

The Government of Liberia

The Liberian Strategy for Financial Inclusion (2009-2013)



Central Bank of Liberia (CBL)

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Vision Statement

“To build a sustainable microfinance industry, in order to secure diversified and affordable financial services for all.”

May 2007- National Stakeholders Workshop



Acronyms

ARC	American Refugee Committee
BDS	Business Development Services
CBL	Central Bank of Liberia
CRB	Credit Reference Bureau
CDA	Cooperative Development Agency
CGAP	Consultative Group to Assist the Poor
CORDAID	Catholic Organization For Development Aid
EAL	Evangelical Association of Liberia
IFC	International Finance Corporation
PRS	Poverty Reduction Strategy
LBDI	Liberian Bank for Development and Investment
LCUNA	Liberia Credit Union National Association
LD	Liberian Dollar
LEAP	Local Enterprise Assistance Program
LIFS	Launch of an Inclusive Financial Sector in Liberia
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MIS	Management Information System
MSEs	Micro and Small Enterprises
NGOs	Non- Governmental Organizations
NIC	National Investment Commission
PAR	Portfolio at Risk
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Saving and Credit Cooperatives
SEDO	Small Enterprise Development Organization
SMEs	Small and Medium Enterprises
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNMIL	United Nations Mission in Liberia



EXECUTIVE SUMMARY

The Liberian Strategy for Financial Inclusion is an embodiment of the vision, challenges, goals and prospects for the institutionalization of a sustainable microfinance sector in Liberia and the strategic directions to be pursued. This national strategy, in consonance with its action plan, will promote access to financial services for all segments of the Liberian population. The strategy is consistent with the Government's Poverty Reduction Strategy (PRS), specifically pillar two which deals with the revitalization of the economy. It is envisaged that the clear policy and strategic direction outlined in the document will help unleash the untapped potential of microfinance in Liberia thus contributing to the reconstruction, economic recovery, and poverty alleviation efforts of the Liberian government.

This document is based on a diagnostic assessment of the financial sector in Liberia. It sets out a roadmap covering a period of five (5) years (2009-2013) for building a sustainable microfinance sector in Liberia. The document is divided into six sections, highlighting the current challenges and accomplishments in microfinance development and outlining the prospects for the future.

The introductory section highlights the effect of the fourteen (14) years of civil conflict in Liberia and the challenges faced in the resuscitation of the economy. The need to accelerate the pace of economic growth in Liberia as the foundation for poverty reduction comes clearly into focus. This section provides an overview of the situation in post war Liberia, which depicts a situation of low economic growth and a high level of poverty.

Section two (2) presents a synopsis of the nature and capacity of microfinance providers in Liberia, including the banking sector, non-deposit taking microfinance institutions (MFI), financial cooperatives or credit unions, NGOs, Susu groups, and informal lenders. The section also presents the challenges faced by these institutions.

Section three (3) elaborates the vision of empowering the poor by ensuring their sustainable access to a wide range of affordable financial services; presents the objectives supporting this vision. It also outlines the guiding principles which are reflective of internationally accepted microfinance operating principles and paradigms that will give direction to institutions either seeking to enter or that are already operational in the sector.

The thrust of the strategy is presented in section four (4). At the macro-level, the strategy focuses on creating an enabling policy and regulatory environment for the establishment of a holistic microfinance program in Liberia. Intermediary level interventions will be aimed at establishing and strengthening of the supportive infrastructure, especially capacity building. The strategic focus for the micro-level is geared towards building the capacity of microfinance providers, and integrating microfinance service providers into the mainstream financial sector. Stakeholders such as government institutions, donors, NGOs and others would use the strategy to guide their future actions and interventions. This will also allow the microfinance providers and service providers at the other levels of the financial system to align their efforts to create a sustainable microfinance



sector in Liberia based on the common framework of a strategy for inclusive finance.

Proposed interventions focus on the establishment of diverse institutions, including deposit taking institutions, expansion of MFI outreach, development of client responsive products, and the promotion of sustainable interest rates.

Section five (5) defines the role and responsibility of key stakeholders; namely, Government, infrastructure support providers and microfinance providers.

The action plan articulated in section six (6) proposes specific interventions to be implemented within short, medium, and long-term timeframes. It also identifies the entities responsible for spearheading the intervention and proposes indicators to be used in monitoring the progress.



1. Introduction

Liberia is a small country with a land area of 11,370 km² and a population of about 3.5 million. The vast majority of the population is rural (70%). The conflict and civil war that occurred for fourteen years (1989-2003) had severe economic repercussions. The current GDP is estimated at about one fourth of what it was before the war. The per capita income fell from US\$502 in 1989 to US\$128.90 in 2008, and a decline in social indicators put Liberia near the bottom of the UNDP's Human Development Index.

Unemployment has been very high mainly amongst the youths, who are either unemployed or employed in the informal sector as a result of shrinkage in the formal sector as well as by the disastrous political, economic and social effects of the war. The war had a detrimental impact on accessing basic services such as transportation, health, education and potable water. As a result of the relentless efforts of the new government and the support of UNMIL, serious measures have been taken to ensure peace and security and resumption of economic activities. The political situation of Liberia has improved significantly and the economic outlook for 2009 is for continued growth and development, following growth rate of 9.5% of 2007 and 7.1% in 2008.

The challenge ahead is to develop policies and programs to accelerate the pace of economic growth, including rebuilding infrastructures and creating significant job opportunities that could make a quick impact, as the means for sustainable development and poverty reduction.

Financial inclusion, appropriately designed and implemented, will contribute greatly to the reduction of poverty in Liberia by making financial services and resources available in a sustainable manner to the lower segment of the market. Such services and resources can be an important means for improving production and productivity for small businesses, thereby enhancing prospects for increased income for the poor.

2. A review of microfinance providers in Liberia

Microfinance providers in Liberia can be divided into three main categories: (i) commercial banks, (ii) credit unions and (iii) credit-only institutions. There are also small rotating savings and credit groups known as Susu groups and moneylenders. A commercial bank specializing in microfinance has been established which should help in the delivery of financial services to small and medium enterprises in Liberia.

Banking sector: Eight commercial banks currently operate with about 30 branches in seven of the fifteen counties of Liberia. This gives a ratio of one branch for every 113,333 inhabitants. Commercial banks in Liberia have only recently started to consider microfinance as a viable business line. As of the end



of 2008, only two of the existing banks engaged in some sort of microfinance lending. Eco-bank had an active portfolio of about US\$3.6 million in 98 associations/unions, which on-lend such funds to about seven thousand clients, while the Liberian Bank for Development and Investment (LBDI) provided 1.3 million US dollars to about 160 clients. In January 2009, after several years of sustained efforts by the Government and development partners, such as the International Finance Corporation (IFC), the European Investment Bank (EIB), and the African Development Bank (AfDB), ACCESS Bank Liberia - a commercial bank specializing in microfinance - started operations with a paid-in capital of US\$6 million and a projected business plan to reach a portfolio of sixty thousand clients in the next five years.

Credit unions: Credit Unions have traditionally engaged in providing financial services to low-income members of the population, and continue to do so nowadays. As of end of 2008, a census by the World Council of Credit Unions (WOCCU) identified 154 operational credit unions, with a total of almost 26 thousand clients.

Their apex institution, the Liberia Credit Union National Association (LCUNA), was established in 1973 to train its members; monitor their activities (inspect their financial records at least bi-annually); and provide standardized financial ledgers, passbooks, receipts, and payment vouchers. Credit unions are currently supervised by the Cooperative Development Association (CDA). The Board of Directors of CDA is chaired by the Ministry of Agriculture and falls within the general Cooperative Act of 1936.

Credit-only institutions: Other microfinance providers comprise credit-only institutions, such as the recently created BRAC Microfinance Company - an offshoot of the Building Resources Across Communities (BRAC) International, a Bangladeshi Microfinance Institution. The institution has a paid-in capital of US\$4 million and an expectation to reach ninety thousand clients in the next five years with branches throughout the country. Other credit-only institutions are Liberty Finance and LEAP, who have limited outreach primarily due to the scarcity of loanable funds. After more than seven years of operations, including the newly created institution- BRAC, they have a total of US\$2.4 million in outstanding loans to over 32 thousand clients in six counties. There also exists a number of NGOs involved in microfinance to some extent as part of their relief and rehabilitation programs, as well as traditional arrangements such as rotating funds, savings clubs and other traditional and marginal forms of savings or credit activities.

Overview of the Microfinance sector in Liberia

Challenges of microfinance providers in Liberia



Macro level:

Indicators	Liberty Finance	LEAP	BRAC	Aggregate
Counties Covered	Montserrado, Margibi, Bong, and Nimba	Montserrado, Margibi, Bong, Bomi, Lofa, and Nimba	Montserrado, Margibi, Bong, and Nimba	
# of Branches	6	6	10	22
# of Active Clients	8,096	19,500	4,690	32,286
# of Female	6,054	16,966	4,690	27,710
% of Female	75	87	100	85.8
# of Male	2,024	2,534	0	4558
% of Male	25	13	0	14.1
Loan Portfolio Outstanding	448,191	1,072,106	898,016	2,418,313
Average Loan Size	106	96	191	131
Portfolio At Risk > 30 Days	10.09%	4%	0	7.04

- (i) The low literacy in Liberia, affecting the effectiveness and efficiency of delivering financial services to the disadvantaged groups;
- (ii) The credit culture in Liberia after the war has been adversely affected by years of aid dependency and handouts;
- (iii) Poor infrastructure (roads, power, communication, (etc) affecting outreach and efficiency.
- (iv) Limited capacity of CDA to support and supervise cooperative Unions.

Intermediate level

- (i) Limited credit reference services;
- (ii) Very limited microfinance expertise in the labor market;
- (iii) Limited capacity of LCUNA to provide leadership and support to credit unions;
- (iv) Very weak microfinance network to support the sector;
- (v) Scarcity of business development service providers, auditors, etc.

Micro level

- (i) Limited knowledge and technical capacity of banks to assess and manage the risk of micro and small entrepreneurs, particularly of the



rural sector;

- (ii) Lack of knowledge and understanding of the microfinance market which prevent banks from taking microfinance as a potential market to do business and an opportunity for growth;
- (iii) Lack of loan capital for credit-only institutions and credit unions to increase outreach;
- (iv) High staff turnover, particularly senior management;
- (v) Weak governance and management capacity of credit unions;
- (vi) Lack of appropriate systems, procedures and governance structure;
- (vii) Poor linkages between credit unions and banks and other financial providers.

3. Vision, objective and guiding principles

Consistent with the Poverty Reduction Strategy (PRS), microfinance in Liberia will provide the means of empowering those who have no access to financial services, particularly the poor. In this context, it is the vision of all stakeholders to build a sustainable microfinance industry in order to secure diversified and affordable financial services for all.

The overall objective of the national strategy for inclusive finance in the next five years will be to create viable microfinance providers that facilitate micro-entrepreneurs sustained access to a diverse range of financial services: loans, savings, remittances, micro-insurance, etc., that are client responsive and cost effective. These services will be provided by different types of well-governed, professional and sustainable institutions, which will compete on a level playing field through the collaborative effort of all stakeholders under the guidance of the CBL. To enhance sustainability, efficiency, outreach and good governance, financial service providers will receive assistance from supportive service providers, such as the Microfinance Network, the University of Liberia, LCUNA, various government units, etc., with the support of the LIFS project and other executing agencies.

The national strategy will draw on internationally accepted principles, which will give guidance to those seeking to enter or those already operating in the sector. These include:

- (i) Clear separation of charity from financially sustainable microfinance, ensuring that financial discipline is in place in the sector.
- (ii) Striking an appropriate balance between the social and economic objectives of microfinance providers.
- (iii) Using market based pricing which can also promote savings mobilization, foster competition, and reduce barriers to entry and exit.
- (iv) Continuously improving the regulatory and supervisory framework to ensure an effective oversight of activities of microfinance



- providers to enhance soundness and loan capital mobilization in its various forms: savings, commercial funding from national and foreign sources, donor funding, equity, etc.
- (v) Continuously strengthening the institutional capacity of microfinance providers, particularly in terms of human resource development.
 - (vi) Developing innovative financial products that respond to the needs of the poor.
 - (vii) Developing transparent governance, management, accounting, internal control and information systems.
 - (viii) Promoting the independence of microfinance providers from political interference.

4. Strategic directions to implement financial inclusion

Realizing the vision and achieving the objectives of the strategy need actions on the micro, intermediate and macro levels. The specific strategic priorities are outlined below:

4.1 The micro level: building sustainable microfinance providers

The specific strategies that will be implemented at this level to expand outreach to meet the diversified demand and markets at least 138,000 clients by 2012 include:

- (a) Developing financial products that respond to the needs of diversified activities of households, giving due focus to loans, savings and remittance products;
- (b) Continued effort to attract more specialized microfinance providers to the country, in order to promote competition with those already operating;
- (c) Providing continuous training and capacity building programs to improve the skills of staff, including the board of directors of microfinance providers;
- (d) Supporting the strengthening of credit unions and the branching efforts of other microfinance providers, to reach rural and other areas that lack access;
- (e) Promoting transparency in the activities of microfinance providers.

4.2 The intermediate level: establishing supportive infrastructure

- a) Support and strengthen the Microfinance Network of Liberia, as a forum for MFI practitioners and other stakeholders, where issues and



challenges of the microfinance sector can be discussed and best practices can be adopted. It will also serve as a data bank in setting performance standards and benchmarks, and even in training and capacity building.

- b) Establishing a Credit Reference Bureau (CRB), that will help to improve the quality of credit delivery and reduce loan default rates.
- c) Support to Liberian Universities and other training institutions, to continuously improve managerial and institutional capacity of MFIs.
- d) Rebuilding the Credit Union Movement and its apex organization LCUNA to perform its relevant support functions including training, advocacy, etc.
- e) Assisting other support service providers in the fields of training, consultancy, accountancy, auditing and management information system as well as business development services for entrepreneurs.

4.3 The macro level: Create an enabling policy and regulatory environment

- a) Ensuring through the leadership of CBL, that all players operate on a sustainable basis and are transparent in disclosing the results of their operations;
- b) Increasing the capacity of CBL supervisory staff and other institutions;
- c) Assisting other relevant institutions to upgrade their capacities to supervise the sector;
- d) Ensuring that interventions of the Government complement rather than compete with private sector actors.
- e) Promoting a regulatory and operational environment that will allow commercial banks to downscale and provide microfinance services through wholesale funding off credit-only institutions that operate on a sustainable basis.

5. Roles and responsibilities of key stakeholders

Government: The key players in the national strategy for inclusive finance in Liberia include the Central Bank of Liberia (CBL), the Ministry of Finance, the Ministry of Planning and Economic Affairs, the Ministry of Agriculture, and the Ministry of Gender and Development. The CBL will be responsible for regulating and supervising microfinance providers (particularly those institutions taking deposits from the public). The National Microfinance



Taskforce will be responsible to ensure the implementation and monitoring of the Liberian Strategy for Financial Inclusion. The Government of Liberia shall provide support to microfinance providers by creating an efficient legal system, which enforces contracts and fosters the existence of clear property rights. The fiscal authorities shall also consider providing a favorable tax treatment for microfinance banks, MFIs and other stakeholders directly involved in developing the microfinance industry.

Infrastructure support providers: Those involved include support institutions such as the Microfinance Network of Liberia, apex organizations such as LCUNA, training providers such as the University of Liberia, Cuttington University and other tertiary institutions, auditors, information technology providers, wholesale financing facilities, credit bureaus and other technical service providers. Their key role will be to focus mainly on building the capacity of microfinance providers.

Microfinance providers: The key microfinance service providers include banks, credit unions and other credit-only institutions. The primary role of the financial service providers should focus on creating sustainable institutions using innovative methodologies and systems which can deliver financial services efficiently, including the recovery of loans at low cost. It is through creation of such institutions that the financial frontier can be pushed forward – reaching large numbers of the active population. Some of the main elements which are required in establishing sustainable and efficient microfinance providers include increasing outreach, operational and financial sustainability, development of demand-driven financial products and methodologies, building institutional capacity and mobilizing savings.

Donors: The most important role of donors is the provision of capacity building support, such as training in the development of microfinance products and technologies, which includes the development of operating systems and procedures. Donors will also provide loan capital, comprising of grants and concessional financing for microfinance providers to expand outreach; promote successful best practice experiences and facilitate networking within and outside Liberia. All the interventions of donors in the microfinance sector are expected to have clear exit strategies. Donors should establish a platform and mechanisms for better coordination, monitoring, harmonization and effectiveness of their support to the microfinance sector.

The implementation of the Liberian Strategy for Financial Inclusion depends on the interest and capacity of all stakeholders involved in its elaboration and in the execution of the actions and recommendations. Interaction and exchange of information among stakeholders would be essential for proper implementation of the action plan. The microfinance taskforce will take the lead in monitoring and evaluating the progress as well as measuring the impact of the strategy.

6.0 Action Plan

The action plan that follows specifies responsibilities assigned to relevant stakeholders (CBL, donors, NGOs, etc) and the timeframe of each activity. The commitment and participation of all stakeholders at all levels (micro, intermediate and macro) is a corner-stone for success and moving the strategy forward.



2.0 Intermediate-LEVEL—INTERVENTIONS

2.1 SHORT TERM

Tasks/Activities	Responsible Entity	Indicators
<ul style="list-style-type: none"> Organize regular technical national and regional work shops, and experience sharing visits 	Network/ LIFS/ Microfinance providers	Number of workshops visits and technical assistance
<ul style="list-style-type: none"> Promote data sharing among microfinance providers 	CBL/LCUNA/Credit Unions/other MF providers	Monitoring reports
<ul style="list-style-type: none"> Advocate microfinance countrywide 	The Network	Monitoring reports
<ul style="list-style-type: none"> Organize experience sharing visits for all relevant staff of microfinance providers 	The Network/LIFS	Number of experience visits
<ul style="list-style-type: none"> Establish agreed performance indicators and monitor the financial performance of the microfinance providers 	The Network/CBL/ LIFS	Publish the selected indicators for the sector
<ul style="list-style-type: none"> Conduct a training needs assessment study 	Universities/LIFS	Publish training needs assessment result
<ul style="list-style-type: none"> Provide appropriate technical and skill training 	Universities/LIFS	Number of training and trainees



2.2 MEDIUM TERM		
Tasks/Activities	Responsible Entity	Indicators
<ul style="list-style-type: none"> Organize regular technical national and regional workshops 	Network/ LIFS/ MF providers	Number of workshops and technical assistance
<ul style="list-style-type: none"> Promote data sharing among microfinance providers 	CBL/LCUNA/Credit Unions/other MF providers	Monitoring reports
<ul style="list-style-type: none"> Promote the services of the microfinance sector by using all appropriate media 	The National MF Network	
<ul style="list-style-type: none"> Initiate credit guarantee schemes until microfinance providers build track records 	LIFS/Donors/NGOs	Number of microfinance providers benefiting from the schemes
<ul style="list-style-type: none"> Introduce rating of MFIs to build the confidence of banks 	LIFS/Donors/NGOs	Number of microfinance providers rated
<ul style="list-style-type: none"> Provide capacity building to auditors, accounting firms, etc 	LIFS	Monitoring reports
<ul style="list-style-type: none"> Support Business Service Providers (BDS) 	LIFS/Donors/GOL	Monitoring reports

1.0 MACRO
1.1 SHORT TERM
Tasks/Activities
<ul style="list-style-type: none"> Revisit the financial cooperation
<ul style="list-style-type: none"> Conduct training to provide training
<ul style="list-style-type: none"> Establish a finance Support
<ul style="list-style-type: none"> Develop a regulation
<ul style="list-style-type: none"> Conduct public
1.2 MEDIUM TERM
Tasks/Activities
<ul style="list-style-type: none"> Establish microfinance



2.3 LONG TERM

Tasks/Activities	Responsible Entity	Indicators
<ul style="list-style-type: none"> Organize regular technical national and regional workshops 	Network/LIFS/Micro-finance providers	Number of workshops and technical assistance
<ul style="list-style-type: none"> Promote data sharing among microfinance providers 	CBL/LCUNA/Credit Unions/other Micro-finance providers	Monitoring reports
<ul style="list-style-type: none"> Promote the services of the microfinance sector by using all appropriate media 	The Network	Monitoring reports
<ul style="list-style-type: none"> Networking with regional and global networks 	The Network/ LIFS	Membership in other networks



3.0 MICRO-LEVEL—INTERVENTIONS

3.1 SHORT TERM

Tasks/Activities	Responsible Entity	Indicators
<ul style="list-style-type: none"> Develop demand driven financial products, and clear business plan 	MFIs/LIFS	Number of financial products and clients
<ul style="list-style-type: none"> Develop systems and procedures based on best practices 	MFIs/LIFS	Reports
<ul style="list-style-type: none"> Training and re-training of MFIs personnel including credit unions 	MFIs/LIFS	Number of training and trainees
<ul style="list-style-type: none"> Mobilizing and sensitizing communities 	MFIs	Number of potential clients sensitized
<ul style="list-style-type: none"> Build the capacity of the federation of credit unions and training providers for credit unions 	LCUNA/LIFS	Monitoring reports

3.2 MEDIUMTERM

Tasks/Activities	Responsible Entity	Indicators
<ul style="list-style-type: none"> Training and re-training of MFIs personnel 	MFIs/LIFS	Number of training and trainees
<ul style="list-style-type: none"> Exposure visits to MFIs 	MFIs/LIFS/ the Network	Number of exposure visits
<ul style="list-style-type: none"> Mobilizing and sensitizing communities 	MFIs	Number of potential clients sensitized
<ul style="list-style-type: none"> Improve the Management Information System 	MFIs/LIFS	
<ul style="list-style-type: none"> Build the capacity of the training providers for the credit unions 	LIFS	Number of training and trainees
<ul style="list-style-type: none"> Provide training to managements, staff and members of credit unions 	LCUNA/LIFS	Number of training and trainees



3.3 LONG TERM		
Tasks/Activities	Responsible Entity	Indicators
Building the capacity of microfinance providers		
<ul style="list-style-type: none"> • Training and re-training all staff 	MFIs/LIFS	Number of training and trainees
<ul style="list-style-type: none"> • Mobilizing and sensitizing communities 	MFIs	Number of potential clients sensitized
<ul style="list-style-type: none"> • Provide training to managements, staff and members of credit unions 	LCUNA/ LIFS	Number of training and trainees