

GUIDELINES FOR THE OPERATIONS OF CREDIT-ONLY MICRO FINANCE INSTITUTIONS

1. AUTHORITY

These guidelines are issued by the Bank of Sierra Leone (hereinafter referred to as “the Bank”) in exercise of the powers conferred on it pursuant to section 53 of the Other Financial Services Act, 2001 (hereinafter referred to as the OFS Act)

2. DEFINITIONS

- “Microcredit” means the business of extending primarily short-term and medium- term credit to low-income persons, typically without requiring collateral.
- A “Microcredit institution” is a company, a cooperative, a society or a statutory body that is primarily engaged in making microcredits and other related activities, such as providing business development advice to its clients.
- The term “deposit” shall have the meaning set forth in the Banking Act, 2000. Cash collateral held by a Microcredit institution shall not be considered as deposit provided that the microcredit institution : -
 - Places such funds in an escrow account with a bank or another similarly secure place and
 - Does not use such funds for on-lending.

3. REGISTRATION PROCEDURE

Subject to section 4 of these Guidelines: -

- Any institution wishing to carry out a “microcredit” business must register with the Bank of Sierra Leone.
- It must obtain an application form from the BoSL at a cost of Le100, 000 (One hundred thousand leones) which will be revised from time to time by the Bank of Sierra Leone.
- The application form shall be forwarded with the following documents: -
 - A Copy of the Memorandum and Articles of Association including Certificates of Incorporation and Registration or a Constitution or Byelaws.
 - Address of business premises.
 - Names of owners and percentage of shares/ subscription of each owner.

- Names and curricula vitae of Board of Directors and Senior management.
- Sources of capital and evidence of receipt of funds
- Name and address of External Auditor.
- A copy of the most recent audited balance sheet, where applicable.
- Business plan consisting of market survey on financial activities, or feasibility study and financial projections for the initial three years.

4. Exemptions

- “Microcredit only institutions” are exempted from the requirements set forth in Sections 3, 4, 16,17,18,20,21,25,26 and 27 of the Other Financial Services Act, 2001.
- Small informal Community Based Organizations (CBOs), such as “Rotating Savings and Credit Associations ” (ROSCAs).
- A microcredit institution with:-
 - ❖ a client base of less than 100 (one hundred) and/ or
 - ❖ a loan portfolio of less than Le 200,000,000 (two hundred million leones)
- Notwithstanding the provisions in Section 4 hereof, all credit only micro finance institutions shall be required to be registered in accordance with Section 3 hereof.

5. REPORTING REQUIREMENTS

Every registered Microcredit institution shall submit the following reports to:-

**The Director,
Banking Supervision Department
6th floor, Sam Bangura Building,
Bank of Sierra Leone,
Gloucester Street,
Freetown.**

and copies to:

**The Director,
Research Department
9th floor, Sam Bangura Building,
Bank of Sierra Leone,
Gloucester Street,
Freetown.**

a. **Monthly Reports:**

- Number of active borrowers.
- Percentage of borrowers who are women
- Average outstanding loan size.

b. **Quarterly reports:**

Profitability indicators

- Adjusted Return on Assets
- Adjusted Net profit margin
- Operational Self-Sufficiency
- Financial Self-Sufficiency
- Yield on gross loan portfolio

Depth of outreach indicators: -

- Average loan outstanding/GNI per capita
- % of loans, at or below GNI per capita

Efficiency

- Retention rate
- Cost per borrower
- Write off ratio
- Operating expense ratio

c. **Bi-Annual Reports:**

- (i) **BSD/MC/1 - Loans by sector**
- (ii) **BSD/MC/2 - Portfolio at Risk.**

These returns shall be submitted not later than 21 days after the end of the reporting period.

(d) Annual Reports

Audited balance sheet and profit and loss Account

The Audited balance sheet and Profit and Loss Account shall be audited by approved audit firms in line with International Auditing Standards and the Audit Guidelines of the Consultative Group to Assist the Poor (CGAP).

The document shall be signed by the Chief Executive and a majority of the Directors.

The Balance Sheet and the Profit and Loss Account shall be submitted not later than three months after the end of the calendar year.

6. Display of Registration Certificate, interest rates and Financial Statements.

Every “microcredit institution” shall display in a prominent position in its head office and branches: -

- A copy of its current Registration Certificate;
- Information on the rights of customers;
- Details of the financial products offered;
- The terms on which any financial product is offered, including the applicable interest rates;
- Audited Balance Sheet.

7. Fit and Proper Test

Every person who is, or to be a director, manager, or other officer of an applicant must be a “fit and proper person to hold the particular position which he holds or is to hold.

In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to: -

- His/Her probity;
- Whether the interests of depositors or potential depositors of the institution are, or are likely to be, in any way threatened by his holding that position;
- His/Her competence and soundness of judgment for fulfilling the responsibilities; and

- The diligence with which he is fulfilling or is likely to fulfill those responsibilities.

At least two individuals shall effectively direct the business of a credit-only institution.

8. PROHIBITIONS.

No credit-only institution shall: -

- (a) Accept deposits.
- (b) Deal in foreign currency
- (c) Engage in business other than those for which it was registered.
- (d) Give any credit facility or enter into any other transaction against the security of its own shares or the shares of the holding company.

9. GENERAL

The Bank of Sierra Leone may amend these Guidelines as and when deemed appropriate.

BANK OF SIERRA LEONE

2nd MARCH 2009

BSD/MC/2

QUARTERLY STATEMENT OF PORTFOLIO AT RISK

		Number of Customers		
Number of Days	Amount (Le)	Men	Women	Total
15 - below 30 days				
30 - below 60 days				
60 - below 90 days				
90 and above				