REPUBLIC OF LIBERIA

2014 – 2018 REPORT

NATIONAL FINANCIAL INCLUSION STRATEGY

Our current adult population (people 15+) unbanked is 64% and the goal is that by 2020, adults, who currently aren't part of the formal financial system, are able to have access to a transaction account to store money, send and receive payments as the basic building block to manage their financial lives.

ABSTRACT

Liberia has twice since 2009 produced and implemented two National Financial Inclusion Strategy (NFIS). The first 2009 – 2013 and the second 2014 – 2018. Despite the implementation of these two National Financial Inclusion Strategies little is known or documented on the level of progress that has been made by Liberia to achieve financial inclusion. Besides, the NFIS the Central Bank has also develop and implementing the Denarau Action Plan which focuses on women financial inclusion based on the Maya Declaration. A National Financial Inclusion Survey was conducted with support from the Alliance for Financial Inclusion (AFI) in 2013 which provided some level of information on the status of financial inclusion. This 2014 – 2018 report is the first financial inclusion report of the Central Bank of Liberia.

FINANCIAL SECTOR DEVELOPMENT UNIT/CBL

Financial Inclusion

Financial inclusion is a key enabler to reducing poverty and boosting prosperity.

Key Messages

- The World Bank Universal Financial Access (UFA) goal is that by 2020, adults, who currently aren't part of the formal financial system, are able to have access to a transaction account to store money, send and receive payments as the basic building block to manage their financial lives.

A. The World Bank Group – the World Bank and IFC – has committed to enabling 1 billion people to gain access to a transaction account through targeted interventions.

- Over 30 partners have pledged commitments toward achieving universal financial access.
- The Alliance for Financial Inclusion was established in 2010 to support members Central Banks to develop smart policy to achieve financial inclusion.
- Liberia joined the Alliance for Financial Inclusion in 2010 and has since developed and implemented two (2) financial inclusion policies.

Acknowledgements

This National Financial Inclusion Strategy 2014 – 2018 Report is the first NFIS report of the CBL. This is the second National Strategy, the first was the 2009 – 2013 National Financial Inclusion Strategy. The monitoring and assessment reporting of the current National Financial Inclusion Strategy is part of a wider Financial Sector Development Implementation Plan (FSDIP) that seeks to reform and modernize Liberia financial sector. The FSDIP initiative has been supported financially and technically World Bank with mush appreciation.

The report has been designed and written by Fahn Gbelly Group, a local consultant firm and validated by the Joint Technical Working Group led by Dr. George B. Gould as Coordinator and members that included Miatta O. Kuteh, Mohammed Varney, Erica Reeves-Williams, John Wangalo, Murella Fahnbulleh, Francis Wilson, Eriah B. Gbah, Clifton Garpeh, Jr. Sethelo Mulbah, Susan W. Bouhadir, Abdulai Molley and Samuel Kezekai. The data collection was conducted from desk review of the World Bank FINDEX 2017 Report and other CBL report and data with the kind support of a team of CBL staff namely: Ocelia Scott, Smith Deko and Samuel Daykeah. Sincere thanks are extended to the team for their dedication, motivation and support in the field.

Table of Contents

A. EXECUTIVE SUMMARY

The Central Bank of Liberia is publishing its first National Financial Inclusion Report, taking stock of the government's progress on financial inclusion. The publication of the report marks the first report years since the first National Financial Inclusion Strategy (2009 – 2013) was developed and implemented.

The government is committed to building an economy where everyone, regardless of their background or income, can access the financial services and products they need. Financial inclusion enables unbanked population to transition from shadow economic activities into the formal financial sector thus enabling them to participate correctly in the economy empowering them to achieve their goals in life, whilst offering them protection in the face of difficulty. In order to deliver this, the CBL entered into a World Bank partnership agreement in the framework of a Financial Sector Development Implementation Plan (FSDIP) working in tandem across government and the private sector in the financial services industry. Therefore, in the first quarter of 2017 the CBL supported by the World Bank based on the contents of the FSDIP conducted a diagnostic assessment of the microfinance sector. The results of this assessment survey became the platform for the formation of new policy regulations for the development of viable comprehensive financial inclusion programmes.

Several regulations drafted have been completed while the processes of others are ongoing. These include: The Rural Community Financial Institutions Regulations, Non-Bank Financial Institution Regulations, MDI Regulations, Liberia Non-bank credit tiered framework, Financial Institutions Act and the Credit Unions Regulations.

This report highlights progress over the last five (5) year strategy on financial inclusion (2014 – 2018) and looks ahead at how we plan to build on existing work over the next five years (2019 – 2023). The Financial Inclusion strategy work is already making important impactful results. These have been documented in the results framework outcomes in the appendix of this report. In the next strategy (2019-2023) based on three key pillars; 1. Access to Financial Services and Credit, 2. Digital Financial Services and 3. Consumer Protection and Financial Capacity there is embedded specific action plans for each activity to be achieved thus, the next report will focus on the outcomes of the planned actions accordingly in addition to report on annual progress to continue monitoring and evaluating NFIS implementation.

B. BACKGROUND

The Central Bank of Liberia has been a member of the Alliance for Financial Inclusion since 2010 and has produced and implemented two Financial Inclusion Strategies (2009 – 2013 and 2014 – 2018). Both strategies were based on specific situation diagnosis on Financial Inclusion in Liberia with set pillars objectives. The first strategy passed without an implementation report. This report is for the 2014 – 2018 reports which was conducted by a hired local firm, Fahn Gbelly Group. It should help us to understand the results of our financial inclusion policies on deepening financial inclusion in Liberia.

C. CONTEXT AND KEY ISSUES

Financial inclusion (FI) in Liberia is growing but still lags far behind the principal target set in the National Financial Inclusion Strategy, 2014 - 2018 of the Central Bank of Liberia (CBL) linked to its six (6) objectives: Delivery of Financial Services, Enhancing Access to Finance, particularly credit, Integrating the informal sector into the formal economy, Improving the Regulatory Landscape, Financial Literacy and Financial Capability and Consumer Protection.

The targets set included the established Rural Community Finance Institutions in at least all 15 counties. Promoting the expansion of branches of commercial banks in southeastern and Western Counties, Establishment of four regional credit unions established in Zwedru, Tubmanburg, Ganta and Buchanan. Also targeted were the development of an expanded Mobile Money Agency Network and increase in the total number of mobile money agents from 2014 baseline of 184 to 500 by 2018. Noteworthy is that the total number of mobile money agents as at December 31, 2018 is 6,995.

Additional targets included the development of an agency Banking Framework, increase the number of ATMs/POS by 10% per year along with automating G2P payments to increase by 10% of baseline per year. It also targeted the developing of payment Systems that would be operational by December, 2016.

More targets under each objective anchored on increase credit by at least 2% per year that access to credit and markets be increased by 50% by 2018 with a developed plan by December, 2016 that is operational by 2018. It also included increase in business registry by 20% annually and increase in the banked population to 50% by 2018. Other targets included a new KYC regulations developed by December, 2016, Framework developed by December, 2016 for expansion of Mobile Financial Services, sustainability of VSLA and women saving groups and the provision for consumers have avenues of redress thus improved customer service.

The reports provide updates on the achievement of financial inclusion in Liberia for the reporting period by showcasing key financial inclusion segments of the financial sector. The key segments the report considered due to data constraints include; mobile money, digital payments, borrowings, savings and others. The appendices in the end of the report provide the results framework for the 2014 2018 national financial inclusion strategy. It posit the pillar objective, plan targets and outcomes.

Overview

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs for transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way. According to Liberia 2014 – 2018 NFIS, the National Strategy seeks to define financial inclusion for the purpose of measuring success and achieving its goals and objectives. For that purpose, financial inclusion will be defined as a state where adults have access to a broad range of financial services that they are able to understand and use without constraints and barriers, which are designed to meet their needs at cost that are within their means.

Being able to have access to a transaction account is a first step toward broader financial inclusion since a transaction account allows people to store money, and send and receive payments. A transaction account serves as a gateway to other financial services, which is why ensuring that people worldwide can have access to a transaction account is the focus of the World Bank Group's Universal Financial Access 2020 initiative.

Financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives.

Great strides have been made toward financial inclusion and 1.2 billion adults worldwide have gotten access to an account since 2011. Today, 69% of adults have an account.

Moving from access to account to account usage is the next step for countries where 80% or more of the population have accounts (China, Kenya, India, Thailand). These countries relied on reforms, private sector innovation, and a push to open low-cost accounts, including mobile and digitally-enabled payments.

However, close to one-third of adults – 1.7 billion – are still unbanked, according to the latest Findex data.

About half of unbanked people include women poor households in rural areas or out of the workforce.

The gender gap in account ownership remains stuck at 9 percentage points in developing countries, hindering women from being able to effectively control their financial lives. Countries with high mobile money account ownership have less gender inequality.

- Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals.
- The G20 committed to advance financial inclusion worldwide and reaffirmed its commitment to implement the G20 High-Level Principles for Digital Financial Inclusion.
- The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity, and has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020.

Since 2009, more than 55 countries including Liberia have made commitments to financial inclusion, and more than 60 have either launched or are developing a national strategy and reporting on implementation. When countries take a strategic approach and develop national financial inclusion strategies which bring together financial regulators, telecommunications, competition and education ministries, World Bank research indicates that when countries institute a national financial inclusion strategy, they increase the pace and impact of reforms.

Countries that have achieved the most progress toward financial inclusion have:

- Policies delivered at scale, such as universal digital ID - India and Aadhaar / JDY accounts - more than 1.2 billion residents covered
- Leveraged government payments. (For example, 35% of adults in low income countries receiving a government payment opened their first financial account for this purpose.)
- Allowed mobile financial services to thrive. (For example, in Sub-Saharan Africa, mobile money account ownership rose from 12% to 21%.)
- Welcomed new business models, such as leveraging e-commerce data for financial inclusion
- Taking a strategic approach by developing a national financial inclusion strategy (NFIS) which bring together diverse stakeholders including financial regulators, telecommunications, competition and education ministries
- Paying attention to consumer protection and financial capability to promote responsible, sustainable financial services

Liberia has twice since 2009 produced and implemented two National Financial Inclusion Strategy (NFIS). The first 2009 – 2013 and the second 2014 – 2018. Despite the implementation of these two National Financial Inclusion Strategies little is known or documented on the level of progress that has been made by Liberia to achieve financial inclusion. Besides, the NFIS the Central Bank has also develop and implementing the Denarau Action Plan which focuses on women financial inclusion based on the Maya Declaration[1]. A National Financial Inclusion Survey was conducted with support from the Alliance for Financial Inclusion (AFI) in 2013 which provided some level of information on the status of financial inclusion. This report is the first financial inclusion report of the Central Bank of Liberia.

C. OVERVIEW OF SAMPLE DEMOGRAPHICS

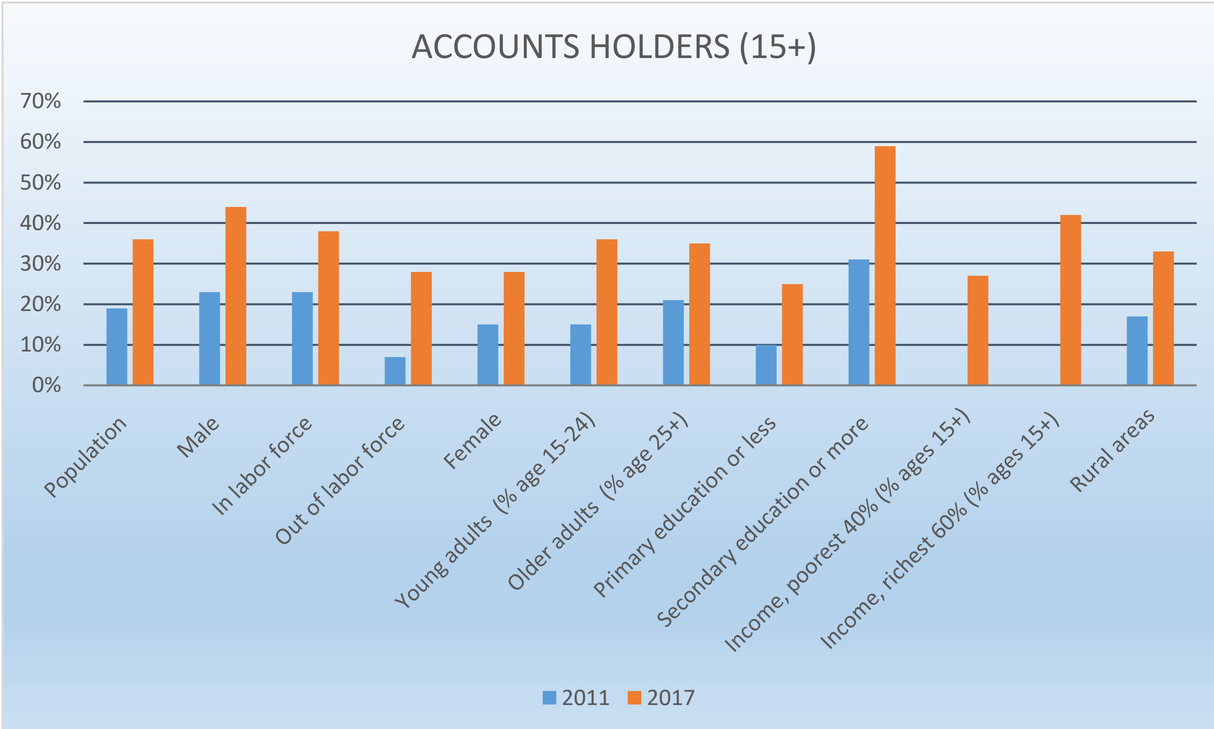
D. Accounts Holders[2]

Account (% people 15+)	2011	2017	2020[3]
Population	19%	36%	100%
Male	23%	44%	100%
In labor force	23%	38%	100%
Out of labor force	7%	28%	100%
Female	15%	28%	100%
Young adults (% people 15-24)	15%	36%	100%
Older adults (% people 25+)	21%	35%	100%
Primary education or less	10%	25%	100%
Secondary education or more	31%	59%	100%
Income, poorest 40% (% peoples 15+)		27%	100%
Income, richest 60% (% peoples 15+)		42%	100%
Rural areas	17%	33%	100%

[1] The Maya Declaration is a statement of common principles regarding the development of financial inclusion policy made by a group of developing nation regulatory institutions during the Alliance for Financial Inclusion's (AFI) 2011 Global Policy Forum held in Mexico.

[2] WB Findex 2017 Report

[3] G20 Universal Target



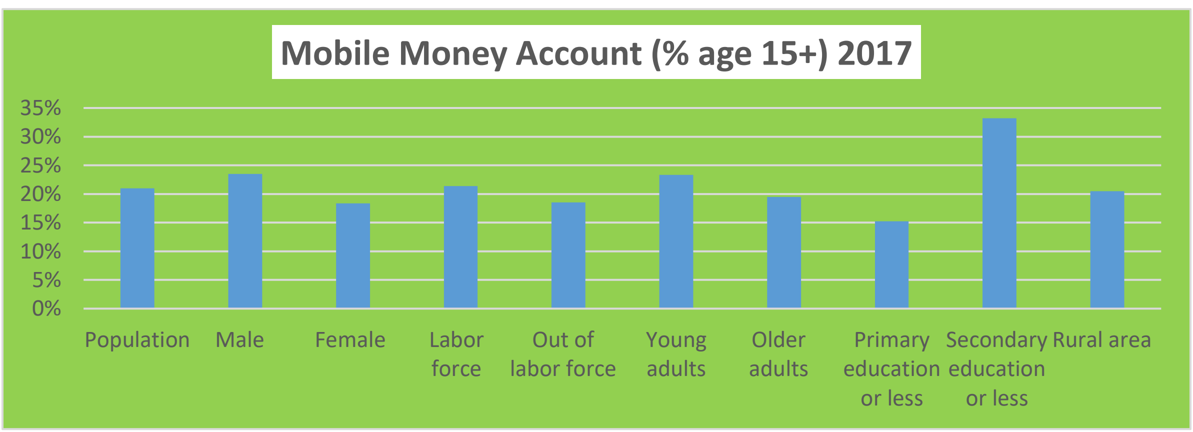
Less than 50% of the banking population has account moving from 19% in 2014 to 36% in 2017. The Male accounts holder remained higher than the female. 23% of male population and 15% of female had accounts in 2014 and mail accounts increased to 44% and female 28% by 2017 ending. Account holders in the labor force increased by more than 75% from 23% in 2014 to 38% in 2017 with a much more significant increase of the out of labor force changing from 7 to 28% from 2014 to 2017. Young adult account population change by more than 100% from 15 to 36% but older adults by less percentage level from 21% in 2014 to 35% in 2017, the same period. People with secondary education maintained higher percentage level income 2014 at 31% and 2017 at 59% as compared to accounts holders with primary education or less education who accounts holders amounted to 10% in 2014 and 25% in 2017. Data for the income poorest 40% shows 27% accounts holders while income richest 60% shows 27%. Data for 2014 is not available for recording and narration. Rural areas adult accounts holders in 2014 was 17% and increased to 33% in 2017.

E. ANALYSIS OF KEY FINANCIAL INCLUSION SEGMENTS OF THE FINANCIAL SECTOR

Mobile Money[4]

Mobile Money Account (% people 15+)	2017
Population	21%
Male	23%
Female	18%
In Labor force	21%
Out of labor force	19%
Young adults	23%
Older adults	19%
Primary education or less	15%
Secondary education or less	33%
Rural area	20%

Mobile money accounts holders in 2017 shows 21% of the population has account and between male and female population 23% male and 18% females has accounts in mobile money. Those in the labor

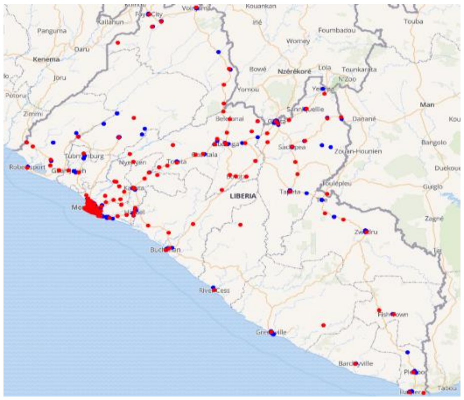


force with mobile money is 21%, those out is 19% while young adults population has 23% and older adults has 19%. People with primary education or less has 15% population with accounts those with secondary education or more has 33% with accounts and rural areas population has 20% in mobile money accounts.

[4] WB Findex 2017 Report

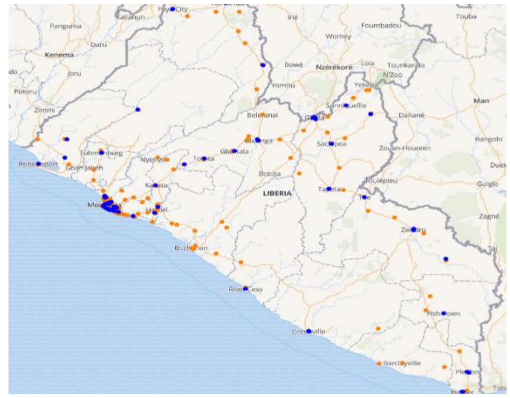
Cellular Towers and Mobile Money Peoplents

(Source: mSTAR Financial Access Points Map, September 2017)



Lonestar Towers = Red

Orange Agents = Blue



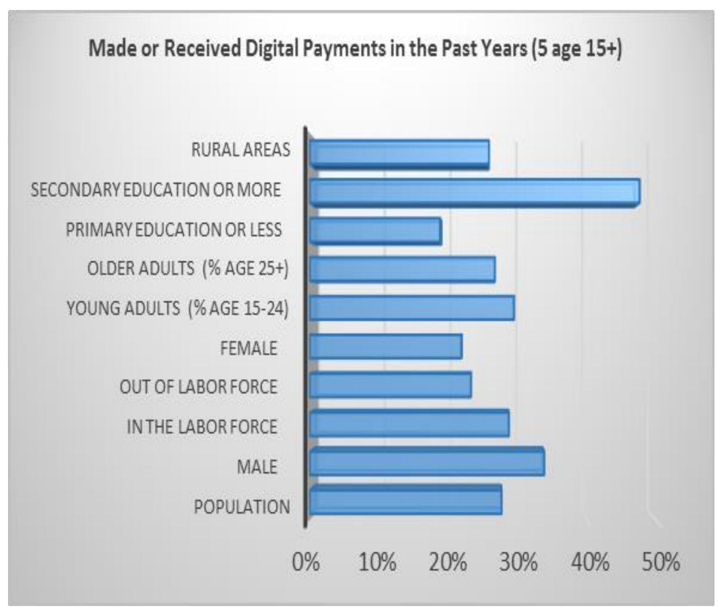
Orange Towers = Orange

Lonestar Agents = Blue

Digital Payments

Digital financial services is permeating the financial sector in Liberia and fitting well with the financial inclusion agenda. In 2017 adults peopled 15+ that made or received digital payments was 28%, male population 34% and female 22% while those in the labor was 29% and those out was 23%. Young adults was 29% and older adults 27% while those with primary education or less 19% and those with secondary education or more were 47% with those in rural areas 26%.

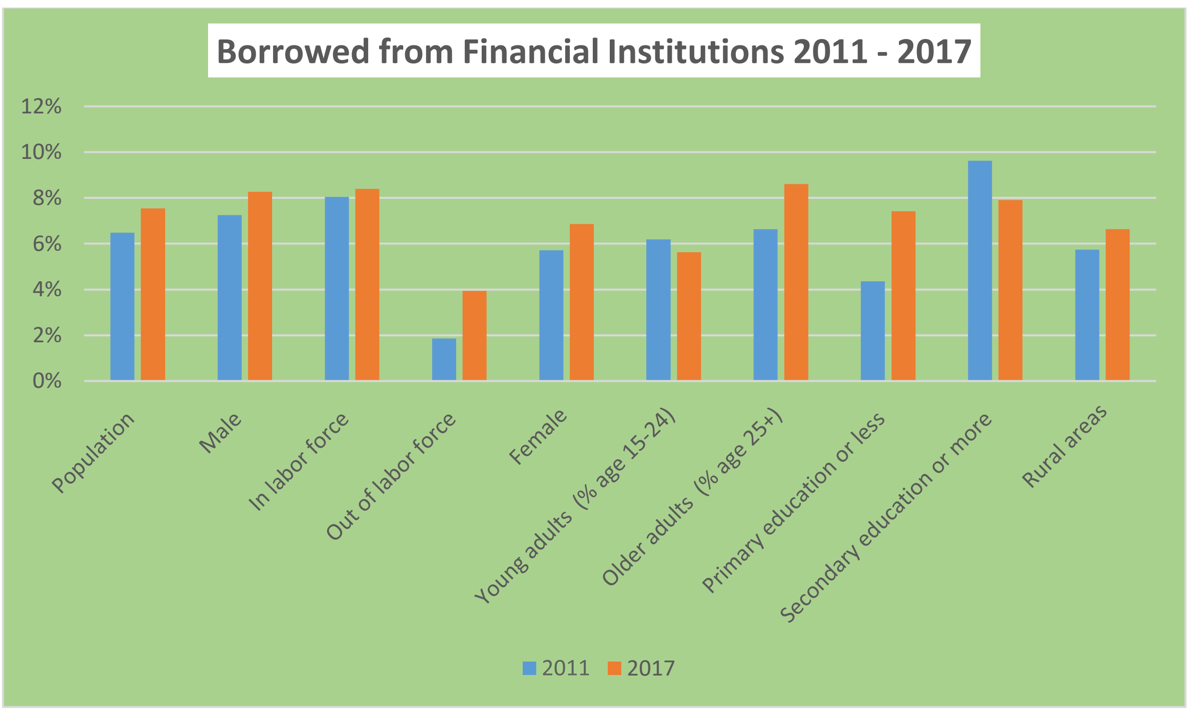
Made or Received digital payments in the past year (% people 15+)[5]	**2017**
Population	28%
Male	34%
In the labor force	29%
Out of labor force	23%
Female	22%
Young adults (% people 15-24)	29%
Older adults (% people 25+)	27%
Primary education or less	19%
Secondary education or more	47%
Rural areas	26%



[5] WB Findex 2017 Report

Borrowed[6]

Financial Institution (% people 15+)	2011	2017
Population	6%	8%
Male	7%	8%
In labor force	8%	8%
Out of labor force	2%	4%
Female	6%	7%
Young adults (% people 15-24)	6%	6%
Older adults (% people 25+)	7%	9%
Primary education or less	4%	7%
Secondary education or more	10%	8%
Rural areas	6%	7%

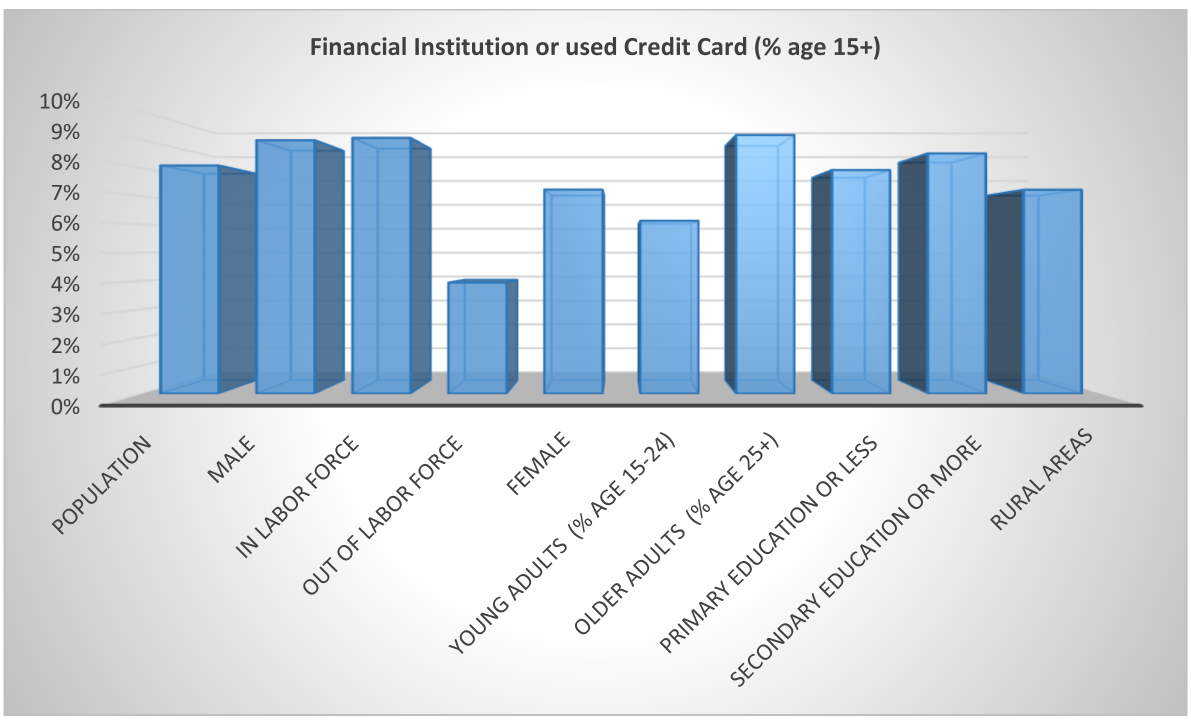


Very few person in the population people 15+ borrows from financial institutions. Only 6% in 2011 and 8% in 2017. Between 2011 and 2017 the highest level of borrowing from the financial sector was by adults with secondary education or more, which was 10% of that population but fell to 8% in 2017. The rest averaged at 6.2% in 2011 and 6.6% by 2017.

[6] WB Findex 2017 Report

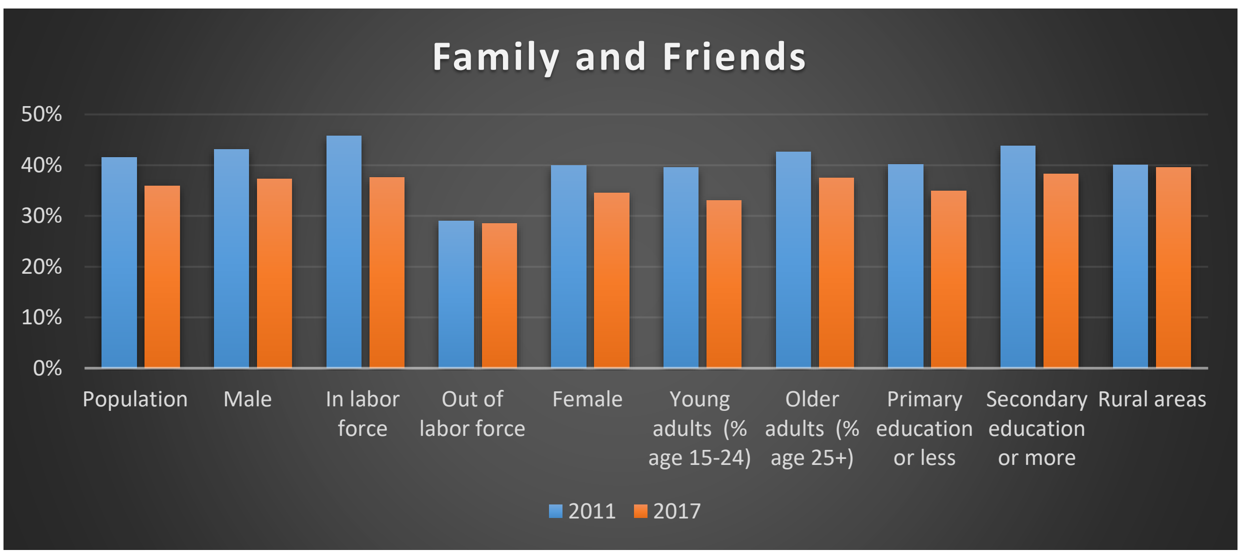
Financial Institution or used a Credit Card (% people 15+)[7]	2017
Population	8%
Male	9%
In labor force	9%
Out of labor force	4%
Female	7%
Young adults (% people 15-24)	6%
Older adults (% people 25+)	9%
Primary education or less	8%
Secondary education or more	9%
Rural areas	7%

People using financial institution or credit cards to make digital payments in 2017 peopled 15+ were 8%, male 9% female 7%, in labor force 9% and out of labor force were 4%. For young adults there is 6% of their population and older adults 9%, primary education or less educated population 8%, secondary education or more 9% with rural areas adult population having 7% digital transaction in financial institution or using credit cards.



[7] WB Findex 2017 Report

Family or Friends[8]	2011	2017
Population	42%	36%
Male	43%	37%
In labor force	46%	38%
Out of labor force	29%	29%
Female	40%	35%
Young adults (% people 15-24)	40%	33%
Older adults (% people 25+)	43%	37%
Primary education or less	40%	35%
Secondary education or more	44%	38%
Rural areas	40%	40%



The number of adult population people 15+ borrowing from family and friends from 2011 to 2017 decline in each group category except for those in rural areas which ended up at the 40% from 2011 to 2017. The overall population borrowing from friends and family decline from 42% in 2011 to 36% in 2017, which follow through the other indicators i.e. male population 43% in 2011 to 37% in 2017, female from 40% in 2011 to 35% in 2017, in labor force fell from 46% in 2011 to 35% in 2017 and out labor force ended at the same 29% in 2017 from 2011. The decline also occurred with young adults from 40% in 2011 to 33% in

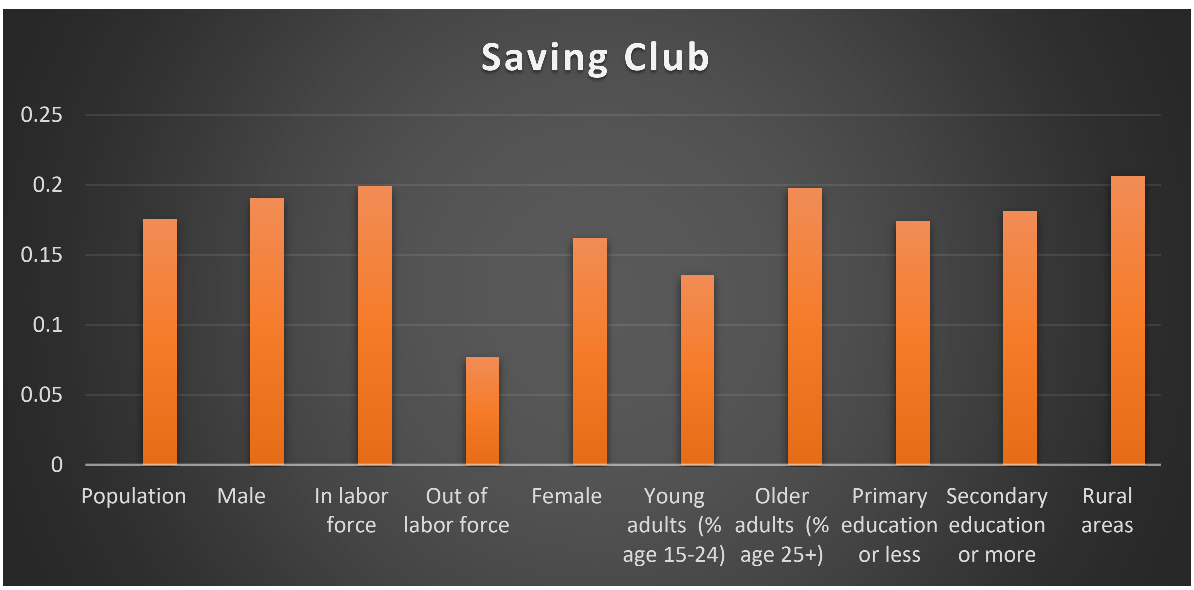
[8] WB Findex 2017 Report

2017 and older adults from 43% in 2011 to 37% in 2017. Primary education or less fell from 40% in 2011 35% in 2017 while Secondary education or more drop from 44% in 2011 to 38% in 2017. The rural areas remained constant at 40% in 2011 and 40% in 2017.

Saved[9]

Savings Club	2017
Population	18%
Male	19%
In labor force	20%
Out of labor force	8%
Female	16%
Young adults (% people 15-24)	14%
Older adults (% people 25+)	20%
Primary education or less	17%
Secondary education or more	18%
Rural areas	21%

The population size in saving club accounts for 18% of the adult group peopled 15+ and 19% of the male and 16% of female respectively have savings accounts. Those in labor force with accounts are 20% and 8% of those out of the labor force. Young adults with accounts are

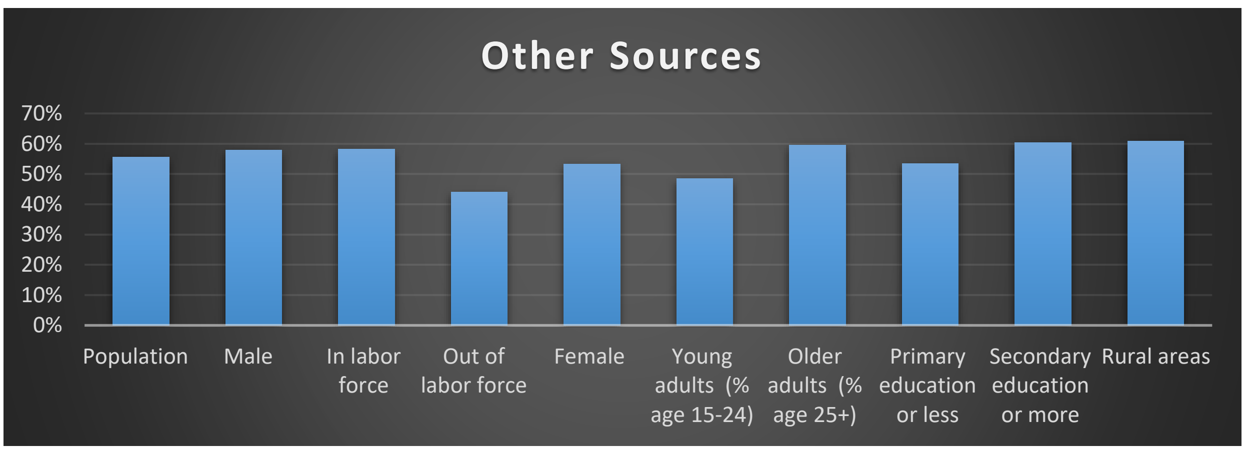


14% while older one population has 20% as account holders. Number of people with primary education or less has 17% holding saving account while secondary education population or

[9] WB Findex 2017 Report

more has 18% account holders in their population and rural areas 21% of their account holders with saving accounts.

Other Sources[10]	**2017**
Population	56%
Male	58%
In labor force	58%
Out of labor force	44%
Female	53%
Young adults (% people 15-24)	48%
Older adults (% people 25+)	59%
Primary education or less	53%
Secondary education or more	60%
Rural areas	61%



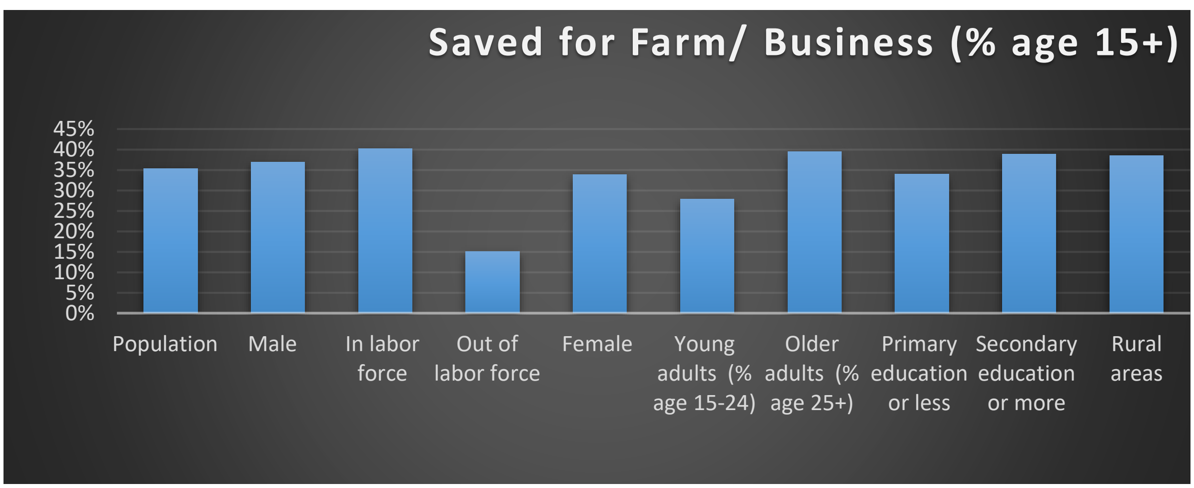
More than 50% of the population on the average saved with other sources by 2017 ending. The population in general 56% of them saved with other sources. The male population had 58% saving in other sources, female 53%, in labor force 58%, out of labor force 44% while young adults (% people 15-24) 48%, older adults (% people 25+) were at 48% and 59% respectively. In primary education or less and secondary education or more populations were 53% and 60% respectively and 61% in rural areas.

[10] WB Findex 2017 Report

Savings

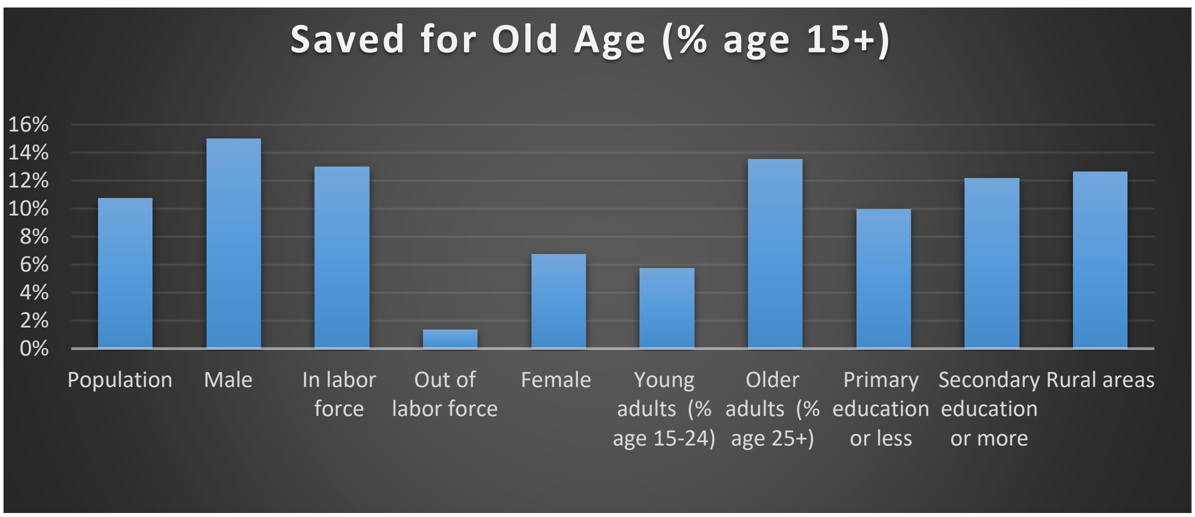
Observation on saving for old people revealed 35% of the adult population saved. With respect to the male population 37% saved and in the female 34% within the labor force population we have 40% saving rate and those out of the labor force saving for farming/ business purpose are 15%. Other population saving for this purpose show young adults 28%, older adults 40%, primary education or less 34%, secondary education 39% and rural communities dwellers population has 39% saving for the same purpose.

Saved for Farm or Business (% people 15+)[11]	**2017**
Population	35%
Male	37%
In labor force	40%
Out of labor force	15%
Female	34%
Young adults (% people 15-24)	28%
Older adults (% people 25+)	40%
Primary education or less	34%
Secondary education or more	39%
Rural areas	39%



[11] WB FINDEX 2017 Report

Saved for old people (% people 15+)[12]	**2017**
Population	11%
Male	15%
In labor force	13%
Out of labor force	1%
Female	7%
Young adults (% people 15-24)	6%
Older adults (% people 25+)	14%
Primary education or less	10%
Secondary education or more	12%
Rural areas	13%



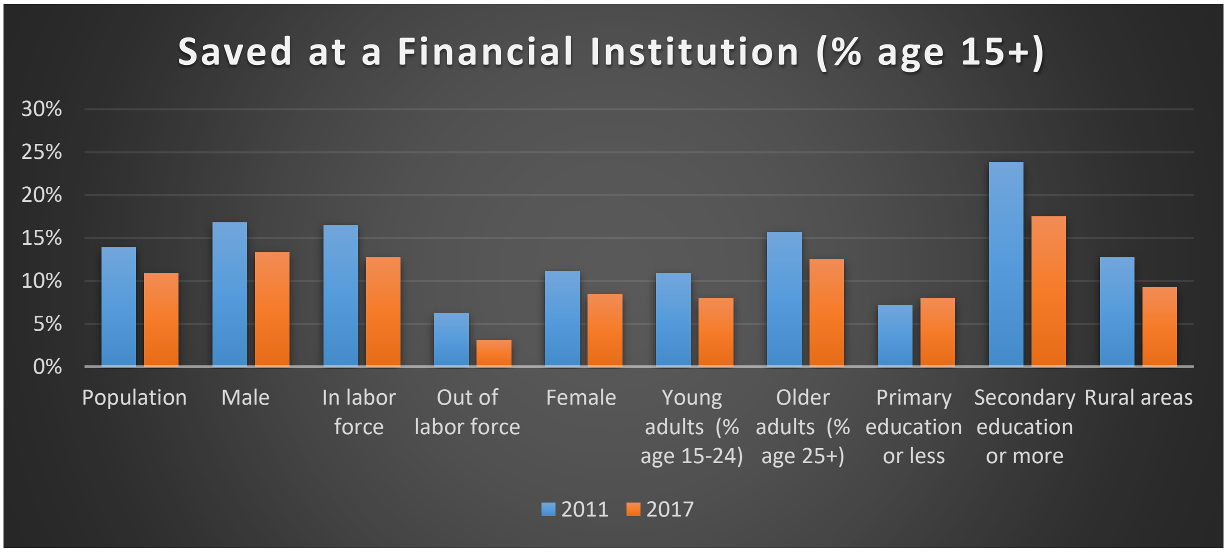
In terms of saving for old people, 11% of the adult population saved. In the male population 15% and in the female only 7% while the in labor force population has 13% saving and the out labor force with just 1%. Other population saving for this purpose show young adults 6%, older adults 14%, primary education or less 10%, secondary education 12% and rural areas 13%.

[12] WB FINDEX 2017 Report

Saved at a Financial Institution (% people 15+)[13]	2011	2017
Population	14%	11%
Male	17%	13%
In labor force	17%	13%
Out of labor force	6%	3%
Female	11%	8%
Young adults (% people 15-24)	11%	8%
Older adults (% people 25+)	16%	12%
Primary education or less	7%	8%
Secondary education or more	24%	18%
Rural areas	13%	9%

The number of people saving at a financial institution (% people 15+) between 2011 and 2017 fluctuated. In 2017 the percentage of the banking population decline from 14% to in 2011 to 11% follow by the male population falling from 17% in 2011 to 13% in 2017 and female from 11% in 2011 to 8% in 2017. The in labor force and other also declined during this period. The in labor force from 17% in 2011 fell to 13% in 2017, out of labor force declined from 6% in 2011 to 3% in 2017, young adults (% people 15-24) dropped from 11% to 8% between this period also followed by older adults (% people 25+) coming down from 16% in 2011 to 12% in 2017. The primary education or less show slight increase from 7% in 2011 to 8% by 2017 while the decline resonated in the banking population for secondary education or more declining from 24% in 2011 to 18% in 2017 and rural areas 13% from 2014 to 9%.

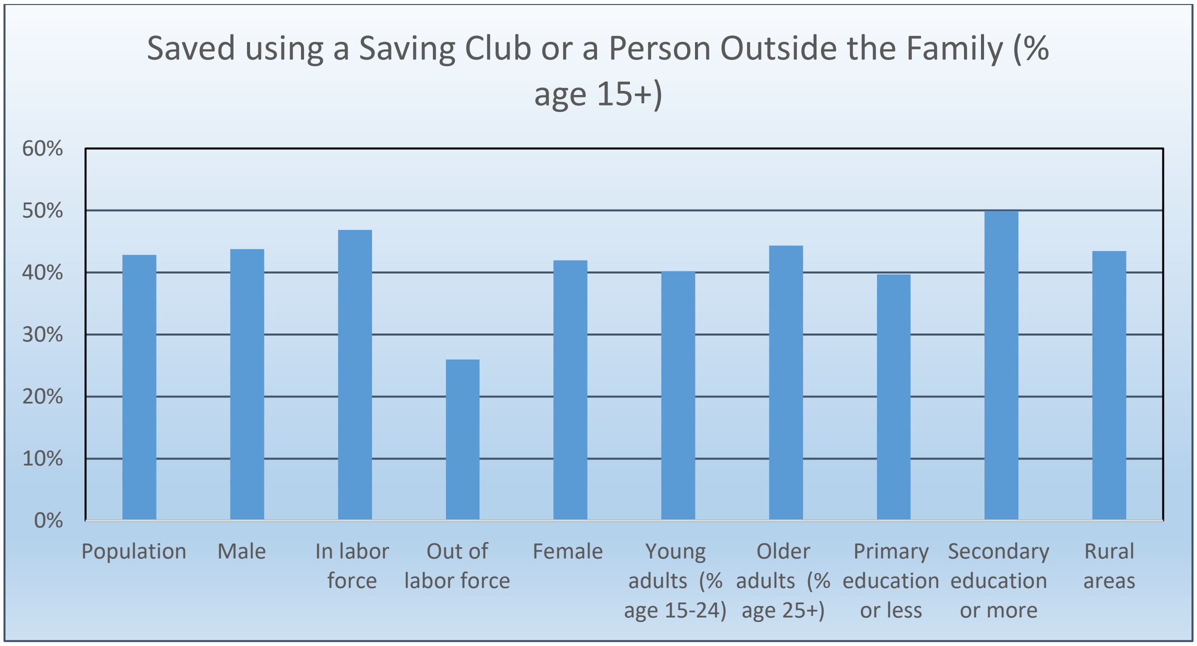
[13] WB Findex 2017 Report



Saved using a savings club or a person outside the family (% people 15+)[14]	2017
Population	43%
Male	44%
In labor force	47%
Out of labor force	26%
Female	42%
Young adults (% people 15-24)	40%
Older adults (% people 25+)	44%
Primary education or less	40%
Secondary education or more	50%
Rural areas	43%

There are people who saved using saving clubs or persons outside of their family. They included 43% of the adult population, 44% in the male and 42% in female populations, while in labor force there was 47% and out of labor force 26%. The young adults population (% people 15-24) showed 40%, older adults (% people 25+) 44%, people with primary education or less 40%, secondary education or more 50% and rural areas 43%.

[14] WB Findex 2017 Report

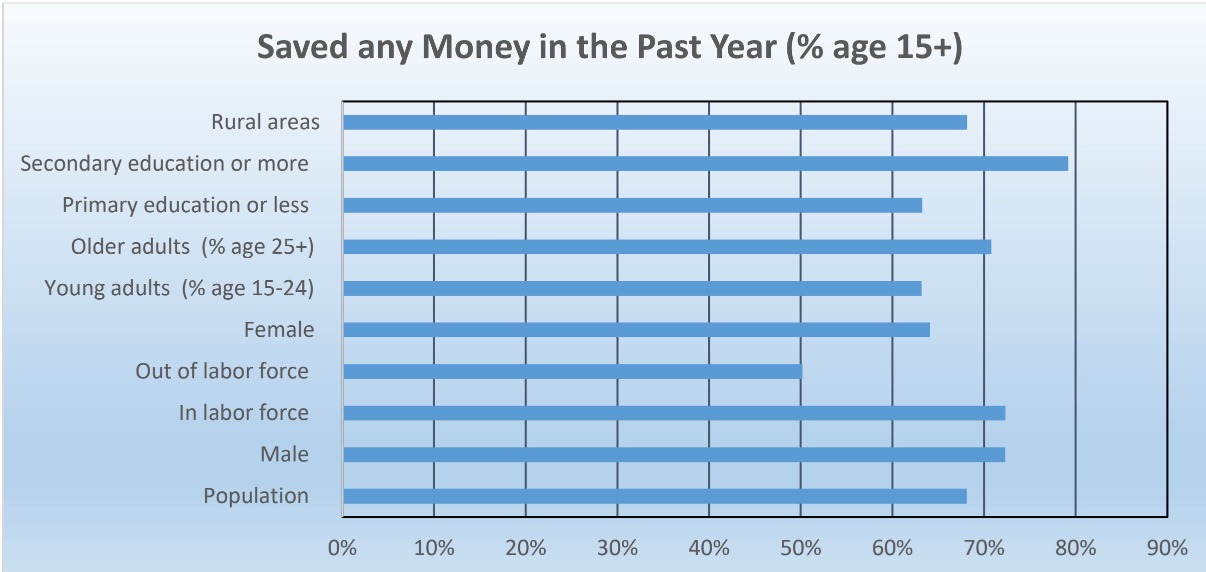


Saved any money in the past year (% people 15+)[15]	2017
Population	68%
Male	72%
In labor force	72%
Out of labor force	50%
Female	64%
Young adults (% people 15-24)	63%
Older adults (% people 25+)	71%
Primary education or less	63%
Secondary education or more	79%
Rural areas	68%

Over the past years 68% of the population has saved. The male population shows 72%, female 64%, in labor force 72%, out of labor force 50%, young adults (% people 15-24) 63%, older adults (%

[15] WB Findex 2017 Report

people 25+) 71%, while primary education or less was 63%, secondary education or more 79% and rural areas population 68%.



D. Trend Analysis

Dimensions of Financial Inclusion

The dimensions of financial inclusion are uptake, usage and access. However, the uptake is dependent on individual choice because not all those with access take it up while in terms of usage, behavior/transaction profile of the financially included persons some with uptake may not be active users. The product will only be used if it meets needs of clients' quality dimension

With respect to access there are external factors that influence uptake of financial services, such as proximity, eligibility & affordability.

Challenges to Achieving Financial Inclusion in Liberia

According to the CBL diagnostic assessment of the microfinance which is in sync with the achievement of financial inclusion in Liberia, it highlighted various constraints. We agreed that in order to understand the state of the Liberian microfinance sector, it is imperative to understand the constraints that impede it's (and the broader financial sector's) stability and growth. While demand side constraints, such as marginally productive businesses and a low skill base, have a significant impact on the demand for financial services, this section largely focuses on supply side issues, which can be addressed in the short- and medium-terms with concentrated policy actions by financial sector stakeholders. Microfinance institutions face a number of operational challenges due to the poor state of the: 1) physical infrastructure, 2) MFI's institutional development, 3) financial sector infrastructure, 4) regulation, 5) supervision, 6) policy, 7) consumer protection, and 8) financial literacy.

i. Physical Infrastructure

1. **The low number of and distance of paved roads in Liberia presents a significant problem for expanding access to financial services in Liberia.** Many parts of the country are difficult to access and serve with the poor state of roads. This issue is exacerbated during the rainy season when dirt roads become near or completely impassible. As a result, it is difficult for financial institutions to open branches that would not be able to receive proper liquidity support in such seasons. Transporting money on such roads also presents a security challenge, as such, roads can easily cause a vehicle to be stuck or break down. In fact, such road conditions make it necessary to use air transport to access certain parts of the country in a reasonable amount of time, which is not a viable option for financial institutions. Additionally, the challenge of traveling across the country makes it very difficult for financial institutions to expand or serve their customer base. For example, the one remaining RCU noted that 70 percent of its accounts are dormant, which is in part due to the inaccessible and costly nature of serving clients in distant locations and counties, which it registered years before.

2. **As most banks are based in and around a few major cities, there is a lack of vaults or secure locations to store money throughout the greater country.** As a result, smaller financial institutions, which often rely on banks to support their own operations in terms of depositing capital, are not able to securely store their money or access capital. This in turn makes accessing capital in distant Monrovia or other large cities, a costly and risky enterprise for remote and often smaller financial institutions.

3. **Many microfinance institutions in rural areas do not have access to the electrical grid and rely on generators, which are expensive to purchase and to use on a regular basis.** In not having a reliable and affordable source of electricity, MFIs struggle with a variety of issues from using fans to

keep the temperature in their offices to a manageable level during the dry season when temperatures soar to being able to power computers and mobile phone for conducting regular business operations.

4. **The underdeveloped state of telecommunications in Liberia makes it challenging for MFIs to conduct regular business operations as an unreliable telecommunication system makes internet connectivity and mobile phone networks slow and/or unreliable.** Additionally, the cost of telecom services can be a barrier to entry as well. Financial institutions require such services for a variety of reasons, including contacting customers, conducting financial transactions, emailing reporting data to CBL, and sharing information across branches and institutions. In the case of RCFIs, a reliable mobile phone network is critical to processing remittances and domestic transfers to these remote locations, as mobile phones are used to transmit messages on the status of transfers and the availability of funds between RCFIs and Afriland bank. If the mobile network is down or unavailable, such transfers are not possible. In fact, there is no internet linkage between RCFIs and Afriland.

ii. **MFIs' Institutional Development**

5. **One the biggest impediments to the development of the microfinance sector is the weak capacity of the institutions and the impact this has on profitability.** In particular, MFIs need support on: 1) bolstering capacity and internal policies that improve profitability, 2) strengthening their corporate governance, and 3) bolstering the capacity and role of the various MFI apex associations.

6. **Many MFIs in Liberia have limited capacity to provide microfinance services, which also has a significant impact on their sustainability and the increased provision of microfinance. Except for BRAC, and a few others, the technical and institutional capacity of most non-deposit taking MFIs, is weak**. Of the registered 16 MFIs, only eight MFIs are operational and can correctly report basic outreach and financial statistics on a regular basis to the CBL. In addition, field interviews with MFI management unearthed a lack of knowledge on basic financial terms and definitions amongst key staff. One MFI accountant was not able to define correctly the term “loans outstanding.” Most of the MFIs in this segment also complained of high staff turnover, especially at the accountant level.

In many cases, accounting operations were disrupted for months while another accountant was identified and trained.

7. **RCFIs also need substantial technical assistance before they can properly manage the loan appraisal and recovery process.** This presents a development dilemma for the RCFIs. If they refrain from lending, they will not generate interest income to cover expenses and share income will have to be used to cover losses. However, if they begin lending when they are not fully prepared to manage the process, they will likely lose money and erode share capital. As with RCFIs, most Liberian MFIs could benefit from capacity building on assessing the credit worthiness of borrowers, as at present. Although the portfolio at risk (PAR) is relatively small for institutions like Diaconia and BRAC,[16] given that they are only effectively breaking even, it is essential that such institutions decrease risk of losses by improving their capacity to assess credit worthiness. Furthermore, for MFIs with even higher PARs, the imperative to assess consumers' credit risk profiles is essential.

8. **Most MFIs also have a limited range of products and services in which they typically offer a standardized group loan targeted for poor women.** Indeed, of the total active microfinance clients in Liberia, roughly 82 percent are women. Some MFIs are beginning to offer loans to individuals on a limited basis. Innovation in the mobile telephone market has yet to have had an impact on microfinance expansion, yet it is important to note that the World Bank is engaged with CBL on the development of mobile microcredit regulations, which would facilitate the disbursement of microcredit, and potentially credit scoring, using mobile phones. Only BRAC is piloting the use of mobile money to collect loan repayments. To facilitate the expansion of microfinance services to rural areas, which have proved costly and difficult for MFIs to do so, it is essential that MFIs offer more diverse and innovative financial products, such as mobile phone disbursement or payment, or agricultural loans.

9. **MFIs also lack strategic business development policies and efforts to expand their financial institutions' outreach.** Despite low financial sector intermediation, MFIs do not have plans on how to bolster these key business lines. For example, one RCFI noted that it does not go to the local market on market day and advertise its services, including accounts, despite having only

[16] Diaconia (> 30 days) at 5 percent as of December 2016 and BRAC's is at 2.7 percent.

approximately 9 to 32 customers per day. Additionally, the one functional RCU had 12 customers on the day the World Bank mission visited, but no strategic plan in place. In general, low transaction levels are an issue, which need to be overcome if MFIs are to increase their performance. Furthermore, they will need to develop strategies to address transactions levels that can dip due to poor weather or after the Holiday seasons, when demand for credit drops. Furthermore, MFIs also did not have proposals to attract local investment for capital.

10. **Another key challenge of MFIs is that many have weak corporate governance.** In the case of MFIs, a recent CBL report found that RCFIs have weak technical capacity, in which not just staff, but also their Board of Directors have only attained high school diplomas and work in unrelated sectors, such as religious institutions, which don't provide for expertise on financial sectors activities and management. Additionally, some credit unions and non-deposit taking MFIs also suffer from management capacity issues, despite the 2009 Microfinance Regulatory and Supervisory Framework for Liberia stating bank, microfinance, or related experience, to address the issue of management capacity. This capacity constraint is made particularly evident given their lack of financial sector experience and use of CBL stimulus funds that was disbursed without proper controls and systems to ensure repayment (this issue is further discussed in the Microfinance Policy sector). In the case of Diaconia, CBL approves the Board of Directors. Under the 2009 Microfinance Regulatory and Supervisory Framework for Liberia, all MFI Directors must be approved by CBL, but it is not known whether this is effectively enforced.

11. **The low capacity and lack of resources constrains MFI associations' ability to support the sector.** There are three professional associations that support the microfinance sector to differing degrees, namely: (1) NEMIL supports the MDI and non-deposit taking MFIs; (2) LCUNA supports credit unions; and (3) NAPEX supports VSLAs. These associations have an important role to play in strengthening and advocating for the sector. However, the associations have had difficulty fulfilling their role due to weak technical capacity and a lack of resources. All three associations appear to be operating on an ad-hoc basis and as needs arise, rather than fully functioning and providing services on a regular basis. NAPEX offers trainings when called upon and supported by donors. NEMIL has had difficulties funding its 5-year development plan. Its board functions on a voluntary basis and there is no functioning secretariat to carryout day-to-day activities.

12. **Delegated supervision and support via third parties like the profession associations is not working well in Liberia.** Recent CBL regulation on credit unions mandates LCUNA as the official APEX body with the responsibility of performing delegated supervisory functions such as: (i) register and certify affiliate credit unions; (ii) conduct inspections to confirm information and status; (iii) determine training program of credit union members and officers; and (iv) make recommendations to the CBL to revoke credit union certification in cases of non-adherence to the norms set forth in the regulation. LCUNA has not been able to fulfill its role due to insufficient resources and support from the CBL. One of the biggest challenges is the lack of a vehicle to oversee or provide services to the 275 credit unions that they are charged with overseeing under the new credit union regulations. Data collection on LCUNA's affiliated CU members has not taken place since 2014 due to a lack of resources. Similarly, CBL has nominated Afriland First Bank to technically support and supervise the RCFIs given their experience of building up a similar system of rural finance institutions (MC2s) in Cameroon. There is no formal contract (except for installing a core banking system) between CBL and Afriland First Bank that sets out the role and responsibilities of the respective parties. As a result, the RCFIs have yet to receive sustained and intensive technical assistance which is required to establish a new institution. This situation has contributed to the poor condition of the RCFIs in Liberia today. As discussed in a forthcoming section, the proposed IFAD project to create a RCFI-funded TA and supervisory authority may face challenges as all RCFIs are insolvent.

iii. Barriers to Financial Inclusion

Access for Different Financial Segments:

i. The top three barriers to having a Deposit Money Bank or a Microfinance Bank account are irregular income, unemployment and distance to the bank.

Access for Different Financial Segments:

ii. The top three barriers to having insurance are lack of understanding, affordability and don't know where to get insurance;
iii. The top three barriers to using non-interest banking products are lack of awareness, lack of interest and lack of understanding

Access for Savings and Loans:

i. The top three barriers to saving are nothing to save, unemployment and lack of trust in informal providers;
ii. The top three barriers to taking out a loan are no perceived need, self-discipline and don't know where.

G. Appendix: The 2014-2018 National Strategy

Key Objectives

The key objectives in advancing the financial inclusion agenda in Liberia in the 2014 – 2018 National Strategy was to:

- Delivery of Financial Services;
- Enhancing Access to Finance, particularly credit;
- Integrating the informal sector into the formal economy;
- Improving the environment for SMEs;
- Financial Literacy and Financial Capability; and
- Consumer Protection

RESULTS FRAMEWORK 2014 – 2018

ACTION	TARGETS	Results/ Outcomes
Objective: Delivery of Financial Services		
Establish Rural Community Finance Institutions in counties.	At least 15 RCFI established – one in each county by 2018.	12 functioning RCFI in 8 Counties. Montserrado, Margibi, Grand Gedeh, Maryland, Rivergee and Bassa.
Promoting the Expansion of Branches of commercial Banks in southeast and Western Counties	At least five branches established – one in each of the following counties: Bomi, Gbarpolu, Rivercess, Rivergee and Grand Kru by 2018.	None established in the targeted Counties but in 2 others, Grand Gedeh (LBDI) and Sinoe (GN Bank).
Establish Regional Credit Unions	Four regional credit unions established in Zwedru, Tubmanburg, Ganta and Buchanan	RCU are in Zwedru, Tubman and Ganta. Buchanan has a sub RCU that is headquartered in Compound III. Of all of them on Ganta RCU is functional.
Development of an expanded Mobile Money Agency Network	Increase in the total number of mobile money agents from current baseline of 184 to 500 by 2018.	Total number of mobile money agents as at December 31, 2018 was 6,995.
Develop an Agency Banking Framework	Framework developed by December, 2016.	Agency Banking Regulations No. CBL/RSD/001/2017
Increase the number of ATMs/POS	By 10% per year from 61 ATMs and 117 POS Terminals.	Total number of ATM as at December 31, 2018=100 Total number of POS as at December 31, 2018=287
Automating G2P Payments	Increase by 10% of baseline per year.	Done but data not available now due to some technical problems. This data will be provided in subsequent report.
Developing Payment Systems	Developed and operational by December, 2016.	Developed and operational with implementation of additional platform to

		address the gaps in the retail payment sector i.e. interoperability.
Objective: Enhancing Access to Finance, particularly credit		
Develop innovative means of creating access to finance.	Increase credit by at least 2% per year.	• Commenced the development of a digital credit Regulations that will be used by MFIs to expand credit. • Agent banking regulation enforced. • Implementation of consumer awareness strategy. • Installation and implementation of the shared switch for interoperability.
Improve access for SMEs for business start-ups, contracts pre-financing, and markets	Access to credit and markets increased by 50% by 2018	• Formulation of the CBL's Collateral Registry System in place. • SMEs can now use different kinds of movable assets as collateral to secure a loan. • Additionally, to boost access to finance, CBL is working on upgrading its existing credit reference system to an automated credit reference system to support a comprehensive credit reporting and improve the credit culture and KYC.
Develop a National Student Loan Program	Plan developed by December, 2016.	Pending

Development of a Credit Reference System	Developed and operational by 2018.	Done and in the process to be enhanced and become web-based.
Objective: Integrating the informal sector into the formal economy		
Increase the number of formalization of businesses	Increase in business registration by 20% annually.	Both systems (Collateral Registry System and Credit Reference) support financial inclusion. Businesses in the informal sector are being integrated the formal sector.
Increase the number of banked population	Increase to 50% by 2018.	36%
Objective: Improving the Regulatory Landscape		
Develop Tiered Know-Your-Customer Regulations	New KYC regulations developed by December, 2016.	Policy regulation completed for management approval.
Develop Framework for the Expansion of Mobile Financial Services	Framework developed by December, 2016.	Mobile money regulations No. CBL/RSD/003/2014 developed and executing.
Objective: Financial Literacy and Financial Capability		
Develop a Financial Literacy Framework		Partially completed. Strategy developed pending launch and implementation.
National Expansion of the Village Savings and Loan Program in Liberia	Sustain VSLA and women saving groups.	The programme is on hold. It is being reviewed along with other CBL stimulus programs looking at the risk situation to determine what action is necessary.
Objective: Consumer Protection		
Consumer Protection/ Redress framework established and publicized	Consumers have avenues of redress Improved customer service	Consumers protection helpdesk established in the CBL, at all Commercial Banks and the 2 mobile money providers and a Consumer Protection portal on the CBL website. Also have a Consumer Protection & Market Conduct Regulation No. CBL/RSD/004/2017.