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MICROFINANCE DEVELOPMENT IN LIBERIA

- AN INITIAL ASSESSMENT-

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List of Abbreviations

CBL	Central Bank of Liberia
EU	European Union
HDI	Human Development Index
IBL	International Bank of Liberia
IC	Investment Committee
LACE	Liberia Agency for Community Empowerment and Socio-Economic Development
LBDI	Liberia Bank for Development and Investment
LMA	Liberia Marketing Association
LCUNA	Liberia Credit Union National Association
LEAP	Local Enterprise Assistance Program
MDGs	Millennium Development Goals
MFI	Microfinance Institution
MIS	Management Information Systems
MPEA	Ministry of Planning and Economic Affairs
MSME	Micro Small and Medium Enterprises
NGO	Non Governmental Organization
LINNK	Liberia NGOs Network
SMEs	Small and Medium Enterprises
TSP	Technical Service Provider
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
USAID	United States Agency for International Development
WoCCU	World Council of Credit Unions

Executive Summary

The signing of the Accra Peace accords has given Liberia its best chance for sustainable peace. The $520 million in funds to be made available to Liberia for humanitarian relief and reconstruction based on the February 2004 pledging conference at the United Nations in New York strengthens the prospects. With UNMIL approaching their full force levels of 15,000 peacekeeping forces, stability is present in most parts of the country.

Sustainable microfinance can be successfully implemented in post-conflict situations. To the necessary extent, all of the essential and preferred conditions are sufficiently present to allow for a sequenced approach to restarting and gradually expanding microfinance services in Liberia. Operations could start where security is sufficiently present, and expand accordingly.

However, at present, the financial sector in Liberia is highly exclusive. The financial sector mostly serves the wealthy; larger enterprises; and people with guaranteed salaries. The microfinance sector, on the other hand, is at a very nascent stage.

The volume of the present supply of financial services to micro and small businesses services is less than 8,200 active clients, with a combined loan portfolio of less than U.S$250,000. Initial estimate of demand is a potential market of 82,000 active clients, and a loan portfolio of US$ 19 million. Although a range of potential institutions with a focus on sustainable operations is present (commercial banks, credit unions, NGOs), new entrants may be needed; and the capacity building needed to develop market leaders and close this gap is considerable.

The present policy environment presents constraints for the microfinance industry to develop and expand. However the most immediate constraints (interest rate ceilings, reserve requirements, guidance on non-collateralized lending) are within the purview of the Central Bank of Liberia to adjust, creating a favorable environment for investment.

By engaging in the establishment of best-practice microfinance from the outset of reconstruction, resources invested have the potential of having both an immediate, and a sustainable impact. Minimizing harm through clear guidelines and coordination amongst actors of how best to apply grants versus loans can also assist in the reestablishment of a credit culture. Liberia could present an opportunity for the Government and donors to apply the lessons from other countries that have developed microfinance as an integral part of the financial sector. The report concludes with a number of recommendations related to policy; operational policy; programming; and institutional arrangements that could provide a basis for moving forward.

If Government and donors combine their efforts based on a shared vision to build an inclusive financial sector, it is feasible that within a period of 6 to 8 years a large and self-financing microfinance industry could be built.

A. Country Context

It is estimated that Liberia will have a population of 3,603,000 people by 2005[1], in an area of 11,370 square kilometers. The GDP per capita is around US$169 while the HDI is one of the lowest in the world (0.276). Peace returned to Liberia in January 2004, after fourteen years of conflict. The improved security in Monrovia provided through the support of UNMIL has facilitated the resumption of economic activities.

Of Liberia's estimated 514,714 households, it is reasonable to estimate that the informal sector accounts for at least one-third of the total labor force, and 37% of the urban labor force. More than forty-three percent of the population is under 14 years of age. Of the total population around 70 percent live in rural areas.

Liberia is composed of approximately 16 ethnic groups, including Kpelle, Bassa, Gio, Kru, Grebo, Mano, Krahn, Gola, Gbandi, Loma, Kissi, Vai, Dei, Bella, Mandingo, and Mende), Americo-Liberians and, Congo People The predominant religions are Christian and Muslim. English is the official language, although there are some 16 ethnic languages in use.

Approximately $520 million was pledged to the reconstruction of Liberia in February 2004, going a long way to fully funding both the immediate emergency needs and long-term reconstruction costs. Two appeals were involved. One is the existing U.N. consolidated appeal for $197 million for emergency humanitarian relief in 2004. The other is the $488 million appeal for long-term reconstruction at the center of this meeting. According to UNDP figures, $440 million of the $520 million was pledged for reconstruction and $80 million to the emergency appeal. There is renewed hope that Liberia's best chance for enduring peace is before it.

After an initial false start, disarmament is scheduled for mid- 2004, and UNMIL is gradually restoring civil authority throughout the country. 12,000 UN peacekeepers of the 15,000 scheduled to be on the ground are currently deployed. Elections are scheduled for October 2005, with handover to the elected government in January 2006.

Fourteen years of war resulted in a decline in social indicators putting Liberia near the bottom of UNDP's Human Development Index. More than 76% of the population falls below the poverty line. Real GDP is estimated to have risen by only 2% percent in 2002. The rate of inflation is estimated at 15% in June 2002. The exchange rate of L$50 to US$1 is relatively stable. The Central Bank has imposed effective interest rates ceilings at 18%. The trade balance has been negative by around US$ 55 million in 2002. In 2002, imports consisted of fuels, chemicals, transport equipment, food products. Primary exports consist of rubber, timber, iron, diamonds, cocoa, and coffee.

B. Post-Conflict Microfinance

Global experience has demonstrated that microfinance can be implemented successfully in post-conflict environments. Required environmental conditions are remarkably few.[2] Only three environmental conditions appear to be so important that –without them— microfinance should not be undertaken. These essential conditions include 1] political stability, 2] sufficient economic activity that can use credit services; and 3] client

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[1] Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2002 Revision, www.esa.un.org.

[2] See the Microenterprise Best Practice series on Microfinance Following Conflict, in particular Brief No.4, "Environmental Preconditions for Successful Post-Conflict Microfinance".

population must be relatively stable. In addition to these essential conditions, there are three preferred conditions that are not absolutely necessary, but can facilitate microfinance activities. These three preferred conditions are 4] functioning commercial banks; 5] social capital or trust; and 6] macroeconomic stability. Each will be examined in the current Liberian context.

Essential Condiions:

B.1 Political Stability:
Program areas must offer a reasonable degree of security and safety to potential MFIs and their clients. Put negatively, 'there must be an end to chaos'. Clients must be able to carry out business activities with a minimum of assurance that they can do so profitably. Likewise, MFIs must feel that they can operate without disproportionate danger to their staff, assets, and clients. This does not mean that there must be a total absence of conflict, or of the possibility that conflict might flare up again. With the Accra Peace accords, and the deployment of UNMIL peacekeepers, this condition has been met, and will be strengthened with successful demobilization and disarmament of ex-combatants. In addition, microfinance can contribute to conflict not re-igniting, by providing populations with optimism of economic opportunities. This argues for a stages approach to launching microfinance activities, starting activities in towns or regions after security is established.

B.2 Sufficient Economic Activity that Can Use Credit Services:
The credit aspect of microfinance only works when clients are economically active, and have economic opportunities requiring credit. Debt is not always the appropriate tool for poverty reduction. Active local markets are a good indication, and this is certainly the case in Monrovia, and gradually emerging in other towns. Economic activities among potential clients is already quite high in Monrovia, and Harper (Maryland County), and should gradually recommence in some secondary towns (Ganta, Saclepea (Nimba County), Gbarnga (Bong County), Buchanan (Grand Bassa County))[3]. However, some displaced populations may find themselves without access to economic opportunities, or returning populations may slowly assess the situation before recommencing their economic activities.

B.3 Client Population Must Be Relatively Stable
For microfinance to be sustainable, low portfolio in arrears and low default rates are required. Mobile populations present a challenge, as they could literally walk away from their obligations. There is thus a tendency to focus on returnees, rather than refugees. MFIs in Liberia suggest that they would avoid this potential problem by initially focusing on their previous clients, who they know; while avoiding displaced persons likely to depart. Given the significant capacity building required for microfinance institutions in Liberia, it is also the case that after recapitalizing MFIs to work with previous clients, programme activities would focus on capacity building of MFIs before significant expansion to new clients is possible at a later stage.

Preferred Conditions

B.4 Functioning Commercial Banks
When MFIs are NGOs, and not microfinance units of commercial banks, commercial banks provide critical services to them. These services include: deposit; and intra and inter country wire transfer services. Microfinance can function without a commercial banking system, however it does significantly increase the costs and risks. In Liberia,

[3] Personal conversation with Magdalene Harris, a former MFI employee, who participated in the February 2004 DDRR sensitization mission up-country.

three commercial banks are functioning in Monrovia, however, none of them had established a broad network in major towns prior to the conflict. Only Buchanan and Harbel had branch services, so either MFIs will need to address this challenge as they expand, or commercial banks may use microfinance as part of their strategy to make branch expansion profitable.

B.5 Social Capital or Trust

As many MFIs use group guarantee mechanisms (collective credit rating as collateral), social distrust can slow the development of microfinance. Globally, MFIs have used a range of methodologies, including individual lending; and this is available in situations where distrust is at a level that is an obstacle.

B.6 Macroeconomic Stability

Hyperinflation is a serious threat to microfinance requiring special measures to prevent decapitalization of loan portfolios; while a steady currency, and moderate to low inflation are conducive. Although there were significant fluctuations in the foreign exchange rate in 2003 in Liberia during the spikes in the conflict, these swings have moderated with the return of security. Inflation is currently estimated at 15%, which could present concerns if it rises.

In summary, to the necessary extent, all of the essential and preferred conditions are sufficiently present to allow for a sequenced approach to restarting and gradually expanding microfinance services in Liberia.

C. The development of the lower segments of the financial sector

Microfinance is defined as the provision of financial services (credit, savings, insurance, remittances) to poor and low-income people and therefore the lower segments of the market. In the broadest sense, microfinance targets customers that are not served by the existing financial systems. In practice, the average loan outstanding of virtually all microfinance institutions ranges between 50 to 250 percent of the GDP per capita. In many developing countries the financial sector does not provide financial services to the lower end of the market. The financial systems in these countries are mainly developed to exclusively provide services to the wealthiest segments in the market.

Developments in the microfinance industry worldwide over the past decade are encouraging as today, there is a general consensus that microfinance should be provided in a sustainable manner in order to ensure outreach and a lasting impact on poverty reduction. Moreover, in recent years, increased emphasis has been placed on microfinance institutions operating on the basis of commercial principles. Governments have made commitments to achieve the Millennium Development Goals (MDG's), including cutting absolute poverty in half by 2015. Mobilizing the financial resources needed to meet these commitments will require a focus on the development of the microfinance sector as an integral part of the private financial sector.

In order to support the development of the microfinance sector[4] it is critical to identify the stage of maturity of the sector and the constraints or opportunities that effectively influence this development.

To determine the support needed to optimally stimulate the development of the microfinance sector it is useful to review this sector's development in countries with a mature microfinance industry. While each country has its own unique characteristics, by

[4] The microfinance sector is considered a sub-sector of the financial system that is specialized in targeting the lower segments of the market.

and large the sector developed through certain phases, namely a start-up phase, an expansion phase, a consolidation phase and an integration phase (see figure 1).

In the start-up phase, semi-formal microfinance activities are introduced as experimental pilot projects. In this phase initial products are developed and tested in the market. The emphasis is to build a human resource base capable of delivering credit products that ensure good repayment. Awareness is built that micro and small business entrepreneurs can be creditworthy. Some pilot projects fail often due to low repayment while others have gradually discovered techniques that are applicable to the local context. In environments where microfinance is, initially, legally not allowed successful pilots often convince local authorities to condone the activities due to the perceived benefits for the livelihoods of poor households, employment generation and economic development.

In the expansion phase, successful MFI's mostly concentrate on expanding the scale of their existing operations. The success of their business model allows them to expand their activities and to capture a large share of the potential market. Their success leads to replication by other microfinance operators. The emphasis in this stage is on expansion of existing activities and on resource mobilization to finance the expansion. The expansion leads to economies of scale and higher efficiencies with the result that successful MFIs are increasingly able to finance their operations through income generated from interest and fees. At this stage MFIs are still subsidized by grants and soft loans to finance the expansion. The increased scale of operations requires further institutional strengthening particularly in the areas of management systems and procedures. At the end of this phase MFIs have captured a large part of the market with their existing products.

In the consolidation phase successful MFIs start to focus on their overall sustainability. The emphasis in the consolidation stage is on strengthening the institution as a whole, and organizational formalization. Management oversight, organizational policies, procedures and systems are managed in a more formal manner. The microfinance sector also formalizes by gradually establishing generally accepted industry norms. Subsidies of donors of the sector are diminishing in order to avoid continuous subsidization of institutional development. As a consequence, MFIs are required to further increase their productivity, to further expand in scale and scope and to adjust their pricing policies to ensure profitability and growth. At this stage, the penetration rate of the existing target markets has become high. Increased competition requires that products are made more flexible and oriented to customer demand. In addition, some MFIs start venturing in markets for microfinance that have been neglected. One important market is the small business sector that has no or limited access to the formal banking sector[5].

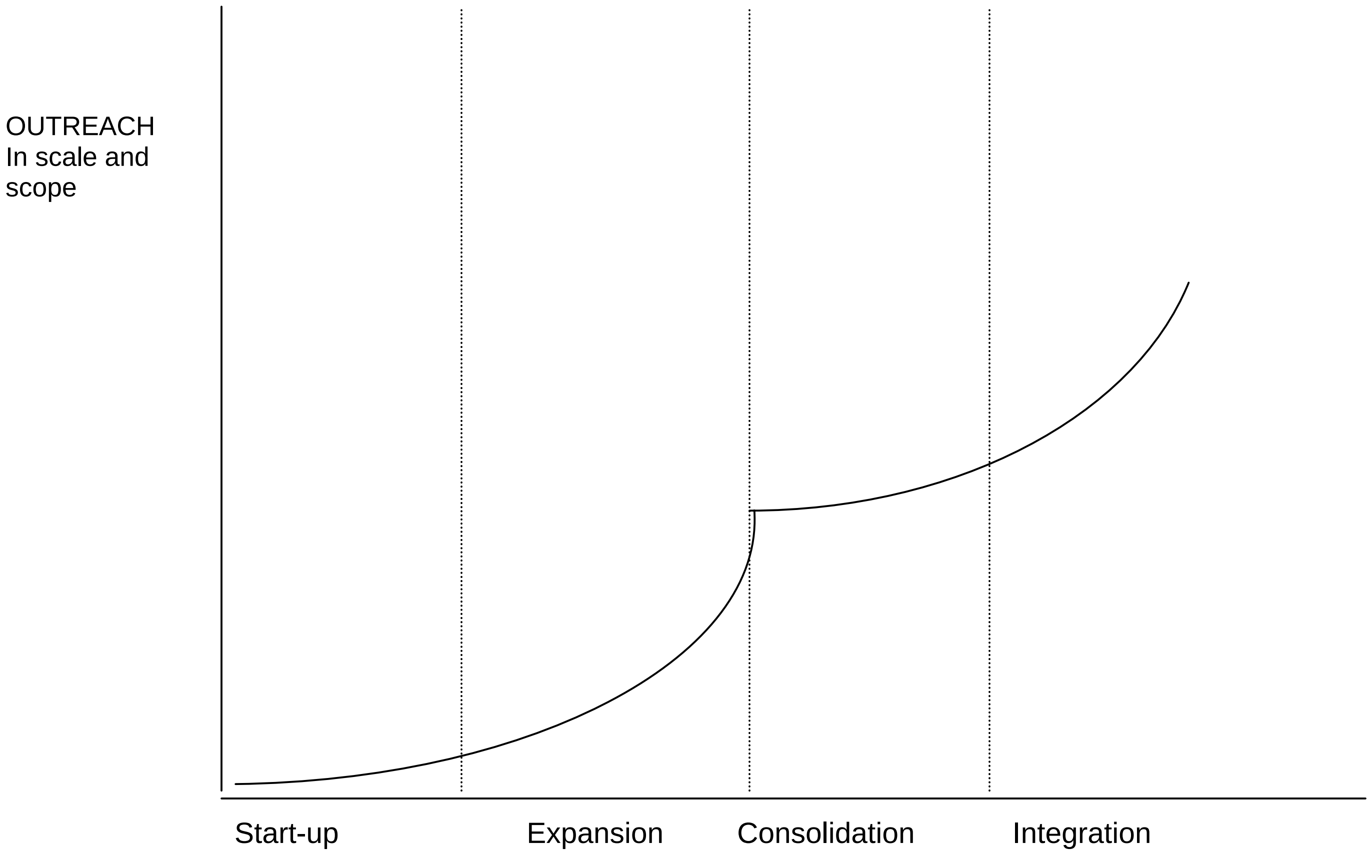
In order for the sector to enter into the integration phase it is important that by the end of the consolidation phase a special regulatory framework is in place that is conducive to the development of the microfinance sector and allows for effective prudential regulation by the Central Bank. The development of such regulations normally takes place before the end of this phase when a critical mass of MFIs are ready to integrate into the formal financial system.

In the integration phase leading MFIs have become an integral part of the formal financial sector, regulated by the central bank and offering a range of demand oriented products for the lower segments in the market. This integration is required for the sector to be able to further finance their growth by attracting capital from commercial sources (savings deposits, loans and equity). Instead of drawing on government/donor funds and

[5] To support access to microfinance for the small businesses often translates into job creation for poor people that prefer to be wage employed rather than to be self-employed

subsidies, these MFIs contribute to public funds by paying the taxes common to the financial sector. The integration phase is characterized by transformation of MFIs into regulated financial institutions, the disappearance of subsidies for the microfinance sector; the up-scaling of microfinance institutions and the downscaling of commercial banks that, due to an unsubsidized microfinance sector, are now able to operate on a level playing field[6]. Licensed MFIs continue efforts to downscale their services, especially with respect to offering savings services to the very poor.

Figure 1. Phase in the development of the microfinance sector

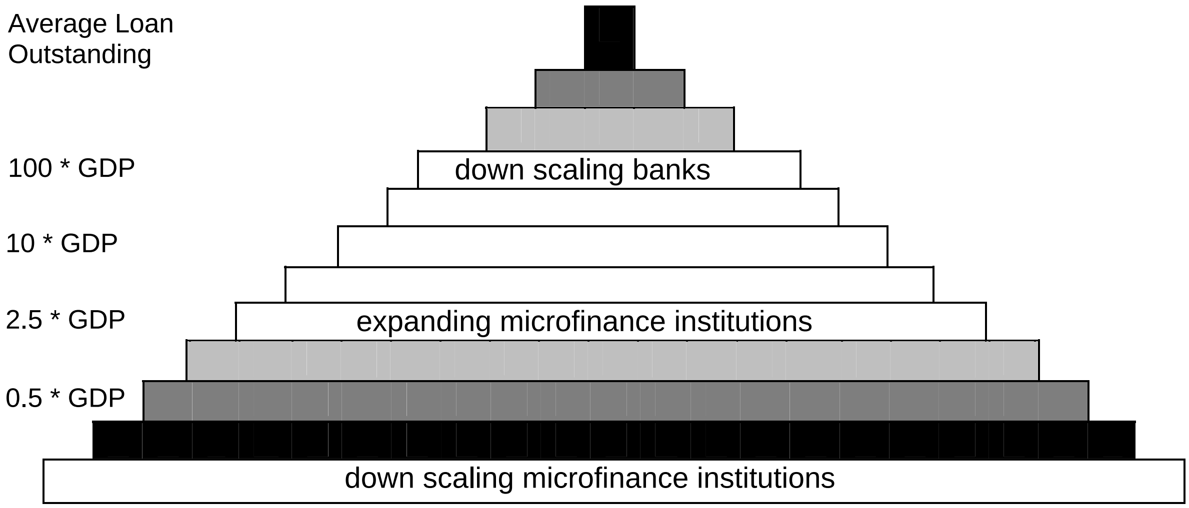


Formal financial institutions will become increasingly engaged in microfinance by establishing subsidiaries, separate banking units or other modalities to provide financial services to poor and low-income people. Unregulated microfinance operators are moving towards formalization and commercialization in order to be able to finance their growth by attracting capital from the private capital markets and deposit taking from the public.

There is a general consensus among key players in the field that the trend towards integrating microfinance as part of the formal financial system will continue and eventually prove dominant. It is expected that the number of commercial and regulated financial institutions that provide microfinance services will increase.

[6] See figure 2

Figure 2. Downscaling of high-end commercial banks and up-scaling of microfinance banks in the integration phase



D. Microfinance sector development in Liberia

The following is a review of the nature and activities of financial services providers in Liberia and their plans with respect to their involvement in microfinance. In this section, an estimate is made of the potential demand for microfinance. The present policy and regulatory environment for microfinance is reviewed, and a brief evaluation is made of the strategy and support of the Government and donors in support of the development of the microfinance sector.

D.1 Supply of Microfinance

With respect to the providers of microfinance a survey was made of the present and future role of commercial banks, development banks, microfinance institutions or projects and the informal sector. **The institutions that are highlighted are presented to give an indication of the range and types of institutions active or potentially active in the market, and their recent experiences. It does not imply that an institution should be considered as a potential investment or grantee.**[7]

D.1.1 Commercial Banks

Three commercial banks are registered and operational in Liberia namely: Liberia Bank for Development and Investment; EcoBank, Liberia; and the International Bank of Liberia. Commercial banks provide mostly basic financial services. Most banks have invested a large part of their assets in servicing government debt.[8] The banks provide

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[7] See recommendations, it is suggested that potential donors/investors in the sector establish an Investment Committee and contract a Technical Service Provider to receive, appraise and approve proposals. An initial draft, for discussion, of the Investment Committee TOR is attached as Annex 4.

[8] Fifty-nine percent (59.3%) of commercial banks loans by economic sector were with the Government of Liberia as of August 2002 according to "Liberia Financial Statistics", Central Bank of Liberia, July-August 2002. The next largest category was agriculture at 7%, of which fisheries comprised 4.6%.

credit, deposit accounts, remittances, transfer services and currency exchange services. The combined client base of the commercial and development banks is estimated at 19,000 private clients, concentrated in the upper segment of the financial sector. Most banks require minimum deposits for savings. All commercial banks have branches in Monrovia while some have a very limited branch network elsewhere (Harbel [Firestone], Buchanan) in the country. At present commercial banks are not active in microfinance although some have provided loans as low as US$600. Some banks expressed an interest in more active lending to micro, and small enterprises provided risks were minimized.

Ecobank

Ecobank offers a full-range of commercial banking services. Ecobank Liberia commenced operations in 1999. It is one of twelve affiliate banks in the West and Central African region. It is a fully owned subsidiary of Ecobank Transitional Inc., a company incorporated in the Republic of Togo. In Liberia, Ecobank has one branch beyond its head office. The branch in Buchanan had to be shut down, as the bank pulled back all staff and equipment before the recent crisis. It plans to explore reopening when security and economic conditions permit. There are projects to spread in the Monrovia suburbs, and to other cities.

Ecobank currently has two thousand (2,000) private clients. The minimum deposit for opening a savings account is US$ 200. Ecobank does not offer Liberian dollar based savings accounts. Minimum deposits for Liberian dollar checking accounts are LD$10,000, (US$ 200).

Ecobank's consumer finance department manages its small business loans. Ecobank's current lowest loan outstanding is US$5,000. Loans are secured by assets, or by guarantee from employers. It also offers consumer finance loans for salaried staff working for recognized organizations. Loans average US$1,000 to 2,000 for consumer loans for clients with accounts, and auto payroll deposit. Ecobank is a Western Union representative for remittances.

Ecobank Liberia would be interested in entering the SME market. They started some lending in 2003, with thirty (30) loans to shop owners. Other members of their regional network (Ghana) have gone further, and there is exchange of experiences across the network. To do so, it would require some technical assistance or other means to minimize the risk 2003.

International Bank (Liberia) Limited (IBL)

The International Bank for Liberia Ltd. Is a privately held bank whose core business is corporate banking. At present IBL has only its headquarters office, as its branch in Buchanan was damaged. It is considering opening a branch in Harbel (Firestone).

IBL does have approximately 400 individual U.S. dollar accounts, and more than one thousand individual Liberian dollar (checking) accounts. Its minimum deposits for savings accounts are as follows: 1] U.S.$ 200 for US$ accounts, with the requirement to maintain US$50 minimum balance; and 2] LD$ 5,000 for Liberian dollar accounts, with minimum balance of LD$1,000. Business accounts require an initial deposit of LD$ 15,000, and minimum balance of LD$10,000. For US$ business accounts, the corresponding amounts are US$2,000 and minimum balance of US$1,000.

Consumer finance and small-medium enterprise finance are both managed by the credit department. There is no minimum loan amount the credit department will consider. Loans between US$100 and US$10,000 constitute around 30% of their portfolio. IBL has approximately 258 active individual loans, with consumer finance accounting for 209 of these loans, and only 49 being enterprise related.

D.1.2 Development banks

There is one development bank, the Liberian Bank for Development & Investment (LBDI). The bank is engaged in both the savings and remittance aspects of microfinance, however has not substantially entered the lending (credit) arena.

Liberian Bank for Development & Investment (LBDI)

The Liberian Bank for Development & Investment (LBDI) was created by an act of the National Legislature in 1961, starting as a National Development Bank with the mandate to encourage the development of the private sector using human and natural resources. The act has been amended in 1965, 1974 and more recently in 1988 when the bank was granted the opportunity to engage in commercial banking activities. Its shareholders as of December 2002 include foreign shareholders 66.14% (IFC, CDC, DEG, EIB, AFD, etc.) and domestic shareholders 33.86% (GOL, private Liberians, and Magus Trust).

LBDI's strategy involves engagement in most sectors, since each segment is relatively thin, so it is necessary to have to have broad coverage. LBDI has the capacity to respond to each of the main segments, including corporate, real estate, domestic savings mobilization, and remittances (Western Union money transfers). LBDI is the market leader in both of the latter two categories, as it mobilizes 60-70% of Liberian dollar savings and captures 95% of the remittances. The other commercial banks are concentrating primarily on corporate clients.

Deposits of US$ 8,712,000 constituted 36% of LBDI's capital as of 31 December 2003. As shareholders have not been increasing their investment, most growth is financed through savings mobilization. LBDI's largest source of clients is from savings, with approximately 12,000 Liberian dollar (LD$) accounts, most of which are individual accounts. LBDI also has an estimated 3,400 US$ accounts; 2,800 of which are individual savings accounts. LBDI's minimum deposit of LD$ 1,000 (US$20) and minimum balance of LD$500 (US$10) allows it to serve a relatively lower segment of the savings market. LBDI charges a monthly service charge of LD$10 (US$0.20), and pays 6% (nominal) interest on accounts with a balance greater than LD$15,000 (US$ 300). LBDI views passbook savings as a core market. To make it attractive LBDI is printing a brochure on its savings products, and printed predominated deposit slips for illiterate clients. To reduce customer waiting times, it has segmented its deposit services as follows: 1] Head Office: Institutional accounts (although only 5% of total accounts, the dollar value is substantial); 2] at its major branch across from the head office: 2]a) four (4) windows for LD$ deposits; and 2]b) three (3) windows for US$ deposits. In April, LBDI will open a new branch Paynesville, targeting a new group of savers (petty businesses). At present, the Paynesville branch is limited to Western Union transfers.

LBDI is a major actor in the remittance market; as an agent for Western Union, LBDI has 95% of the market share. Commissions earned were in excess of US$1 million in 2003 (LD$81.67 million), or 67% of LBDI's commission, fees, and exchange income.

LBDI has developed and managed a number of lending programs to assist the MSME sector. In the past, these included managing lines of credit for the World Bank, EIB and others. These are often lines of credit funded by donors or government. Its MSME lending has been at interest rates slightly above the cost of capital. The average cost of capital has been 3-4%, plus overheads of 9-10%. LBDI was not provisioning for loan losses, as funding came from external sources, such as from national social security. If there were any losses, they were written off. LBDI was not allocating any funds from savings it mobilized, although it has allocated some of its own retained earnings. Repayment rates have been in the range of 70%, partly because clients believed that because the source of funds was governmental, repayment was not required. LBDI has made efforts to correct this impression. If LBDI was using depositor's funds, it would be even stronger in ensuring repayment.

In 2001, LBDI had an arrangement with the National Investment Commission, to jointly sponsor a programme for SME lending for loans ranging between LD$ 50,000 and LD$ 200,000 (US$ 1,000 - $ 4,000). Under this scheme, capitalized with LD$3million (US$60,000), no one loan was to exceed 15% of the total funds, and it would not finance more than 80% of a particular project, lending at 9-10% per annum. Previously, the Small Enterprising Financing Organization (SEFO) was active in this sector, although its offices were totally destroyed. As it is unlikely that SEFO can recover, or that a new entity could be rebuilt, LBDI is discussing with NIC how to revive its prior programme, revising the terms. LBDI may allocate up to LD$ 5 million in 2004 (US$100,000) for this market. LBDI has assigned a desk officer to look after this potentially growing segment of the market.

LBDI has made loans as low as LD$ 30,000 – LD$50,000 (US$600 - $1,000). LBDI has been involved in lending to microenterprises (tie dye, soapmaking, etc.) and would suggest that potential investors in microfinance consider investing in commercial banks, such as LBDI, before building NGOs from scratch. LBDI has managed to keep its experienced staff during a difficult period, and its infrastructure is in place.

LBDI's branch network consists of a head office and four branches. These include an Annex across from head office, focused on savings accounts and Western Union; Bushrod Island branch, handles Western Union, and some banking business, including cash deposits; Harbel covers Firestone (one of LBDI's major customers), with also some savings clients there. Paynesville will open in April. LBDI had placed on hold its long-term plan for expansion (one branch every two years) because of the conflict. This had included Buchanan, Greenville, and Harper; with Tapeta, Banga, Gahnpa and Logvatu at a later stage. No immediate further expansion is planned, as LBDI will monitor the performance of the Paynesville branch first; and focus on upgrading its IT. LBDI is highly computerized, running Bank Master banking software, and all tellers are automated. LBDI estimates that it is using only 10% of its computing capacity at present, and thus has room for expansion. LBDI is in the process of further upgrades so that all transactions are linked in real time.

LBDI is a potentially strong partner for providing a wide range of services (savings, remittances, credit) to the lower segments of the financial sector. It is a market leader in remittances and mobilizing domestic savings. Its other strengths include strong management, and experienced staff; its existing branches, and its IT infrastructure. It already has considerable experience in savings mobilization, and, if the policy environment was favorable, it could be assisted to design products to penetrate even deeper. Its experience in credit is also constrained by the current policy environment: the combination of ceilings on interest rates (18% effective) and the reserve requirements of 50% and 18% for LD$ and USD$ deposits, respectively are too high, and discourage domestic resource (savings) mobilization, as inadequate funds are left for investments after maintaining reserve requirements. Rather than facilitating financial intermediation between savers and borrowers, the policy contributes to managing lines of credit from other (governmental) sources.

D.1.3 Credit Unions

Liberia Credit Union National Association (LCUNA)

The Liberia Credit Union National Association (LCUNA) was established in 1966 and as an apex body in 1973. Before the war the association had 65 credit unions (CUs) across the country with 18,500 active members. Total members savings was US$11 million. Members total loans outstanding totaled U.S$ 9 million (see Table 1 below). The war caused many CUs to close. In 1998, LCUNA decided to reactivate the CUs. By 1998, had LCUNA had reactivated 12 of 65 CUs, mainly in areas with relative security: Monrovia and Harbel. After the in-fighting started again in 2000, the reactivated CUs had shrunk to 6 functional credit unions. Those six CUs currently have 2,758 active clients, based on last audited figures December 2003.

The credit unions operate on a 1:1 basis, with members able to borrow an amount equivalent to their savings, i.e. $50 savings, $50 loan. To leverage more than one's savings, someone must sign for you. Typical members of the various credit unions varied depending on whether the CU was in Montserrat county (greater Monrovia), where members were mostly salaried industrial workers in workplace credit unions. In the counties outside Monrovia, the CUs are community based with the members comprised primarily of businesswomen (petty traders).

As an apex, LCUNA provides the following services to members: training of employees and officials; monitoring their activities (inspect their financial records at least bi-annually; provide standardized financial ledgers, passbooks for member, receipts, and payment vouchers. Each CU is self-contained, and there is no liquidity management across the CU network. Prior to the war, the 75% of the costs of the apex were covered by international organizations (Konrad Adeneur Foundation (KAF Germany), Bread for the World (Germany); logistical support from Rabobank (Netherlands), and Cody Institute (Canada), provided training of trainers (TOT) for the Apex. LCUNA has communicated with the international partners, although has received no response yet.

Liberia Credit Union National Association (LCUNA) Ltd.: Pre-War Statistics

COUNTY	# OF CREDIT UNION	MEMBERSHIP	SAVING
Maryland	4	2,947	386,812
Grand Kru	4	498	66,896
Sinoe	1	45	2,650
Grand Gedeh	4	421	
Montserrado	33	6,169	3,686,375
Margibi	4	6,180	4,112,187
Grand Bassa	1	294	667,904
Nimba	5	647	595,260
Bong	4	689	273,970
Lofa	5	690	46,440
TOTAL	65	18,580	9,946,889

Functional Credit Unions After The War (As of March 2004)

MONTSERRADO & MARGIBI	MEMBERSHIP	SAVINGS
Port Authority Employees C. U. (PACU)	482	879,159
Monrovia Breweries Employees C. U. (MBI)	145	2,118,466
Telecommunication Employees C.U. (LTC)	97	494,815
Monrovia City Corporation C.U. (MCC)	115	174,530
Water & Sewer Employees C.U. (AQUA)	34	26,892
Harbel Community C.U. (HARCU)	925	5,136,434
Refinery Employees C. U. (RECU)	194	958,925
Roberts International Airport C.U. (ACU)	164	296,674
Forestry Development Authority C.U. (FDA)	438	1,160,336
TOTAL	2,758	**11,246,233**

Union		
Note-Pre-War Union	65	87.84%
Post-War Union	9	12.16%
	74	100.00%
Pre War Union	18,580	87.08
Post War Union	2,758	12.92
	21,338	100.00

To restart CU activities, LCUNA has prepared a two year project proposal totaling US$144,417 for support to personnel services, supplies, seminars/workshops. At end of two years, all four zones in the country would be functioning effectively, and membership is expected to exceed the pre-war 18,500 level.

Before the war, LCUNA experienced little problem with repayment from salaried members through the salary deduction arrangements. However, at present, management of participating businesses are problematic, as they deduct members payments from payroll, but do not remit to the CU. Corruption is cited as a factor leading the management of the respective businesses use the funds to balance their payroll. Insurance and social security are facing the same remittance problems. LCUNA intervenes with problematic businesses to convince management that the CU is an asset, not a liability, since the CU helps members address personal problems, so management is not bothered with these. If management does not respond, LCUNA engages the cooperative development agency, government's regulatory arm for cooperative agencies. Courts have not proven an effective recourse.

LCUNA is governed under the Cooperative Act that was enacted in 1936, that needs updating since it does not mention credit unions. LCUNA developed a draft cooperative societies bill in 1992 to address the issue. External assistance from the World Council of Credit Unions (WoCCU) is suggested to update the draft along the lines of Model Law for Credit Unions.

LCUNA was an implementing partner on behalf of UNDP's previous credit programme. On time repayment was exceeding 89% in Monrovia, although the disturbances in Nimba prevented travel, and as LCUNA could not go there, it brought collection down.

D.2 NGO Programmes

Microfinance operations in Liberia are typical of a country that is coming out of a long term conflict, and comparable to post conflict situations in Sierra Leone, Mozambique, Angola and Cambodia. The present NGO capacity is basic. The outreach of microfinance is almost non-existent, as very few institutions have active clients -- they fled during the recent spike in the war, and it is questionable if the loans could be recovered. Most of these microfinance operations had attained limited outreach even when they were active, as at their respective individual peaks, each had less than 200 active clients. Only LEAP considers its 6,000 clients as active as repayments are slowly coming back in.

Almost all of the NGOs (16 of 17) that responded to a one-page questionnaire are multi-purpose, with microfinance serving as one of their areas of operations. Most of these NGOs were active in at least three sectors. Thus the shift from a relief or project orientation towards a business like orientation with a focus on sustainability has yet to be made by most organizations. Again, only LEAP had considered sustainability as a goal, although it still operates as a project of a larger, multi-purpose NGO.

Local Enterprise Assistance Program (LEAP)

LEAP was established in 1994 and started operations in 1995. Association of Evangelicals of Liberia (AEL) is registered as a Christian NGO, and LEAP is the 'microfinance arm' of AEL. LEAP is not registered as a separate NGO, and thus functions as a project of AEL. As such, it follows the stated mission of the AEL, namely "to demonstrate God's love". LEAP's vision is to become a permanent, self-sufficient microfinance institution (MFI) with broad and deep outreach and significant impact on people's lives.

The Board of AEL has an executive board, and a subcommittee of the board to overlook LEAP. All members of the subcommittee are pastors, although two (2) have a background in accounting. The Board subcommittee convenes monthly to focus solely on LEAP, and has a main responsibility to guide the overall policy. In practice, the Board functions as an advisory body.

LEAP has been moving slowly towards establishing itself in an institutional form that would facilitate the governance of an institution focused on the provision of financial services. Under discussion is the registration of a microfinance NGO registered as a separate entity. A proposed policy has been prepared by the sub-committee and forwarded to the Subah Belleh (a professional institution that assists in evaluation and drafting documents) last year, however the resurgence of the crisis has delayed its consideration by the Board of AEL. Recently, the Board subcommittee that oversees LEAP met, and it was suggested that the process should be expedited. The draft policy is awaiting review by Subahbelleh, and would also be shared with LEAP's international donors for comment (World Relief USA, World Relief Canada, and UNDP). The proposed, potential future board would include seven members, including one representative of the clients, plus lawyers, bankers, donors (World Relief).

In 2002 LEAP prepared a one year business plan, with the idea of becoming sustainable within 5 years. The crisis in 2003 disrupted these plans. Management and staff are committed to turn LEAP into a sustainable microfinance institution. LEAP aspires to reach a scale of outreach and a level of efficiency that will allow it to cover all its costs (operational and financial), through program income. Ten thousand clients was viewed as the necessary level of outreach. The programme director who lead the business planning process left Liberia in January 2003, and it is uncertain if he will return. The previous director had the vision of LEAP registering financial institution legally authorized to capture savings -- a “Bank for the Poor.” The vision was widely shared, and accepted by staff.

At present, LEAP has three branches: a head office in Monrovia, a branch in Grand Bassa and a branch in Margrbi. The head office is staffed with the acting Executive Director, programme director, credit programme manager, accountant, internal auditor, logistician, MIS officer, and loan supervisors (5). All positions are filled apart from the programme director and programme accountant. The acting programme director was previously the credit programme manager, and continues to fill both roles, until the Board of AEL decides how to address the prior Director’s departure. LEAP has (24) loan officers, (3) office assistants, one in head office, and one in each branch, 4 drivers, although LEAP’s cars were stolen. The Bassa (Buchanan branch was massively looted) the other branch was not.

LEAP is developing a credit manual, in the interim using materials from other sources. No other manuals (human resource, accounting, financial policy) have been developed. Its management information systems are computerized with software (Community Loan Analysis Monitoring systems [CLAMS]) developed by World Relief (WR). The whole system crashed in 2003, and the software developer had left WR staff, so LEAP only recently received information on how to restart. LEAP’s last reporting produced from CLAMS was at 31 March 2003. Manual reporting has been used in the interim. LEAP started using Quickbooks in December 2003 for accounting.

LEAP uses the village banking methodology for all entering clients, and graduates some clients to individual lending as their businesses mature. LEAP experimented with solidarity groups, but they did not work well. Most individual lending is in the productive sector. Entering (village bank) clients form groups of 10 to 35 members. New members have to attend weekly meetings for three months during which they are requested to accumulate savings that are deposited in a special account. After three months the members are entitled to a loan of which the maximum loan size is three times their savings. The savings are held as a security on the loan. Repayments take place on a weekly basis. Petty trade makes repayments on a weekly basis; productive loans on a monthly basis. The loan period ranges from 4 months to 8 months. The interest rate is 5 percent monthly flat.

The minimum loan amount is the Liberian equivalent of (US$ 80) and the maximum loan amount is the Liberian equivalent of (US$ 2,000). On disbursement, clients receive the full amount. Interest is paid first, then principle. With the combination of the crash of the MIS, manual interim reporting, and the spike in fighting in 2003, the current status of the portfolio is not clear. The Table below however gives some evidence that LEAP has been able to recover from previous disruptions caused by the war. The gaps in reporting roughly correspond to spikes in fighting. The trend indicates that LEAP was able to resume growth proximate to its previous performance. LEAP believes that the pre-war, 6,000 active clients could quickly be located. However, most are overdue on their loans, and may not be in a situation to repay. In the crisis, most clients lost all that they had. LEAP’s immediate priority is to recapitalize its loan fund.

LEAP reported that over 2003 its operating revenue from microfinance totaled LD$ 3,580,430. The total operating expenses related to microfinance were LD$8,587,581. The operating deficit of LD$ 5,007,151 was partially covered by grants from donors totaling US$49,000. The deficit (approximately US$ 51,000) was met by drawing down the loan fund. LEAP’s operational self-sufficiency reached a high of 72 percent in 1999, but subsequently dipped during a period of relatively rapid growth, and disruptions from the conflict. LEAP does calculate its portfolio at risk (PAR) at 30, 60, 90 and greater than 90 days. LEAP did write of some loans in 2001, although there is not a formal write-off policy.

Quarterly reports for LEAP (Liberia) from June 1998 through March 2003 (as transmitted to World Relief)

LOCAL ENTERPRISE ASSISTANCE PROGRAM (LEAP)												
INDICATORS	6/30/98	9/30/98	3/31/99	3/31/00	6/30/00	9/30/00	6/30/01	9/30/01	12/31/01	6/30/02	9/30/02	3/31/03
Active CB's	75	84	104	124	169	215	301	358	329	230	276	426
Total Clients	1,797	1,743	2,202	2,038	2,569	3,203	4,515	5,489	5,620	4,812	5,802	5,456
Total Loans Outst.	$65,000	$100,000	$112,000	$104,000	$118,000	$132,000	$180,000	$179,000	$193,000	$121,000	$89,000	$94,000
Av Loan/CB Mem	$95	$104	$107	N/A	$96	$89	$82	$89	$88	$86	$28	$35
Current Sav.	N/A	$44,000	$64,000	$74,000	$82,000	$68,000	$113,000	$96,000	$133,000	$125,000	$68,000	$116,000
Av. Sav./ Member	N/A	$25	$29	$36	$46	$21	$25	$17	$21	$19	$10	$17
Cum. Amount Lent	$378,000	$471,000	$610,000	$931,000	$976,000	$1,088,000	N/A	N/A	N/A	N/A	$1,452,000	$1,839,000
CB On-Time Rep.	93%	90%	82%	84%	84%	97%	99%	91%	90%	87%	94%	94%

1. CB = Community Bank.
2. In June 2002 portfolio numbers declined due to significant exchange rate adjustments
3. Since LEAP is a World Relief partner program, LEAP is not required to transmit reports, and World Relief does not always receive up-to-date quarterly reports. Gaps in these reports roughly correspond with spikes in civil disturbances.
4. Program operations were halted in June 2003 and WR has not received any recent reports since.

LEAP is currently a project of a multi-purpose NGO. Major strengths of LEAP are its committed management and staff, the staffs' desire to become a professional and sustainable microfinance institution, the outreach achieved under difficult circumstances, and its brand. Its major weaknesses are its current form as a project, rather than an institution that would provide it with appropriate governance and oversight to allow it to grow to serve large numbers of clients. Other weaknesses include its depleted capital base and lack of liquidity, its systems and procedures and the need to resolve the interim arrangements after the departure of the director. As with most MFIs in Liberia, the staff could benefit from additional capacity building in microfinance.

Sustainable Development Promoters (SDP)

Sustainable Development Promoters (SDP) is a national NGO registered since 1992 to fulfill the specific needs of rural people. This includes poverty alleviation through agricultural activities of farmers who during the fourteen years of the war lost their seeds and tools, and capacity to restart their farms. SDP also supports women in food production and preservation to generate income. Its mission statement is 'to promote social justice and economic empowerment through micro-finance, education/training, technical assistance in sustainable food security and environmental awareness and protection to resource poor population.'   SDP's Board of Directors includes a former Member of Parliament, a former Chief Justice, a Bank Operations manager, community members, a school principal, and the Executive Director of CARITAS.

In late 2000, SDP planned to launch credit programming in Gbarnga, Bong County, with funds from Trocaire Maynooth (Ireland), within CARITAS network.   SDP had done an assessment, client registration, and was about to disburse, when the war restarted. The funds (U.S.$5,000, or L$250,000) were deposited in TRADEVCO Commercial Bank, however, TRADEVCO recently closed, and it remains to be seen whether the funds could be accessed.   SDP had intended to benefit 100 clients in the first cycle, with loans equivalent to US$ 50.

SDP has an office in Bong County currently operating an agricultural production programme. The office is staffed with a loan manager, cashier, fee agents (day to day collection of cash), security guard, and an accountant. SDP has not started the microcredit programme yet, as SDP views the community as still unstable. In the short-term, SDP intends to start re-identifying the clients that had previously been selected; animate them again regarding the loan process. SDP has found that 75% of clients previously identified are still in business. Thirty (30%) are in the Monrovia area, while forty-five (45%) are in Gbarnga City, Bong County.   SDP estimates it will take 4-5 months before disbursement, as they work through the peace process. SDP has to be very sure, that those receiving funds, will stay in the target communities; and that SDP staff understand previous errors, actions to take, and operational procedures.

SDP planned methodology to disburse was a group solidarity approach, women into 5-7 persons in a group solidarity, 10 women at most. SDP planned to collaborate with existing structures, such as Liberia Marketing Association (LMA) to assist in identification of clients from its members. The solidarity group would be responsible for repayment. The interest rate was 16% flat on 4 months loan, with one 1 month's grace period followed by 4 months of repayment.   Based on discussions with clients, SDP plans to revise the terms and conditions, extending the loan period to six months.

SDP does not have a credit manual. Manuals for project implementers were provided by UNOPS/DESA for SDP as an implementing partner of the UNDP funded credit programme. SDP's repayment rates under that project were 60-65%. SDP's experience was that productive loans (vegetable gardening) had a better repayment than petty trade. SDP plans to use a manual system to track its operations in Bong county. SDP's programme partners include Oxfam, CRS, UNOPS/DESA and previously with Plan International until they pulled out when war started in 1992.

Lutheran World Service (LWS)

The Lutheran World Service (LWS) is a multi-sector relief and development organization with its head office in Geneva Switzerland. In Liberia LWS is registered as an international NGO with the Ministry of Foreign Affairs and accredited by the Planning Ministry since 1991. LWS Liberia has a Joint Consultative Committee (JCC) of eight members (five from the Church LCL, and three from LWS) that supervises the programme at the Board level. The JCC reports to Geneva.

Initially LWS managed a microfinance programme in two counties (Maryland and Grand Kru) through 4 (3:1 respectively) Solidarity Groups selected indigenous CBOs. Maryland started in 1998, and Grand Kru started in 2002 with a grant of U.S.$30,000 from the EU. LWS's process was to set up a revolving fund, supervising it for a period. A solidarity group consisted of six (6) small groups of 5 members, for a total of twelve groups of 30. At its peak, there were 360 active clients with a loan portfolio of $30,000. A solidarity group consisted of a chairman, secretary, and members. Solidarity group leaders received training including a 3 days business seminar on feasibility studies; and how to keep books, fill out the forms, and ensure collection. Leadership is selected from more successful business people with business acumen.

Loans were collected weekly, with loan terms for 4 months. Average loans were $US 100 US per person equivalent, with a flat rate of 15% over the four month period. Savings accounts were paid 10% nominal interest. Calculations of the potential sustainability of the model were unclear, as there were operational costs related to office space rent, and a motorcycle. LWS provided the solidarity groups with a safe, and contributed the time of its own staff from its agricultural program. Clients were 80% women, on-time repayment was 85%- 90% through peer pressure, until the disturbances caused many of the clients to flee the area. LWS is not sure if the funds could now be recovered.

LWS has also been active in a variety of programmes like agriculture; relief activities such as distribution of clothing; and skill training. At present LWS's programme is mostly focused on food security, for those who could not access land, with credit incorporated. If funds were available, LWS would consider expansion to RiverGee and also in Bong County.

D.3 Informal Sector

Liberia has two indigenous financial mechanisms that provide access to credit. First, susu or rotating savings and credit associations (ROSCAs), are common throughout the country and serve as a mechanism for people to save for emergencies, medical expenses, social obligations, school fees, or business. Credit discipline is enforced by group members. Given the low-income of many members, the amounts of funds mobilized by ROSCAs may not be sufficient to generate significant funds. In addition, with interest rates often in the range of 20-25% per month on a flat basis, the effective interest rates for borrowers within the susu can be quite high.

In addition, moneylenders are also found throughout the country, with the common terms of borrowing. Annual effective interest rates can be as high as 600% annual effective, based on a flat rate of 25% per month. A variant of this for salaried workers includes the "LPA" or legal power of attorney arrangement where the salaried worker signs an agreement to sign their paycheck over to the lender. As salaried workers are no longer being paid on time, many lenders are no longer willing to extend credit through this mechanism.

D.4 Wholesale Finance to the Sector

Given the nascent state of MFIs in Liberia, it is not surprising that, at present there is no wholesaler to microfinance providers. Similarly, no commercial banks noted their immediate intention to operate as a wholesaler to microfinance institutions, although EcoBank noted that its affiliate in Benin had made loans to PADME, a leading MFI in that country.

D.5 Demand for Microfinance

In an environment such as immediate post-conflict Liberia, rather than focusing on immediate demand, an effort is made to anticipate and plan for demand in a few years when economic activity has returned to normal.

To obtain an indication of the size and volume of the potential demand for micro-credit, UNCDF would normally interview key informants (experienced credit officers, branch managers and general managers of MFIs) to gain an indication of the percentage of adults in their area of operations that would qualify for a credit. As part of this exercise, these key informants are asked to segment this potential market in terms of loan sizes that would be requested. This information is used to extrapolate estimated demand, based on number of households in the country. However, given the limited number of institutions with experience in microfinance lending; the limited methodologies in use (village banking); and time and travel constraints, it was not possible to develop detailed estimates during this mission. **It is recommended that fuller estimates for demand be developed and periodically updated as the frontier of microfinance develops in Liberia.**

Nonetheless, an initial estimate is made based on the recent (May 2003) in-depth assessment UNCDF carried out in neighboring post-conflict Sierra Leone where there was experienced staff from a broader range of institutions offering loans at various sizes. Adjustments are made for a smaller total population, fifty-five percent (55%) that of Sierra Leone. Two scenarios are offered (12% and 16% of households demanding services) in order to provide an initial range estimating demand.

Scenario 1 assumes a national active loan portfolio that covers 12 percent of the total households. This results in a potential active client base of 62,000 households and a total active loan portfolio of LD$ 685 million (US$ 13.7 million). Scenario 2 assumes a national active loan portfolio that covers 16 percent of the total households. This results in a potential active client base of 82,000 households and a total active loan portfolio of LD$ 955 million (US$ 19.1 million).

D.6 Legal Environment

The legislation authorizing the establishment of the Central Bank of Liberia (CBL), and the New Financial institutions Act, were both approved in 1999. The former allows the Central Bank to influence, through the use of monetary instruments at its disposal, the direction and magnitude of the rate of interest payable in respect of deposits and other similar liabilities.[9] The CBL introduced regulation limiting permissible interest rates, including fees and other charges (i.e. annual effective), to eighteen percent (18%) during the July – September 2002 quarter.[10] In addition, CBL has imposed reserve requirements of 50% and 18% for LD$ and USD$ deposits, respectively.

[9] "An Act to Authorized the Establishment of the Central Bank of Liberia", March 18, 1999, p. 23.
[10] "Financial and Economic Bulletin", Central Bank of Liberia, Vol.3, No.3, July-September, 2002.

The present legal and regulatory environment does pose several constraints for the development of the microfinance sector. First, the ceilings on interest rates (18% effective) make it highly unlikely that any commercial bank would enter the lending side of the microfinance market. Because of the high cost of administering small loans (average loans outstanding of $200 to $300), it is not possible to offer microfinance services on a sustainable basis within those rates. NGOs currently charge annual effective rates as high as 80%. NGOs, comfortable in operating in an informal setting, are not concerned as long as the restrictions are not enforced. However, a bank would not be willing to risk the associated penalties for violating the restriction. The effect is to create a barrier to entry for banks to enter the lending side of the microfinance market with their own funds. As the banks represent some of the strongest potential suppliers, it represents a significant constraint.

Second, the reserve requirements of 50% and 18% for LD$ and USD$ deposits, respectively are too high, and discourage domestic resource (savings) mobilization, as inadequate funds are left for investments after maintaining reserve requirements. The requirements penalize the banking sector, forgoing projects that could have a positive impact on the economy. Combined, the two policies constrain financial intermediation between savers and borrowers.

D.7 Host Country Policy and Strategy

At present, there is no national policy or vision statement indicating the role microfinance could play in contributing to national development. The Interim Government has the responsibility to lay the foundation for development policy that will be approved and implemented by the government elected in the 2005 elections.

D.8 Prior and Ongoing Assistance to the Microfinance Sector

Donor funded support to microfinance has been limited to date. Previously noted were the Konrad Adeneur Foundation and Rabobank's support to the Credit Unions, and World Relief's support to LEAP. Following the elections in 1997, UNDP supported a microcredit scheme under the project LIR/95/004 –Reintegration programme Management and Poverty Alleviation. The project operated in six counties of Liberia. Although 4,600 families received credit from seven local NGOs delivering credit, the repayment rate was only 33%, and thus not sustainable. The project was closed, and a new project (LIR/99/006), executed by UNOPS/UNDESA specifically for microcredit was launched. The programme suffered from design flaws, including 1] too many implementing partners (7 initially, reduced to four, then one) for limited funds; 2] Lack of experience in microfinance among implementing partners; 3] Technical Service Provider's lack of experience in hands-on microfinance; and 4] not allowing grants to be used flexibly to cover initial operational losses. The project was closed in 2003 due to poor performance (weak repayment) and national inaccessibility. There has been no other significant donor support to microfinance. Most current donor support is focused on recovery and resettlement.

E. Opportunities and Constraints for Development of Microfinance Sector

E.1 Opportunities

Emergence from Post-Conflict
Because of the 14 years of conflict, Liberia has largely missed the 'microfinance revolution' taking place around the world. This presents the opportunity to apply the lessons learned from other countries and move through the process of sector development more quickly. Also, because most donors are just starting their recovery programming, it offers the opportunity to develop coordinated policies, and to establish mechanisms for best-practice microfinance from the outset.[11]

High unmet demand
The gap to be filled of potential demand is high in Liberia. The indicative estimates of section D.5 illustrate the large gap (71,000 households) between the demand (82,000 households) and supply (9,000 households) of credit for micro and small business activities. Entrepreneurial activities are likely to continue to spread as security resumes. The economic activities of potential clients is already quite high in Monrovia, and Harper (Maryland County), and should gradually recommence in some secondary towns (Ganta, Saclepea (Nimba County), Gbarnga (Bong County), Buchanan (Grand Bassa County)).

Supportive government
Although no specific policy is in place as of yet, government representatives were supportive of the development of an inclusive financial sector in Liberia. This goodwill will be needed to tackle the policy constraints noted below.

A range of institutional forms is engaged in aspects of microfinance
A range of microfinance operators (banks, credit unions, NGOs) existed before the most recent spike in the conflict, and with some support, could bring a relatively quick impact within a period of two years, while providing the foundation for future growth.

Several operators have a clear focus on sustainability and outreach
Although outreach is limited, several institutions are committed to operating in a sustainable manner.

E.2 Constraints

Liberalized Financial System is Lacking
The legal and regulatory framework is not yet conducive for a microfinance industry to emerge and expand. As noted previously, the present legal and regulatory environment does pose several constraints for the development of the microfinance sector. The ceilings on interest rates (18% effective) make it highly unlikely that any commercial bank would enter the lending side of the microfinance market. The effect is to create a barrier to entry.

The Regulatory Regime is Not Conducive
The reserve requirements of 50% and 18% for LD$ and USD$ deposits, respectively are too high, and discourage domestic resource (savings) mobilization, as inadequate funds are left for investments after maintaining reserve requirements. The requirements penalize the banking sector, forgoing projects that could have a positive impact on the economy. Combined, with interest rate ceilings, the two policies hamper financial intermediation between savers and borrowers. In addition, banks note that the Central Bank of Liberia has not given guidance on whether collection of cash collateral from clients is allowed. Clear

[11] See Annex 3 regarding coordination with relief and recovery programmes; and Annex 4 for proposed coordination with microfinance programmes.

guidance on the percentage of portfolios permissible for cash collateral is needed. As the banks represent some of the strongest potential suppliers, these two issues, combined with interest rate ceilings, represents a significant constraint. The sooner adjustments are made to certain provisions, the faster the sector would develop.

Finally, the legislative framework under which the credit unions operate was approved in 1936, and does not mention credit unions, per se. The credit unions prepared updated legislation in 1992, but were unable to move forward with approval because of the war. The draft could be reviewed for presentation to the newly elected government.

Absence of market leaders in extending credit

At present, no supplier has reached significant scale or profitability in extending credit services. In addition, virtually all operators use product methodologies developed in other countries that are not yet fully adapted to the market realities of Liberia. International experience shows that the emergence of market leaders that demonstrate commercial viability and substantial scale is essential for a rapid expansion of the microfinance sector. These leaders function as role models for peers by having demonstrated that customers at the lower end of the market are bankable. At present such leaders are emerging on the savings side (LBDI), but have not yet emerged on the credit side.

Significant funding would need to be available to build a sustainable microfinance sector

In the start-up and emerging phase, donors need to provide grants and soft loans to build the capacity of microfinance operations because investment in this phase is more risky than in later phases. A significant constraint is the lack of funding needed by microfinance operators to professionalize and expand their operations. Most major donors are concentrating their programmes on relief, rehabilitation and reintegration. Microfinance operators need financing for expansion, infrastructure and capacity building in order to reach sustainability.

Demobilization of ex-combatants and Severely Damaged Infrastructure

After an initial false start, the demobilization of ex-combatants is not scheduled to start until mid- April 2004. Completion of demobilization would greatly add to both MFI's and potential clients security. In addition, the severely damaged infrastructure during the period of war will increase the costs of doing business for MFIs and clients.

Capacity of operators and support infrastructure is limited

Although the commercial banks demonstrate significant capacity, their experience in microfinance lending is quite limited. For other institutions, the institutional, managerial, technical and financial capacities are at the early stages of development. The present capacity of operators is insufficient to allow for a considerable expansion of their operations. The Boards of virtually all operators have limited familiarity with microfinance. Virtually all staff have had limited exposure to operations of professional MFIs. In addition the supportive infrastructure (audit, networks, credit reference) for microfinance is weak at present.

Grant/loan confusion at client level

A decade of 'credit' programmes with poor recovery, combined with grant programmes operating in parallel, have distorted the market and undermined the credit culture. The guidelines in Annex 3 are offered as a means, if discussed and adopted, to minimize this risk.

F. Conclusions

At present the microfinance sector in Liberia is at a nascent stage. The financial sector is mainly developed to cater to the higher segments in the market and salaried people. The present supply of microfinance services only reaches a fraction of the total demand. There are potential market leaders who could increase their outreach and sustainability.

It is estimated that the demand for credit from micro and small enterprises ranges between 62,000 and 82,000 customers with a combined loan volume ranging from US$ 14 to 19 million. The present supply reaches less than 8,200 customers with a combined loan portfolio of less than US$ 250,000. Global experience shows this gap between demand and supply could be overcome by building robust and professional institutions or bank units that are specialized in providing sustainable financial services to the lower segments of the market.

The nascent microfinance industry is in need of considerable support to build capacity, capital base and expansion. At present many operators are dependent on subsidies. At this stage some of the operations would not survive without additional investments. This situation is common in the start-up phase of microfinance sector development. Several operators have adopted a business like approach and are committed to reach profitability and scale.

The legal and regulatory framework is not at present conducive for the microfinance industry to develop and expand. However the most immediate constraints (interest rate ceilings, reserve requirements, guidance on non-collateralized lending) are within the purview of the Central Bank of Liberia to adjust.

Some important constraints for the development of the microfinance industry are not yet addressed. The capacity of microfinance operators needs to be enhanced considerably. Significant funding would be required to create sustainable microfinance institutions with a large outreach. Such funding would be needed for building capacity and financing an expansion of branch networks. Measures should be taken to ensure optimal coordination among stakeholders in order to effectively advance the microfinance sector.

At present three scenarios are conceivable. In the first scenario the constraints noted above are not addressed and the microfinance sector remains in the start-up phase. A second scenario is that donors go alone without much coordination and provide modest support to selected microfinance institutions. In this scenario the development of the microfinance sector will be slow and will not contribute in a considerable manner to poverty alleviation and economic development.

In the third scenario the constraints are addressed. Government and donors combine their efforts with a vision to build an inclusive financial sector whereby the microfinance sector develops as an integrated part of the financial system. In this scenario it is feasible that within a period of 6 to 7 years a large and self-financing microfinance industry could be built from scratch.

G. Recommendations

Policy:

It is recommended that the government review the policies related to interest rate ceilings; reserve requirements for Liberian dollar and U.S. dollar accounts; and guidance on non-collateralized lending. It is also recommended that the government work with LCUNA to review and update the legislation governing credit unions.

It is recommended that the government establish a Microfinance Coordinating Committee, to be responsible for developing a vision statement for how to facilitate the development of microfinance as an integral part of the financial sector. It is suggested that membership of the committee include the (Chair) Central Bank of Liberia (2 persons, Research;

Supervision), Ministry of Planning and Economic Affairs (MPEA), Banking sector (LBDI), Credit Union Association (LCUNA) and NGO (LEAP), with UNDP as a facilitator.

Operational Policy:

It is recommended that DDRR; relief; and microfinance development activities coordinate the use of grants versus loans for income-generation or micro-enterprise activities. As a initial framework for discussion, see Annex 3. It is suggested that the relevant cluster groups (e.g. IDPs, Community Development, Disarmament) review for endorsement the draft guidelines.

It is recommended that microfinance not be an activity of the planned social fund (Liberia Agency for Community Empowerment and Socio-Economic Development (LACE)), but that it focus on rebuilding community infrastructure (roads, schools, clinics, water supply, in-kind contributions of tools/seed to restart agriculture activities). The experience of other countries suggests that funds invested in microfinance through social funds rarely results in the building of sustainable institutions.

Programming:

It is recommended that should policy constraints be removed, donors make considerable funding available to potentially viable microfinance institutions and microfinance banking units for capacity building, capitalization and expansion. It is recommended that programmes are coordinated through an investment committee (Annex 4) to ensure aid effectiveness.

It is also suggested that Government and donors disseminate and apply best practices; invest in training their own staff; and develop policies and regulations that allow for rapid microfinance sector development and its integration into the financial system.

Institutional Arrangements:

It is recommended that the Central Bank of Liberia establish a microfinance unit to ensure an optimal development of the microfinance sector as an integrated part of the financial sector. This unit would function as a permanent focal point for microfinance and would establish a databank on microfinance activities, will set standards to ensure transparency, will provide advice to policy makers and regulators, establish audit procedures and will draft and monitor regulation in collaboration with major microfinance operators.

ANNEX 1

List of Persons Interviewed

Mr. John Tucker
UNCDF Mission to Liberia
March 22-31, 2004

No.	Agency	Persons Met
1	United Nations Development Programme	Steve A. Ursino, Elizabeth Oduor-Noah, Simeon Moribah, Kamil K. Kamaluddeen Willie B. Davies, Ramses Kumbuyah and Monroe Outland
2	Ministry of Planning and Economic Affairs	Edward Liberty and Mollai Reeves
3	Ministry of Finance	Boima Sonii
4	National Investment Commission	Roosevelt K. Quiah
5	Central Bank of Liberia	Nathaniel R. Patray, III and A. Richard Dorley
6	Liberia Bank for Development & Investment	Francis A. Dennis, Jr. and Matthew N. Clarke
7	ECOBANK	Yaya Diong, Felix Saint-Jean, Kullie Kennedy and Penella Melvina Duncan
8	International Bank, Ltd.	James Afif Jaber,Jr., Franklin B. Cole & Joseph Jubor
9	Association of Evangelicals of Liberia (LEAP)	Korpo Kolee-Watson and Richard Schroeder
10	Liberia Credit Union National Association	Henry G. Valhmu
11	Union of Civil Society Organization of Liberia	Dan Saryee
12	Liberia NGOs Network (LINNK)	Joseph T. Kettor, Luwlenda Toby, Nelson S. Fallah, Sr., John Kumeh, Mawa Y. Kollie Augustine Korlie, G. Varnie Sherman, Martin F. Richards, Agnes F. Kortimai, Sam Jai Goodlin Z Gaye, Joan Greene, James Z. Aquor, Wata S. Modeel, Younger Q. Yoamie and Esther S. Gargannah
13	Sustainable Development Promoter, Inc.	George Sagbah, Marpue M. Speare, Andrew K. Macgona and David K. Lawor
14	National Women's Commission of Liberia	Pearl W. Fahnbulleh
15	Liberia Small & Medium Development Center	Romeo R. Clarke and Daniel P.M. Kwabo
16	Young Men Christian Association (YMCA)	Peter Z.M. Kamei & Lester Paye
17	USAID	Edward Birgells
18	Lutheran World Service	Charles Pitchford, Henry Woart and Joseph Binda
19	UNHCR	Sejjad M. Malik
20	European Commission	Jean-Pieere Bardoul and Christian Ermgodts
21	Individual (former MFI staffperson, and UNDP Microfinance project staffperson	Magdalene G. Harris

Appointments arranged by:
Willie B. Davies
Programme Associate
UNDP

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Draft, for Discussion and Adoption:

Recapitalising Liberia: principles for providing grants and loans for microenterprise development[12]

by John Tucker, Tim Nourse, Rob Gailey, Dave Park and Stephan Bauman

In previous post-conflict contexts, donors and practitioners have successfully provided grants and loans to affected populations to spur economic growth and reconstruction, promote the sustainable return of refugees and rehabilitate ex-combatants. However, recent experience demonstrates that if the provision of grants and loans is not well-managed, well-intentioned donors and practitioners can undermine the development of a healthy credit culture, delay the transition from relief to development and harm communities in the long run.

This note is offered as a practical tool for donors and practitioners working in post-conflict situations to maximise the positive impact from both grant and loan programmes for microenterprise development. These principles, based on emerging best practices from development and post-conflict environments, are designed to promote rapid reconstruction while laying the foundation for economic growth. This note was developed by donors and practitioners for use in Liberia, as a test case to see if cooperation among stakeholders will lead to the proper use of grant and credit interventions.

Appropriate criteria for grant or credit programmes

In relief situations, both grant and credit programmes can be appropriate tools to help economically active poor people begin or expand businesses. However, the two interventions are not interchangeable and should not be mixed.[i] Grant programmes quickly infuse capital to the entrepreneur without a repayment burden and require only moderate institutional capacity among implementing organisations. However, they serve a limited number of people and can negatively impact the credit culture if relied upon too extensively. Credit programmes have the potential to sustainably provide large numbers of entrepreneurs with capital but require strong institutional capacity to implement effectively. When deciding which type of intervention to fund/implement, donors and practitioners should consider the programme goal, operating environment, institutional capacity of the implementing organisation and the programme/funding horizon.

Grant programmes are appropriate when:

- the main goal of the programme is enterprise development for special populations – such as vulnerable women, ex-combatants and youth – who cannot manage microcredit loans effectively and/or to further such non-economic goals as ethnic reconciliation and house reconstruction
- the operating environment is unstable (some population mobility, high inflation) and the target population does not operate businesses, cannot access markets and/or is located in remote areas
- the implementing partners have community and microenterprise development experience but do not have the desire or capacity to conduct longer-term, more sophisticated microfinance programmes

[12] Forced Migration, May 2004, online at http://www.fmreview.org/FMRpdfs/FMR20/FMR2006.pdf.

- the programmes and funding horizon are short term (one year or less)

Credit programmes are appropriate when: [ii]

- the main goal is general enterprise development for entrepreneurs who lack access to capital and can manage microcredit loans effectively
- the operating environment is stable (good security, little population mobility, low inflation) and the target population operates businesses, can access markets and has the capacity to repay
- the implementing institution has moderate to strong capacity and a focus on financial services or microenterprise development programmes
- the programmes and funding horizons are long term (minimum of 3 years)

Box …
Development of the Sierra Leone
Microfinance Sector

In 2001, Sierra Leone emerged from a devastating ten year civil war. With peace, many credit programmes were begun to help entrepreneurs recover from the war. Though some performed well, most suffered from poor targeting, unqualified staff, unsuitable products and insufficient systems to recover loans. In 2003, a UN Capital Development Fund (UNCDF) assessment mission found that prior 'credit' programmes with weak repayment had created widespread client and practitioner confusion about credit. This was slowing the development of the microfinance sector and thus the pace of reconstruction.
… End box

In the immediate aftermath of conflict grant programmes may in many cases be more appropriate. However, as the situation stabilises and the general economic status of the population improves, the emphasis should change from grants to loans.

Principles for implementing grant programmes

- Use grants as one-offs to avoid dependency and encourage investment: a series of grants can encourage dependency (as beneficiaries come to expect hand-outs) and may serve as a disincentive for investment – since consuming, rather than investing the grant, will be rewarded with an additional grant.
- Separate grants from loans to avoid confusing clients: if unavoidable, the two activities should be separated by using different staff, targeting different populations and using clearly defined messages to present the products either as grant or loans.
- Accompany grants with advice: to increase the chances of effective investment, grants should be complemented by training and/or mentoring by knowledgeable staff.
- Require contributions or demonstrated commitment: to ensure that the beneficiary is serious about the business, grants should be contingent upon meeting certain requirements or making a contribution.
- Distribute contingent grants in two stages: the beneficiary must demonstrate proper use of a small initial grant, have attended training and/or developed a business plan before receiving the full grant amount.
- Require recipients of contribution grants to provide cash or in-kind inputs of at least 10% of the value of the project.
- Coordinate with credit programmes to facilitate long-term financing for clients: a direct process of graduation to a credit programme or by recommendation can

encourage good grant clients to aspire to be recognised entrepreneurs eligible to gain sustainable financing for their businesses.

Principles for implementing credit programmes

Global microfinance best practice lessons apply and work in reasonably stable post-conflict situations after the immediate post-conflict stage.[iii] Accordingly, the guiding principles set out below focus on the selection criteria that donors and practitioners should use, rather than the implementation principles themselves.[iv] Nevertheless, considering the difficulty and expertise required to implement effective and sustainable microfinance in developing countries, and the institutional weakness normally found in post-conflict countries, donors and practitioners should pay particular attention to meeting the selection criteria before funding or proposing microfinance interventions.

Any institution or international technical support agency receiving support for credit/savings activities should be able to demonstrate competency or strong promise of potential in the following areas:[v]

- Institutional strength: sound institutional culture with a mission and vision able to expand microfinance services to low-income clients; management and information systems that provide accurate and transparent financial reports according to internationally recognised standards and efficient operating systems.
- Quality service and outreach**:** focus on serving low-income clients and on expanding client reach and market penetration; financial services that meet the needs of the clients; capacity to adapt services to meet the distinct needs of entrepreneurs in post-conflict situations (less trust, greater mobility, decapitalised businesses, more conservative coping strategies).
- Sound financial performance: interest rates on loans sufficient to cover the full costs of efficient lending on a sustainable basis, low portfolio in arrears and low default rates, and a plan for a diversified funding base for microfinance operations to minimise dependency on donor subsidies.
- Reporting: all recipient institutions must have a system for reporting regularly on the quality of its services, outreach and financial performance, including annually audited financial statements.

Next steps[vi]

Post-conflict countries such as Liberia offer the opportunity to meet the immediate needs of conflict-affected populations while building the foundation for a vibrant entrepreneurial sector that will help fuel long-term growth and stability. However, the threat also exists that a large influx of relief money, improperly directed into grant or loan programmes, will not be absorbed properly and will create dependency or a poor credit culture. The principles in this paper offer a starting point for donors and practitioners to begin coordinating their activities and thus to help ensure that funds both further short-term reconstruction and gain long-term returns.

This note has been developed by John Tucker (UNCDF www.uncdf.org), Tim Nourse (American Refugee Committee www.archq.org), Rob Gailey and Dave Park (World Relief www.wr.org) and Stephan Bauman (World Hope International www.worldhope.org). Comments may be sent to john.tucker@undp.org and Timnourse@aol.com.

Initial Draft, for Discussion (31 March 2004)
Proposed Terms of Reference: Investment Committee

1. Background

In order to maximize aid effectiveness and the return on investment of funds (grants, loans, equity) invested in developing the microfinance sector in Liberia, institutions are encouraged to join an Investment Committee.

2. Composition

The Central Bank of Liberia (CBL) will serve as (non-voting) Chair of the Investment Committee. Donor/Investors will agree to abide by microfinance best practices[13] in joining the committee. Minimum contribution for Donor/Investors to become a voting member of the committee will initially be set at U.S.$1,000,000. Donors who wish to use the mechanism of the investment committee, but not take a voting seat on the committee may do so through cost-sharing mechanisms, as may donors with contributions below $1,000,000. Technical officers from the Ministry of Finance and the Ministry Planning and Economic Affairs (MPEA) shall be welcome to sit as observers to the Investment Committee. Their role as observers shall be limited to: 1) advising the committee if any potential investment is not in line with government policy. The technical officers will have received training in microfinance. Donors/investors considering supporting the sector are welcome to sit as observers until funding decisions are made within their respective organizations.

3. Rationale

In order to support the development of a competitive, sustainable inclusive financial sector, the Investment Committee will provide a framework where donors can:

- Receive business plans and funding proposals;
- Jointly review potential investments;
- Complement relative strengths and weaknesses (provision of only technical assistance, grants, loans or equity) in order to tailor investment packages to the institution.
- Utilize standard reporting and performance based contracts with MFIs;
- Review individual investments within the context of building a competitive, inclusive, sustainable financial sector;
- Jointly supervise the technical assistance provided to participating MFIs;
- Jointly carry out needed technical reviews, evaluations, audits, field monitoring visits, etc. within a commonly (scheduled) agreed time period;
- Jointly review progress in building the enabling environment for sustainable microfinance.

This arrangement will also minimize transaction costs to MFIs seeking funding, and the Technical Service Provider(s) to MFIs.

[13] Best-practices in microfinance are reflected in the "Donor Guidelines for Selecting Financial Intermediaries", and CGAP Focus Notes, Technical Papers and other publications.

4. Criteria for Applications from MFIs[14]

Proposals may be made from start-ups, institutions currently operating in the country, or those outside, wishing to start-up operations.

In line with the 'donor guidelines for selecting financial intermediaries', the criteria for selecting investments will include the following. An institution applying for support should be able to demonstrate competency or strong promise of potential in the following areas:

- Institutional strength: sound institutional culture with a mission and vision able to expand microfinance services to low-income clients; management and information systems that provide accurate and transparent financial reports according to internationally recognised standards and efficient operating systems.
- Quality service and outreach**:** focus on serving low-income clients and on expanding client reach and market penetration; financial services that meet the needs of the clients; capacity to adapt services to meet the distinct needs of entrepreneurs in post-conflict situations (less trust, greater mobility, decapitalised businesses, more conservative coping strategies).
- Sound financial performance: interest rates on loans sufficient to cover the full costs of efficient lending on a sustainable basis, low portfolio in arrears and low default rates, and a plan for a diversified funding base for microfinance operations to minimise dependency on donor subsidies.
- Reporting: all recipient institutions must have a system for reporting regularly on the quality of its services, outreach and financial performance, including annually audited financial statements.

In addition to the criteria noted above, those institutions making proposals from outside to enter the Liberian market will provide background on their track record in other countries. This information will include standard outreach and performance, and financial reporting disaggregated by institution per country; and also includes the total funding received per institution to achieve those results (**see Annex 4b**). This information will assist the investment committee to make investment decisions on a cost-effective basis, and assess proposed targets in light of past achievements.

5. Technical Support for Preparing Business Plans, Proposal Review, and Funding Requirement Projections

The Investment Committee will be responsible for approving the Technical Service Providers (TSP) long-term and annual workplans, progress reports, and payments under the TSPs performance based contract. UNCDF's Microfinance Unit will carry out international competitive bidding to contract the TSP(s). The TSP's responsibilities will include:

- Assist institutions in preparing business plans;
- Carry out Institutional Appraisals,
- Provide technical review of funding proposals to Investment Committee and serve as Secretariat to the Committee;
- Annually, prepare multi-year projections estimating country demand and supply for microfinance services; including funding needs (loans, grants, TA, equity) of MFIs to close this gap. Prepare analysis of options for Investment Committee consideration to catalyze development of the sector and close the gap in a reasonable timeframe. Based on funding needs, develop strategies to mobilize additional resources; or limit further funding placed under Investment Committee management.

[14] A range of institutional forms can be considered as MFIs: Commercial Banks or units thereof; Credit Unions; NGOs, Non-Bank Financial Institutions, etc.

6. Process for Reviewing Investment Proposals

The Investment Committee will meet at least twice a year in Liberia. Participation shall be mandatory for at least one meeting per year, while participation in other meetings may be facilitated via proxy. Funding proposals will be circulated six weeks in advance of meetings. The Secretariat (TSP) will prepare and circulate technical analysis of all proposals to all Investment Committee members at least four weeks in advance of meetings. The Secretariat (TSP) will consult in advance with donors/investors on potential interest in funding a proposal. For simplification, the goal will be that not more than three (3) signatories per contract with an MFI for a proposal under consideration. Funds placed by donors under UNCDF/SUM management shall be considered as one signatory.

Decisions will be made on a commercial basis, and not be subject to political or disbursement pressures. Consensus shall be sought for funding decisions, where possible. Donor/investors will discuss and vote on any proposal, with each voting member of the Investment Committee having one vote. Votes receiving a simple majority shall be considered as approved. Proposals not approved but receiving one or more 'yes' votes, can be revised and resubmitted. If a donor is willing to take more risk than other donors/investors, and strongly believes in a proposal, it may inform that it will proceed on a pilot basis. However, initial funds allocated should not exceed 10% of the donor's funds for the microfinance. The investment committee should review performance against targets before additional funds are committed. Proposals that are deemed to be a violation of the Government's microfinance policy will be so advised by the Government chair, and requested not to proceed without amendment. These overall arrangements are intended to strengthen aid effectiveness, donor coordination, and that weak investments do not undermine the sector.

7. Harmonization of Performance Based Agreements and Reporting:

Donor/Investors participating in the Investment Committee agree to utilize harmonized:

1) Performance based agreements, with key indicators (Outreach: number of active clients; Portfolio quality: PAR @30 days; Profitability/Sustainability: Adjusted Return on Assets AROA) for minimum performance standards; and
2) Reporting requirements, using standard terms and definitions as developed by the Consultative Group to Assist the Poor (CGAP).

8. Execution/Implementation Arrangements:

UNCDF/SUM will serve as executing agent for its own funds, and implementing agent for some UNDP budget lines. Other donors are encouraged to cost-share through UNCDF/SUM in order to 1) minimize disbursement pressure; 2) harmonize reporting; 3) reduce administrative costs; and 4) expedite payments and implementation.

The project will develop administrative arrangements that dovetail with various donors financial requirements. The project will establish a forex, interest-bearing main account with sub-accounts for each MFI or programme component. The Technical Service Provider and CEO of each MFI supported will serve as co-signatories of the respective sub-accounts. Donor/Investors will ensure that either: 1] investments approved by the Investment Committee can be paid within two (2) weeks of approval; or 2] that a certain percentage of committed funds (i.e. concretely committed via contracts for specific projects) is kept in the main account. It will be replenished upon proof that the previous tranche has been adequately used. For donors using cost-sharing mechanisms, funds will be expended on a pro-rata basis (calculated according to the percentage of funds accepted under management) based on the payments approved at each meeting. Arrangements will be made for external auditing of the use of funds on a yearly basis by an independent auditing firm who will report to the Investment Committee.

Donors will have the right to cease support to an MFI, programme component or the programme if deemed necessary (non-fulfilment of performance criteria, misappropriation of funds). The decision should be discussed in the Investment Committee, or between the relevant donors in the case of support to a specific MFI.

If needed, the Investment Committee will review these Terms of Reference to adjust them to changing realities and to ensure smooth implementation arrangements.

9. Linkages to Government Policy Review:

The Investment Committee shall identify and communicate to the Central Bank of Liberia any constraints stemming from the policy, regulatory and supervisory framework for microfinance and identify changes needed for the sector to develop as an integrated part of the financial system. The Investment Committee will similarly liaise with the Ministry of Planning and Economic Affairs (MPEA) to ensure complementarity with the NGO registration process for NGO-MFIs.

The Investment Committee will provide reporting on an annual basis to the Central Bank of Liberia on: 1) Investments made; 2) Results achieved by MFIs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. These reports will be posted on the UNCDF/SUM website with links to programme partners, based on request. UNCDF/SUM’s webpage will list donor/investor contributions by value of funds pledged/disbursed (in U.S.$).

The Central Bank of Liberia, the Investment Committee, and MFIs supported under the programme will meet at least once a year to review progress achieved; and actively discuss constraints and opportunities to support the development of an inclusive financial sector. Recommendations emerging from these discussions will be referred to the respective government bodies with the mandate to review and implement, where possible. Subsequent annual reviews will examine progress achieved in removing constraints and seizing opportunities. The timing of these meetings will be organized to coincide with Investment Committee meetings when Donor/Investor representatives may be present in the country.

As the sector matures, the Investment Committee will review the need for continued grant, donor subsidy to the sector, and make decisions regarding whether additional funds should be placed under its management accordingly. The Ministry of Planning and Economic Affairs will be advised of this recommendation for its consideration and communication to donors active in or considering funding microfinance in Liberia. Once the sector is fully established on a commercial basis, the Government may wish to advise donors of pressing needs in other sectors (health, education) that require grant funding in order to achieve the Millennium Development Goals.

Information to be included in funding proposals:
(continued)

Institution (name and locally registered institutional form):
Mission Statement:
Brief history:
Governance: Executive Director/CEO, Board or Directors, Names and background:
Organigram:
Ownership Structure: Current (Percent shares by stakeholder), and if change anticipated, dates and process for change
Systems and Manuals:
Audited Income Statements and balance sheets:

Start Date:
Current and Proposed Areas of Operation:
Products and Terms:

Current and Proposed Annual targets over period of requested support:
--Number of active clients:
--PAR @ 30 days:
--Value of Loans Outstanding:
--Average Loan Size:
--Adjusted return on assets (AROA) or other commonly accepted indicator of sustainability:

Funding Requested (Grants and Soft-loans):
Proposed Budget allocation (by category and year):

Other Funding Available:
Grants (amount and source):
Commercial Loans (amount and source):
Equity (amount and source):

Annex 4 B:
Information for International MFIs submitting funding proposals to include in their submission:

For all currently active programmes:
Country:
Institution (name and locally registered institutional form):
Start Date:
Number of active clients:
PAR @ 30 days:
Value of Loans Outstanding:
Average Loan Size:
Adjusted return on assets (AROA), or other commonly accepted indicator of sustainability:
Grants received (amount and source):
Soft-loans (amount and source):
Commercial Loans (amount and source):
Equity (amount and source):

[i] *Microcredit Menu*, CGAP Focus Note #20. www.cgap.org/docs/FocusNote_20.html

[ii] Doyle, Karen; *Microfinance in the Wake of Conflict*, The SEEP Network, 1998 www.mip.org/pdfs/mbp/conflict.PDF; Larson, Dave; *MBP Microfinance following Conflict, Technical Briefs*, DAI 2000 www.microfinancegateway.org/content/article/detail/14553

[iii] ILO/UNHCR Technical Workshop: *Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action*, by Geetha Nagarajan, 1999. www.microfinancegateway.org/content/article/detail/2934

[iv] The CGAP (www.cgap.org) website is a good resource for implementation principles.

[v] *Small and Micro Enterprise Finance Guiding principles for Selecting and Supporting Intermediaries*, Committee of Donor Agencies for Small Enterprise Development, and as adopted in the UNDP programme Manual, Chapters 4.3.5 and 6.4.6, and the related annexes www.ilo.org/public/english/employment/ent/papers/financgd.htm

[vi] Beyond the suggestions made in this paper relating to grant and credit programmes, donors and practitioners should also consider complementary interventions to improve the climate for enterprise development. Many entrepreneurs have difficulty not due to a lack of capital but due to a lack of skills, access to markets, or access to information and technology. Business development skills programmes help entrepreneurs to overcome these gaps and increase profits. Post-conflict situations provide the opportunity to reform what were often poorly functioning sectors in the first place. Legal reforms and regulatory strengthening can significantly improve the environment for providing financial services by commercial banks and other entities.