



## **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 BSL at a cost of NLe2,500.00 (Two Thousand Five Hundred New Leones).
- Where an application is approved by the Bank of Sierra Leone, the applicant shall pay a non-refundable licensing fee of NLe10,000.00 (Ten Thousand New Leones).

- 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.
  - Passport size photograph (white background)
  - Sources of capital and evidence of receipt of funds
  - Name and address of External Auditor.
  - Tenancy Agreement for the premises
  - A copy of litigation and insolvency document
  - 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.
  - Sierra Leone Police Clearance Certificate

#### **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 NLe 200,000.00 (Two Hundred Thousand New 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,  
Financial Stability Department  
3<sup>rd</sup> floor, Sam Bangura Building,  
Bank of Sierra Leone,  
Gloucester Street,  
Freetown.**

and copies to:

**The Director,  
Other Financial Institutions Supervision Department  
2<sup>nd</sup> Floor, Main Bank 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**

**OCTOBER 2024**