loan up to US$7,000 or its equivalent in Liberian dollars, extended by any microfinance institution, having non traditional assets based collateral;

(v) A poor person shall be defined as one who has meager means of livelihood and who earns less than US$1.00 a day.

3.2 PERMISSIBLE ACTIVITIES AND PROHIBITED ACTIVITIES

3.2.1 PERMISSIBLE ACTIVITIES

An MFI may provide the following services to its clients:

Bank Microfinance Institution

(i) Acceptance of deposits

(ii) Provision of micro credit/loan;

(iii) Promotion and monitoring of loan usage among its clients by providing capacity in such areas as small business management and record keeping;

(iv) Provision of other financial services such as domestic and international remittance and funds transfer, as well as insurance;

(v) Maintenance and operation of accounts with banks in Liberia;

(vi) Receipt of interest as may be agreed between the MFIs and their clients;

Non-Bank Microfinance Institution

(i) Provision of micro credit/loan;
(ii) Promotion and monitoring of loan usage among its clients by providing capacity in such areas as small business management and record keeping;
(iii) Provision of other financial services such as domestic remittance and funds transfer, as well as insurance;
(iv) Maintenance and operation of accounts with banks in Liberia;
(v) Receipt of interest as may be agreed between the MFIs and their clients;
(vi) Performance of functions that relate to microfinance business development services, such as cooperatives and group formation activities, rural financing and other support services needed by micro enterprises;

3.2.2 PROHIBITED ACTIVITIES

No MFI shall engage in any of the following:

Bank MFI

(i) Granting non-traditional, asset-based collateralized loans;
(ii) Funding social obligation

Non-Bank MFI

(i) Acceptance of deposits;
(ii) Foreign exchange transaction;
(iii) Corporate finance;
(iv) International electronic fund transfer
(v) Current account or cheque clearing activities.

3.3 OWNERSHIP OF MICROFINANCE INSTITUTIONS

Microfinance institutions can be established by persons, groups of persons, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed MFIs.

Commercial banks that intend to set up microfinance units as subsidiaries and MFIs that offer deposit taking services shall be required to deposit the appropriate minimum paid-up capital and, without prejudice to or limiting the generality of the requirements of the New FIA, meet the prescribed prudential requirements. If, in the view of the CBL, they have also satisfied all the requirements stipulated in the guidelines, they shall receive authorization.

3.4 LICENSING/ REGISTRATION REQUIREMENTS

The licensing/registration of MFIs shall fall under the authority of the CBL as provided in the New FIA of 1999, and no person, group or entity shall carry on microfinance business without authorization from the CBL. A licensed/registered institution shall be required to add “microfinance” to its name.

There shall be two categories of licensing/ registration of microfinance institutions:

3.4.1 LICENSING REQUIREMENT FOR BANK MFIS

Bank Microfinance Institutions/Commercial Banks engaged in microfinance operations as a line of business shall operate in accordance with the New Financial Institutions Act of 1999 and its applicable regulations.

3.4.2 REGISTRATION REQUIREMENTS FOR NON-BANK MFIs

Non-bank Microfinance Institutions/Companies whose primary line of business is microfinance including NGO Microfinance Institutions that engage in microfinance as part of their relief and rehabilitation programs shall be subjected to the following registration requirements if they have more than 150 clients and loan portfolio greater than LD500,000:

- i) A letter of interest to engage in microfinance service business addressed to the Supervision and Regulatory Department of the CBL.
- ii) True copies of the documents under which the institution seeking the authorization was organized.
- iii) Payment of fee of USD100.00 for registration;
- iv) A statement of location and address in Liberia;
- v) Adequate management information systems, internal controls and procedures, including manuals of operations relevant to microfinance.
- vi) Detailed statement indicating:
  1) Precise nature of the business
  2) Description of activities
  3) Name, address and contact information of principal actors
  4) Ownership structure

All non-bank MFIs with less than 150 clients and loans portfolio less than LD 500,000 shall be subjected to the following:

- (i) Public registry of their operations;
- (ii) Submit names of owners and officers of the business to the Supervision and Regulatory Department of the CBL.

No MFI, whether domestic or foreign, shall operate without permission from the CBL. Those already operating before the coming into existence of this framework shall regularize their operational status. Any institution found in non-compliance with this regulation shall be fined L$50,000.00 or serve prison term not exceeding one year or both.

3.5 PRUDENTIAL REQUIREMENTS

3.5.1 MINIMUM CAPITAL AND CAPITAL ADEQUACY REQUIREMENTS

(i) Paid-up capital of bank microfinance institutions shall not be less than 50% of the existing level stipulated for commercial banks. The microfinance institutions being established in line with this framework must be adequately capitalized at all times. The CBL reserves the right to change this minimum amount from time to time.

(ii) All contributions made by promoters, members and other persons towards the establishment and operation of a MFI shall be capitalized in favor of the contributors and subsequently held as shares by them.

(iii) An MFI especially deposit-taking, shall at all times maintain a minimum capital adequacy ratio. The capital adequacy ratio shall be measured as a percentage of the capital base of the MFI to its risk-weighted asset exposure. The minimum applicable ratio shall be ten percent (10%). An MFI may maintain a higher ratio than the prescribed minimum ratio.

3.5.2 LOAN DOCUMENTATION AND CLASSIFICATION

All MFIs shall be required to comply with the amended Prudential Regulation for Asset Classification, Provisions for Loan Losses and Suspension of Interest on Non-performing Loans and Advances.

3.5.3 LENDING LIMITS

(i) The maximum loan by non-bank MFI to an individual borrower shall not exceed 1% of the institution's net worth;
(ii) There shall be absolutely no loan by non-bank MFI to a related or connected party.

3.6 OPERATIONAL REQUIREMENTS

(i) MFI should display at a prominent place in the business the authorization document received from the CBL;
(ii) Any MFI wishing to change its location shall first seek and obtain the approval of the

CBL;

iii) The authorization granted the MFI by the CBL shall be renewable annually upon satisfactory conduct of operations;

(iv) NGOs that also engage in microfinance activities shall separate their MFI operations from other services they are engaged in;

v) All service information shall be displayed in the public area of the MFI premises and/or provided to the clients in a transparent manner by the loan officers or customer service officers;

(vi) MFI must have a management team as follows:

(a) Directors**:** A maximum of seven (7) directors and a minimum of three (3) directors on the Board of an MFI, two of whom shall be Liberian residents. At least two (2) directors, other than the CEO shall have banking or related experience. Appointment of directors shall be approved by CBL.

(b) Officers: CEO must at least five (5) years experience in Microfinance or related fields. Management officers shall be required to possess the requisite knowledge and experience in microfinance service business.

3.6.1 MAINTENANCE OF ACCOUNTING BOOKS AND RECORDS

MFI must maintain accounting books and records as per the following:

i) Proper books of accounts and other records shall be kept up to date and shall contain all information necessary to explain all transactions and give a true and fair view of the state of affairs and performance of the MFI.

ii) The books and records must be available for inspection by authorized officials from the CBL.

3.7 CORPORATE GOVERNANCE

The board of directors of MFIs shall be primarily responsible for the corporate governance of the microfinance institutions. To ensure good governance of the institutions, the board of directors shall be responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities of the MFIs and the means to attain same. The board shall also establish the appropriate mechanism for monitoring Management's performance. Thus, while management of the day-to-day affairs of the MFIs shall be the responsibility of the Management team, the board of directors shall, however, be responsible for monitoring and overseeing Management's actions. Consequently, the licensed microfinance institutions shall be expected to operate under a diversified and professional board of directors.

3.8 COMPLIANCE WITH ANTI-MONEY LAUNDERING LAW, KNOW-YOUR-CUSTOMER (KYC) GUIDELINES

All MFIs shall be required to comply with the Anti-Money Laundering Law, and the principles and procedures of Know-Your-Customer (KYC) Regulation issued by the Central Bank of Liberia.

3.9 CREDIT REFERENCE SYSTEM

The Central Bank may establish a credit reference system, directly or through an appointed agent or a licensing scheme, to collect, store and process, in such a manner as the Bank may deem fit, credit and any other information on their businesses. The Central Bank may establish a credit reference system, directly or informally on the customers of financial institutions and to disclose such information, in such a manner as may be deemed appropriate by the Bank, to financial institutions, for the purpose of providing credit information for their business.

In order to promote access to financial services, the Central Bank may have the authority to establish a unique customer numbering system among all financial institutions, using biometric or any other appropriate identification technology.

Due to the peculiar characteristics of microfinance practice, a credit reference system which shall provide information on microfinance clients and aid decision making, is desirable. In this regard, the present Credit Reference System in the CBL shall be expanded to serve the needs of the microfinance sector.

3.10 REPORTING REQUIREMENTS

Registered non-bank MFI's engaged in microfinance lending are required to report to the Central Bank of Liberia a soft copy of classification of their loan portfolio on a monthly basis, in a format prescribed by the CBL (see Appendix 1).

MFI shall report their activities to the CBL on a regular periodic basis. The frequency of reports for bank MFIS and non-bank MFIs are as follows:

A) Non-Bank MFIs

(i)	Monthly profile report	MFI- MR 01
(ii)	Quarterly loan portfolio report	MFI- QR 01
(iii)	Annual external audit report	MFI- AR 01

B) Bank MFIs

(i)	Monthly profile report	MFI- MR 01
(ii)	Monthly loan report	MFI- MR 02
(iii)	Monthly Balance Sheet	
(iv)	Monthly deposit report	MFI- MR 03
(v)	Quarterly loan portfolio report	MFI- QR 01
(vi)	Quarterly deposit report	MFI- QR 02
(vii)	Quarterly financial statements balance sheet/ income & loss statement)	MFI-QR 03a/03b
(viii)	Bank Statement - Quarterly Report	MFI-QR 04
ix)	Annual external audit report (not later than 121 days)	AR 01

3.11 REGULATORY INCENTIVES

3.11.1 The services of microfinance institutions are emerging opportunities for the provision of financial services to the un-served population. The creation of these opportunities requires the support of government and the regulatory authorities. The CBL shall set the reserve requirement of non-bank deposit taking microfinance institutions to fifteen percent (15%).

3.11.2 Moreover, the CBL may make available a pool of funds as Loan Extension and Availability Facility (LEAF) for microfinance institutions to enable these institutions increase their outreach. The funds will be repaid at a rate lower than the prevailing market rate.

3.12 REGULATION AND SUPERVISION REQUIREMENTS

3.12.1 Consistent with microfinance best-practice, all MFIs shall be regulated and supervised by the Regulation and Supervision Department of the CBL.

3.12.2 The provision of this framework shall be subject to review from time to time at the full discretion of the CBL.