LIBERIA MICROFINANCE SECTOR ASSESSMENT
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I. Executive Summary

This report summarizes a field visit conducted from April 14 – 27. The purpose of this visit was to assess the microfinance sector in Liberia in order to make recommendations to USAID/Liberia on microfinance activities for the country.

The microfinance sector in Liberia is probably 10 – 15 years behind many countries in Africa and the rest of the world in terms of advances in product development, financial sustainability, and human resource capacity. Having endured as many years in civil conflict, this is not surprising.

On the positive side, there are a number of factors that suggest Liberia will be able to make up for lost time, and perhaps even eventually exceed neighboring countries in terms of best practices and outreach. These factors include: a government committed to reform, the ability to capitalize on and avoid the mistakes made in other countries, access to latest information and communications technologies (internet and cell phones), and heightened interest by key microfinance actors in the sector in Liberia.

The Liberia microfinance market is highly underserved with the three main microfinance providers, Liberty Finance, LEAP, and LCUNA credit unions reaching only about 10,000 to 11,000 people. Rural areas are grossly underserved.

A major observation from the assessment the is that current USAID Liberia programs such as LCIP and STCP are not effectively incorporating access to finance in their programs. This undermines program success by forcing project participants to rely on money lenders, payment advances from intermediaries, and traditional savings and lending clubs. Also, it appears that projects have not fully explored the economic opportunities within the value chains they are working, focusing primarily on the lower end of the value chains (production and association building). Now that there is a certain level of political and economic security, the timing seems right to consider how more value added can be captured by small holders and micro and small enterprises in these value chains.

Timber is an unexplored area for exploitation by micro and small enterprises. However, before launching into a timber-based micro and small business activity, it is quite necessary to assess the financial feasibility of enterprises in this sector. That is, rather than embark on training carpenters, for example, it needs to be determined *a priori* what, if any, final market demand there would be for their products and also whether investing in training and equipment would yield a positive financial return to the entrepreneurs. As a part of this, it would need to be determined what financial products and services would be needed to support value added by micro and small enterprises, as well as larger firms implicated along the timber value chain. And, prior to action, an environmental assessment would be needed.

Major constraints to the microfinance sector are (1) limited capacity at the provider level, with little access to external technical assistance and capital, and (2) limited access to business opportunities and management capacity at the client level. Access to capital is perhaps the lesser problems for the microfinance providers because if they are well managed there are a number of socially responsible investors and a few banks, e.g., Ecobank, who would lend to them or provide investment capital.

Therefore a dual approach is needed. That is, on one level building the capacity of the microfinance providers. But, at the same time, building the business opportunities and management capacity of the client base.

The easiest entry point for building client capacity is through existing and forthcoming projects. As the financial needs of program participants and community members are better identified, and/or become more sophisticated, microfinance providers can be aided in developing products and accessing the capital they need to meet those financial needs.

In rural areas, existing credit unions will need to be reinforced, and where non-existent, they will need to be created. As Ecobank extends its reach into rural areas, it may be possible to directly link small holders and micro and small business to Ecobank through ATMs and SMS banking.

Following is a short summary of the Macro, Meso, and Micro levels of the microfinance sector in Liberia.[1].

MACRO (Enabling Environment) Banks and Non-Bank Financial Institutions are regulated by the Financial Institutions Act of 1999. Credit Unions are regulated as cooperatives under the Ministry of Agriculture. There is currently no legislation specific to microfinance. However, a microfinance policy and legislation is being drafted with support from IFC. A review of credit union legislation was conducted in 2003 by UNCDF, but has not been acted upon. Business is conducted freely in either US dollars or Liberian Dollars (LD), although the Government of Liberia (GoL) would like to

[1] Please see page 22 for definition of "Macro, Meso, and Micro"

encourage de-dollarization of the economy. Inflation is moderate, 5.9% in October 2006, compared to 7% December 2005. The Government of Liberia is actively working on multiple fronts to rectify past policies and practices which have undermined confidence in the economy.

MESO (Supporting Institutional Infrastructure). There is some degree of supporting infrastructure in Liberia for banking in general, and a nascent supporting infrastructure for microfinance specifically. There are a couple of auditing / accounting firms. There is an active banking association and a functioning credit bureau. In terms of microfinance, there is a Microfinance Task Force, comprising key government and donor stakeholders, and a small microfinance network. Note USAID is not yet an active member of this group. There is virtually no technical support for microfinance in the country, save for external intermittent support. There is an UNDP project, "Launch of an Inclusive Financial Sector in Liberia", housed in the Central Bank which is providing some technical support, e.g., distribution and oversight of distance learning to about 20 microfinance actors (microfinance providers and Ministry staff). The project is also funneling some funding to microfinance providers. This project is *de facto* an embryonic microfinance unit of the Central Bank.

Banks are able to support international electronic fund transfers, although because current banking presence outside of Monrovia is limited, intra-national transfers are correspondingly limited. Ecobank is currently testing ATMs, to be used for intra-national movement of cash. Otherwise, the safe movement of capital through the country is a large constraint on enterprise development.

Micro (Financial Providers) There are currently 5 functioning banks in Liberia. CHF, which is processing its license to become a non-bank financial institution (NBFI), believes it will be the first such registered company in Liberia. There are ten functioning credit unions, aligned under the Liberia Credit Union Association (LCUNA). Both the banks and credit unions offer small consumer loans. Ecobank, the only bank interviewed, offers small business loans as low as $2000 - $3000. There are two main microfinance providers, LEAP, a locally registered NGO, and Liberty Finance, a project of the American Refugee Committee. LEAP and Liberty are highly targeted to poverty lending, offering loans which are predominantly in the $50 - $100 range. LEAP and Liberty use a solidarity group methodology and forced savings as collateral. There are also a number of NGOs offering finance to their "beneficiaries" on a small scale.

In summary, this is an extremely exciting time in the history of Liberia. However, overcoming the barriers of mistrust, lassitude, and under-development will not be easy or fast. The good news is that USAID has a strong field presence, and access to a broad array of strong partners. This can form the base for successful programming.

In a nutshell, USAID should do the following:

1. **Collaborate with other donors in the support of the microfinance enabling environment and general capacity building of the sector.**

   The easiest way to do this would be direct financial support for selected activities to the current UNDP project housed at the Central Bank. However, as discussed later in this report, this project/unit is structured in a way that is not ideal, and its purpose and exit strategy is not clear. In addition, in the author's opinion, the Unit's capacity is weak, mainly because of the staff's limited geographic exposure to microfinance.

   An alternative to direct support to the unit would be to provide indirect support for the enabling environment and general capacity building, on an as-needed basis, through a regional or international contractor or NGOs specialized in microfinance.

   However their may be political benefits to showing support to the UNDP activity / central bank unit by providing direct financial support to that unit. This might give a higher profile to USAID support and might provide USAID more opportunity to influence the sector at the "macro" and "meso" levels. However, it is unclear if USAID Monrovia would be able to dedicate time to this.

2. **Provide direct support to microfinance providers, including but not limited to LEAP, Liberty Finance, and LCUNA.**

   Support to Liberty Finance should be geared toward an exit strategy for their supporting NGO, the American Refugee Committee (ARC) and a "graduation" strategy for Liberty Finance, i.e., becoming an independent locally registered NGO. An alternative exit strategy would be for Liberty Finance to sell its portfolio, e.g., to LEAP. Support should be in the form of technical assistance and a limited amount of loan capital. Clear conditions should be worked out with ARC in advance of any funding. Support could be directly to ARC, through the UNDP project or through a US-based contractor or NGO specialized in microfinance, or some combination of the three, e.g., direct loan and operating capital, but indirect technical assistance via UNDP project or regional or international firm or NGO. Many firms and NGOs are quite familiar with the solidarity group methodology, including its strengths and limitations.

   Support for LCUNA should be through the World Council of Credit Unions (WOCCU) and should be particularly targeted to open or revitalize credit unions in USAID project areas. These should be open member, community wide credit unions. Support should include development of new products and services to meet the needs of the producers and other value chain actors affected by USAID projects (e.g., LCIP and STCP).

3. **Support the capacity of microfinance clients, i.e., microenterprises and small producers, particular those in rural areas and engaged in the productive sectors.**

   This means supporting access to information, through the use of, e.g., cell phone technology, radio, newspaper, as well as supporting general business skills. An example of appropriate materials might be the ACDI/VOCA "Farming as a Business" curriculum. This also includes access to improved technologies and equipment. Small holders and micro- and small businesses should have access to the information, finance, and power they need to upgrade in terms of (1) products produced and services offered (2) processes used in production (3) end market channels for their products and services, and (4) role or function played in the value added process (e.g., advancing from producer to processor or producer to service provider).

4. **Support key sectors / value chains in which large numbers of microenterprises and small producers are active or have potential to be active on a large scale, particularly those in rural areas.**

   This again refers to the LCIP and STCP projects, working with rice and rubber producers and small scale artisans. Also, one area under-explored at this time is timber. The Liberia Forest Initiative has yet to fully explore how more local value added can be obtained in the timber value chain. It is recommended that a responsible expert in forestry be brought in to conduct a two-week feasibility study of micro and small business opportunities in Liberia. The Program recommended is Smartwood, which is a program managed by the Rainforest Alliance. This information can then be used to determine the role of USAID and USDA FS in supporting (or not) value added enterprises in the timber value chain. [6/29: sent email to Bob, Dan, and Diane about this]

The crispest way, the least burdensome managerially, to support all of the above recommended activities would be through one award under a pre-competed mechanism, such as the MD office leader with associates FIELDsupport.

II. Assessment of the Microfinance Sector.

Principle Actors.

<u>Microfinance Providers</u>[2]
There are two main microfinance providers in Liberia: Liberty Finance, which is a project within the American Refugee Committee (ARC), and Local Enterprise Assistance

[2] To accommodate the two major microfinance providers in Liberia, as well as other sources of credit, e.g., buyer and supplier credit, the term "microfinance provider" or MFP is being used in this report instead of the more familiar "microfinance institution" or MFI.

Program "LEAP" a local NGO. In addition there are 10 active credit unions functioning under the Liberia Credit Union "LCUNA" umbrella.[3] These three entities comprise about 10,000 to 11,000 clients or members. LEAP and Liberty Finance follow a solidarity group model, offering credit guaranteed by forced savings. Credit Unions are primarily employee-based and offer both saving and credit services. Historically, Liberia also had credit unions linked to producer associations. LEAP and Liberty receive loan capital from donors and through retained earnings from interest, while the credit unions on-lend the savings of their members.

ARC also supports several loan and savings clubs (LOSACs) in rural areas in Bong, Lofa, and Nimba counties. LOSAC members are former grant recipients organized into groups to manage savings and credit. ARC also provides basic literacy training to these groups, with a particular attention on women.

There are also various projects in Liberia which provide credit to their beneficiaries. For example, Liberian Entrepreneurial and Asset Development (LEAD Inc), is an NGO which targets the "missing middle" or small businesses with 2 – 30 employees. The financial need of these businesses, ranging from $150 to $1800, is too small for bank loans but too large for the micro loans provided by Liberty Finance and LEAP. Or, the program participants may lack the collateral to formally obtain finance. LEAD offers a "credit plus" program which provides business training and loans in the form of a 3:1 match to client savings.

Two new players are poised to enter the Micro-/small business market in 2007. These are CHF and ProCredit. CHF will register as a Non-Bank Financial Institution (NBFI) initially offering credit of $50,000 to $150,000 . The capital requirement for non-bank financial institutions (NBFIs) is one half that required for banks, which is currently $US5,000,000 CHF believes it will be the first registered NBFI in Liberia.

ProCredit will register as a bank. Procredit originally expected to offer loans in the $10,000 to $50,000 range, but after assessing the Liberian market, are now considering loans as low as $400. ProCredit will be a full service bank, thus offering savings as well as credit, and transfer services.

In addition, WOCCU has been in discussion with the Ellen Johnson Sirleaf Market Women's Fund (a UNDP funded activity) to establish a nationwide credit union for market women. And, ACCION has been in discussion with Ecobank HQ in Togo regarding technical assistance to move into the microfinance market. Note that ACCION has this experience in Haiti, where they established the management company Sogesol, to manage the microfinance portfolio of Sogebank. In that case, Sogesol is a subsidiary of Sogebank.

<u>Banks</u>

[3] Credit Union activity peaked in 1990 when there were 80 credit unions with 18,578 members.

There are five operating banks in Liberia: Global Bank of Liberia, Ltd; International Bank of Liberia, Ltd.; Ecobank Liberia, Ltd; Liberia Bank of Development (LBDI) and the First National Bank of Liberia. There are also five inactive banks, including two government owned banks, the National Housing and Savings Banks, and the Agriculture Cooperative Development Bank.

This review was not focused on the banking sector, but because of general interest in Microfinance in other countries in the region, Ecobank was interviewed. At this time Ecobank is not doing retail microfinance lending, but they are lending to NGOs who then on-lend to microentreprenuers. Two examples given were Ecowas Women and Tugbeh. Loans are for up to one year. The interest rate was not disclosed. Ecobank is also interested in lending to LEAP and to Liberty Finance, once it becomes a legal entity.

Ecobank does consumer loans down to as low as $50 to salaried employees. Small business loans may go as low as $2000 to $5000, taking inventory and cash or other assets as collateral. Ecobank offers money transfer service and is launching ATMs this week. Ecobank will be placing ATMs outside of Monrovia. They will be dual currency, both US and Liberian dollars. Ecobank has begun offering SMS banking (cell phone transfers) in some countries, but not as yet in Liberia.

Banks offer loans for 6 to 12 months in both Liberian and US dollars. However, most prefer US dollars. Interest rates range from around 10 to 16%. But one business person interviewed said that banks generally add various fees bringing effective interest rates as high as 35 to 50% per year. This was not verified. This same person stated that with a solid lease, longer term loans (e.g., up to two years) may be obtained, and that Letters of Credit require 100% cash collateral. Banks use inventory and cash as collateral.

<u>Alternative Financial Providers</u>

Alternatives to formal microfinance providers include traditional “susu” clubs, “cash box” clubs, money lenders, supplier credit, and advances from intermediaries.

Susus are tontines, or revolving savings clubs. Susu members each contribute a certain amount of money at selected periods of time (e.g., each pay day). Members rotate receiving all funds collected, and use funds at their discretion. Susus allow people to access bigger chunks of money than they would otherwise have.

Cash box clubs are community savings and lending groups. Savings is collected by a trusted member of the group, who then stores the funds in a cash box. As members need funds, they apply for a loan, and funds are on lent to them at a community-determined interest rate. People can borrow up to the amount of their savings. Beyond that amount collateral is required. Savings and accumulated interest are normally distributed at the end of the year and used for Christmas purchases. Cash boxes are either totally closed out at this time, or the group determines an amount to retain in the cash box.

Money lender fees run as high as 25% per month, with unpaid interest rolled into the principal. When loans are unpaid the money lenders send out their "task force" to seize pledged assets.

Supplier credit, that is suppliers providing inputs on credit, is reportedly available, but only in cases where there is an existing established relationship between the actors.

In rural areas lacking microfinance providers (i.e., most rural areas), farmers use cash advances from middlemen to pay school fees, buy inputs for planting, or to buy rice to carry them through the hungry season which peaks in September. In turn, these intermediaries set low prices at harvest which the indebted farmers are obliged to accept.

<u>Donors and Government</u>
There are currently a handful of donors who have or are providing support to the microfinance sector: UNDP, UNCDF, UNHCR, Cordaid, and USG Bureau of Population, Refugees, and Migration (BPRM). Soon to enter (within the next 6 months) will be OPIC, supporting CHF, and IFC supporting ProCredit.

UNDP in concert with UNCDF, Cordaid, and the Central Bank of Liberia (BBL), are seeking to strengthen the microfinance sector in Liberia through an initiative called "Launch of an Inclusive Financial Sector in Liberia." The project has four components: (1) Identify and work with leading MFIs; (2) Build strategic partnerships with donors and the private sector; (3) Professionalize MF working group in the Central Bank; and (4) Disseminate microfinance best practices. The project is seeking donors to join the management organ of the project, The Investment Committee. A representative of the Central Bank, currently Kolli S. Tamba, II, serves as the non-voting chair of the committee. The Investment Committee, currently composed of Mr. Tamba, and representatives of UNDP, UNCDF, and Cortaid, receives and reviews proposals, and makes funding decisions. They would identify constraints in the financial sector related to microfinance as well as supervise technical assistance, conduct technical reviews, audits, and field monitoring and review progress toward building an enabling environment for microfinance in Liberia. The staff are relatively young with, in the author's view, limited geographic experience.

The project is currently scheduled to end in November 2007. Overall project costs are budgeted at $3,438,450, and $1,750,000 has been contributed to date.

UNDP/UNCDF set up a similar process in Sierra Leone with, according to one informant, "mixed, but generally good, results." The unit was reportedly able to address the government's concern that they participate in the sector, but at the same time prevented the Government from getting overly involved. According to the informant, the unit profited from the involvement of strong donors, who helped raise the capacity of the unit. That kind of support is currently not available in Liberia.

This project is planning a big publicity event for the end of May. This will include the gathering of success stories promoted through press and video, and a march through the city by microfinance clients carrying banners and clad in event t-shirts. Two microfinance goodwill ambassadors will be named, one “a big name entertainer” and the other a microentrepreneur. The event will include a gala dinner.

In addition to support to Procredit, IFC is providing technical support to the Central Bank of Liberia (CBL). First, IFC conducted an exploratory mission with Procredit in October 2006 to make an initial assessment of the microfinance market. IFC is also providing support to the microfinance enabling environment. They have supported Carlos Alba and Rochus Monartz to assess the legal and regulatory environment, and to review a draft Microfinance Policy Paper, and draft legislation. At the same time IFC is supporting the Central Bank’s review of the Financial Institutions Act (FIA). The CBL has requested that proposed changes for microfinance be included in legislation to amend the FIA in order to limit legislation. To date, IFC has not included credit union legislation in this review. In addition, IFC will be taking 5 members of the central bank, including one from the UNDP program, on a study trip to Uganda and Tanzania Central Banks to review their best practice laws and regulations pertaining to microfinance

<u>Microfinance “infrastructure”</u>

The Microfinance supporting “infrastructure”, sometimes referred to as the “Meso” level of the sector, needs further development. (See page 23 of this report for more details on this classification.)

There is a Credit Bureau used by banks which, in principle, microfinance institutions could access.

Auditing capacity exists but is not strong, with only two major firms considered to have “sufficient” auditing capacity. These are PKF and a Price Waterhouse affiliate, Voscom.

In addition to the UNDP project described above, there are two entities in country supporting the microfinance sector at large, the National Microfinance Task Force and the Microfinance Network.

The task force is the Government body established to oversee activities in the sector. However the task force also includes some NGOs and Banks, with an interest in the Microfinance sector. The task force is chaired by the Central Bank. The Microfinance Network is a network of NGOs/MFPs.

National Microfinance Taskforce of Liberia Membership

1. Central Bank of Liberia - **Chairman**
2. ARC/Liberty Finance
3. Local Enterprise Assistance Programme (LEAP)
4. Microfinance Network of Liberia
5. Liberia Credit Union National Association (LCUNA)

6. Ecobank
7. Liberia Bank for Development and Investment (LBDI)
8. Ministry of Planning and Economic Affairs
9. Ministry of Finance
10. Project staff
11. Office of the President of Liberia

Microfinance Network of Liberia Membership

1. Action for Greatest Harvest - **Chairman**
2. Local Enterprise Assistance Programme (LEAP)- **Co-Chairman**
3. ARC/Liberty Finance **(Treasurer)**
4. Lutheran Development services
5. Liberia Credit Union National Association (LCUNA)
6. Making Enterprises
7. NGOs involved in Income Generating Activities

USAID and its partners have taken the lead in supporting legal and regulatory reform and other 'macro" issues. However, these issues are best addressed indirectly through donor and host government coordination. USAID and its partners have also taken the lead at times for "meso" level support for the development of microfinance associations, credit bureaus, and supporting services, such as auditing. There is a risk of over-involvement in these issues with contractors sometimes playing too strong a role. For example, over – ambitious project staff could become imbedded in local capacity development, playing roles that should be carried out by local associations, or private sector actors, e.g., maintaining bad client lists, directly provide training instead of development local training capacity, and subsidizing association operations when member MFIs should be contributing.

The UNDP central bank project (Launch of an Inclusive Financial Sector in Liberia) provides a vehicle for donor coordination and in-direct support for Macro and Meso level development in Liberia. The Initiative also provides a means to provide small grants to a variety of microfinance providers serving Liberia's poorest households. It is also a way of limiting "double dipping" or multiple funding for the same activity. The tradeoff, however, is that added transaction costs of coordination and loss of unilateral control over funding decisions. And, the Unit itself is weak, in terms of staff experience and capacity, and requires technical support. There is also a conflict of interest with the Central Bank being so close to this unit (as ex officio chair of the Investment Committee). Finally, it is not clear that the Initiative has a clearly defined role in the sector, nor does it have a clear exit strategy. Is the intention to become the supervisory body for microfinance in the central bank or is the intention to become an advocate for and technical assistance provider to the microfinance sector. This is not clear, and it cannot be both.

Nonetheless, USAID Monrovia may wish to provide limited support to the UNDP project for a finite period of time. This is because at this time there is no other entity providing broad support to the sector. This support could be in terms of becoming a paid member on the Investment Committee (minimum contribution is $US 300,000), although perhaps the membership fee could be negotiated. In this case, activities which USAID would and would not support should be clearly identified in advance, and the budget for these activities clearly stated. One condition of the support should be that the Investment Committee delink itself from the Central Bank, and secondly the Investment Committee should revisit the requirement that Liberty Finance become a locally registered NGO prior to disbursement of loan capital, and that funding can be used to support expatriate technical support. If not, USAID Monrovia should consider direct support to ARC to support the "graduation" of Liberty Finance to a free-standing entity (e.g., locally registered NGO).

<u>Impact.</u>

It is not possible to determine the impact that microfinance has had in the past two years. Financial management in poor households is complicated, with extended family networks being quite adept at piecing together multiple sources of financing to meet their basic needs. In Liberia microfinance loans are probably intermingled with susu and cash box resources, in addition to remittances where available.[4] For that reason, any changes in asset level cannot be attributed to any single source. LEAP reports that after two years they see no appreciable increase in assets. On the other hand, Liberty reports a 50% increase in business assets, based on asset information collected for subsequent loan applications. This is not to say that Liberty is having a greater impact than LEAP, as neither has conducted a controlled study of impact. For example, a complete study of impact would need to include carefully determined control groups, and a simultaneous assessment of both household and business assets (e.g., to ensure that home assets are not being shifted to business assets (e.g., roof repair deferred to buy provisions to sell), or vice versa (stock purchases deferred to buy a tin roof), and also to account for shifts in spending, e.g., stock levels in store stay constant but school fees are paid.). In addition, it is not known nor measured how many people are being kept afloat through each loan or enterprise, or how many children are now in school because of these small loans. Anecdotal evidence suggests that loans are having this impact.

In economies like Liberia's, with a high ratio of non-earners to earners accumulating appreciable amounts of savings is difficult because (1) there is usually not a safe place to keep the money, and (2) there is immense social pressures to share any accumulated money.

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[4] Remittances to Liberia in 2001 totaled some twenty five million dollars from Liberians in the U.S market alone. The World Bank reports that Liberia received remittances of US$50,300,000 in 2003 and US$41,800,000 in 2004. (sources: http://www.theperspective.org/assetrelocation.html) and http://www.yearofmicrocredit.org/docs/countryprofiles/Liberia.doc.

Through susus and cash box clubs Liberians are able to access larger sums of money than would be otherwise possible, allowing people to pay school fees or purchase productive assets, and to generally better manage household cash flows. Microfinance Providers allow people to access even larger sums of money, in order to make larger investments. However, credit alone does not address all the constraints faced by poor households.

For certain client groups, access to finance is their primary constraint. But, in other cases, particularly among the most disenfranchised, other barriers play as much or more of a role. These include: high dependency of non-earners on the entrepreneur, illness, lack of access to quality information about market opportunities, lack of access to appropriate technologies, mistrust, prejudice, racism and sexism, and, illiteracy and innumeracy. This conglomerate of factors threatens the success of microfinance in Liberia. It is likely that microfinance will have an overall positive impact in Liberia, however impact can be enhanced by also addressing other constraints faced by clients.

III. ID of Gaps in Microfinance Activities & USAID's Potential Role

Major Gaps and Challenges.

Gaps in Coverage

If ProCredit and CHF enter the market at their proposed levels, in theory there will be no gaps in terms of loan size in the Liberian market.

	ARC LOSACs Loan & savings clubs	LIBERTY FINANCE	LEAP	LEAD	CREDIT UNIONS - aggregate of LCUNA members	PRO-CREDIT	CHF
Product Type	Revolving savings and credit group	Solidarity, Group Guaranteed Loans	Solidarity, Group Guaranteed Loans	Credit plus	Individual, collateralized loans	Full service bank	loans
Loan Size		70 - 500	70 - 500	150 - 1800	2000 - 5000	$400 - 50,000	50,000 – 150,000
Savings	Yes	Forced, Blocked[5]	Forced, Blocked	Yes[6]	yes	yes	no
Location of Branches	Bong Loffa Nimba counties	Monrovia Central, Redlight & Dualla markets, Gbarnga, Kakata	Monrovia, Harbel, Tubmansburg	Monrovia (LEAD office)	Margibi (2) Bong (1) Montserrado (7)	Monrovia	Monrovia

[5] Both Liberty Finance and LEAP require a savings collateral of 10% the original loan value. No interest is paid on savings, nor is savings depreciated. Savings is only accessible upon leaving the credit program.
[6] LEAD client savings are on deposit in LEAD bank account

However, a tremendous gap remains in terms of (1) market coverage and (2) geographic coverage. Combined the three main microfinance providers (LEAP, Liberty, and LCUNA CUs, reach a total of about 10,000 to 11,000 clients. Thus, most of the population does not have access to formally offered microfinance.[7] Most finance that is available is or will be limited to Monrovia. While rural areas are highly underserved. Only ARC's LOSACs, which basically replicates the traditional cash box model, small NGO activities, and a limited number of credit unions, reach rural areas.

<u>Sector Wide Challenges</u>

Major challenges to the microfinance sector in Liberia include: (1) the limit of economic opportunities available to their client base; (2) non-support for the informal sector by Government policies; (3) low levels of literacy and innumeracy, affecting both client base and staffing of microfinance providers; and (4) a nascent microfinance sector.

In addition to the above challenges there are other gaps as well in terms of (5) the legal and regulatory environment for microfinance and (6) an underdevelopment of supporting services, such as accounting, auditing, etc. However, these gaps do not pose the immediate threat to the development of the sector that the first four do.

And, finally, there is (7) the overarching challenge of working in a post-conflict environment. Factors associated with post conflict include: unresolved factors which precipitated the conflict: confused or absent land titling, lack of trust, latent anger, lingering violence; and destroyed or compromised infrastructure. The most immediate impact on microfinance providers and their clients, and business in general, is the inability to safely move large amounts of capital.

1. <u>The limit of economic opportunities available to their client base.</u> A major challenge to microfinance providers is the nature of their client base. The target clients of the microfinance institutions are almost by definition the poorest and most disenfranchised Liberians. Clients are somewhat transient, with few having permanent housing or places of business, and they can be difficult to track once they relocate, sometimes leaving Monrovia all together. Despite this, Liberty Finance and LEAP have been able to maintain high repayment rates until most recently (discussed below).

Loans currently offered are between $50 and $90 and require weekly or biweekly repayments. The loan size, repayment schedule, borrower capacity, and general state of the economy and infrastructure tend to steer loan use toward petty trade in urban areas, although some production and service activities with low capital requirements are being supported, e.g., tailoring and soap making. Trade is targeted to customers who themselves have low purchasing power and the variety of products for purchase is limited.

[7] The population of Monrovia is estimated around 600,000 and the population of Liberia is estimated to be 3 to 3.5 million.

(2) Non-support for the informal sector by Government policies;

The two major microfinance providers in Monrovia, LEAP and Liberty Finance, both took a hit this past year when the government, in an effort to clean up the streets, cleared out several non-registered (i.e., illegal) street vendors. Many of the vendors were microfinance clients. Clients reported their goods being confiscated or they relocated and were not found. Liberty Finance estimates that 70% of its Monrovia groups had members who were impacted by this dislocation. Liberty's overdue loans (portfolio at risk over 30 days) for Monrovia now stand at 23%, compared to 5.48% at the end of 2006. LEAP also reports overdue loans at 23% of its outstanding portfolio, comparable to its 2006 figure.

According to LEAP, they suffered a major set back in 2005 when UNOPS told people not to repay their loan. As a result of this in May 2005 they had to write off $180,000 worth of loans.

In addition, profitability of legally registered vendors is compromised by visits from the Liberian Marketing Association, who regularly, sometimes daily, stop by to collect "fees".

However, to become legally registered as a sole proprietor requires investment of time and money beyond the reach of most micro-entrepreneurs. Registration and license cost the equivalent of $US 200 and must be renewed annually. This cost does not include transportation costs or other fees extracted in the process. The official time estimate to obtain registration is three weeks, but does not take into account delays and mis-steps in the process.

Historically there has been low value added in Liberia, with the economy based largely on extractive industries for export. This contributed to large class difference and conflict. Manufacturing was 12% of GDP in 2004 and 2005, and current growth of GDP is largely driven by post-conflict reconstruction and specifically cement production.

Agriculture has been and remains the largest contributor to GDP .

[want to add IMF country report 06/167 data and graphics here]

(3) Low levels of literacy and numeracy, affecting both client base and staffing of microfinance providers;

Low levels of literacy and numeracy make clients vulnerable to fraud and exploitation which further erodes their already narrow profit margins. In addition, clients who are able to monitor their loans and savings are able to serve as a layer of control for the microfinance association, ensuring that loan payments are accurately recorded.

Because human capacity in Liberia is limited, trained staff become prime pickings for other organizations and projects. Liberty Finance also reports high staff turnover, with trained staff frequently leaving to for wages sometimes five times higher at other NGOs, donor organizations, or projects.

Staff capacity is also a factor which limits geographic and product expansion. LEAP is exploring the option of offering individual loans but would have to hire and train new staff for this purpose.

(4) A nascent microfinance sector.

While other countries in the region were launching microfinance activities, Liberia was embroiled in civil war. Exposure to microfinance began during the conflict and grew directly out of relief programs. ARC began with zero interest loans to Liberian refugees in Guinea, offering its first loans in Liberia in 2006. LEAP transitioned from a relief to microfinance provider in 2003.

Both Liberty and LEAP have selected Loan Performer as their management information system (MIS). Loan Performer is an off-the-shelf package offered and supported by Crystal Clear Software, a Uganda-based company. Loan Performer is an easy to use software which can produce basic reports needed to monitor and manage a small microfinance program. However, it has several limitations and is unsuited to larger microfinance providers. Loan Performer is designed for portfolio tracking but not for accounting. Normally, a good MIS system would have accounting and portfolio tracking integrated, so that, for example, loan payments of principal and interest would automatically be recorded both in terms of portfolio activity and the provider's accounting ledger. As it is now, accounting spreadsheet figures must be hand entered, and account totals are compared with Loan Performer figures at the end of each month. This risks entry errors as well as opportunities for fraud.

Loan Performer also does not allow for close out at the end of each day, week, or month. Thus, figures can be changed after the close of business. This also provides a climate for undetected mistakes or fraud. If they continue to grow, both Liberty and LEAP will eventually need to invest in new software.[8]

The microfinance sector in Liberia currently lacks the presence of true microfinance expertise, i.e., those who have successfully worked through a variety of challenges such as bringing a microfinance institution to profitability, developing new products, and weathering and recovering from macro-economic fluctuations, fraud, and expansion. CHF, Procredit, and WOCCU will bring this experience.

(5) legal and regulatory issues

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[8] For more information see: CGAP Information Systems Consumer Report - Loan Performer 6.09 (Crystal Clear Software, Ltd.). CGAP. 2003.

Currently financial institutions register under the Financial Institutions Act of 1999, as either a bank or a non-bank financial institution (NBFIs). As noted elsewhere, to register as a bank requires $US 5,000,000. Capital requirements for NBFIs is half that amount. Credit Unions are monitored under the Ministry of Agriculture. There is no legislation specific to microfinance institutions.

The IFC has been actively supporting the development of an enabling environment framework for microfinance, and a national policy is expected in June or July, and a stakeholders meeting is planned for that time. A draft law is expected by August 2007 and will be presented to Congress along with proposed changes to the FIA (banking law).

<u>6) under-development of support services.</u>

As noted earlier, there is only a nascent microfinance network in Liberia. Accounting and auditing capacity is available but limited. High level technical assistance is not available. It is the opinion of the author that the existing microfinance institutions will soon have technical assistance needs beyond the technical capacity of the UNDP project.

<u>(7) Post conflict issues.</u>

At the base of recovering from a post conflict situation is the need to identify and address the factors which originally caused the conflict. Apart from social-demographic issues, the Government of Liberia recognizes that a history of “clustered growth”, i.e., economic growth focused on extraction of natural resources with limited benefits to the majority of people, contributed to economic collapse in the mid-1980s. Lack of clear title to land is also a major issue, since this discourages investment in the land and also because lack of title precludes the use of land as collateral.

Rural populations were and remain particularly unlinked to the economy.[9] The GoL estimates that 86% of rural Liberian households are below the poverty line, with 64% living in severe poverty. Ninety percent of farm households are food insecure. According to the GoL, “[p]roductivity in rural areas is low because of the application of traditional practices, destruction of capital, and the absence of essential support services including access to new technology and finance.”

However, the potential for agriculture to contribute to the economy is great. Even with poor access to input, markets, and low value added, agriculture contributed 51.9% to Liberia’s GDP in 2005.[10] According to the GoL, increased in agriculture production through increased acreage and increased yields will be the major drivers to economic growth, particularly in food crops, and “are likely to have the strongest multiplier effects and poverty impacts.” In addition, extractive industries, such as rubber and timber must result in more domestic value added with greater impact on low income households.

[9] “Growth and Sectoral Performance of the Economy: Recent Trends and Prospects. GoL. Liberia Partners’ Forum. February 13 – 14, 2007. Washington, DC
[10] Ibid. IMF estimate.

However, there is very little processing of agricultural products in Liberia. This due at least in part to the fact that processing equipment and intermediate inputs would have to do be imported. The GoL states that:

> Low growth and productivity of the manufacturing sector has been caused by low investment, corruption, lack of confidence in the effective management of the economy, and deteriorated infrastructure.[11]

According to both ARC and Mercy Corps, increased flows of incomes to rural communities, particularly community-based income generating activities, initially can raise levels of conflict and require careful management and transparency.

So, while ensuring that poor urban households have access to financial services for managing household cash flow and investing in income generating activities, it is also necessary to also assure that rural households have access to financial services needed to increase the productivity. In order for this increased productivity to significantly impact rural households, market linkages must be improved.

IV. Recommendations to USAID/Liberia for areas of focus

With respect to microenterprise and microfinance USAID has at least two areas of strength or comparative advantage: (1) Agency capacity to support for microenterprise and microfinance and (2) a strong field presence with a multi-sector approach.

USAID has been a leader in supporting best practices in microfinance, particularly since the launch of the Microenterprise Initiative in 1994. USAID/Washington's Microenterprise Development (MD) office is a center for technical leadership as well as knowledge management and dissemination in this field. See www.microlinks.org supported by MD for the latest information in microenterprise and microfinance.

Secondly, USAID's multi-sectoral field based approach allows for microfinance to be provided in concert with a variety of private sector and poverty reduction activities, including policy reform, agriculture market and value chain development, and health and education programming.

In a nutshell, USAID should do the following:

1. **Collaborate with other donors in the support of the microfinance enabling environment and general capacity building to the sector.**

[11] "Growth and Sectoral Performance of the Economy: Recent Trends and Prospects. GoL. Liberia Partners' Forum. February 13 – 14, 2007. Washington, DC. Page 6.

The easiest way to do this would be direct financial support for selected activities to the current UNDP project housed at the Central Bank. However, as previously discussed this project/unit is structured in a way that is not ideal, and its purpose and exit strategy is not clear. In addition the Unit's capacity is weak.

An alternative to direct support to the unit would be to provide indirect support for the enabling environment and general capacity building, on an as-needed basis, through a regional or international based contractor or NGO specialized in microfinance.

However their may be political benefits to showing support to the UNDP activity / central bank unit.

2. **Provide direct support to microfinance providers, including but not limited to LEAP, Liberty Finance, and LCUNA.**

Support to Liberty Finance should be geared toward an exit strategy for ARC and a "graduation" strategy for Liberty Finance, i.e., becoming an independent locally registered NGO. An alternative exit strategy would be for Liberty Finance to sell its portfolio, e.g., to LEAP. Support should be in the form of technical assistance and loan capital. Clear conditions should be worked out with ARC in advance of any funding. Support could be directly to ARC, through the UNDP project or through a US-based contractor or NGO specialized in microfinance, or some combination of the three. e.g., direct loan and operating capital, and technical assistance via UNDP project or US-based firm or NGO. Many US-based NGOs are quite familiar with the solidarity group methodology.

Support for LCUNA should be through the World Council of Credit Unions (WOCCU) and should be particularly targeted to open or revitalize credit unions in USAID project areas. These should be open member, community wide credit unions. Support should include development of new products and services to meet the needs of the producers and other value chain actors affected by USAID projects (e.g., LCIP and STCP).

3. **Support the capacity of microfinance clients, i.e., microenterprises and small producers, particular those in rural areas and engaged in the productive sectors.**

This means supporting access to information, through the use of, e.g., cell phone technology, radio, newspaper, as well as supporting general business skills. An example of appropriate materials might be the ACDI/VOCA "Farming as a Business" curriculum.

4. **Support key sectors / value chains in which large numbers of microenterprises and small producers are active or have potential to be active on a large scale, particularly those in rural areas.**

This again refers to the LCIP and STCP projects. One area under-explored at this time is timber. The Liberia Forest Initiative has yet to fully explore how more local value added can be obtained in the timber value chain. It is recommended that a responsible expert in forestry be brought in to conduct a two-week feasibility study of micro and small business opportunities in Liberia. The Program recommended is Smartwood, which is a program managed by the Rainforest Alliance.

The crispest way, the least burdensome managerially, to support all of the above recommended activities would be through one pre-competed mechanism.

V. Feedback from Reviewers

The above report was circulated among USAID staff for comment. Based on comments a few corrections were made to the above text. However, many of the comments addressed big picture issues that could not be easily addressed in the report format, but which should be considered in program design. These comments are included in the annex.

However, to summarize general issues were raised around the need to:

- Understand the extent to which finance is or is not a constraint to business development
- Determine when and how support should be sector wide (microfinance) versus targeted toward activities which would particularly complement USAID projects.
- Develop a more complete understanding of the existing value chains in Liberia
- Support, including financing, all along the timber value chain, including medium sized businesses.
- Look at value added industries (and not just urban vending),
- Consider how smallholders can be linked with larger producers
- Build on and/or professionalizing the susu system
- Develop or support urban centers outside of Monrovia as “enterprise hubs”
- Have a longer term view

Persons Interviewed:

ACDI/VOCA. John "Bick" Riley. Chief of Party Cape Verde Title II Food Security Program and potential Chief of Party, Liberia Food For Progress Program.

American Refugee Committee. Paula Nawrocki, Country Director; Dawn Dahlke, Program Liaison Officer. Tim Nourse, former ARC.

CHF International. Laurin Banner, Country Director; Jhon Manning, Program Officer CHF HQ; Lindsay Momolu Haines, Consultant

DAI. LCIP Project Peter Riley, Chief of Party. Cynthia Mahoney, position?, Arobas… Technical Advisor, RAP; Isaah Manaer (sp), Monitoring and Evaluation; Bacon Tubman, Agriculture Advisor; Simpson Snow, Technical Advisor, Conflict Mitigation; James Warren, Economic Empowerment, Team.

Ecobank Liberia Ltd. Doreen McIntosh. Head Consumer SME Banking.

GOL. Central Bank of Liberia. Kolli S. Tamba II. Senior Advisor. Multi-Lateral Relations and Special Projects.

GOL. Ministry of Commerce. J. Albert Tuning. Assistant Director Foreign Trade.

IFC. Julie Earne. Microfinance Officer, Private Enterprise Partnership for Africa (PEP Africa. (email correspondence)

IITA. Sustainable Tree Crop Program. MacArther M. Pay-Bayee, Program Manager.

LCUNA. Richard W. Reeyah, Managing Director; Alexander T. Bohlen, Chairman LCUNA Board; Henry G. Valhmu, Sr, CU consultant; Mulbah Kezelee, Accountant; Eric F. Gbelee, Auditor; Don F. Kokul, Field Agent.

LEAP. Local Enterprise Assistance Project. Angeline Osegge, Executive Director.

Liberian Business Association. Hon Samuel A. Mitchell, Jr. President.

Liberty Finance. Olivia H. Jones. Branch Manager; Gurley Chea, Senior Accountant; Moussa Sonoe, MIS Officer, (**missing someone?)**

Mercy Corps. Tom Ewert, Country Director; Tricia Matthews, Deputy Country Director; and Todd Flower, Fellow

UNDP. Microfinance Unit. John J. Morris, Jr. National Program Officer; Kenyeh Laura Barlay, Tehnical Servic Provider; Cyrus Sayghe, Sr.

World Bank. Kremena Ionkova, Operations Director.

Summary Information for Main Microfinance Providers

	ARC Loan and savings clubs (LOSACs)	LIBERTY FINANCE	LEAP As of Dec 2006	LEAD As of March 07	CREDIT UNIONS - aggregate of LCUNA members	CHF	PRO-CREDIT
Legal Status	none	ARC Project	Local NGO	Local NGO	Credit Union	Will be NBFI	Will be Bank
Began Lending	2006	2005	2003	2007	1966	TBD	TBD
Number of Branches		5	3	NA	10	Opening 2007	Opening 2007
Location of Branches	Bong Loffa Nimba counties	Monrovia Central, Redlight & Dualla markets, Gbarnga, Kakata	Monrovia, Harbel, Tubmansburg	Montserrado	Margibi (2) Bong (1) Montserrado (7)	Monrovia	Monrovia
Portfolio Outstanding $US		$143,509	$243,984	$13,578	DNA	0	0
Savings Held	18,400	$53,784[12]	$216,449	$3038	DNA	0	0
No of Loans		3,894	4,310	70	DNA	0	0
Average Amt Outstanding		$36.85	$56.61	$450	DNA	0	0
No. of Members		3,984	4,310	70	2628	0	0
PAR > 30 days – Global		5.48[13]	23%	2%	5%		
Operating Self-Sufficiency		25%	88%				
Financial Self-Sufficiency		NA	61%				
Solidarity Group Loan Range		$50 - 90	Under $70				
Individual Loan Range			Up to $500 (beg. '07)		$2,000 – $5,000	$400 - $50,000	$10,000 - $50,000
interest charged		4%/mo. flat	4%/mo. flat	10%	10 - 18% flat	tbd	Tbd
Savings Required		10% (w/ pmt)	10% up front	25% up front			
Loan term		4 – 12 months	up to 6 months	Average 12 months	6-12 months	1-3 years	Tbd
Payments		Bi-monthly	weekly	Monthly 1st pmt interest only	monthly	TBD	TBD
TA Providers	ARC	ARC	World Relief World Hope Int. World Relief - Canada	None	WOCCU	Self	Self

12 As of April 2007.

13 As of April 2007, ARCs Portfolio at Risk was 15% globally and 23.81% for Monrovia. This was attributed to (1) dislocation of vendors in late in 2006, and (2) delay in new loan disbursement resulting from departure of program manager in January 2007, causing a disincentive to repay loans.

Macro, Meso, Micro - what it means….

Financial System Levels and Role of Donors and Investors

	Level of the financial system	Role of donors and investors
Micro Level	A wide range of financial and nonfinancial institutions, including NGOs; savings and credit cooperatives; private and state-owned banks; postal banks; member-owned community organizations; nonbank intermediaries, such as finance or insurance companies; and other suppliers (moneylenders, agricultural traders, etc.). The micro level is the backbone of the financial system.	Strengthen financial service providers to achieve financial sustainability, which is essential to reach significant numbers of poor people and to realize long-term social returns, support experimentation, and provide capital to expand the reach of retail financial institutions when the supply of commercial financing is limited.
Meso Level	Locally available market infrastructure and services, including auditors, rating agencies, networks and associations, credit bureaus, transfer and payments systems, and information technology and technical service providers.	Strengthen the capacity of meso-level actors and extend their services to microfinance—include microfinance in the mainstream, rather than marginalize it.
Macro Level	A conducive, stable macroeconomic and policy environment provided by the appropriate government entities.	Support interest rate liberalization, inflation control, and prudential regulation and supervision of deposit-taking institutions. Donors should not support the direct provision of credit by governments.

Source: Good Practice Guidelines for Funders of Microfinance.

(i.e., "Pink Book") October 2006. 2nd Edition.

For more information on USAID Microenterprise Programming please visit: www.microlinks.org

ANNEX. REVIEWER COMMENTS

Liberia Microfinance Sector Assessment: comments/suggestions

General comment

The assessment covers critical strategic, institutional, logistic, and policy issues regarding the Microfinance industry in Liberia. In each thematic area, a reasonable SWOT analysis is provided and recommendations on a range of investment options for USAID/L's consideration are listed. The presentation and discussion of the analysis could be improved (say by arranging the analysis by thematic area) following a pattern that would improve clarity and permit logical reasoning. Similarly, the link between the constraints identified in the SWOT analysis and the suggested recommendations could be improved. Specific comments are as follows.

1. Assessment of principal actors: In its present form, this section seems to provide stand-alone and/or unrelated information on various groups collectively referred to as principal actors. I my view, using a standard (but relevant) set of variables (for instance, institutional and human resources strength, over all experience and competency in delivery of microfinance products and services, etc for the microfinance institutions; total investment, operational procedures, past experience with microfinance industry, etc for donors group) would allow effective comparative analysis based on which viable recommendations to the Mission can be suggested.

2. Strategic issue: Under the "Impact" section, the paper correctly asserts, "Credit alone does not address all the constraints faced by poor households". I would take this further and hypothesize that "lack of access to credit may not be a factor hindering the target populations ability to create wealth." From the analysis, it seems most actors have made the determination that microfinance is a savior before they even set foot in Liberia. I strongly suggest a section dealing with this –detailed analysis of existing economic opportunities or new opportunities to be created through various development interventions- and the prospect of MF in empowering target clients effectively exploit such opportunities be provided. In other words, the analysis needs to establish if in fact lack of access to MF is a major constraint to development. And if it is, accurately describe the underexploited economic opportunities and suggest appropriate intervention options-both core and support-to help target clients successfully engage in productive activities. It should be noted that the organizations involved in the management of donors-provided MF resources also live off it. Regardless of the conviction and enthusiastic participation of the multiple players (MF product/service providers'), based on the impact analysis section of the assessment, the outcome has not been very encouraging. It is critical that the reason for the poor performance of the past effort is established before advising the mission to invest more resources. I was also intrigued with the findings that the credits being provided are could be as small as $50. Do we have a sense cost/benefit structure of the management of these types of loans?

3. Linking recommendations to the identified constraints.

Constraints	Recommendations
1. Limit of economic opportunities available to their client base 2. Non-support for the informal sector by Government policies 3. Low levels of literacy and innumeracy, affecting both client base and staffing of microfinance providers; and 4. "Distorted of lack of conducive" legal and regulatory environment for microfinance 6. An underdevelopment of supporting services, such as accounting, auditing, etc 7. Challenge of post-conflict environment.	a) Collaborate with other donors in the support of the microfinance enabling environment and general capacity building to the sector b) Provide direct support to microfinance provides, including but not limited to LEAP, Liberty Finance, and LCUNA c) Support the capacity of microfinance clients, i.e., micro enterprises and small producers, particularly those in rural areas and engaged I n the productive sectors d) Support key sectors / value chains in which large numbers of microenterprises and small producers are active or have potential to be active on a large scale, particularly those in rural areas.

Per the above table, it is possible to guess witch interventions are intended to address which constraints. However, not only the numbers do not match but also the relationships are not obvious for all the constraints and recommendations, which I think, can be tightened. In addition, I think it would be helpful to consider the following when revising the document.

1. What is the purpose of providing indiscriminate support to all MF providers (recommendation 2) and their clients (recommendation 3)
2. How strategic is what appears to be a micro level operational issue-focused recommendation "Support for LUNA should be through the World Council of Credit Unions (WOCCU) and should be particularly targeted to open or revitalize credit unions in USA project areas." Unless this is rationalized based on the identified strength and weakness of the various institutions and institutional arrangements, it is not clear why this recommendation is considered viable.

Should you require additional information or clarification on the above, please do not hesitate to call me.

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Colleagues,

Here are some ideas that can be included in the report.

In trying to assess the microfinance sector in Liberia, there are many lessons to be learnt from what obtains in the informal sector. That sector is responsible for the employment of 80-90 percent of the country's labour force. It therefore provides a window not only on the magnitude of the microfinance sector in the country but accordingly also on the demand for microfinance services.

However, most of the informal sector activities are in the urban areas with Monrovia dominant. This urban bias has affected access to microfinance in the rural areas although agricultural cooperatives and farmers' groups have attempted to assist in that regard. Nonetheless, the demand for microfinance services in the rural areas far exceeds the supply even among those households that participate in vibrant rotating credit and savings associations – the Susu phenomenon.

While agreeing with the four proposed areas of focus for USAID, I would further suggest that there be more of a concentration on collaboration as well as direct support to benefit from existing delivery mechanisms while at the same time using the option of direct support to be able to support new areas of demand for microfinance. These are areas that will both enhance livelihoods and go beyond the traditional ones of urban street vending. In other words, support for more viable and sustainable activities such as processing of agricultural products, for example, and other cottage industry activities.

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Dear Broderick and all,
Please see my comments and some edits in the attached. In general I found the report very informative and useful. It would be enhanced by a short description of how microfinance works with particular value chains of relevance to Liberia. Also I'd like to learn how microfinance can work to help entrepreneurs develop productive enterprises as opposed to just petty trade. Finally, I think the report and future activities should focus on the roles of medium scale towns as enterprise hubs...midway between Monrovia and rural areas with very little infrastructure. There very much needs to be a further analysis of how microfinance will work with specific value chains, tied into a market and scenario analysis: what are the needs in Liberia in the next five years for specific commodities for local and regional markets? Building supplies? More processed food? Furniture? How can rural smallholder producers be linked to larger producers--and is there a role for larger producers to provide credit and other inputs to smaller producers (say in rubber or cocoa sectors)? Would this automatically produce unwanted dependency and unfavorable terms for the smallholders? Is there a way to increase the professionalism of credit groups/tontines so that they can serve broader needs? Can they be linked to producer groups for example?
Lots of questions and I look forward to more discusion.

Diane

Diane Russell
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USDA Biodiversity & Social Science

Hi all,

From a forestry perspective, the feasibility analysis recommended for micro and small enterprise opportunities in the timber/forestry sector (under Recommendation #4 of the assessment report) is definitely one of the actions that needs to be done in order to understand how to best move community forestry activities forward in Liberia. I will try to get documentation from some work in Liberia sponsored by ICRAF and CIFOR on livelihoods and markets for forest and non-timber forest products to Anicca. Not surprisingly, their work in rural areas revealed very limited credit options, mostly through susus or saving and credit clubs. I also would add a couple of points to consider for any potential USAID microfinance activity:

1) While timber will likely be a principal product for micro and small enterprise opportunities (with associated value chains), it may also be useful to analyze the opportunities to market other forest products or a combination of products, including timber. In any case, most rural households located near forested areas operate by harvesting and selling a variety of products over the course of a year, many of which come from forests, whether native or plantation.
2) At this point in time, credit unions would seem to be the most logical potential source of credit for the types of communities that would benefit from micro-finance in the rural areas. However, other potential producers in the timber/forest product industry further up the value chain might be located in areas where they would have access to a broader range of finance options and this should also be assessed in any analysis of market viability for timber and perhaps other forest products.
3) Anicca mentions the ACDI/VOCA "Farming as a Business" curriculum as a potential mechanism for building capacity for understanding and fully taking advantage of microfinance possibilities at the local level under Recommendation #3 and I wondered if timber or other forest products were included at all in this curriculum or if there might be a value in developing/adapting a curriculum for "Forestry as a Business" or a combination of the two.

Best of luck in moving this activity forward.

Regards,

Dan

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