TERMS OF REFERENCE

CONSULTANCY SERVICE TO SUPPORT CAPACITY BUILDING IN THE LIBERIAN MICROFINANCE SECTOR

I. BACKGROUND

The Liberian microfinance sector is small and concentrated. The sector is comprised of: 1 microfinance bank, 1 deposit-taking MFI, 16 non-deposit-taking MFIs, 12 rural community financial institutions (RCFIs), and 285 credit unions. Started in 2014, RCFIs are a GoL initiative to promote financial inclusion in rural areas by establishing a rural community-owned financial institution in every county. RCFIs can provide an array of services, including deposits, credit, mobile money, and remittances. Given banks' focus on large customers, microfinance operations are critical for small businesses' investment capital needs. Between these institutions, there are approximately 95,000 total clients, which are spread out as follows: microfinance bank (Access Bank) 50,000 (11,500 are active loan clients), deposit taking MFI 1,308 clients (858 are active clients), non-deposit taking MFIs have 21,977 clients of which 19,160 are BRAC clients, credit unions have at least 17,447 clients,[1] and RCFIs have 5,523 clients. As captured above, international microfinance companies Access Bank and BRAC have approximately 70,000 clients of the microfinance client market, and the remaining 25,000 clients belong to a variety of small, local institutions of which the largest is Diaconia with 1,308 clients.

The Liberia microfinance market is also weak with many of the institutions being insolvent. The largest MFI, Access Bank, was profitable in 2016, up from negative figures in 2015. BRAC was operating a negligible net profit after taxes, excluding grants. Otherwise, many of the other MFIs, including all RCFIs and many non-deposit taking MFIs, are insolvent based on World Bank and CBL review of financial statements and ledgers. One of the largest local MFIs closed due to bankruptcy in 2012. The Ebola crisis in 2014 put further strains on an already fragile sector, causing more MFIs to exit the market. According to the IMF, Ebola contributed to the decline of the sector, when three of the 23 MFIs during 2015 closed down.[2] Since several more MFIs have exited the market. Of the 16 MFIs officially registered with the CBL, only 8 MFIs are operational and able to fulfill the monthly reporting requirements.

Within the context of a weak microfinance sector, access to financial services in Liberia is very low. A household survey conducted by CBL in 2013 found that only 28 percent of the population have an account at a formal financial institution.[3] Approximately 50 percent of people reported not opening an account because of the lack of funds, while another 24 percent due to unemployment. The reasons for individuals not opening an account highlight the linkage between the general state of the economy and its impact on financial sector development.

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[1] This number is smaller than the actual total, as only 85 of 275 credit unions are members of and report data to Liberian Credit Union National Association.

[2] Liberia – Selected Issues. IMF Country Report No. 16/239. July 2016.

[3] The CBL survey consisted of 6,000 households on financial inclusion in Liberia. The last World Bank Findex survey was conducted in 2011. "Formal financial institution" is defined as a commercial bank, deposit-taking MFI, non-deposit taking MFIs, credit unions.

The Ebola crisis adversely impacted financial inclusion in Liberia. The IMF recently reviewed the impact that the Ebola crisis had on financial inclusion, and while it is difficult to directly measure the impact of the epidemic, they highlighted a number of negative financial sector outcomes during the period.[4] For example, they found the number of microfinance institutions (MFIs) decreased from 23 to 20 in the course of 2015 due to low loan repayment, reflecting the epidemic's disruption of microenterprise activities and household incomes. They also found that the crisis triggered extensive bank deposit withdrawals with demand deposits falling by 12 percent, during the early stage of the crisis (March through September 2014). In addition, the economic slowdown during the crisis constrained borrowers' assets and activities. Banks' non-performing loans (NPLs) increased during the epidemic from 14.5 percent of total loans in March 2014 to 19.2 percent in June 2015. Private credit growth increased on the margins from 18.3 to 18.8 percent between 2013 and 2014, increasing to 20.1 percent in 2015 and decreasing to 19.8 percent in 2016.

Challenges to MFI's Institutional Development[5]

Many MFIs in Liberia have limited capacity to provide microfinance services, which also has a significant impact on their sustainability, the increased provision of microfinance, and financial inclusion. 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 by the World Bank with MFI management unearthed a lack of knowledge on basic financial terms and definitions amongst key staff. 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.

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,[6] 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.

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

[4] Liberia – Selected Issues. IMF Country Report No. 16/239. July 2016.
[5] From the World Bank's Assessment of the Liberia Microfinance sector
[6] Diaconia (> 30 days) at 5 percent as of December 2016, and BRAC's is at 2.7 percent.

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.

MFIs also lack strategic business development policies and efforts to expand their financial institutions' outreach. Despite low financial sector intermediation, many MFIs do not have plans on how to increase their outreach. For example, one RCFI noted that it does not go to the local market on market day and advertise its services, including for opening accounts, despite having only approximately 9 to 32 customers per day. Additionally, the one functional regional credit union had 12 customers on the day a World Bank mission visited, but no strategic plan to increase its customers/transaction. 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.

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.

Delegated supervision and support via third parties like the professional 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 on 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.

In light of MFIs' institutional development challenges, it is critical to:

- Attract donor attention to the Liberian financial sector
- Increase MFIs capacity: i) on general microfinance operations, ii) to assess the creditworthiness of consumers, iii) to design and utilize diverse financial products that meet consumers' needs, and iv) to conduct outreach drives and develop strategic plans
- Provide capacity building to LCUNA, NEMIL, and NAPEX to support their respective microfinance institutions in the broader sector

II. OBJECTIVES

The objective of this consultancy is to support increasing the capacity of MFIs and their associations to help increase MFIs' contribution to financial inclusion in Liberia.

III. SCOPE OF SERVICES

Capacity Building for MFIs and MFI Associations

1. Help develop, organize, and host two-day international microfinance conference to attract attention to Liberia's microfinance sector
2. Design and conduct one-week capacity building seminar on general microfinance operations, including targeted sessions on assessing consumers' creditworthiness, designing and utilizing diverse financial products, and conducting outreach drives and developing strategic plans
3. Design and conduct two two-day targeted follow-up training seminars for MFIs, with the content to be agreed upon with Ministry of Finance and the World Bank after the initial week-long seminar
4. Design and conduct two-day targeted training seminars for each LCUNA, NEMIL, and NAPEX to build their capacity as microfinance associations.

IV. REQUIRED QUALIFICATIONS, EXPERIENCE AND COMPETENCIES

1. The consultant must have a minimum of a Master's Degree in Project Management, Public Administration, Economics, or equivalent;
2. At least 15 years of experience in the microfinance sector;

3. Work experience in the broader financial sector, NGO’s, INGO'S, donor-funded projects, and other relevant institutions will be an added advantage;
4. Fluency in both oral and written English language;
5. Demonstrates good oral and written communication skills in substantive and technical areas;
6. Strong interpersonal and communication skills, commitment to team work and to work across disciplines; and
7. Excellent writing, editing and analytical skills and capability of working independently.

V. DURATION OF ASSIGNMENT

The assignment is for 65 days

VI. REPORTING REQUIREMENTS

The consultant will report from time to time to the Project Director and other concerned parties regarding the accomplishment of his/her assignment

VII. DELIVERABLES

1. Agenda for 2-day microfinance conference
2. Course curriculum, learning materials, etc. for one-week capacity building seminar on general microfinance operations
3. Course curriculum, learning materials, etc. for two two-day targeted follow-up training seminars for MFIs
4. Course curriculum, learning materials, etc. two-day targeted training seminars for each LCUNA, NEMIL, and NAPEX