

The Impact of Central Bank of Liberia Guidelines on Inbound Money Transfers in Liberia (The Liberian Bank for Development and Investment 2016-2018)

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Abstract

The Central Bank of Liberia (CBL), according to its mandate under the Act of 1999 and its authority, in line with Section 55 and 39, on November 15, 2016, issue a regulation (No. CBL/RSD/004/2016) on payment of Inbound money transfers, which was ordered by former President of the Republic of Liberia, Madam Ellen Johnson Sirleaf, and the Minister of Foreign Affairs. The objective of this regulation was to support the effective management of the foreign exchange market. The regulation applies to all licensed financial institutions involved in money transfer services, such as Western Union and MoneyGram. The regulation did not apply to inbound money transfers that are made using recipient accounts at commercial banks. Conclusion: The theoretical framework presented in this research suggests that commercial banks, be precise, the Liberia Bank for Development and Investment (LBDI), are more likely to suffer a decrease in commission on inbound money transfers throughout the three years (3) of restrictions.

Keywords: *Commercial Bank, Currencies Transactions, Impact, Regulations, Transfers.*

Introduction

The Central Bank of Liberia (CBL) issued a new regulation on inbound money transfer through a press release by the Communication Director, Cyrus Wleh Badio [1]. The release, a copy which in the position of the [2] states that individuals receiving remittance from abroad will receive 25% payments in Liberian Dollars and 75% in United States Dollars.

The regulation comes in the wake of the [3], which indicates that the Liberian Government was facing foreign exchange problems based on the drop in iron ore, and rubber price on the world market. The regulation took effect on December 1, 2016. This research details the plan on 'the Impact of Central Bank of Liberia Guidelines on Inbound Money Transfers in Liberia (The Liberian Bank for Development & Investment 2016-2018) as a case study.

This research describes the problem, research questions, and method overview, which also

explain the research design approach, population, and ethical considerations. The final part of this research contains a result and conclusion sections [4].

Research Questions

1. What impact do the guidelines on inbound money transfers have on the Liberian economy?
2. What are the factors that lead to the issuing of the inbound money transfers guidelines in Liberia?
3. What impact did this guideline had on commercial banks? To be precise, the Liberia Bank for Development in Investment (LBDI).
4. What were the outcomes of the guidelines in the three years of implementation? To be precise, the Liberia Bank for Development and Investment (LBDI).

5. What effect the exchange rate had on the inbound money transfer guidelines within the three years of implementation?

Literature Review and Method

This chapter of the research provides a detailed perspective of the research topic. The review of literature focused on The Impact of Central Bank of Liberia Guidelines on Inbound Money Transfers in Liberia (The Liberian Bank for Development & Investment 2016-2018) as a case study. Inbound money transfer services are theorized to strengthen growth through several channels in banks, including facilitating entrepreneurial investments, insurance against unexpected shocks, smoothing household consumption patterns, financing household savings, etc.

On the other hand, inbound money transfer services can put up growth impeding effects if households substitute transfers receipts for labor income, thus, adversely affect labor supply and reduces the number of productive hours available to the economy [5]. In such a situation, remittance-receiving households replace productive labor hours with leisure hours.

Inbound Money Transfer Service at the LBDI

Inbound money remittance Services at the Liberia Bank for Development and Investment are MoneyGram and Western Union.

Moneygram-is a money transfer company based in the United States with headquarters in Dallas, Texas. The bank uses this service to raise income, pay its staff, and buzz the economy.

Western Union- is an American worldwide financial service and communications company. It headquarters is in Denver, Colorado. In terms of value and volume, Western Union and MoneyGram are the main services used for person-to-person transfer. These services do not require a bank account. They allow cash to be collected. Surprisingly, these services are primarily used for international transfers.

Incoming Money Gram and Western Union Transfer Operations

For incoming transfer operations at LBDI, walk-in customers make entry into any of the bank outlets with a valid identification card (ID), he/she is served by any customer service officer assign at the bank to fill in their transfer information. The form is presented to a teller to pass the required entries, and cash is disbursed to the customer.

The Currency of Payment on Inbound Transfers

CBL Regulation No. CBL/RSD/004/2016 concerning payment of Inbound Money Transfers, the Central Bank of CBL mandated all commercial banks operating in the country to pay their customers Twenty-five percent (25%) in Liberian Dollars; and Seventy-five percent (75%) in United States Dollars accordingly [6].

Exchange Rate

An increase in Inbound money transfer allows the bank to intervene in the foreign exchange market for the clear purpose of maintaining stability [7]. The commercial banks were mandated to use CBL published selling rate on the date of the payment. The exchange rate was conspicuously displayed on the premises of all commercial banks.

Commission/Revenue on Inbound Money Transfer

Commissions on inbound money transfers are revenue generated from the inbound transfer. Ten percent (10%) on both inbound outbound transactions is recognized as marketing expenses, payable at the point of normalization, and deducted from an aggregate commission by the agent of western union or MoneyGram. The 10% is subsequently reversed to the commission account when the actual marketing activity is executed. Table 1 variance analysis on commissions that were generated from 2016 to 2017, and from 2017 to 2018.

Table 1. CBL Prevailing Exchange Rate from 2016-2018

Month	Rate use in 2016	Rate use in 2017	Rate use in 2018
January	84.66	93.00	128.78
February	84.66	91.37	130.10
March	84.66	92.00	131.75
April	84.66	91.47	132.59
May	84.67	92.00	137.79
June	84.67	92.00	149.23
July	84.67	113.51	160.79
August	94.94	114.68	150.60
September	91.00	117.10	155.34
October	91.00	118.93	156.69
November	91.00	125.17	157.49
December	98.00	125.20	157.61

Source: LBDI MoneyGram and Western Union Department management

Methodology of Study

This research gives a brief explanation of the research design. A research design is a general plan of how the researcher goes about answering the research questions [8]. According to [9], this study adopted a descriptive research design. [10] suggested descriptive, if the research aim is to identify characteristics, frequencies, trends, and categories. This research aims to collect data on the frequencies of inbound money transfers in Liberia.

Collection of Data

Data collection is a process of gathering and measuring information on targeted variables in an established systematic fashion, which enables answers to relevant questions and evaluates the outcomes [11]. Data was collected using a quantitative survey questionnaire containing structure questions.

The researcher adopted open-ended questions for this research, with the aim of getting information that lessens information bias and makes it easy for the data analysis. Employ structure interview guide to all the objectives and selected respondents. The researcher makes sure that the research supervisor reviewed and validated the instruments to ensure the instruments covered all possible aspects. The

researcher pre-tested the instruments before they were used in the field.

Data Analysis

The researcher analyzed data using a quantitative approach, using a survey questionnaire containing structured questions. The result of the Analysis was documented in tables that were used to Analyzed all data from evaluating respondents.

The Results of the Research

This research presents the results of quantitative data analysis and relation to previous studies. It provides an in-depth understanding of the research. Every year, there was an increase in average exchange rates (eg. In 2016); the average exchange rate increase from 98LD/1USD to 125.20LD/1USD, which is a 27.55% increase in the average rate at the end of 2017. The rate also increases from 2017 to 2018, which is 28.43% (see Table 2).

After conducting the Average Rate Analysis in (Table 2), the researcher selected twenty transactions from each year to analyze the percentage of Liberian dollars to United States dollars, applying the average rate. See Table-3.

Base on the analysis, the researcher observed more Liberian dollars' circulation in the economy than United states dollars that led to an

increase in the exchange rate and a decrease in commission on inbound money transfer. See Table 4.

MoneyGram and Western Union services are profit-driven services of banks, but due to Inbound Money Transfer Regulation issued by CBL in 2016 led to flotation in commission from 2016 to 2018. See Table- 4. Variance analysis on commission was conducted from 2016 to 2018.

Operational results on commission from Inbound Money Transfer from 2016 to 2017 decreased by -1% or US\$-4,445.00, which led to a decrease between 2017 and 2018 by -8% or – US\$-51,324.00.

The Regulation mandated to split every Inbound money transfer, 25% Liberia dollars and 75% United States dollars. See Table-3 Analysis.

Table 2. Average Exchange Rate

Year	Maximum Rate use	Minimum Rate use
2016	98.00	84.66
2017	125.20	90.00
2018	160.79	120.30

Table 3. Average Exchange Rate Analysis of 25% LD in each Fiscal year of the Bank operations

Year	Amount of transactions	Total Amount of Inbound in USD	75% in USD	Average Rate	25%USD	25% equivalent in LD at average Rate
2016	25	10,340.00	7,755.00	91.33	2,585.00	236,088.05
2017	25	15,480.00	11,610.00	107.60	3,870.00	416,412.00
2018	25	8,650.00	6,487.50	140.545	2,162.50	303,928.56
Total	75	34,470.00	25,852.50	110.99	8,617.50	956,428.61

Table 4. Variance Analysis on Commission from 2016 to 2018

In united stated Dollars	31-Dec-16	31-Dec-17	Variance
Commission on MoneyGram operations	499,909	430,212	-69,697
Commission on western union operations	162,425	227,677	65,252
Total	662,334	657,889	-4,445
In united stated Dollars	31-Dec-17	31-Dec-18	Variance
Commission on MoneyGram operations	430,212	420,952	-9,260
Commission on western union operations	227,677	185,613	-42,064
Total	657,889	606,565	-51,324

Source: Audited Bank Financial Statements

Discussion

In previous sections, outcomes were presented. In this section, they are summarized and compared to the literature review. The most significant and surprising outcome is the negative impact for insurance of the new regulation on Inbound Money Transfer in Liberia.

Base on the flotation of the exchange rate, LBDI did not benefit, instilled, they had a decrease of -8% representing -51,324.00 United

States. This amount supersedes commission made by LBDI between 2016, and 2017.

Limitation

This review was limited due to time and resources, where the author could not meet the MoneyGram & Western Union Department manager in person for detailed pieces of information about their services but had to use phone calls for communication.

Conclusions

Since the survey outcomes did completely fit the literature review, the research questions were answered explicitly. The theoretical framework presented in this research suggests that commercial banks, be precise the Liberia Bank for Development and Investment (LBDI), likely suffer a decrease in commission on inbound money transfers. However, the survey results did partially confirm this point of view.

Recommendations

This research suggests strategies from the Central Bank of Liberia in stabilizing the exchange rate to keep commercial banks in business and maintain their agent status with the Inbound money transfer companies.

Additionally, there is a need to collaborate with the Central Bank of Liberia in implementing the regulation to avoid penalties and add value to commercial banks in the country.

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Conflicts of Interest Statement

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