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Financing Agricultural MSMEs in Liberia

Livelihoods and Employment Creation Project

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Foreword

Hon Jeanine Cooper
Minister of Agriculture
Republic of Liberia

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This report presents options for financing our agricultural SMEs and MSMEs

For the past decade, agribusinesses in Liberia have faced severe constraints in their access to finance. The Government of Liberia (GOL), and particularly the Ministries of Agriculture (MOA) and of Commerce and Industry, have been brainstorming on ways to improve financial services for our agribusinesses, especially since our national development plan, the Pro Poor Agenda for Prosperity and Development (PAPD) places high importance on agriculture as an essential driving force for economic transformation.

In financing agricultural MSMEs, two options always present: grants or loan. Our development partners are increasing their presence in the provision of matching grants for agribusinesses; and although our commercial banks have lagged behind in providing opportunities through dedicated agricultural lending products, they too are expanding the options for financing. Either of these options are often too little, too late, too expensive, etc.

Excitingly, this comprehensive study – with extensive inputs from various stakeholders – has lessened the burden on the GOL; and henceforth, it is an effective baseline tool on modalities of financing small and medium agricultural businesses.

The GOL is, indeed, most grateful to the United Nations Development Programme- Liberia Country and the United Nations Capital Development Fund for carrying out this study: Financing Agricultural MSMEs in Liberia through the Livelihoods and Employment Creation Project.

This report presents options for financing our agricultural SMEs and MSMEs as they represent – collectively – a significant segment of our agricultural sector; and are major sources of livelihoods, and gradually becoming an engine of economic growth in Liberia.

Of course, rural transformation, as one of the core missions of the MOA since I took over its helm in February 2020, is highlighted in this report where focus should be placed on rural farmers on acquiring loans at very low concessionary rates and grants for performing farmers through Cooperatives and Village Loans Savings Associations.

The report also gives prominence to women farmers – who are smallholders and actively driving the agricultural private sector – in accessing financing. Women continue to play leading roles in all aspects of our agricultural production from planting seeds to marketing processed and plant-based products on shelves.

Key recommendations from this study provide clear pathways for the GOL and its development partners to focus on agricultural financing for MSMEs. Our thanks to our partners in the UN and to all who participated in developing this report. We look forward to the next steps in the journey of designing and implementing affordable and sustainable financing models for our rural smallholders and agribusiness MSMEs.

Executive Summary

The Pro-Poor Livelihoods and Employment Creation Project **("The Livelihoods Project")** supports the Liberian Government's Pro-Poor Agenda for Prosperity and Development (PAPD) national development plan and responds to the impact of COVID-19 on the Liberian economy. As the government prioritized the development of the agricultural sector, the United Nations Development Programme (UNDP) Liberia office developed the Livelihood Project to engage the poor and vulnerable population in socio-economic schemes to improve their lives and livelihood.

In supporting key outcomes of this project, the United Nations Capital Development Fund (UNCDF) undertook a financial study to assess the financing needs of farmers and other agricultural Micro, Small and Medium-Sized Enterprises (MSMEs). The study is important in informing the design of a financial mechanism to support farmers and agribusiness enterprises. The study was conducted using a qualitative approach, engaging stakeholders involved in the financial ecosystem and literature reviews.

The report presents an overview of Liberia in the context of the provision of financial services and other support to farmers and other agricultural MSMEs. The report also includes the study's objectives, the key findings from the field missions, recommendations, and a financial mechanism for channeling funds to farmers and other agricultural MSMEs.

As the study's key objective is to develop a financing mechanism to support the agriculture sector, interactions with multiple stakeholders, especially government officials, farmers, and financial service providers, proved that access to finance is a major challenge for the sector's growth. However, at the macro level, other factors affecting the agriculture sector include the lack of extension services to support farming, limited off-takers like manufacturing companies and exports, which will boost production in farms, and the road network. Regarding roads, vital agricultural producing Counties like Maryland, Grand Gedeh, River Gee, Maryland, Grand Kru and Sinoe in the South-East of the country are inaccessible during the rainy season. Concerning supporting institutions, Cooperatives play a vital role in the agriculture sector, especially for rural farmers. By bringing together farmers, these Cooperatives provide some extension services, organize farmers for market access and advocate on their behalf.

Regarding the direct impact on farmers and other agricultural MSMEs, knowledge and business skills were a vital challenge affecting farming and the development of their craft into sustainable businesses. Particularly for farmers, access to inputs to increase their production yield is challenging as they are expensive and sometimes inaccessible. Critically, farmers face access to market issues as their produce is usually sold off at extremely low prices to middlemen that deploy unethical practices to ensure farmers don't sell directly to consumers in bigger towns and Counties. The development of farms is also affected by storage facilities, food safety and quality and limited access to transportation of their produce. Although women farmers play a critical role in farming, men lead, especially in selling the products and heading structures such as Cooperatives and farming groups.

The report presents key recommendations to support agricultural MSMEs to promote agriculture in Liberia and meet the government's vision. In accessing the sector's needs, the report recommends supporting two types of Agricultural MSMEs - Rural Farmers and formal MSMEs that have organized registered businesses with some structure in place. For financing, it is recommended that Rural Farmers are provided with loans at very low concessionary rates and grants for performing farmers through Cooperatives. The report recommends that for formal agricultural MSMEs that are members of Business Member Organisations, they are provided with loans at concessionary rates, through Commercial Banks, with a guarantee for defaulting loans. Grant funding will also be provided to the businesses that show growth potential and repay their loans without default. To support these businesses, training, technical and other support should be provided to ensure they have sustainable businesses that enable them to repay their loans and at the same time grow their businesses.

Women farmers play a crucial role in farming in rural Liberia. As key members of Agricultural Cooperatives, women also organize themselves into Village Savings Loans Associations, which provide short term finance for their basic needs and farming.

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1.0 Introduction

In supporting UNDP in delivering the Livelihoods Project, this report focuses on the Financial Study undertaken by UNCDF from July to October 2021 on Liberia's financial ecosystem and the agriculture sector. This report intends to provide finance through multiple means for agricultural MSMEs and provides insights into the financial study. A key component of the report is the design of the **"Innovative Agriculture Financing Mechanism for Agricultural MSMEs"** as part of **Appendix 1**.

In undertaking the financial study, extensive desk research was undertaken to understand the economic issues impacting Liberia's development, the government's developmental plans, the financial sector and financial institutions providing finance for the private sector, the impact of agriculture – particularly the impact of smallholder farmers in rural areas and the challenges they face, including access to finance, and development partner support for the agriculture sector. However, to ensure that facts on the ground informed the financial study, two in-country visits were undertaken by UNCDF experts supported by extension staff at the Ministry of Agriculture. The focus was interviews and interactions with critical stakeholders vital to the study. During these visits, the experts interacted with Senior Government of Liberia (GoL) Officials, Local Government Officials, Business Community Leaders, Development Partners, Commercial Banks, Microfinance Institutions, Rural Farmers – including women farmers, Credit Unions, Agriculture Co-operatives, Village Savings Loans Associations (VSLAs), Community Banks, District Agriculture Officers and Agriculture Extension Officers. Although some interactions were undertaken in Monrovia to understand the key challenges agricultural MSMEs face, especially rural farmers, the visits to three Counties vital to the Liberian agricultural focus – Bong, Nimba and Grand Bassa was crucial. A detailed list of stakeholders engaged is provided in **Appendix 2** of this report.

The report includes an overview of the Liberian economy, including the key sectors that drive its economic development and the government's priorities. The report also includes components of the Livelihood Project that relates to the Financial Study, such as the scope of our work, the objectives of the study, the financial sector that provides finance for the private sector, the obstacles for provision of finance for agricultural businesses, key findings of the study, and recommendations and opportunities in supporting the agriculture sector in Liberia.

In the Innovative Financing Mechanism for Agricultural MSMEs presented in **Appendix 1** of this report, the financial mechanism focused on solving the key challenges faced by agricultural MSMEs. The design of the financial mechanism has focused on ensuring that agricultural MSMEs in rural areas engaging in production and other agricultural businesses in the supply chain such as processors, aggregators, and end-product producers are funded through means that will ensure they steadily grow into sustainable businesses that impact the Liberian economy.

2.0 Background

2.1 Overview of Liberian Economy and Doing Business in Liberia

Since the end of the second Liberian war in 2003, the Liberian economy's Gross Domestic Product (GDP) has grown at an annual average of 3.91% (2004 to 2020).[1] Although the country experienced its most significant economic downturn of -30.41% in 2003, there was an average GDP growth of 7.63% between 2006 and 2013, with the highest GDP growth of 9.54% in 2007. This significant growth in the country's GDP was due to the return to economic activity after the war, increased world prices for mining commodities, the investments made by development partners in various sectors, the presence of a large peacebuilding force, assistance by Non-Governmental Organizations and the start of large-scale concessions for mining and rubber. However, during the 2014 to 2015 Ebola crisis, the economy declined, and many foreign-owned businesses departed with their capital and expertise. The epidemic forced the government to divert scarce resources to combat the spread of the virus, reducing funds available for needed public investment. The cost of addressing the Ebola epidemic coincided with decreased economic activity reducing government revenue, although higher donor support significantly offset this loss.[2]

Although the country is endowed with natural resources such as iron ore, diamonds, gold, fertile soil, fishery, and forestry, the economic potential of these assets remains

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[1] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=LR
[2] https://www.economy.com/liberia/indicators

largely untapped. Its principal exports are iron ore, rubber, diamonds, and gold. As agriculture becomes a focus of the government, iron palm oil and cocoa are emerging as new export products. Farmers also expand their rubber plantations as the Firestone Liberia Incorporation acts as an off-taker. The World Bank reports that Liberia's current account deficit is expected to narrow in 2021. On the back of renewed international demand, the recovery in the price of main export commodities has boosted the value of exports and improved the trade balance. Liberia's economy is projected to expand by an average of 4.9% in 2022-23. Growth will be driven mainly by the mining sector and external demand. Structural reforms are expected to increase activity in mining, agriculture, and construction. Per capita GDP is expected to return to pre-COVID-19 levels by 2023.[3]

Concerning doing business in Liberia, from the 2020 World Bank Doing Business Report, Liberia[4] is ranked 175th. The country is ranked 75th on Starting a Business, 104th on Getting Credit and 180th on Registering Property, key indicators to providing finance for agricultural businesses. As indicated by the World Bank Doing Business ranking, getting credit is a challenge for businesses. With limited means of accessing finance, business growth is being impacted, especially for agricultural businesses. Particularly for agriculture businesses, access to finance for agriculture production is very limited. Most agriculture MSMEs face serious challenges in accessing loans to expand their production as loans provided by Commercial banks and microfinance institutions are at high-interest rates and require collateral.

As Liberia recovers economically from the impact of COVID-19, which resulted in a 2.9% GDP decline in 2020, business activities are still concentrated on trading activities mainly from imports, impacting negatively on the country's balance of payment account. Since the government is now focused on sustainable growth that makes agriculture and manufacturing central to economic growth, the private sector is vital in the country's recovery. However, the private sector, made up of mainly MSMEs[5] as there are only 757 Large Taxpayers out of 113,289 taxpayers in Liberia, face challenges, including weak management capabilities and unskilled workforce, fragmented markets and limited diversification, limited access to capital and credit and limited market

[3] https://www.worldbank.org/en/country/liberia/overview#1
[4] https://www.doingbusiness.org/en/data/exploreeconomies/liberia
[5] Liberia Revenue Authority, Annual Report, FY 2019/2020, Pg. 46

information that may improve their access to market.

2.2 Priorities of the Government

The Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-2023 is the national development plan of Liberia. The second pillar of the PAPD on economy and jobs outlines various sectors to be prioritized for the plan period. It emphasizes increasing productivity through a value chain approach with an emphasis on agricultural processing and marketing. It supports private sector development by exploring innovative ways to enhance access to finance. The government intends to increase agriculture production and productivity as it is linked to poverty reduction and food security.

PAPD aims to transform the business regulatory environment and investment climate through various measures, including reducing administrative burdens, simplifying regulation, strengthening competition and cutting red tape in business registration. Further, the government aspires to enhance the competitiveness of existing industries and develop diversified agricultural, fisheries and forestry sectors.

Some of the measurable indicators under the second pillar of the PAPD relevant to this study are:

- Expand the Liberia Business Registry centers in five (5) Counties, develop single window platforms, and ensure the National Standard Laboratory facilities are fully accredited and aligned with the 15 requirements of the International Organization of Standardization (ISO).
- By 2023, increase average annual real GDP growth rate from 3.2 to 5.8%.
- Create 325,625 jobs.
- Maintain affordable and convenient financial services across the country and ensure that 50% of the adult population have bank accounts and access to basic financial services.
- World Bank Doing Business ranking improves from 172nd to 152nd.
- 10% and 50% reduction in transaction cost and time.
- By 2023, increase regional trade from 10% to 20%.

- By 2023, increase agriculture and fisheries contribution from 26% to 35% of real GDP.
- Reduction in the post-harvest loss by 50%.
- Double the number of women farmers, agribusiness incubators and in the agriculture value chain.
- 75% of farmers accessing extension services and the level of productivity.
- 75% of women farmers adopting new and innovative technology.
- 10,000 out-grower farmers in sub-sectors.
- At least 5% share of investment of large concessions.
- Increase the contribution of manufacturing from 6.6% to 12% of real GDP.

To guide the implementation of the priorities in the PAPD, the Liberian Agricultural Sector Investment Plan II (LASIP II) 2018-2022 was formulated by the Ministry of Agriculture. LASIP II focuses on five pillars: food and nutrition security; development of global value chains and market linkages; strengthening agricultural extension, research, and development; support of sustainable production and natural resource management; and governance and institutional strengthening. The five pillars are supported by budget and funding strategy along with the implementation strategy and the results framework. The plan calls for greater participation of the private sector to ensure quality service delivery to farmers, increased incomes and investments, effective management, and transformation of the agricultural sector.

2.3 COVID-19 Impact on the Liberian Economy

The COVID-19 pandemic has had unprecedented health and socioeconomic impact globally and in Liberia. The World Bank reports that Liberia was facing a challenging economic environment before the emergence of the COVID-19 pandemic[6]. The economy contracted by 2.3 per cent in 2019, with inflation spiraling to 27 per cent, impacting consumer purchasing power and the overall economy. The same report cautions that COVID-19 would disrupt export due to weak global demand and adversely impact remittance inflow because of decreased income.

[6] World Bank, 2020, Liberia Economic Update, June 2020: The COVID-19 Crisis in Liberia – Projected Impact and Policy Options for a Robust Recovery. World, Bank, Monrovia. © World Bank. https://openknowledge.worldbank.org/handle/10986/34271 License: CC BY 3.0 IGO.

The African Development Bank estimated real GDP to contract by 3.1% in 2020 in Liberia, while the fiscal deficit was estimated to narrow to 3.5% of GDP in 2020 compared with 4.5% in 2019 due to limited expenditures by the government[7]. The government borrowing from the Central Bank of Liberia (CBL) increased the public debt to 49% of GDP in September 2020, in contrast to 38% in September 2019. The real GDP growth is expected to improve to 2.8 % in 2021 due to higher demand for iron ore, gold, diamond, and rubber. The World Bank presents a grim outlook on the poverty rate at 65.2 per cent in 2020 and therefore recommends social protection measures to avoid further deterioration in household welfare[8].

Learning from the experience of containing the Ebola Virus Disease in 2014-2015, the government proactively introduced a COVID-19 Response Plan to contain the spread of the virus. The strategy included a stay-at-home order and household food support program, among others. Despite the relief measures, the World Bank cautions that the short-term outlook for Liberia is dire. Emergency Public Health Measures were in effect from 10 April 2020 to 21 July 2020 to contain the spread of the COVID-19 virus, initially for three weeks and extended to 90 days. This resulted in restricted movement within the country and suspension of international travel. The immediate impact was a disruption in the supply chain and a steep decline in economic output. Supply and demand shocks in the food system severely impacted the MSMEs and farmers.

To mitigate the impact, the government launched various measures, including agriculture transport permit system, the Movement and Control Service (MOCO), procedures to facilitate trade and exchange with neighboring countries, food reserve, rice seed voucher scheme, access to seeds and equipment, support to MSMEs and formulation of a joint COVID-19 Food Security, Nutrition and Livelihood Response Plan.[8]

2.4 The Livelihoods and Employment Creation in Liberia Project

Poverty and inequality remain widespread in Liberia. According to the 2019 Human Development Index, Liberia ranks 175th worldwide in 2019, a drop from 173rd in 2018. With a Gross National Income of US$ 1.996, households are challenged with food prices

[7 & 8] https://www.afdb.org/en/countries/west-africa/liberia/liberia-economic-outlook
[8] FAO. 2020. National agri-food systems and COVID-19 in Liberia. Effects, policy responses and long-term implications. Rome, FAO. https://doi.org/10.4060/cb2114en

and access to basic means of living. While it is difficult to gauge the welfare impact of the COVID-19 pandemic, households were affected negatively due to employment from the downturn in economic activity and high food prices resulting from increased freight costs worldwide.

As Liberia recovers from the COVID-19 pandemic, the Livelihoods Project, funded by the UNDP, seek to support the government in reducing the socio-economic impact on the vulnerable and contribute to socio-economic recovery that is sustainable and resilient over the long term. As 90 per cent of the Liberian population work in the informal sector, MSMEs play a vital role in the livelihoods of citizens. Therefore, in addressing the economic shocks informal workers face because of the COVID-19 pandemic, this project supports the creation of sustainable and viable income-generating opportunities for the poor and vulnerable population through the support of MSMEs.

The Livelihood Project seeks to reduce poverty and inequality by supporting initiatives that engage poor and vulnerable households in sustainable income generation activities. In line with UNDP Liberia Country Programme Document (2020- 2024), the project targets vulnerable populations in seven (Montserrado, Grand Cape Mount, Grand Bassa, Sinoe, Lofa, Nimba, and Grand Gedeh) of the fifteen Counties in Liberia.

The Livelihood Project prioritizes women, youth and persons living with disabilities, who are often at the worst end of the economic spectrum, engaging the poor and vulnerable population in socioeconomic schemes to improve their lives and livelihood. Consideration will be given to women, youth and persons living with disabilities who are often at the worst end of the economic spectrum. These interventions will occur through two major components:

1. Supporting the creation of sustainable, viable and diversified livelihood opportunities for youth, women and persons living with disabilities (PWDs) through investment in and developing community infrastructures, environmental services, and vocational/life skills, including digital skills; and inputs and technical advice to increase local food production; and
2. Strengthening business and enterprise development services by promoting access to finance, capacity building and innovation.

Particularly to the second major component, the United Nations Capital Development Fund (UNCDF) undertook a financial study from July to October 2021 to design a sustainable financial mechanism (see Appendix 1) to provide finance for agricultural MSMEs. In delivering this output, the financial assessment undertaken by UNCDF considered the link with other outputs to ensure there is no duplication of the deliverables.

The Project is implemented in partnership with relevant government Ministries, Agencies and Commissions (MACs), with the Ministry of Commerce and Industry (MOCI) being the key implementing partner.

3.0 The Financial Study's Objectives and Scope of Work

3.1 Objectives of the Financial Study

This Financial Study undertaken by UNCDF relates to Output 2.2 of the Livelihoods Project, aiming to ensure that agricultural MSMEs are provided finance.

Output 2.2: MSMEs of targeted women and youth entrepreneurs established and strengthened

Facilitating access to finance for MSMEs, mainly youth, women and PWDs in targeted communities.

This intervention will mainly involve:

- Providing loans, grants to existing establishments and start-up grants/capitals to MSMEs in collaboration with the UNCDF.
- Facilitating access to soft commercial credits tailored to agribusinesses.
- Facilitate innovative promotion/challenge in vocational schools with the objective of funding innovative business plans.
- Provide support to women and youth regarding access to technologies and innovations, training, and extension services.

In ensuring that the Financial Study delivers Output 2.2 of the Livelihoods Project, the key objectives are:

1. Identifying financing needs for agricultural MSMEs, particularly smallholder farmers in rural areas, processors, aggregators, and end-product producers using agricultural inputs.
2. Reviewing Liberia's financial ecosystem by understanding financial products of Commercial Banks, Micro Finance Institutions, Credit Unions and Village Savings Loans Association available to agricultural MSMEs.
3. Identifying challenges faced by these agricultural MSMEs in accessing finance.

4. Identifying other obstacles that impact the growth of agricultural MSMEs.
5. Analyzing the financing framework for MSMEs their sources of finance.
6. Preparing innovative financial mechanisms that provide financial support for various types of agricultural MSMEs that assures their expansion and sustainability.
7. Identifying agricultural MSMEs that will receive funding by linking them to funding mechanisms or receiving other support to increase their access to financial markets and services.
8. Identifying potential partners that will act as channels for the provision of finance to agricultural MSMEs.

3.2 Scope of Work

In undertaking the Financial Study, the scope of work focused on the financing needs of enterprises participating in women's economic empowerment in the agriculture sector. Although the financing channels analyzed included local authorities, currently, the local authority leadership is appointed by the central government. As decentralization reforms which included the enactment of the Local Government Act in 2018, have not yet been implemented, County Councils lack the administrative decentralization structures to act as channels of finance to agricultural businesses.

The financial study also highlighted the gaps where new funding mechanisms may have the greatest impact and included these key activities:

- Analyzing the level of financing institutions, the financing needs of MSMEs or other medium-sized productive investments in the agriculture field.

- Probing the major obstacles to the mobilization of available domestic resources for funding the agricultural sector.

- Undertaking an analysis of the existing financial services provided by local authorities that are available for MSMEs.

- Conducting interviews to assess the technical skills of FSFs, their perception of the market, its challenges and opportunities relating to the financing of projects with a strong gender component developed by MSMEs or by municipalities in PPP.

- Analyzing the financing needs of infrastructure projects and project promoters (SMEs) with a strong gender and youth component in the agriculture sector.

- Identifying the obstacles to the financial sector's participation in the economic empowerment of women and young people.

- Designing a sustainable, innovative financing mechanism that could close gaps in agricultural MSMEs' financing at the local level, especially those participating in the economic empowerment of women and young people.

4.0 The Financial Sector of Liberia

The Liberian financial sector comprises Commercial Banks, Microfinance Institutions, Rural Community Finance Institutions (RCFIs) - Community Banks, Credit Union Cooperatives, Village Savings Loans Associations (VSLAs), and Susu Groups[9]. With commercial banks providing finance for formal businesses, a significant portion of their loans is for trading activities in general merchandise imported into Liberia. Microfinance institutions concentrate on providing short-term loans to MSMEs engaging in various business ventures, including agribusinesses, although their products are not tailored for farmers.

There are twelve (12) Rural Community Finance Institutions[10] with branches located in rural communities, ensuring that banking services are available in the last mile, with the provision of deposit services and small loans ranging from US$ 35 to US$ 1,000 for individuals and groups such as farming Cooperatives. As finance for agricultural MSMEs is lacking, smallholder farmers rely on the more than 275 Credit Union Cooperatives and 1,450 VSLAs to support their farms. These institutions, particularly those in the informal sector, provide short-term loans, usually for a period of 3 months, at high-interest rates of 10% on average to their members. Although these institutions provide loans that are less than US$ 100, with loans averaging US$ 60, their presence in rural communities is crucial for financial inclusion and helping farmers purchase inputs and tools.

4.1.1 Acts, Policies, Rules and Regulations

The following Acts guide economic and financial activities in Liberia:

- Article 7 of the Constitution of Liberia aspires to promote the general welfare and economic development of Liberia, while article 8 requires the state to provide opportunities for employment and livelihood.
- The Act to establish the Ministry of Finance and Development Planning assigns power to the ministry to formulate, institutionalize and administer economic,

[9] A Susu Group is a form of rotating informal savings and credit association between a small group of people who take turns by "throwing hand", as the partners call it. These groups are common especially in West Africa and the Caribbean.

[10] National Financial Inclusion Strategy (2020-2024), Central Bank of Liberia

development, fiscal and tax policies for the promotion of sound and efficient management of the financial resources of the government.

- The new Financial Institutions Act of 1999 empowers the Central Bank of Liberia to carry out its functions.
- The Central Bank of Liberia Act of 1999 authorizes the central bank of Liberia to regulate bank and non-bank financial institutions and non-bank financial service institutions.

4.1.2 Financial Ecosystem

An overview of actors providing financial services to farmers, agriculture Cooperatives and other agricultural MSMEs are listed below.

Institution	Primary Mandate	Interest Rate (%)	Collateral Requirement	Repayment Period	Amount Disbursed (US$)
Central Bank of Liberia	Policy, oversight & regulation	-	-	-	-
Commercial banks	Saving and lending	12-15	Yes	Short to long term	Based on proposal
Credit Unions	Lending	10-15	No	Up to 12 months	1,000-1,500
Village Savings and Loan Associations	Saving and lending	7-15	No	3 months	50-60
Microfinance institutions	Lending	6-7	Group-Based Lending[11]	9 months	300 - 400
Cooperative Development Agency	Capacity building and facilitation	-	-	-	
Development Partners and donors	Grants, capacity building	-	-	-	Based on fund availability

[11] In this case, there is joint liability if one person in the group defaults.

4.2 The Central Bank of Liberia's Regulatory Role

The Central Bank of Liberia is responsible for licensing, regulating, and overseeing the financial sector in Liberia. As relevant to the Financial Study, under Section 4 of the Act to Authorize the Establishment of the Central Bank of Liberia, the functions of the Central Bank include regulating banks and non-financial institutions and non-bank financial services institutions. Under Section 5 of the said Act, the Central Bank supervise banks, non-bank financial institutions and authorized non-bank financial services dealers and brokers.

Currently, the Central Bank of Liberia's supervisory function concentration is for banks and microfinance institutions. To undertake this function, the Central Bank's Supervision Department is responsible for regulating and supervising financial institutions in Liberia to ensure the safety and soundness of the financial system. In pursuance of its goals, the Department has an Examination Section that conducts examinations, monitors, and reports on financial institutions' overall condition.[12]

Relevant regulations of the Central Bank of Liberia are:

- Corporate Governance Regulation for financial institutions.
- Central Bank of Liberia Regulation no. CBL/SD/001/2008 concerning the minimum capital requirement for bank-financial institutions.
- Regulation concerning interest rate determination 2004.
- Corporate governance regulation for financial institutions 2012.
- Regulations for rural community financial institutions 2020.
- Regulation concerning interest rate determination, display of interest rates and charges, and computation of lending rates 2017.
- Concerning AML/CFT regulations for financial institutions in Liberia 2017.
- Regulations concerning agent banking in Liberia 2017.
- Regulations for the licensing and operations of credit unions in Liberia 2015.
- Regulations for non-bank financial institutions (NBFIS).

[12] https://public.cbl.org.lr/2content.php?sub=141&related=28&third=141&pg=sp&pt=SD%20Mission%20and%20Objective

4.3 Banking Services

Banking services within Liberia are provided by nine (9) commercial banks with branch outlets in 10 out of 15 Counties, with most branches concentrated in Montserrado County. The nine banks are - Afriland First Bank Liberia, Access Bank Liberia, Ecobank Liberia, International Bank Liberia, First International Bank (Liberia), Global Bank Liberia, Guaranty Trust Bank Liberia, Liberian Bank for Development and Investment and United Bank for Africa. LBDI and Ecobank maintain the largest share of bank branches. In 2020, the Central Bank approved 73 agents for the banking sector under the Agent Banking Regulation No. CBL/RSD/001/2017 enhancing the visibility of agent banks in 8 Counties[13].

In the advent of COVID-19, the Central Bank of Liberia reported that the banking system remained relatively stable, with banks and other financial institutions showing signs of resilience amid the effect of the global pandemic. According to the Central Bank of Liberia, the banking sector accounts for at least 85 per cent of the total assets within the financial system. With Non-Performing Loans (NPLs) reaching 25.6 per cent of total gross loans in May 2021, a figure that is well above the Central Bank of Liberia's limit of 10 per cent.[14] As a result, commercial banks reported that they are increasingly wary of providing loans to agri-businesses because of the high risk of these loans not being repaid.

More importantly, during the financial study, commercial banks reported that they do not have financial products tailored for the agricultural sector, especially MSMEs engaged in farming. Generally, as most farming groups are micro-enterprises, they cannot access loans from commercial banks. Also, loans provided by commercial banks to SMEs focus on providing finance for working capital to purchase trading stock, acquire business tools and open new branches. With requirements such as providing collateral, especially land property, proof of business registration, good credit records, preparing financials to justify cash flows and profits and providing bank statements, farmers cannot access these loans. Additionally, the structure of these loans, such as short terms and higher interest rates above 15%, do not align with farming, and the unreliable land title system hampers access to credit for farmers that usually do not

[13] Central Bank of Liberia Report 2020
[14] https://www.trade.gov/country-commercial-guides/liberia-trade-financing

have land titles. Commercial banks are comfortable lending to large scale plantations like cocoa, rubber, palm and timber. In 2020, commercial banks' lending to the agriculture sector was 3.8 per cent of the total lending portfolio.[15]

4.4 Microfinance Institutions

Microfinance Services are provided by multiple providers, including privately owned microfinance institutions, commercial banks, and credit unions. Eighteen (18) registered microfinance Institutions are operating in Liberia. The sector is undercapitalized and predominantly operates in the Montserrado County area close to Monrovia's Liberian capital. In Liberia, the major commercial bank providing microfinance is Access Bank. In contrast, the Non-Governmental Organisation, BRAC Liberia Microfinance, is a key player in providing finance for micro-enterprises engaging in trading activities in multiple Counties. The privately-owned microfinance institutions include Disconia Microfinance, Unitrans Micro-Finance and Oya Micro-Finance.

Despite diverse financial groups, the provision of finance by microfinance institutions tailored for farmers is limited. Although these microfinance institutions provide finance for MSMEs, their products are geared towards funding working capital supporting cash flow for businesses and small asset financing. Farmer groups, women farmers and Cooperatives interviewed in the three Counties of Bong, Nimba and Grand Bassa indicated that although microfinance institutions approach them to take loans, they have avoided this financing mechanism. However, high-interest rates, short term limits that do not fit the agricultural cycle, and regulatory requirements such as providing collateral and guarantees, are major impediments for accessing this type of financing. For example, a loan product provided by Oya Micro-Finance is for a very short period of three (3) months, with a three-month payment period. These products do not fit agribusinesses and are geared for traders engaged in retail and wholesale with frequent cash flow cycles.

Although microfinance institutions could act as a channel for providing finance for agricultural MSMEs, during the financial study, some development partners informed the team that in past projects, similar to the Livelihoods Project, the integrity of these

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[15] Central Bank of Liberia Report 2020

institutions has come under scrutiny.

4.5 Rural Community Finance Institutions (Community Banks)

In 2017, the percentage of the Liberian population that had bank accounts was 21.58%[16]. In promoting financial inclusion and recognizing that access to finance remained a critical barrier for Liberians, the Central Bank of Liberia approved the establishment of Rural Community Finance Institutions (RCFIs). The establishment of these RCFIs is consistent with the Government's focus on creating an inclusive financial environment through delivering financial services to the people of Liberia based on the National Financial Inclusion Strategy (NFIS) adopted in 2009. Members of the communities own these institutions through capitalization share purchases. Regarding NFIS 2020-2024, under Pillar 1: Access to Financial Services and Credit, the availability of enough access points where individuals can conduct financial transactions is critical to facilitating overall access to financial services to unserved or underserved Liberians.[17]

With operations across Liberia, these RCFIs provide services such as savings accounts, checking accounts, loans, direct deposits, and money transfer services. Although the main objective of these community banks is to promote financial inclusion, these financial institutions do not offer products that fit agricultural farmers. Since RCFIs are regulated by the Central Bank of Liberia, they still require collateral security, with no moratorium period to allow farmers adequate time to grow their products. In Bong County, for example, the community bank visited during the financial study, Totota Rural Community Bank, offered short term loans of four months at an interest rate of 12%, with a maximum loan of US$ 1,000.

Since these RCFIs are located in communities with multiple facilities, they can be considered a channel of financing agricultural businesses.

4.6 Credit Unions and Agricultural Cooperatives

In Liberia, Credit Unions are Cooperatives regulated by the Cooperative Development Agency (CDA) regarding the cooperative governance structures and by the Central Bank

[16] https://www.theglobaleconomy.com/Liberia/percent_people_bank_accounts/
[17] National Financial Inclusion Strategy (2020-2024), Central Bank of Liberia

of Liberia for the provision of finance to its members. With over 275 Credit Unions across Liberia, these financial institutions play a key role in providing financial services in rural Liberia. Credit Unions are member-based institutions engaged in savings mobilization and credit extension to rural Liberians providing in some cases quick cash flow support loans to its members with rates between 10% to 15% for one-year periods. The Liberia Credit Union National Association (LCUNA) is the Apex institution of the sector. LCUNA works with primary credit unions, which are present in every political sub-division in the country.[18] Supported through the UNCDF's MicroLead Liberia: Credit Union Revitalisation Project to promote decentralization, four new model credit unions, all fully operational in 2015, were established in four regions. The Tubman Burg Branch (Region 1) covers Montserrado, Bomi, Cape Mount and Gbarpolu; the Compound 3 Branch in Grand Bassa County (Region 2) covers Margibi, Bassa, Sinoe and Rivercess; the Ganta Branch (Region 3) covers Lofa, Bong and Nimba; and the Zwedu Branch (Region 4) covers Grand Gedeh, River Gee, Maryland and Grand Kru.

Some Cooperatives registered by the Cooperative Development Agency (CDA) are Multipurpose Cooperatives, mandating agricultural and credit union activities. The structure of Cooperatives is strong for the social cohesion of smallholder farmers. Over 725 Cooperatives are registered with CDA, 50% being agricultural Cooperatives. Their governance structures enable them to organize hundreds of farmers, in some cases, for a common objective of organizing farmer and farmer groups to promote livelihoods, market access, accessing finance and food security. During the financial study, the team interacted with seventeen (17) agricultural Cooperatives, including eight (8) women-dominated, in Bong, Nimba and Grand Bassa Counties. These agricultural Cooperatives are well organized, with their elected leadership promoting their cause in advocating for finance, among other things.

As Cooperatives are well organized in bringing their members together, we have recommended channeling funds through them for rural farmers in the Innovative Financing Mechanism in Appendix 1.

[18] https://public.cbl.org.lr/2content.php?sub=217&related=32&third=217&pg=sp&pt=Credit%20Unions

4.7 Village Savings Loans Associations (VSLAs)

The VSLA framework, first developed by CARE International in 1991 in Maradi, Niger, is a low-cost financial service founded on the principle of fund pooling, designed to serve the very poor whose income is irregular. As such, VSLAs play an important role, especially in meeting the needs of women whose principal purpose for accessing finance is to help them manage household cash flow, respond to life-cycle events or invest in small income-generating activities such as farming. Moreover, VSLAs provide people, no matter how remote or poor, with access to small amounts of local capital on flexible terms and transact such loans frequently at very low risk and negligible cost.

In rural Liberia, the over 1,450 VSLAs are a key source of finance for rural farmers with little or no access to other financing means such as commercial bank loans and microfinance services because of their regulatory and structural barriers. The National Apex Village Savings Loan (NAPEX) is the Apex institution of the sector. With a presence nationwide, NAPEX seeks to provide training for VSLA in governance and managing their loans to members, monitor and supervise VSLAs and advocate for their caucus.

VSLAs are made up of 15 to 25 self-selected members, mainly women in Liberia. Members save money by purchasing one to five shares, and the savings are invested in a loan fund from which members can borrow, repaying with an added service charge. Generally, members meet weekly, where all transactions are undertaken before all the members to ensure transparency and accountability. In Liberia, VSLAs generally provide short term loans of 3 months at a maximum amount of US$ 60 at an interest rate between 7 per cent to 10 per cent to their members.

With a strong community foothold, women members of VSLAs easily monitor the use of funds provided by VSLAs to ensure that loanees use it for their intended purpose. With very high repayment rates of about 95 per cent on average, VSLAs registered as cooperatives have been recommended to act as a channel for providing finance for agricultural MSMEs.

4.8 Current Projects supporting financing to Liberia's Agriculture Sector

A summary of ongoing projects providing finance to the agricultural sector and MSMEs are summarized below:

Ref	Name of Project	Funding	Implementing Agency	Key provision for financing
1	Liberia-Smallholder Agricultural Productivity Enhancement & Commercialization Project (2012-2021)	AfDB & GAFSP Total project cost: UA 34.08 million.	Ministry of Agriculture	The goal of the proposed SAPEC project is to reduce rural poverty and household food insecurity. Its objective is to increase, on a sustainable basis, the income of smallholder farmers and rural entrepreneurs, particularly women, youths and the physically challenged.
2	Smallholder Agriculture Development for Food and Nutrition Security (SADFONS/AfDB) Project (2021 – 2026)	AfDB & GAFSP. The total project cost is USD 9.08 million. The total	Ministry of Agriculture	The project seeks to improve food and nutrition security and reduce poverty of targeted rural populations in Liberia. This will be achieved through (i) increased agricultural productivity and production of smallholder farmers (with a focus on food crops such as rice, cassava, and vegetables), (ii) improved smallholders' value addition, market access and income, and (iii) strengthening the capacity of the government institutions, farmers and producer organizations.
3	International Fund for Agriculture Development Tree Crops Extension Project (IFAD/TCEP) (2015-2023)	IFAD. Total project cost: USD 32.6 million	MoA	The project will invest in the revitalization or replanting of abandoned cocoa plantations. Specific measures will be put in place to include women and youth, and to promote their access to project benefits such as training and financial services.

Ref	Name of Project	Funding	Implementing Agency	Key provision for financing
4	Rural Economic Transformation Project (RETRAP/WB) (2021-2026)	World Bank. Total project cost: US$ 59 m.	MoA	To improve productivity and market access for smallholder farmers and agri-enterprises for selected value chains.
5	Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STAR-P/WB) (2019-2024)	World Bank	MoA	To increase agricultural productivity and commercialization of smallholder farmers for selected value chains in selected Counties of Liberia. The project facilitates access to finance and to input and output markets.
6	Support to economic growth and trade (no specific projects were found)	USAID		USAID works to spur community and market revitalization in post-war Liberia through cross-cutting initiatives in infrastructure, energy, workforce development, agriculture, food security and forestry.

4.8 Obstacles for providing finance for agriculture businesses in Liberia

The provision of finance by the commercial banks, especially to the agriculture sector, has been low because of the following perceived assumptions:

- Commercial banking facilities are concentrated in urban areas and up to districts because of the need to remain profitable.
- Most agricultural products, excluding some cash crops, are not profitable.
- There can never be full confidence in harvesting agricultural products as it is dependent on natural factors like weather, diseases and pests that can completely wipe out the crops.
- Farmers and small enterprises are considered poor and therefore have low repayment capacity.
- Farmers and small businesses do not have adequate collateral that can be mortgaged against loans. The assets like land/buildings in rural areas have low value.

- It is uncertain if the crops will be profitable in a particular season, even for cash crops, because of a glut in the market.
- Because of remoteness, it is cumbersome to monitor the loanees.
- There is no guarantee if the products will be sold in the market at a profitable price. There are instances of not respecting the agreed contracts by the buyers and likewise by the sellers.
- Repayment cannot be guaranteed, and there could be higher default on payment.
- Farmers and small businesses do not have the capacity to conform to the paperwork and bureaucracy.
- There are no credit guarantee schemes and other incentives offered by the central bank or the government to enable commercial banks to take the risk.

5.0 Key findings of the Financial Study

5.1 Macro-Level

5.1.1 Data

It was generally observed that recent data was not available across institutions. This could be primarily because of restricted movement due to the COVID-19 pandemic. However, there was limited data even during the pre-COVID period. Statistics from various agencies were not available on websites. Some institutions have not updated their websites, while other prominent institutions do not have websites at all. Facebook profiles created by institutions had not updated the information. Baseline data is a must to evaluate the outcome/impact of any intervention; however, data remains an issue that needs immediate intervention.

5.1.2 Extension Services

The Ministry of Agriculture caters to the farming community through the extension system supported by the Agriculture Coordinators operating in the Counties and District Agriculture Officers (DAO) based in the districts. The Agriculture Coordinators and DAOs have a dual role in the coordination and provision of extension services. Their roles are planning and implementing agricultural development activities, including transferring technologies from the research centers to the farmer's field. The extension services catalyze enhancement in the production and productivity of farm produce, contributing to household food security and higher income. However, many districts do not have DAOs - a serious constraint for providing extension services to the farmers. Young agricultural graduates volunteer to learn and support the extension system; however, lack of mobility and field equipment remains to be addressed. Entrepreneurs do not benefit from the advice from the DAOs because of low skills in enterprise development or their absence in the locality.

Private extension services are delivered through NGOs, Cooperatives, and private agricultural universities.

5.1.3 Access to Market

Farmers and enterprises cited access to the market as one of the major challenges. Farmers can aggregate farm produce in the community thanks to membership in the Cooperatives. However, they are unable to sell the produce in the premium markets. Since rural farmers cannot purchase inputs, middlemen called “Goberchuvs” provide inputs in exchange for produce at extremely low prices. For example, in the Wellena Community in Nimba County, the Say No to Hunger Cooperative’s members reported that cabbage was sold to these middlemen at 10% of the market price. The lack of capacity and network makes it difficult for Cooperatives to directly engage with buyers in the city. In some instances, these middlemen have deployed unethical tactics to ensure that these rural farmers do not sell at bigger markets, like making false allegations against them to the police.

Similarly, entrepreneurs face challenges marketing their products. Value-added products are sold within the district, in the Counties and the capital city. Formal export is not feasible for many enterprises; however, informal trade happens with neighboring countries.

5.1.4 Infrastructure

The **Road Network** is approximately 11,536 kilometers (km) in Liberia, consisting of primary, secondary, urban and feeder roads.[19] About 622 km of the total road network is paved, while about 1,899, 2,479, and 6,263 km are unpaved primary, secondary and feeder roads, respectively. There are 2,884 bridges and 7,651 culverts; however, about half of the bridges and a quarter of the culverts are in poor condition hindering accessibility during the rainy season. Potholes and lack of drainage in the unpaved roads severely impact travel time, resulting in fuel inefficiency and reduction in the life of vehicles, ultimately spiking the cost of transport. Road connectivity is weak within the Counties and districts. Many villages are not connected. Bike trails connect rural areas; however, transporting bulky agricultural produce and inputs is not efficient on bikes.

The Irrigation Channel coverage is low; thus, farming in Liberia is largely rainfed.

[19] Government of Liberia’s Pro-Poor Agenda for Prosperity and Development (PAPD)

Lowland rice cultivation is possible thanks to the monsoon rain. Some farms had water storage tanks for irrigating vegetable fields. Major investment is required to install irrigation systems from the water source to the villages and further construct distribution networks in the field. With assured irrigation, double cropping of rice, which is the primary staple crop, is possible.

5.1.5 Transportation

Major means of transport for goods are trucks and pick up vans. In remote areas with narrow roads, bikes are common. Transport costs in rural areas are high because of poor road conditions. Moreover, the small volume transported in bikes makes it very expensive to aggregate farm produce. At the household level, small interventions, including slicing, drying, and packaging bulky products like cassava, would reduce the volume and weight. In the hot and humid climate, refrigerated trucks would be suitable, but these are expensive and beyond the affordability of most Cooperatives/enterprises.

5.2 Micro-Level

5.2.1 Knowledge and Skills

Farmers possess good traditional knowledge in agricultural production. However, their knowledge is limited, especially in modern farming technologies, including advanced agronomic practices, post-harvest management, processing, labelling, financial acumen, and marketing. Farmers are unable to upgrade their skills because of limited extension service or follow up support. Occasionally, farmers receive training; however, it was observed that the knowledge had not translated into better farm management practices. Some Cooperatives had employed extension, finance, and marketing experts to train the farmers and promote trade. However, the skills of these service providers were weak. Most Cooperatives could not hire specialized professionals because of the inability to pay their salaries. Adoption of new technologies and sustaining the use of technologies will need consistent support.

On the other hand, entrepreneurs depend on their keen drive and desire to succeed in their businesses. They have a fair knowledge of entrepreneurship, and the opportunities various ventures provide; however, they lack core skills like legal provisions, regulations, accounting, quality product development, packaging, labelling, marketing, and negotiation skills. Banking only on willpower and drive while not upgrading core skills could lead to failures.

5.2.2 Access to Finance

Agricultural MSMEs are severely constrained because of the lack of access to finance. The problem is aggravated by higher risks associated with the agricultural sector. The Central Bank of Liberia has no strategy that encourages targeted schemes and incentives for commercial banks to lend to agricultural MSMEs. Commercial banks' lending in the agricultural sector is minimal, with priority for low-risk products like rubber, palm and cocoa.

Enterprises lack collateral which is a requisite for accessing loans from the banks. Most entrepreneurs do not own assets like land and buildings, which can be used as collateral, and those owning land do not have much value to be used as collateral. Lending by credit unions and VSLAs to farmers are short-term (3 months) with low capital (US$ 60 to 100 on an average). Due to a lack of adequate finance, farmers cannot upgrade from subsistence to semi-commercial farming, thus perpetuating the vicious cycle of subsistence farming.

5.2.3 Access to Inputs

The majority of the farmers do not have access to inputs like high yielding varieties of seeds, seedlings and fertilizers because of availability/cost. Women are seed savers who conserve it to be planted the next season. Soil preparation is mostly done using traditional methods, and in some cases, power tillers and tractors are used. Soil nutrient management is weak – it was observed that very little or no additional manuring was done in the field. With abundant biomass in the locality, there is a possibility to use it as organic manures. Cattle rearing is uncommon, else dung and urine could be applied as manure. Spraying cattle urine with proper dilution could also work as a pesticide. Fertilizers and weedicides are generally not used because of unavailability and cost. For harvesting and threshing crops, traditional methods are followed.

Enterprises setting up processing/value-addition facilities import almost all equipment. Those available in the market are imported too. In case of breakdown, the purchase of spare parts takes time as it is not readily available. For generators used to power electricity, fuel is procured locally. Primary raw materials (e.g., Cassava, rice etc.) for value addition are procured locally from farmers and Cooperatives. Other ingredients (e.g., sugar, spices etc.) are imported.

5.2.4 Processing and Value Addition

Agro-processing and value addition presents huge opportunities for farmers and enterprises. It involves low cost and simple operations like cleaning, sorting, grading, slicing, and drying of products or more complex value addition requiring substantial investment. In Liberia, most farmers are involved in simple processing while enterprises are involved in substantial processing but with limited capital investment compromising the quality and value. Overall, the processing industry is yet to advance in Liberia because of weak backward and forward linkages. It was observed that many of the small-scale processing facilities are under-developed and use ineffective technologies.

Enterprises source raw materials from the farmers and Cooperatives. Grading was cited as an issue because farmers do not sort and grade at the farm level, which otherwise is an opportunity for farmers to reap higher returns. Processing plants use diesel-fueled generators for electricity which was cited as a major cost for the enterprises.

5.2.5 Storage

Storage facilities are scarce, as reported by most Cooperatives and enterprises. Farmers usually harvest their crops, pack them in sacks and store them in open or temporary structures without proper care. The hot and humid weather deteriorates the shelf-life of products rapidly. Storage facilities supported by donors were not managed well. It was observed that grains were not properly sorted and dried. Diseased and insect-infested cereals were not sorted out and staged together, which would result in spoilage of the whole produce.

5.2.6 Food Safety and Quality

There is less awareness of food safety and quality, especially at the farm level. Farmers do not practice proper handling of products/tools. Simple operations like washing hands before handling and cleaning tools were not adopted. Diseased grains left for sun drying were not sorted out. In one of the Cooperatives, green mold was observed in maize left in the open for sun drying, potentially a naturally occurring toxin (Aflatoxin) could be present, which could even lead to serious health hazards.

Enterprises are unable to comply with food safety protocols because of capital constraints. Processing facilities were unhygienic, and proper handling protocols were not practiced. Gloves, face masks and head coverings were not used in most cases. Moreover, the team was unable to confirm if the water used in the processing facility was treated.

5.2.6 Packaging and Labelling

Because of affordability and availability, sacks were most commonly used for packing at the farm level for bulky products. In some cases, it was observed that rice packed in sacks were staged directly on the floor. Raised wooden platforms could enhance the shelf life by avoiding contact with moisture from the floor and facilitating proper aeration.

Most enterprises use plastic ziplock bags and sacks for packaging. These come in various sizes and strengths. Almost all packaging materials are imported, which otherwise can be a good business opportunity if recycling is done. For recycling, the recovery rate needs to be considered as plastic waste comes in different qualities and types. There is a need to upgrade the packaging materials at the farmers and enterprise levels.

Enterprises invest in simple labelling that includes product description, brand name, address, contact details etc. For local produce, information on chemical and nutritional content certified by the recognized authority was not found.

5.2.8 Branding

It was observed that enterprises had made some effort to brand their products. Names of the company/brand were inspired locally. Since the products were mostly intended for domestic markets, local names would suffice. However, for export, enterprises would need to develop more internationally accepted nomenclature. Logos were observed to be basic and did not necessarily convey the story of the brand. There is a long way to go in terms of branding at the firm level.

A country brand for Liberia does not exist now, which is an area that remains to be explored. Sub-brands like 'Made in Liberia' and 'Grown in Liberia' that are nationally recognized and incorporate criteria conforming to international standards would greatly add value to local products especially intended for export. However, product standards and provision for certification need to be in place. Agricultural products are largely naturally grown in Liberia; thus, they can be exported under the organic or natural brand.

5.2.8 Post-Harvest Management

Farmers and enterprises encounter substantial post-harvest losses because of multiple factors like lack of skills and equipment, improper storage, an infestation of pests and diseases etc. Simple operations like proper handling and storage could save unwarranted losses. Because of the hot and humid weather, farm produce and even value-added products deteriorate in quality quite rapidly.

5.2.9 Gender Dynamics

In rural Liberia, men dominate the power structures of Cooperatives and farming groups. Although there are numerous Women Cooperatives, we observed that the men would take the leading role in managing and directing the affairs of these organizations. Even at farms owned by men, female farmers are the ones that undertake the farming. Also, women farmers hand over their produce to their husbands to sell even when they have undertaken the difficult task of farming.

6.0 Recommendations

To ensure that the recommendations are implemented successfully, they have been split into general recommendations and for the targeted groups that require support. We have also provided recommendations for the long term to ensure the sustainability of funding for agricultural MSMEs.

6.1.1 General Recommendations

1. Support should be provided to two groups a) agricultural producers (farmers) and cooperatives/groups involved in value addition of agricultural products or providing other services like input farm shops, processing etc. b) formal MSMEs/enterprises formally registered and have a business license with some structure in place.
2. Create a Fund Account to manage the funds that will be channeled to two priority groups:
   - i) Farmers involved in agricultural production, micro agricultural businesses, and basic processing. Disbursement and receipt of the repayments are to be managed through Cooperatives, Credit Unions and VSLAs.
   - ii) MSMEs (enterprises formally registered with a business license and member of a Business Member Organization such as the Liberian Chamber of Commerce). Commercial Banks should manage disbursement and receipt of repayment.
3. In managing the Fund Account and the decision making on the project, we recommend the following:
   - i. A Steering Committee made up of the Ministry of Agriculture, UNDP, UNCDF and a private sector Business Member Organization representing Agricultural MSMEs to oversee the monitoring of the project.
   - ii. A Project Technical Team to manage disbursements to the various channels and ensure repayments are made. This team will also oversee the Monitoring and Evaluation aspect of the funds.
   - iii. Two Monitoring and Evaluation surveys undertaken to assess the objectives of the fund.

iv. Funding is to be provided by loans, grants, and guarantees. Loans at concessionary rates will account for a significant portion of funding. However, grants will be provided by performing recipients and guarantees for default.
v. The selection of Agriculture MSMEs will be jointly undertaken by the Ministry of Agriculture, Ministry of Commerce and Industry, UNDP, UNCDF.

4. The Fund Account will act as a Revolving Fund for three (3) years to target other Counties or specific parts of the supply chain that will create a more significant economic impact. For example, a factory using agricultural inputs as raw material with high export potential or a Packaging company that will supply agricultural MSMEs with customized packaging.
5. Linking farmers and other agricultural MSMEs in the supply chain is crucial. This linkage will help market access as farmers find it difficult to sell their products. It will also solve inputs issues faced by processors and product producers as they will have a steady source of raw materials.
6. To ensure that Rural Farmers and other agricultural MSMEs foster and maintain sustainable businesses, they should be trained in extension services and business skills.
7. Women farmers are sidelined as male farmers play a leading role in the farming structures in rural Liberia. Therefore, the overall funding basket should prioritize female farmers.
8. Rural farmers should be targeted in Bong, Nimba, Lofa and Grand Bassa Counties.
9. A Pilot Insurance Scheme could be initiated within the Fund Account by providing a small grant to Credit Unions and Cooperatives lending to farmers that can be used as an insurance fund in case of crop failure. Compensation of a modest amount (e.g., US$ 15) will help farmers buy seeds of the same crop to immediately replant (when the crop is still at an early stage) or invest in alternative crops immediately after the disaster. The intention is to test the feasibility and benefit of the scheme. To create a self-sustaining mechanism, farmers could start paying the premiums without any subsidy once farmers are convinced of the benefits. Alternately, a detailed study on the scaling up of insurance coverage by insurance companies could be explored.
10. UNCDF to provide technical support for the project.
11. An operational manual should be formulated detailing the Governance Structure and Operating Mechanism of the Fund Account.

6.1.2 Rural Farmers

1. Dealing with rural farmers directly would be a challenge, and since there are robust structures such as Cooperatives, they could easily be targeted through multiple channels.
2. Provide grant and loan funding for rural farmers through agriculture and multipurpose (credit union & agriculture) Cooperatives.
3. Loan funding for Rural Farmers through Cooperatives and VSLAs should be two-fold. Loans at a concessionary rate should be provided to the Cooperatives. They will then loan to their members with a small mark-up.
4. A one-time grant for members of these organizations that repay their loans after the first time of lending. These funds could be used to buy inputs and farming tools for which a proper monitoring system should be in place.

6.1.3 Agriculture Cooperatives

1. Criteria for selecting Cooperatives for funding should include - being registered with the Cooperatives Development Agency, having the standard governance structure requirements in place, having operated for more than two years, having at least 50 members, having a registered bank account in at least a community bank, demonstrate growth potential and plans. Cooperatives will be required to apply.
2. Provide training on managing funds and extension services to enable them to train their members on better agricultural practices.
3. Target agricultural and multipurpose Cooperatives that also have credit union facilities.
4. Loans provided to Cooperatives should be repaid to the fund account after the 1st year. This cycle will continue for three years for Cooperatives that have good credit history and low default rates
5. Agriculture Cooperatives should be given a one-time grant once they qualify for funding.
6. Performing Cooperatives with a low default rate will be given an extra grant in Year 2.

7. Support 1-2 youth-led enterprises within the Cooperatives. For example, small businesses like farm input shops and small-scale processing facilities could be supported with a grant and loan disbursement. A proposal will have to be supported by the youths. Additional capacity building and mentoring are to be provided. This will strengthen the Cooperatives, especially in remote areas.

6.1.4 Village Savings Loans Associations (VSLAs)

1. Capacity building should be provided to informal VSLAs to facilitate their registration as a Cooperative following which they should be eligible for receiving funds.
2. VSLAs that are already Cooperatives will receive support as other Cooperatives as detailed in 6.1.3 above.

6.1.5 Formal Agricultural MSMEs acting as Aggregators, Processors and End Product Manufacturers

1. Provide funding to the MSMEs that are registered with a business license.
2. The different Calls for Proposal will set out the criteria for selecting the MSMEs.
3. The loan amount should be adequate to start the business and ensure cash flow. It is better to focus on a few rather than diluting to many micro-businesses.
4. The selection process and support could be based on the Growth Accelerator initiative of the UNDP or other innovative mechanisms.
5. Successful applicants will undergo a training program on business and product development, financial management, managing human resources, business strategy, branding & marketing, supply chain management etc.
6. Support in online courses, for example, marketing and negotiation skills, product branding, climate-smart MSMEs etc.
7. Funding support will be provided through selected Financial Service Provider(s). The service provider should receive technical assistance to devise new financial products and manage the lending. In the mid-term, there is a need to lobby for upstream policy work and encourage setting up institutional requirements on commercial banks to loan a certain percentage of their portfolio for agricultural businesses.

6.1.6 Liberia Credit Union National Association (LCUNA) and National Apex Village Savings Loan (NAPEX)

1. Collaborate with these organizations in the targeting of their members for funding.
2. Provide funding for these organizations that will outsource capacity building programs to specialized institutions like NGOs or private sector companies.

6.2 Medium to Long Term Recommendations

1. Explore the possibility with insurance companies for expanding insurance coverage for crops and agricultural businesses, considering the sustainability aspects. A detailed study needs to be conducted that should include the policy and regulatory frameworks.
2. Invest in the formulation of the country's brand (Brand Liberia) with sub-brands like Made in Liberia and Grown in Liberia that have internationally accepted criteria. Allocate resources to study the export ecosystem, including standardization and certification, the potential of export in the regional and global markets. As Liberian farmers practice natural farming without using chemicals, the study should also investigate developing an organic farming strategy.
3. Funds that remain in the fund account will be used for future initiatives such as funding agriculture in other Counties or for more strategic agriculture enhancing activities. Transport and electricity are major cost to the MSMEs; any reduction in these costs will enhance the competitiveness of MSMEs. Therefore, there is an urgent need for major investment in roads and electricity. The targets set in PAPD are modest.

7.0 Risk Assessment

A summary of risk assessment is captured below from the point of view of lending institutions (credit unions, VSLAs, commercial banks, MFIs) to the farmers and MSMEs. Mitigation measures are proposed.

Risk Parameters	Probability of Risk (low, medium, high)		Mitigation Measures
	Farmers	Risk from MSMEs	
1) Repayment ability	Low	Medium	Spread out the repayment schedule
2) Repayment willingness (character of the loanee)	Low	Low	Assess credit history
3) Profitability of the investment	Low	Medium	Evaluate if the business is feasible before sanctioning a loan. Expert evaluation of project proposal needed for MSMEs.
4) Deviation from intended use	Low	Medium	Release loan in tranches (e.g. 20% before start, 30%, 30%, 20%) upon successful implementation of each phase). Or payment directly to vendors if there is the procurement of equipment.
5) Loan amount to run the business (if adequate)	Low	Medium	Ensure during the evaluation of the proposal if the amount is adequate. Suggest alternatives that are cheaper or look out for leverage from other sources.
6) Repayment structure (duration)	Low	Medium	Longer repayment schedule in blocks.
7) Price volatility of inputs/products	Medium	Medium	Propose some cushion for shocks (e.g. Delayed repayment, Insurance, compensation from govt).
8) Weather	High	Medium	Integrate climate-smart technologies, diversify, embed coping strategies, supplementary support, compensation of seeds if crops are in the early stage of growth
9) Deviation of macro-economic situation, abrupt policy change	Low	Low	Awareness of current situation and policies

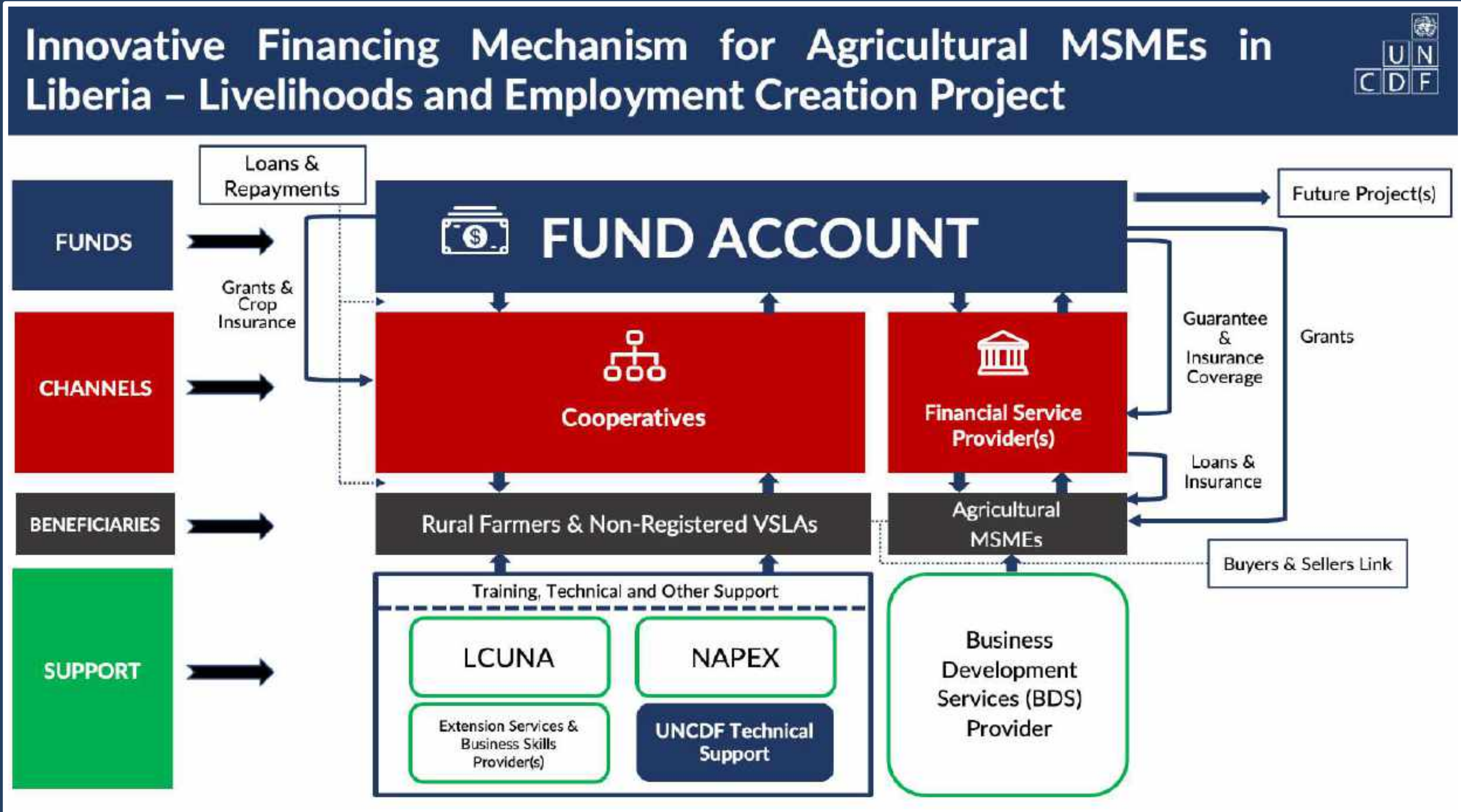
Risk Parameters	Probability of Risk (low, medium, high)		Mitigation Measures
	Farmers	Risk from MSMEs	
10) Collateral availability	Low	Medium	Social pressure for Cooperatives. Business viability for MSMEs.
11) Death of loanee	Low	Low	Guarantor
12) Delays in sourcing inputs/equipment	Medium	Medium	Planning and alternative arrangements

8.0 Conclusion

The financial study on the financing ecosystem for the agriculture sector provided vital insights into the challenges faced by the sector, not only in terms of access to finance but other critical issues that affect the growth of the sector. With the government prioritizing agriculture under the PAPD, providing support for agricultural MSMEs is vital in ensuring that agriculture moves from providing minimal income for players to a major source of economic development.

Considering that farmers and other agricultural businesses are not at sustainable business levels, the support through the Livelihoods Project can be a catalyst for the development of this sector. However, as recommended, amounts remaining from this project should be used to target larger projects in the agricultural sector to position Liberia as a key exporter and manufacturer of agricultural produce.

Appendix 1 - Innovative Financing Mechanism for Agricultural MSMEs


Innovative Financing Mechanism for Agricultural MSMEs in Liberia – Livelihoods and Employment Creation Project
UNCDF
FUNDS
CHANNELS
BENEFICIARIES
SUPPORT
Loans & Repayments
Grants & Crop Insurance
FUND ACCOUNT
Future Project(s)
Cooperatives
Financial Service Provider(s)
Guarantee & Insurance Coverage
Grants
Loans & Insurance
Rural Farmers & Non-Registered VSLAs
Agricultural MSMEs
Buyers & Sellers Link
Training, Technical and Other Support
LCUNA
NAPEX
Extension Services & Business Skills Provider(s)
UNCDF Technical Support
Business Development Services (BDS) Provider

Appendix 2 - List of Stakeholders Engaged during the Financial Study

Stakeholders' Engaged for Financial Ecosystem for Agriculture MSMEs		
Ref	**Individual/ Groups**	**Position and Institution**
1	Hon. Jeanine Milly Cooper	Minister of Agriculture
2	Hon. Robert Fagans	Deputy Minister of Agriculture
3	Hon. Augustine Flomo	Deputy Minister of Finance and Development Planning
4	Hon. Deborah Nebo	Deputy Minister of Small Business Administration, Ministry of Commerce & Industry
5	Hon Regina Teah	Registrar-General, Cooperative Development Agency
6	Hon Samson Dee	Registrar-General, Liberia Business Registry
7	Emmanuel J Morris	Assistant Registrar, Grand Bassa County and Riverside
8	Julius Saye-Kehnel	Consultant, Small Business Administration, Ministry of Commerce & Industry
9	Hon Flee A Glay	Development Superitendent, Grand Bassa County
10	Christian Logan	County Project Planner, Grand Bassa County
11	Joyce Kolvah	Agriculture Coordinator, Grand Bassa County
12	Fonsio Donzo	Director of Supervision, Central Bank of Liberia
13	Dr George Gould	Central Bank of Liberia
14	Dr Kuakua Mulbah	Center for Agriculture Research, Ministry of Agriculture
15	Jonathan M Torkolon	District Agriculture Officer, Suakoko
16	Daikai Yorwatei	Special Assistant, Ministry of Agriculture
17	Violet Baffour	UNDP
18	Abraham Tumbey	Programme Coordinator, UNDP
19	Octavius Quarbo	Project Analyst, Food and Agriculture Organisation
20	Hega Gaye	Project Analyst, Food and Agriculture Organisation
21	Alexandra Celestin	Resident Representative, International Finance Corporation
22	Cllr Natu Oswald Tweh	President of Liberia Chamber of Commerce
23	Ahmad Wazni	Vice President of Liberia Chamber of Commerce
24	Rahila Malaika Danjuma	International Finance Corporation
25	Ramon Garway	Women Economic Empowerment, UN Women
26	Belenn Rebeck	Knowledge Management Assistant, UN Women
27	Moses Kelleh	Principal Assistant, UN Women
28	Al-Hassan Kenneh	Ecobank Liberia
29	Kelvin Banda	Country Economist, African Development Bank
30	Nkechi Joyce Arizor	Managing Director/CEO, United Bank for Africa Liberia Limited
31	Mohamed Kamara	President, Liberia National Rice Federation
32	Yarkpazuo Gbusiwoi	President of the Liberia Credit Union National Association
33	Margaret Yarkpah	National Chairperson of National Apex of Village Savings
34	Henry Rennie	Branch Manager, Totota Rural Community Bank
35	Musu Barto	President, War Affected Women Cooperative
36	Boris Barleaf	President, Liberia Farmers Development Corporation (LIDFADCO)
37	16 Members of Zodomon Farming Group	Gbedi Camp III, Nimba County
38	18 Members of Ganta Women Cooperative	Ganta, Nimba County
39	Musu Nana	Suayelle Multi Purpose Cooperative, Gbatala Town, Bong County
40	Rufur Terplaih	Head, Kwa-Ga-Gie-Ma Village Savings and Loan Association
41	Michael Pewu	CEO, Meni-Nina Farmers Incorporation
42	Catherine G Dolo	Chair of Menina Women Village Loans Association
43	Isaac G Yarkapawo	President of Panfamcos Cooperative
44	Ezekeil P Sayetee	Chairman of Say No to Hunger Cooperative
45	Mato Blessing	Chairlady of Bunkamoh VSLA
46	Mary Kpokor	Member of Menpea Mea Rural Women for Development Cooperative
47	12 Members of the United Community	Compound 3, Grand Bassa County
48	Nancy T Bryant	Rise and Shine Multipurpose Cooperative, Grand Bassa County
49	Nora W Konneh	Rise and Shine Multipurpose Cooperative, Grand Bassa County

About UNCDF

"The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries (LDCs).
UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.
UNCDF's financing models work through three channels: (1) **inclusive digital economies**, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) **local development finance**, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) **investment finance**, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization".

UN CDF
Unlocking Public and Private Finance for the Poor

About UNDP

UNDP works in about 170 countries and territories, helping to eradicate poverty, reduce inequalities and exclusion, and build resilience so countries can sustain progress. As the UN's development agency, UNDP plays a critical role in helping countries achieve the Sustainable Development Goals.

UN DP