• Agriculture and rural development are priorities for the Government of Liberia. Despite great challenges for the sector, there is confidence that the latest Minister for Agriculture can advance the vision of transforming the country’s agriculture from subsistence to commercial farming.

• Nevertheless government spending on agriculture is low, averaging less than 3% of total expenditure. Most funding for agriculture and rural development comes from external development assistance and this support is expected to continue over the next five to 10 years.

• While the government aims to maximise grant-financing it does not exclude borrowing at highly concessional terms to access larger volumes of finance; primarily for agriculture infrastructure projects that are seen as having higher economic returns.

• Alignment to national priorities is key for the government, followed by long-term financing and project sustainability. Speed of delivery and flexibility are also valued, given the fragility of the country, which has been severely damaged by past crises such as the Ebola outbreak of 2014–2015.
**Introduction**

**Background**
Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional $267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF) to agriculture and rural development rose slightly from $10.2 billion in 2015 to $10.9 billion in 2018. This is only a fraction of the total ODF disbursements of $2.54 trillion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

**Objectives, definitions and methodology of this country case study**
This country case study summarises key findings from a country analysis of financing for rural development in Liberia. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Liberia (GoL) over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale up to support public investment in rural development.

**Definitions**
What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details): Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value-chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development: We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a perfect measure,
but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions
This country case study reflects our four main research areas:

• the government’s priorities for public investment in inclusive and sustainable rural development
• financing for public investment in inclusive and sustainable rural development
• borrowing (external development assistance) for this public investment
• the government’s preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect on the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology
We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature and data analysis, which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Liberia, we held 12 interviews between April and May 2020, and received 11 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Liberia: country context
Liberia is a low-income country (LIC) and, as such, is eligible for finance through the International Development Association (IDA). Liberia is classified as a fragile country by the World Bank: the result of its prolonged civil war (1989–2003), the Ebola epidemic of 2014–2015, and the limited capacity of its public administration. Food security and malnutrition are two major concerns (IFAD, 2019).

Liberia is a resource-rich country (particularly in gold, diamond and iron ore) (ibid.). According to the ND-GAIN Index (ND-GAIN, 2020), it is the eighth most vulnerable country to climate change and the 26th least-ready country in terms of improving its resilience. It is prone to climate shocks, with poor agriculture practices, illegal logging and the high level of poverty (80% of its people live on less than $1.25 per day) increasing its vulnerability and undermining the resilience of the population (IFAD, 2019).

The country achieved high economic growth from 2010 to 2013 as a result of favourable world prices for its commodities. However, the economy contracted during the 2014–2015 Ebola crisis, and many foreign-owned businesses moved out, taking their capital and expertise with them (IMF, 2019).

The Ebola epidemic forced the government to divert scarce resources to the fight against the virus, reducing the funds available for much-needed public investment. The high cost of tackling the Ebola epidemic coincided with a fall in economic activity and reduced government revenue, although some of this

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3 Government strategies, including the Pro Poor Agenda for Prosperity and Development 2018–2013 (PAPD) (GoL, 2018), debt management documents and sector-specific plans (such as the Liberia Agricultural Sector Investment Plan (LASIP I and II, 2010 and 2018) and other documents from the Ministry of Agriculture), Article IV from the IMF and World Bank diagnostic tools.

4 Spanning IMF, OECD and World Bank sources.
loss was offset by higher donor support. The economy had been contracting since 2013, growing only 1.2% in 2018 (ibid.).

Half of the population live in rural areas and agriculture plays a major role in Liberia’s economy. In addition, more than half of Liberia’s population (50.9%) is classified as poor, and poverty is far higher in rural areas (at 71.6%) than in urban areas (31.5%) (LISGIS, 2017). Youth unemployment, however, is quite low, at just 2.9% of the total labour force aged 15–24 in 2019. Agriculture contributes an average of 36.4% real gross domestic product (GDP) and employs around 45% of work-age population (latest data from 2017 (World Bank, 2020a)).

**Government priorities for rural development**

Agriculture and rural development are key priorities for Liberia. When President George Weah addressed the nation in January 2020, he stressed the important strategic position of agriculture in the country’s economic development, after roads and infrastructure. He added that ‘greater investment in the sector will not only guarantee food security but will also provide jobs and a source of livelihood for thousands of families across Liberia’ (Kollie, 2020).

As a linchpin within Liberia’s Pro Poor Agenda for Prosperity and Development 2018–2013 (PAPD) (GoL, 2018), the agriculture sector is recognised as being vital for the structural transformation of the economy. The aim is to move from subsistence to commercial farming in important value chains such as rice, cassava, horticulture, cocoa and palm oil.

The sector has the potential to become more competitive and reduce the import of agricultural commodities, with 70% of the country’s food currently imported. These commodities could be produced in-country, where there is also great potential for investment, particularly in agro-industries (ibid.).

The specific investment strategy for agriculture is set out in the second-generation Liberia Agricultural Sector Investment Plan II (LASIP II), covering 2018–2022, which has five major and inter-related strategic components and policy objectives: food and nutrition security; competitive value chain development and market linkages; agricultural extension, research and development; sustainable production and natural resource management; and governance and institutional strengthening. LASIP II also focuses on seven value chains: rice, cassava, horticulture, palm oil, cocoa, rubber and livestock (MoA, 2018).

Despite the country’s fragility and enormous challenges in the agriculture sector, our interviewees are confident that Liberia’s latest Minister for Agriculture (appointed in January 2020) can advance the vision of transforming agriculture from subsistence to commercial farming. A number of challenges inherent to a fragile context were mentioned consistently by our interviewees, and these match the constraints identified in LASIP II. They are, in particular: a weak private sector and policy and business environment; inadequate infrastructure and the low level of funding for agriculture; human resources challenges (including technical and institutional capacity); very limited agricultural research and development; weak natural resources management; value-chain challenges; and the subsistence farming mindset, which makes it difficult to make the leap to commercial farming.

Value-chain development is the government’s top priority for public investment in inclusive and sustainable rural development over the next five to 10 years. The focus on value-chain development was mentioned consistently during our interviews as the number one priority, corroborating the survey results and the government priorities outlined in the PAPD (GoL, 2018), the LASIP II (2018) and the latest Minister’s vision for the transformation of Liberian agriculture. This vision aims to elevate

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5 Liberia has one of the lowest world indicators on business environment, ranking 174 out of 190 countries (IMF, 2019).
Liberian farmers from subsistence farming to commercial smallholders.\(^6\) Rural basic infrastructure (including water and irrigation systems, local roads, local energy generation and storage facilities) has been also mentioned as a second priority for rural development during our interviews and by 73% of our survey respondents.

There are mixed views on whether national strategies target particular groups of people for agriculture development. While women and youth are mentioned in the national strategies, it emerged from our interviews that it is not evident whether or not these groups are being targeted during the implementation of projects. More consistently however, smallholder farmers were mentioned by interviewees as a key target group. This was seen as reflecting the vision of the Minister for Agriculture and the country’s determination to move to more commercially oriented farming by investing in the development of the entire value chain, from the producer to the market.

The Covid-19 pandemic has reinforced the importance of agriculture and rural development and the government is committed to responding to this crisis. At the time of writing, the interviewees were worried that a Covid-19-triggered global recession could cause shortages of rice (with 95% of Liberia’s rice supply imported from India) and other food shortages when the current stock – adequate for around six months – runs out.

An emergency plan for food security was in the making just before the interviews took place (March 2020). This focuses on four priority areas: access to finance (public–private partnerships and innovative financing); the expansion of cultivation (to boost/fast-track local food crops); coordination across all partners; and an agro-processing stimulus (MoA, 2020).

### Financing rural development

#### Public finance

The economy suffers from a highly concentrated export structure, a narrow revenue base, heavy reliance on foreign aid and a structural fiscal deficit. Government revenues and expenditures have been stable over the past five years, averaging 29.4% and 34% of GDP, respectively. The fiscal deficit, however, has been widening since 2014, from 2.9% of GDP in 2014 to 4.9% in 2019 (World Bank, 2020a). This has been attributed largely to the under-performance of revenue (with limited domestic revenue mobilisation and expenditure adjustment) and a sharp decline in grant since a peak in 2014–2015 (IFAD, 2019).

Government agriculture spending as a percentage of total expenditure has been very low: never exceeding 3% of total expenditure. Liberia’s annual budgetary allocation to the agriculture sector has been declining over the years, falling from 2% in the fiscal year 2010/2011 to just 1.1% (or $5.8 million) in 2019/2020\(^7\) (GoL, 2019). For the next budget (2020/2021), we have been informed that the government was projecting a large increase in its own budget to the sector (a budget figure of around $30/35 million was mentioned by some interviewees); however, interviewees acknowledged that this amount was still far too small to tackle the funding needs of the sector.

While the GoL is guided by Comprehensive Africa Agriculture Development Programme (CAADP) commitments, the SDGs and the vision of the Economic Community of West African States (ECOWAP) for its agriculture sector, expenditure does not match the prioritisation given to the sector in national strategies. Liberia scores 0.9 out of 10 in terms of the CAADP commitment and is not on track in implementing

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\(^6\) During our interviews, it emerged that LASIP II (2018) is currently under revision, mainly as a result of the change in ministerial management that took place in January 2020. The following areas were mentioned by interviewees as in need of updating in LASIP: the leveraging role of the private sector in the agriculture sector, a focus on strengthening the entire value chain (and not only on growing yields), and an emphasis on impact indicators rather than on outputs.

\(^7\) In all, 64% (or $3.7 million) of the total envelope budget of $5.8 million for 2019/2020 is to pay employees, with 30% going to an agriculture fund ($1.5 million) and 6% to rice value chain development and the development of improved varieties and seeds of basic (staple) food crops.
the Malabo Declaration on agriculture transformation in Africa (NEPAD, 2017).

**External development assistance**

Aid dependency is still high, though falling. So far, the GoL has largely received concessional finance – essentially grants and concessional loans from sovereign donors and multilateral development banks. The former accounts for the largest flow by far, averaging 73% of total ODF between 2014 and 2018. OOF volumes have been very low, with Korea disbursing $160 million and $184 million in 2015 and 2017 respectively (Figure 1). Aid dependency peaked in 2015 following an increase in the volume of resources to tackle the Ebola crisis, and despite being still very high (20.8% ODA/gross national income in 2017) it has been falling since 2014.

The vast majority of ODF comes in the form of project-type interventions, which have been taking a larger share of the type of aid composition in recent years (rising from 70% in 2014 to 80% in 2018), followed by core contributions and pooled programmes, funds and contributions to specific purpose programmes and funds managed by implementing partners. The United States is the largest and most dominant donor by far, providing approximately 43% of total ODA (gross ODA, 2017–2018 average), followed by some distance by the IDA (10%), and then the African Development Fund and EU institutions with the same share (7%).

ODF plays a key role in the agriculture and rural development sector. Despite irregular contributions from development partners since 2009, the share of agriculture and rural development aid (as a percentage of total aid) has increased, rising from 6% in 2009 to 13.4% in 2018 (Figure 2). This reflects the prioritisation given to the sector by the government and, in particular, a growing commitment to rural development (rather than the agriculture sector alone).

ODF comes primarily from the World Bank (through concessional loans), followed by the International Fund for Agricultural Development (IFAD) ($33 million in 2018). It is interesting to note that, while the share of agriculture and rural ODA grants (as a percentage of total ODF) was significant until 2016 (rising from 77% in 2014 to 95% in 2016), this share dropped to 40% in 2017 and 33% in 2018. This reflects the increased commitments to the rural development sector (vis-à-vis the agriculture sector), particularly in the form of ODA loans.

Most of the funding to the sector comes from external development assistance, and there is a strong expectation among our interviewees this will continue over the next five to 10 years. The agriculture investment plans in LASIP II (MoA, 2018), which follows LASIP I, (MoA, 2010),

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**Figure 1** Official development finance disbursements to Liberia, across sectors

![Figure 1](image-url)
were understood by interviewees to be quite ambitious in nature. While LASIP I budgeted $947.7 million for the agriculture sector (internal and external sources), only $409.3 million was mobilised, leaving a funding gap of $538.4 million in 2017.

LASIP II is even more ambitious, setting a budget of $1.9 million, which represents a 372% increase when compared to the resources mobilised by LASIP I. While 90% of the funding in LASIP I came from multilateral and bilateral funding, the government wants to reduce dependency on aid in the long term by diversifying its sources of finance, with a particular focus on the role of private sector, and the latest ministerial management reflecting this vision. Nevertheless, and considering the enormous challenges in the business environment, interviewees believe that agriculture and rural development will still be funded largely by development partners, and that most of this funding will come in the form of grants, followed by highly concessional loans.

Figure 2  Share and composition of official development finance to agriculture and rural development

Note: ODA, official development assistance; ODF, official development finance; OOF, other official flow.
Source: OECD (2020)
Access to additional financial resources at below market rates is the most value-added aspect of external development assistance. This is not surprising, considering the prioritisation of the sector, an ambitious investment plan and its large funding gap, and the huge dependency on development partners. Furthermore, interviews and survey results reveal that policy advice through technical assistance is also a key attribute of development assistance.

**Borrowing for rural development**

**Debt trends and composition**
The risk of debt distress for Liberia is moderate at present, but even minor changes in the terms of debt would nudge the country closer to a higher risk of debt distress. This could be triggered by even a small worsening of the terms, or a failure to adjust the fiscal stance sufficiently. The government is committed to adhere to its ceiling on non-concessional borrowing. Likewise, catalysing donor financing in the form of grants is critical for the sustainability of public and external debt (IMF, 2019).

Liberia’s debt composition is dominated by concessional borrowing (about 74% of total public and publicly guaranteed debt), which comes mostly from multilateral organisations (66%), with the rest (26%) being on non-concessional terms from both multilateral and bilateral organisations (2018 data from World Bank, 2020b). The government does not borrow commercially and has not, so far, issued bonds. Debt relief has been granted to Liberia as of April 2020 as part of the IMF’s response to the impact of the Covid-19 pandemic.

The combination of prudent debt management, a large composition of concessional borrowing – primarily from multilateral development banks – and limited access to non-concessional financing all point to a limited appetite and future demand, at least in the medium term, for non-concessional borrowing, not only for agriculture and rural development, but also for every other sector.

**Policies and preferences for borrowing and debt management**
The borrowing plan is driven by the PAPD (2018) agenda. At the time of writing, there was no approved debt strategy, as the last one expired in 2016. The government is drafting a series of debt documents, including a new debt management strategy, guided by the principles and priorities indicated in the PAPD (2018) and a manual that guides the approval of loans.

Borrowing is a viable option for sectors prioritised in the PAPD (2018), and particularly for infrastructure, which is understood to generate higher economic returns. There are no restrictions when it comes to borrowing for specific sectors, and the government is willing to consider borrowing if the terms are favourable and aligned with the PAPD (2018). Furthermore, it emerged from our interviews that the government does not exclude borrowing for agriculture, given its prioritisation in the PAPD, if it needs to access larger volumes of finance.

There is a threshold on government borrowing. Debt is to be held at 60% of the GDP from the previous year, and this is enshrined in the Public Financial Management Act 2009 (GoL, 2009). At present, the public debt ceiling is $200 million a year and this is reviewed annually with the main objective of the government being to avoid increasing its risk of debt distress.

The government prioritises grant funding in general followed by highly concessional loans from bilateral and multilateral donors. It aims to maximise highly concessional loans and accepts project proposals when its financing has a grant element of at least 35%. The government is also keen to blend loans that do not meet these requirements with grants from other donors. Grants available to finance some components of projects was seen as the most valued characteristic of financial instruments by our interviewees. In addition, low interest rates and long maturity periods are also valued by government officials, with our interviewees suggesting that the government would like to negotiate longer repayment schedules (40 years) and longer grace periods (six to 10 years).

**Preferences and instruments for rural development**

**Preferences for development assistance for rural development**
The alignment of development assistance to national priorities is key for the government. It
was clear from our interviews that this is the top priority for the GoL in terms of the characteristics of external development assistance. This is confirmed by the results of our survey, with 82% of respondents seeing alignment as an extremely desirable feature of development assistance, with the PAPD (2018) being the main guiding document, as noted earlier.

Long-term financing is also critical for investment in agricultural and rural development as interviewees believe this is a sector that needs sustainable financing. This is particularly relevant in this sector as most of its funding supports projects and there is no specific sector budget support. Project sustainability and durability are therefore desirable features of development assistance.

Speed of delivery and flexibility were also cited as particularly important, and even more so as a result of the Covid-19 pandemic, as the government expects donors to provide more flexible and faster funding. Being a fragile country, having emerged from a prolonged civil war and the Ebola crisis, the GoL is worried about the impact of the pandemic and places a particular emphasis on flexible funding that can respond to emergency needs. This was the case in the past, when flexible funding was critical to restructure and redirect funding to where it was needed the most. As our interviews took place, a national food emergency plan was being drafted that would emphasise the reallocation of some existing resources and the need for increased funding from development partners.

Our survey results also showed that predictability was seen as desirable or extremely desirable by 73% of respondents. This is in line with the GPEDC results (2018), which identify the annual predictability of development cooperation in Liberia as high, with 98% of funds disbursed as scheduled (OECD and UNDP, 2020).

The first aid management strategy of Liberia was launched in September 2020. The government, through the Ministry of Finance and Development Planning, has launched the first National Aid and NGO Policy of Liberia (NAPL) to the public, together with a reporting tool: the Liberia Project Dashboard (LPD). The LPD is an aid information management system that will be used to collect, analyse and report information about external assistance programmes and projects. It emerged during our interviews that this aid management strategy signals a new era of aid management in Liberia, reinforcing the government’s commitment to transparency and accountability in the development and implementation of aid programmes and projects.

**Demand for other types of instrument**

Across the instruments suggested in our questionnaire, project preparation facilities (to support policy reform and capacity-building) came particularly high on the list, with 82% of respondents suggesting a strong demand from the government. This was corroborated by our interviewees, with a few stakeholders mentioning strategic programme design as a critical issue for the country, i.e. the alignment between programme design, policy and action.

Taking into account the fragile situation of the country, particularly after the Ebola epidemic, respondents also highlighted the need for the catastrophe risk drawdown option (CAT-DDO) to address shocks related to health-related events. This instrument had already been requested by the government in the event that the country faces another health crisis.

**Conclusions**

Our analysis of the experience and perspective of Liberia on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Agriculture and rural development are core priorities for the GoL, as reflected in both national and sectoral strategies. Despite the country’s fragility and the enormous challenges facing the sector, there is confidence that the latest minister for agriculture can take forward the vision of transforming Liberian’s agriculture from subsistence to commercial farming.

- Nevertheless, government expenditure in the sector has been very low in recent years, averaging less than 3% of total expenditure. Most of the funding for agriculture and rural development comes from external
development assistance and there are expectations that this will continue to be the case over the next five to 10 years.

• While the government aims to maximise grant-financing, it does not exclude borrowing at highly concessional terms for the sector in order to access larger volumes of finance. However, this would be primarily for agriculture infrastructure-related projects, which are understood to generate higher economic returns.

• Alignment to national priorities is key for the government, followed by long-term financing and project sustainability. Speed of delivery and flexibility were also highlighted, given the fragility of a country that has been severely damaged by crises in the past, such as the Ebola epidemic.
References


Annex 1  List of interviewees

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<thead>
<tr>
<th>Name</th>
<th>Institution</th>
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<tbody>
<tr>
<td>Mark Eghan</td>
<td>African Development Bank (ADB)</td>
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<td>Robert Fagans</td>
<td>Ministry of Agriculture</td>
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<td>Augustus Flomo</td>
<td>Ministry of Finance and Development Planning</td>
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<td>Karla Hershey</td>
<td>World Food Programme (WFP)</td>
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<td>Frederick Krah</td>
<td>Ministry of Finance and Development Planning</td>
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<td>Moffatt Ngugi</td>
<td>United States Agency International Development (USAID)</td>
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<td>Mariatou Njie</td>
<td>Food and Agriculture Organization (FAO)</td>
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<td>Adetunji Oredipe</td>
<td>World Bank</td>
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<td>Jakob Tuborgh</td>
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<td>Ministry of Finance and Development Planning</td>
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<td>Moses Zinna</td>
<td>University of Liberia</td>
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Acknowledgements

This country case study is part of a project that aims to map future demand from recipient country governments for external development assistance from official donors to support public investment in inclusive and sustainable rural development over the next five to 10 years. It also aims to explore the financial and non-financial terms and conditions of this assistance. Its analysis is included in the synthesis report for this project (Prizzon et al., 2020), which reviews the experiences of 20 low- and middle-income countries.

We are grateful to the interviewees who gave up their time to take part in this project, share their insights and provide feedback to this country case study, particularly during the challenging times of spring 2020. Their contributions were vital to corroborate and challenge our initial analysis.

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