

**PRUDENTIAL REGULATIONS FOR MICROFINANCE  
DEPOSIT TAKING INSTITUTIONS (MDIs)**

**1.0 INTRODUCTION**

Pursuant to the provisions of Part II, Section 3, of the New Financial Institutions Act of 1999 and the Microfinance Regulatory and Supervisory Framework for Liberia, the Central Bank of Liberia (CBL) hereby promulgates and issues these regulations to regulate the establishment, operations and business conduct of microfinance deposit-taking institutions (MDIs) that seek to take deposits from the public and engage in microfinance lending.

**2.0 DEFINITIONS**

In these Regulations, unless the context otherwise requires:

- i) A Microfinance Deposit-taking Institution (MDI) shall mean any individual or company licensed/registered to carry on the business of providing microfinance services, such as savings, loans, domestic funds transfer, and other financial services approved by the CBL that is targeted at the economically active poor, micro, small and medium enterprises and low-income earners.
- ii) Microfinance clients shall refer to low-income group who use financial services to finance their businesses, manage emergencies, acquire assets, improve homes and fund consumption by means of microfinance services or products.
- iii) Microfinance loans are generally considered to be unsecured loans up to US\$7,000 or its equivalent in Liberian dollars as defined in the Amended Prudential Regulations for Asset Classification, Loan Loss Provisions and Suspension of Interest on Non-performing loans, extended by any microfinance institution, or a commercial bank authorized to provide such services based on non traditional assets-based collateral requirements.
- iv) A poor person shall be defined as a person who has meager means of livelihood and/or who earns less than a dollar, United States (US\$1.00) a day.
- v) Central Bank means Central Bank of Liberia (CBL).

**3.0 PERMISSIBLE ACTIVITIES**

Every company seeking to be licensed as a MDI shall be permitted to do so on a “stand alone” basis and be strictly limited to solely engaging in MDI business as defined in Section 2 above.

#### **4.0 PROHIBITED ACTIVITIES**

A Microfinance Deposit-taking Institution shall not:

- a. Engage in foreign exchange transactions or international commercial papers or corporate finance, international electronic funds transfer, cheque clearing activities;
- b. Deal in foreign currency;
- c. Give any credit facility or enter into any other transaction against the security of its own shares or the shares of its holding company;
- d. Pay any dividend on its shares without CBL's prior approval in writing;
- e. Engage in any business other than those for which it was licensed; and
- f. Remit either in whole or in part, the debts owed to it by its directors/officers or waive interest thereon without the prior written approval of the CBL.

#### **5.0 APPLICATION FOR LICENSE**

Any applicant (s) seeking license for a microfinance deposit-taking institution, having more than 150 clients and loan portfolio greater than LD10,000,000.00, shall apply in writing to the Central Bank of Liberia (CBL). Such application shall be accompanied by the following requirements:

- i) Resolution of the Board of Directors of the proposed MDI authorizing the investment;
- ii) A letter of interest to engage in microfinance service business addressed to the Executive Governor of the Central Bank;
- iii) A non-refundable application fee of US\$100.00 in bank draft or by cheque, payable to the Central Bank;
- iv) A feasibility report including a business plan and financial projections for the first three (3) years. The feasibility report shall disclose the following:
  - (a) Precise nature of the business, (b) Description of activities (c) Name, address and contact information of promoters and/or significant shareholdings of at least 5%, directly or indirectly and the names and addresses of bankers (not post office addresses) and (d) Ownership structure;
- v) A copy of the draft Memorandum or Articles of Incorporation;

- vi) A statement of location and address in Liberia;
- vii) Name and address of registered agent in Liberia (if applicable);
- viii) Names and Curriculum Vitae (CVs) of the proposed members of the Board of Directors and management including their background, financial position, business interests and particulars of other business concerns under their control or management. The CVs must be personally signed and dated by each of proposed Board members or management team;
- ix) Undertaking by the organizers/ promoters that the proposed MDI will be adequately capitalized at all times and will comply with all national laws and regulations;
- x) Technical Management Agreement with the parent company or significant shareholders (where applicable);
- xi) A letter of intent to subscribe to the shares allotted to the shareholders of the proposed MDI, signed by each subscriber; and
- xi) Any other information or document as may be required by the CBL.

Upon fulfillment of the above-listed requirements, the Central Bank may grant a provisional license to the applicant for a period of six months. The provisional license may be extended by the Central Bank for justifiable reasons acceptable to the Central Bank. Upon refusal to grant a license, the Central Bank shall inform the applicant, and may state the reason(s) for its decision not to grant license to the applicant.

## **6.0 GRANTING OF FINAL LICENSE**

An applicant for a MDI license shall be required to meet all of the requirements stated in 5.0 above, plus the raising of a minimum capital requirement of US\$1 million (or as may be determined by the Central Bank of Liberia from time to time) and payment of a license fee of US\$10,000, before obtaining a final license.

## **7.0 OPERATIONAL REQUIREMENTS**

- i) A MDI must display at a conspicuous or prominent place in its premises the license obtained from the CBL and the registration certificate from the appropriate government entity;
- ii) Any Microfinance Deposits-taking institution wishing to change its whether temporary or permanent, shall first seek the approval of the CBL. The premises of a Microfinance Deposit-taking Institution may be used for only Microfinance Deposit-taking Institution;
- iii) The license to conduct Microfinance Deposit-taking institution is not transferable or re-assignable; and

- iv) The application fee, license fee and renewal fee shall be subject to periodic review by CBL.

## **8.0 RENEWAL OF LICENSE**

A Microfinance Deposit-taking Institution shall pay an annual operating levy of US\$2,500.00.

The license for each Microfinance Deposit-taking Institution shall be automatically renewed, upon payment of the annual operating levy by the licensee, unless otherwise advised by the CBL.

## **9.0 DIRECTORS**

- i. The maximum number of directors on the Board of a MDI shall be seven (7) while the minimum shall be three (3). To qualify for the position of a director in a microfinance deposit-taking institution, it is required that the person(s) must not be a current employee(s) or a director(s) of any bank or financial institution, except the MDI is promoted by a bank or other financial institution and that the would-be board member is representing the interest of such institution (s).
- ii. The appointment of new directors and management staff shall be subject to Central Bank's approval.

## **10.0 SOURCES OF FUNDS**

The sources of funds of a MDI shall consist of the following:

- i. Shareholders' funds – paid up share capital and reserves;
- ii. Deposits by customers;
- iii. Debenture/qualifying medium to long-term loans; and
- iv. Grants/donations from individuals, organizations, national government, and international sources.

## **11.0 SUBMISSION OF RETURNS**

Every MDI shall submit to the CBL returns at intervals and in formats as may be prescribed by the CBL.

## **12.0 PENALTIES FOR LATE OR FALSE/INACCURATE RETURNS OR OTHER INFORMATION**

12.1 For lateness in submitting returns/furnishing any information required, the penalty shall be a fine of not less than L\$15,000.00 for each day of violation. Persistent failure/refusal to render returns in the prescribed format and on time shall be a ground for the suspension and/or revocation of license.

12.2 Where the CBL considers it necessary, it may appoint a certified accounting firm to prepare proper books of account or render accurate returns, as the case may be, for the MDI concerned and the cost of preparing the account or rendering the returns shall be borne by the MDI.

12.3 If any Director or Officer of a MDI fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions of the MDI or at its Head Office and/or branches, the CBL may impose on such director or officer a fine not exceeding L\$ 50,000.00. If any default in this respect is caused by the willful act of any Director or Officer of the MDI, the CBL may impose on him a fine not exceeding L\$100,000.00 or cause the removal of such Director or Officer in order to protect the integrity of the institution. In addition, the CBL may impose on the MDI such other penalties as it may deem appropriate.

12.4 If any return/information is not supplied accurately or is misleading/false, the MDI shall pay a fine of L\$25,000.00 in respect of each day during which such violation occur. The CBL may revoke the license of such MDI for refusal to correct the default or failure to pay the fine or failure to submit the report.

### **13.0 PRUDENTIAL REQUIREMENTS**

Every MDI shall comply with the following prudential requirements.

### **14.0 LIQUIDITY RATIO**

A MDI shall be required to maintain a minimum liquidity ratio of ten per cent (10%) on specified liquid assets against deposits liabilities. Specified liquid assets shall include cash, treasury bills and domestic short-term investments with NOT more than 90 days maturity.

### **15.0 CAPITAL ADEQUACY**

A MDI shall be required to maintain a minimum capital adequacy ratio (Capital/Risk Weighted Assets Ratio) of 10% ratio of not less than 1:10 between its shareholders' funds unimpaired by losses and net credits. When any of the above ratios fall below the prescribed level, the MDI shall not do any of the following until the required ratio is restored:

- Grant credits and make further investment;
- Pay dividend to shareholders; and
- Borrow from the investing public or take deposits.

In addition to above-mentioned and measures, the MDI shall be required to submit within a specified period to be determined by the CBL, a recapitalization plan acceptable to the CBL.

Failure to comply with any or all of the above may constitute grounds for the revocation of the license of the MDI or require such other penalties as may be deemed appropriate by the CBL. MDI are enjoined to ensure that their shareholders' funds do NOT fall below the required minimum paid-up capital.

#### **16.0 FIXED ASSETS/LONG-TERMS INVESTMENTS AND BRANCH EXPANSION**

No MDI shall be allowed to finance any of the following other than from its shareholders' funds, unimpaired by losses:

- (i) Acquisition of fixed assets;
- (ii) Equity investments and investments in longer-term debentures and
- (iii) Branch expansion.

#### **17.0 MAINTENANCE OF CAPITAL FUNDS**

Microfinance Deposit-taking Institutions (MDI) will be required to maintain both a reserve and a current account at CBL. Withdrawal of any amount from the Statutory Reserve fund shall not be permitted as long as the institution remains in existence.

Transfer of Statutory Reserve from profit after tax shall be at a minimum of 25% until the Reserve Fund equals the paid-up capital and a minimum of 15% thereafter. The CBL may vary from time to time the proportion of net profit transferable to Statutory Reserves. The CBL mandates that no accretion shall be made to the reserve funds of the MDI until it satisfies the following conditions:

- All preliminary and pre-operational expenses have been written off;
- All preliminary losses have been made for loans/assets deterioration; and
- All identifiable losses have been fully provided for.

#### **18.0 PAYMENT OF DIVIDEND**

A microfinance deposit-taking institution shall not pay dividend until it satisfies that the below listed conditions are met:

- All accumulated losses have been fully absorbed and written off;
- All preliminary and pre-operational expenses have been written off;
- Capital Adequacy ratio has been met; and
- All maturing obligations have been met.

#### **19.0 LIMIT OF LENDING TO SINGLE BORROWER**

The maximum amount of loan that can be extended by a MDI to any one person or maximum investment in any one venture by a MDI shall be 1% of the MDI's unimpaired shareholders' funds or as may be prescribed by the CBL from time to

time. Any contravention of this requirement will attract a supervisory sanction on the MDI and/or, on the directors/managers who fail to comply with this provision.

## **20.0 RESTRICTION ON INVESTMENT**

A MDI shall not be allowed to invest its shareholders' funds, unimpaired by losses, in the equity share of any venture or undertakings.

## **21.0 PROVISIONS FOR LOAN LOSSES**

Each MDI shall review at least once every thirty days, its loans and advances and other investments and make appropriate provisions for loan losses or assets deterioration in accordance with the following standards:

- Performing - 1%
- 1-30 days - 25%
- 31-90 days - 50%
- >90 days - 100%

Every MDI shall submit to the Central Bank each quarter a schedule of loans/investments, showing the provisions made for losses or deterioration in the quality of its loans/investments.

## **22.0 LIMIT OF INVESTMENT IN FIXED ASSETS**

The maximum amount which a MDI can invest in fixed assets is 25% of its shareholders' funds unimpaired by losses. If any default in this respect is caused by the willful act of any Director or Officer of the MDI, the CBL may impose on such officer or director a fine not exceeding L\$100,000.00 or cause the removal of such Director or Officer.

## **23.0 DISCLOSURE OF INTEREST BY DIRECTORS AND OFFICERS OF MDI**

### **23.1 Disclosure of Interest**

Every Director or Officer of a MDI that holds any office or possesses any property whereby, whether directly or indirectly such, duties or interests might create conflict with his duties or interest as a Director or Officer of the MDI, shall declare to the full Board, the fact and the nature, character and extent of such interests. Any Director or Officer that contravenes this provision shall be liable to a fine not exceeding L\$150,000 and/or be removed from office.

### **23.2 Connected Lending:**

A MDI shall not grant to any Director/ Officer or any closely related party or relation any loan or credit facility whether directly or indirectly.

#### **24.0 OPENING/CLOSING OF BRANCHES OF MDI**

A MDI wishing to open or close a branch shall seek the prior approval of the CBL, subject to the requirements of CBL Guidelines regarding the establishment and/or closure of branches.

Any MDI that fails to obtain the approval of the CBL before commencing any organizational work such as construction, renovation, or other related works or activities on a branch shall be subject to appropriate supervisory sanction (s), including but not limited to non-approval of such branches.

#### **25.0 DISPLAY OF INTEREST RATES ON LENDING AND DEPOSITS**

Every MDI shall display on a daily basis in a conspicuous place at its Head Office and branches, its interest rates, related fees and commissions. Interest rates shall be applied on a declining basis. Any MDI contravening this provision shall be liable to a fine of not less than L\$15,000, and additional L\$1,000.00 for every day during which the offence continues, or subject to such other penalties as may be deemed appropriate.

#### **26.0 INTERNAL CONTROLS**

Every MDI shall have an Internal Audit system which should ensure that its operations conform to the law as well as, to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Head of the Micro-finance Unit and the Director of the Supervision Department of the Central Bank of Liberia. Also a quarterly report on frauds and forgeries affecting the institution and any default in meeting any obligation to lenders or investors shall be submitted to the Micro-finance Unit and the Supervision Department. Where no frauds/forgeries and defaults occurred during the quarter, a Nil return shall be forwarded.

Every MDI shall be required to submit to the CBL, a report made along with the quarterly returns on assets and liabilities. Failure to comply with this requirement will attract a fine of not less than Two Hundred Thousand (L\$200,000) Liberian Dollars or imprisonment for a term not exceeding two years, or both the fine and imprisonment.

#### **27.0 APPOINTMENT OF CHIEF EXECUTIVE AND PRINCIPAL OFFICER**

The appointment or replacement of the Chief Executive Officer or any of the Principal Officers of any MDI must be approved by the CBL. Where the turnover of principal and senior officers is considered to be unduly high or where the reason for leaving by an officer suggests an attempt to cover up a fraud or other illegal activity, or punish the officer for attempting to prevent illegal activities, the CBL shall cause an investigation to be conducted into the matter and other affairs of the MDI, as may be considered necessary. The report of such investigation or special examination shall determine the penalty to be imposed on the MDI concerned.



## **28.0 APPOINTMENT OF EXTERNAL AUDITOR**

Every MDI shall appoint an external auditor to be approved by the CBL.

The appointment of an auditor shall satisfy the minimum requirements stated in the Regulations Concerning Corporate Governance for Financial Institutions (CBL/SD/002/2008) and Audit of Banks and the Publication of Financial Statements (CBL/SD/04/2005) in addition to the below requirements:

- i. member of a recognized professional accountancy body in Liberia;
- ii. professional practice as an accountant and/or an auditor in Liberia;
- iii. Prior to his appointment, an external auditor of a MDI should not:
  - Have interest in the MDI otherwise than a depositor
  - Be a director, officer or agent of such institution
  - Be a partner to a director of the MDI that has interest as partner or director with the auditing firm
- iv. Any external auditor who is subsequently affected by Section 14(iii) above shall immediately cease to continue as an auditor of the MDI;
- v. If an approved auditor, in the course of his duties as an auditor of a MDI, is satisfied or convinced of any or all of the below activities, the matter shall immediately be reported to the CBL:
  - Losses incurred by the MDI which substantially reduces its capital funds; or
  - Irregularity which jeopardizes the interest of depositors or creditors of the MDI or any other irregularity that occurs, or
  - Inability to confirm that the assets of the MDI cover the claims of depositors or creditors.
- vi. The approved auditor shall also forward to the CBL two (2) copies of domestic report on the activities of the MDI not later than three (3) months after the end of the financial year of such MDI;
- vii. The approved auditor shall have the right of access at all times to all books, accounts and vouchers of the MDI and shall be entitled to require from directors, managers and officers of the MDI all information and explanation he/she may consider necessary for the performance of his/her duty;
- viii. If any MDI fails to appoint or fill a vacancy for an auditor, the CBL shall appoint a suitable person for that purpose and shall fix the remuneration to be paid by the MDI to such auditor;

- ix. The appointment of an auditor shall not be effected without a prior written approval of CBL. An auditor, approved by the CBL, shall audit the MDI for a period of not more than three years;
- x. Any auditor who acts in contravention of the foregoing thereby violating the requirements of this section shall be prohibited from auditing any financial institution. If it is found that the violation was made with the knowledge and/or consent of the MDI through a director, officer or employee the institution shall be liable to a fine of at least L\$75,000.00; and
- xi. Wherein a MDI retains the services of an auditor for a period of three years and seeking to extend the services based on its Board's approval, the Board of the MDI shall seek the written approval of the Central Bank of Liberia.

### **29.0 PUBLICATION OF EXTERNAL AUDITED ACCOUNTS**

In Accordance with the New FIA 1999, Section 21, every MDI shall submit its audited financial statements to the Supervision Department of the Central Bank for review and approval not later than three months after the end of the institution's financial year. After approval, the MDI shall publish the abridged version of the accounts in at least two (2) national daily newspapers. Every published account shall disclose in detail the penalties imposed by the CBL.

### **30.0 RESTRUCTURING AND RE-ORGANIZATION OF MICROFINANCE DEPOSIT-TAKING INSTITUTION**

Except with the prior consent of the Executive Governor of the CBL, no MDI shall enter into an agreement or arrangement:

- a. which results in a change in the control of the MDI;
- b. for the sale, disposal or transfer of the whole or any part of the business of the MDI;
- c. for the amalgamation or merger of the MDI with any other company;
- d. for the restructuring of the MDI; and/or
- e. to employ a management agent or to transfer its business to any such agent.

### **31.0 CONDITIONS FOR REVOCATION OF LICENSE**

The grounds for revoking a license granted to a Microfinance Deposit-taking Institution may be any or all of the following:

- i. Submission of false information/data during and/or after the processing of the application for license.
- ii. Engaging in functions/activities outside the scope of its license as specified in Section 1 of these regulations.

- iii. Persistent failure to comply with request for information/data in the form required/specified by CBL.
- iv. Engaging in activities prejudicial to the Liberian economy.
- v. Failure to redeem matured obligations to customers.
- vi. Failure to comply with any directives, regulations or guidelines issued by CBL.
- viii. Failure to renew operating license within a period of six (6) months.
- ix. Any other act(s) which in the opinion of CBL constitute(s) a violation or a serious information of the law or regulation.

### **32.0 AMENDMENTS**

The Central Bank of Liberia reserves the right to amend or revise these rules and regulations from time to time as the need arises.

These regulations shall take effect upon publication in Official Gazette and shall remain in force until otherwise advised by the CBL.

Issued this 1<sup>st</sup> day of December, A.D. 2010 in the city of Monrovia, Republic of Liberia

By order of the President  
Minister of Foreign Affairs

Ministry of Foreign Affairs  
Monrovia, Liberia  
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