"The Establishment and Investment in Development Finance Institutions in Liberia: Key Catalyst for Liberia's Post-War Economic Growth and Sustainable Development"

Authored by **Andy Saye Gbatu**, Ph.D. candidate studying Management with a specialization in Finance at Texila American University in tandem with the University of Central Nicaragua.

Abstract

This policy research paper aims to review the literature on development finance institutions as well as highlight the conspicuous and acute shortage of development finance institutions (DFIs) in Liberia, at the time Liberia is grappling with the mobilization of needed capital to catalyze its post-war economic revitalization process to attain the desired economic growth and sustainable development. With the gigantic and complex development needs of Liberia, this paper uncovered that Liberia currently has only one vibrant DFI which is incapacitated to provide the requisite capital to stimulate economic growth and sustainable development in strategic sectoral areas of the country's economy. In response to this gap, this paper recommends the intentional establishment and investment in DFIs in Liberia to coalesce and provide funding that commensurate with Liberia's long-term economic growth and sustainable development needs.

Keywords: Development Finance Institutions, Economic Growth, Sustainable Development, Gross Domestic Product, Official Development Assistance, Sustainable Development Goals

Introduction

Liberia's emergence from civil war and the aftermaths of the outbreak of the Ebola Virus Disease and Covid-19 has warranted the need for the mobilization of huge capital for economic revitalization geared toward the promotion of economic growth and sustainable development. Given the nuance of development finance institutions in propelling economic growth and sustainable development, the deliberate establishment and investment in development finance institutions in Liberia will ineluctably catalyze the much-desired national development.

Development finance institutions (DFIs) are defined as specialized development banks or subsidiaries set up to support private sector development in developing countries. Moreover, development finance institutions (DFIs) invest in the private sector to create jobs, deliver impact, and generate a financial return. DFIs provide financing in the form of loans, guarantees and equity positions to the public or private sector, aimed at building shared economic growth and sustainable development while remaining financially viable in the long term. From a broad perspective, the term development finance is denoted as the field or area of finance involved in the utilization of public funds or resources to smoothen private sector investment in low-income as well as middle-income countries that are characterized by high commercial and political risks which do not favor the attraction of purely private capital; and where the investment is likely to generate a positive impact on

development. Fascinatingly, the significance of DFIs being appropriate tool to tackle poverty globally and lower income inequality has increased contemporarily. This relevance of DFIs places it as a complementarity to official development assistance (ODA) and indispensable factor for the actualization of the United Nations' Sustainable Development Goals (SDGs).

The elapse of World War II marked an important and indelible era of development associated with mankind which began with the rise of the United Nations, a global body created to preserve peace world-wide. In a quest to effectuate its role in consolidating global peace and security, the UN has undertaken several milestone projects since its establishment including the Millennium Development Goals (MDGs) which sought to enhance global peace as well as lower income inequality between developed and undeveloped countries around the world. Moreover, in 2016, the UN adopted the Sustainable Development Goals (SDGs) as its development agenda. The enormity of the tasks associated with achieving these goals involving developed and undeveloped countries requires the coalescence and utilization of large amount of financial resources from public and private sources. This has elevated the attention of development finance amongst different stakeholders encompassing policymakers, researchers, academics, and development practitioners.

According to H. Jung, the field of development finance is broadly taxonomized into public finance, private finance, domestic finance, international finance, direct finance or market-based finance, indirect finance or institutional based finance, intentional finance, unintentional finance, and blended finance. To facilitate understanding surrounding how each of these financing types works, scanty descriptions are provided for each of the classification of development finance. Domestic public financing involves increasing equity through poverty alleviation, provision of public goods and services as well as managing macroeconomic stability. For domestic private financing, it includes the flow of finances from households to multinational corporations, and profit-oriented investments. As it relates to international public financing, it involves monetary transaction including borrowing between two or more countries. In terms of international private financing, it involves the features of domestic private financing covering foreign direct investments (FDIs) and cross border loans. With direct financing/ market-based financing, direct borrowing is done from financial markets instead of using an intermediary or third-party. Whereas indirect financing/ institution-based financing is defined as the process of borrowing from financial markets through the use of intermediary or third-party. When it comes to intentional financing, is the financing process that involves the deliberate allocation of funding to finance certain projects or activities to achieve specific results. Unlike intention finance, unintentional financing is defined as foreign trade or investment without any basic selfless intention to help developing countries but leading to outcome of developing those countries. And blended finance is the hybrid of private and public finance which is an innovative partnership between private and public financing.

The ever-growing significance of DFIs in addressing global poverty and income inequality coupled with Liberia's strife for economic growth and sustainable development taking into account the achievement of SDGs, requires the establishment and huge deliberate investment in development finance institutions (DFIs) in Liberia to guarantee, catalyze, and sustain Liberia's long-term or sustainable development in all key sectoral areas of the country's economy including agriculture, forestry, mining, manufacturing, infrastructural development (roads & energy), health, education, tourism, transportation, real estates, service, IT, security, and communications. As key players in the market economy, these DFIs with their high creditworthiness, will mobilize sufficient capitals or resources from private sources, local and central government, bilateral and multilateral agencies to devise programmes of economic adjustments to direct as well as redirect the economic growth and sustainable development process in Liberia. The purpose of this paper is to provide an antidote for Liberia's long term economic growth and sustainable development drive by advancing policy prescriptions for policymakers to consider aimed at re-ideating and reconceptualizing Liberia's contemporary development models in the midst of the paucity of resources.

The rest of this paper is organized as follows. Section one presents the introduction, section two covers literature review, section three encompasses the results and discussion, section four includes the conclusion and section six covers the references consulted for the development of this article.

Literature Review

Development finance institutions (DFIs) are increasingly gaining traction in the academic literature bordering on financial and economic development due to their cruciality to job creation, poverty reduction, lowering of inequality and the promotion of sustainable development in low and middle-income countries. Study shows that DFIs have existed for over half a century, with the premier one being the UK's CD Group founded in 1948 [1]. DFIs are considered as specialized development finance institutions that aim to foster the private sector in developing countries. Nevertheless, for a significant portion of the twentieth century, acute limitations were imposed on the ability of DFIs to finance development [1]. Up to the mid-1980s, many developing countries placed heavy reliance on centralized state economic planning and foreign aid. The financial crises of the 1980s and 1990s that began with Mexico [2] and other economies like Argentina [3], India [4], and Poland [5] pushed countries to open up their markets and liberalize their economies from state control. With that, private sector activity started to expand which eventually grew the relevance of DFIs [5].

The advent of the twenty-first century saw the dilation of the work of DFIs [6]. The multiplicity of portfolio ranged from investments in the mobile telephony industry in Africa to renewable energy projects in South Asia. A study conducted by the CSIS Project on Prosperity and Development found that the annual investments of DFIs have seen a seven-time increase, leaving from US$12 billion in 2000 to US$87 billion in 2017 [6]. Comparatively, official development assistance (or foreign aid) only tripled, increasing from US$54 billion to US$146 billion within the same period [6].

Virtually two decades following the rise of DFIs, they became clothed with the authority to effect higher levels of investments and leverage more than one form of financing instruments. By way of several legislations, donor countries [7], have either created or increased the functions of their DFIs [8] which resulted to an outstanding improvement in the soft-power toolkit to address the needs of sustainable economic development. Currently, the shareholders of some of the world's largest DFIs are also calling on them to expand their investments in countries affected by conflict and fragility [9]. Firms and ventures found in these conflict prone environments have a high-risk profile, making it virtually impossible to appeal to valuable investments. As a result of the vicious cycle created, fragility disincentivizes private investments and inhibit economic growth which eventually sustains poverty levels.

DFIs provide a broad range of financial services in developing countries, such as loans or guarantees to investors and entrepreneurs, equity participation in firms or investment funds and financing for public infrastructure projects. DFIs can initiate or develop projects in industrial fields or in countries where commercial banks are reluctant about investing without some form of official collateral. DFIs are also active in financing small and medium-size enterprises, supporting micro loans to companies, often viewed as too risky by private sources of financing. DFIs are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms. There are approximately 24 DFIs worldwide, which can be categorized into multilateral and bilateral entities. Bilateral DFIs are either independent institutions or part of larger bilateral development banks [10].

Table 1: Showing major bilateral DFIs.

Name of DFI	**Location of Headquarters**
Oesterreichische Entwicklungsbank-OeEB	Austria
BIO	Belgium
BMI-SBI	Belgium
FinDev Canada	Canada
IFU	Denmark
Finnfund	Finland
AFD/Proparco	France
KfW/DEG	Germany
CDP/SIMEST	Italy
FMO	Netherlands
Norfund	Norway
SOFID	Portugal
COFIDES	Spain
Swedfund	Sweden
SIFEM	Switzerland

CDC Group	United Kingdom
OPIC	United States of America

Source: OECD

On the other hand, multilateral DFIs are private sector arms of international financial institutions (IFIs) that have been established by more than one country, and hence are subject to international law. Their shareholders are generally national governments but could also occasionally include other international or private institutions. These institutions finance projects in support of the private sector mainly through equity investments, long-term loans and guarantees. They usually have a greater financing capacity than bilateral development banks and also act as a forum for close co-operation among governments.

Table 2: Showing major multilateral DFIs.

Name of DFI	**Location of Headquarters**
African Development Bank	Abidjan, La Cote D'Ivoire
Asian Development Bank	Manila, Philippines
European Bank for Reconstruction & Development	London, United Kingdom
European Investment Bank	Luxembourg, Luxembourg
Inter-American Development Bank	Washington, D.C., USA
International Finance Corporation	Washington, D.C., USA
Islamic Development Bank	Jeddah, Saudi Arabia

Source: OECD

There has been a great deal of theoretical and empirical work that points to the role of financial markets in bolstering economic growth and development. This has triggered the interest of both development analysts and practitioners to explore and shed light on how the field of finance has contributed to the process of development. Arguably, there is a strong nexus between financial development and economic growth; and debates around this subject matter amongst economists are unabated spanning virtually a decade now. The theoretical underpinnings for this assertion can be traced back to the work of [11] and the contemporary work of [12], and [13]. Dating from 1911, [11] advanced several arguments that are indicative of the productivity and growth-enhancing effects of the services provided by a developed financial sector. These arguments or

views held by [11] were further supported by [14] when he pointed out that there is a causality relationship between the financial sector and economic development. From the onset, the focus of the early literature attempted to determine whether the financial sector plays a causal role in economic development or if financial intermediaries simply derived from rapid industrialization.

In the 1960s, a few economists emerged who further contributed to these arguments. Amongst them were [15] and [16] who underscored the propelling role the financial sector plays in the process of economic development. Before the 1960s, theory greatly backed the hypothesis that financial development followed from growth and not the other way around. [17] contextualized the role of the banking sector into what he termed as "economic backwardness". In his hypothesis, he maintained that a country's degree of economic development at the outset of industrialization determined the role of its banking sector. [15] specifically concentrated his work on the causal relationships between finance and growth. Two patterns were highlighted in this literary work which he called "demand following and "supply leading" and ascribed these patterns to phases of the development process. For the second pattern, he argued that financial intermediation gives rise to economic growth by shifting the savings of most small savers to large investors. According to the first two patterns, he asserted that economic development creates a demand for financial services, which is satisfied impassively a growing financial sector. In his view, resources in the financial sector are transferred from the traditional to the modern sectors which promotes entrepreneurship in the latter. [16] held the assertion that the positive effect of financial intermediation on growth could be due to increasing both the efficiency and the volume of investment, even though he assigns a less important role to the latter. Interestingly, he is noted to be the first economist to have provided important empirical evidence regarding the correlation between finance and growth for a cross-section of countries.

The primary focus of McKinnon-Shaw School is financial repression. McKinnon and Shaw argued that the financial repression policy did not help attain long-term growth given that it lowers the volume of funds available for investment. The school presented the argument that favors the liberalization of interest rates and the abolition of policy steps regarding financial repression. They employed a model that involves intermediaries, savers, and investors. [12], and [13] accentuated the role of the financial sector in increasing the volume of savings through incentivization. To achieve higher savings and investment rates, they recommended governments to abolish rate ceilings and advised them to give up raising seignorage through

inflationary monetary policies. As a result, real interest rates should rise to market clearing values, thus raising increased savings.

However, [12], and [13] school was criticized by Neneo-structuralists who criticized financial liberalization or deregulation from the standpoint of macroeconomics. [18] and [19] most outstandingly posited two arguments with one focusing on development economics. According to their models, they opined that curbing or unorganized money markets play a cardinal role in the determination of whether financial liberalization can drive growth or not. If an increase in the real deposit interest rate leads to a shift of assets from the unorganized to the formal credit market, the existence of reserve requirements will lead to a decline in financial intermediation. In the unorganized money market reserve requirements do not exist. The extent of the contractionary effect on credit supply is determined by the degree to which assets are substituted out of inflation hedges or out of the curb market. The second argument is predicated upon inflation known as cost-push inflation stemming from increased interest rates, which may result in a decline in effective demand. Even if financial intermediation does not shrink the second argument is still valid, particularly because an increased propensity to save may undermine effective demand even more. The neo-structuralist models, however, rest on the assumption that unorganized money markets are competitive which may not be the case. Another problematic feature of these models is that they are based on the aggregate of the volume of credit and investment and not the efficiency of investment.

Additionally, relevant contemporary literature bordering on endogenous-growth theory has reawaken the polemics around the correlation between financial development and economic growth. Dating from 1990s, an avalanche of authors has integrated financial institutions into the analysis of endogenous growth models [20] [21].

[21] found innovation as the accelerator of growth, which aligns with the reasoning of [11]. They contended that an efficient sharing of funds from financial intermediaries to entrepreneurs reduces investment costs in productivity enhancement and increases economic growth. Fundamentally, a financial system can induce the choices of entrepreneurs to invest in productivity-enhancing activities through the evaluation of entrepreneurs, the coalescence of resources, the diversification of risks and the valuation of the projected profits from activities that are characterized by innovations. Hence, financial markets play a contributory role toward the efficient allocation of resources, which enhances the chances of thriving innovation. The existence of alterations in the form of deposit-rate ceilings or high-reserve requirements can miniaturize the proportion of innovation.

Antithetically, several economists from the classical school of thoughts like [22], [23] and [24], had either blatantly or surreptitiously renunciated any potential long-term growth effect for finance. Another contestable notion is that the development of financial markets is likely to be an obstacle to economic growth when it stimulates volatility and create disincentive for risk-averse investors from investing [25].

Interestingly, [22] postulated that there is a two-fold relationship that subsists between financial development and economic growth. Additionally, two other early contributors include [26] who theorized that financial markets are spurred by economic growth, which eventually induces the growth of the real economy. These thoughts drew the attention of many researchers and analysts in an endeavor to (i) test empirically the causal relationship between finance and development, and (ii) understand the functions of the financial system in the development process [27, 28]. Generally, from the traditional standpoint, poverty was considered a challenge for people earning low income, thereby causing them to have too little consumption and to reach the minimally accepted standard of living that is set by society. This financial incapacitation has made these individuals to become owners of very little assets to protect themselves against future uncertainties. Because of this argument, most strategies that are tailored to poverty reduction place emphasis on the creation of employment, skills development, and the redistribution of wealth from rich to poor [29]. As a result, public sector financed initiatives aimed at poverty reduction encapsulated programs including the widely discredited targeted credit, and technological packages. Poverty is perceived as a complex and multi-faceted phenomenon; it requires an approach that is holistic and analytical. In effect, poverty defines material deficiency shown through low-slung food consumption, and poor housing quality; low human development stemming from limited education, poor health delivery system, and nutritional status; lack of voice and ability to influence decisions; and acute state of vulnerability to adverse shocks such as illness, economic crimes, and natural disasters.

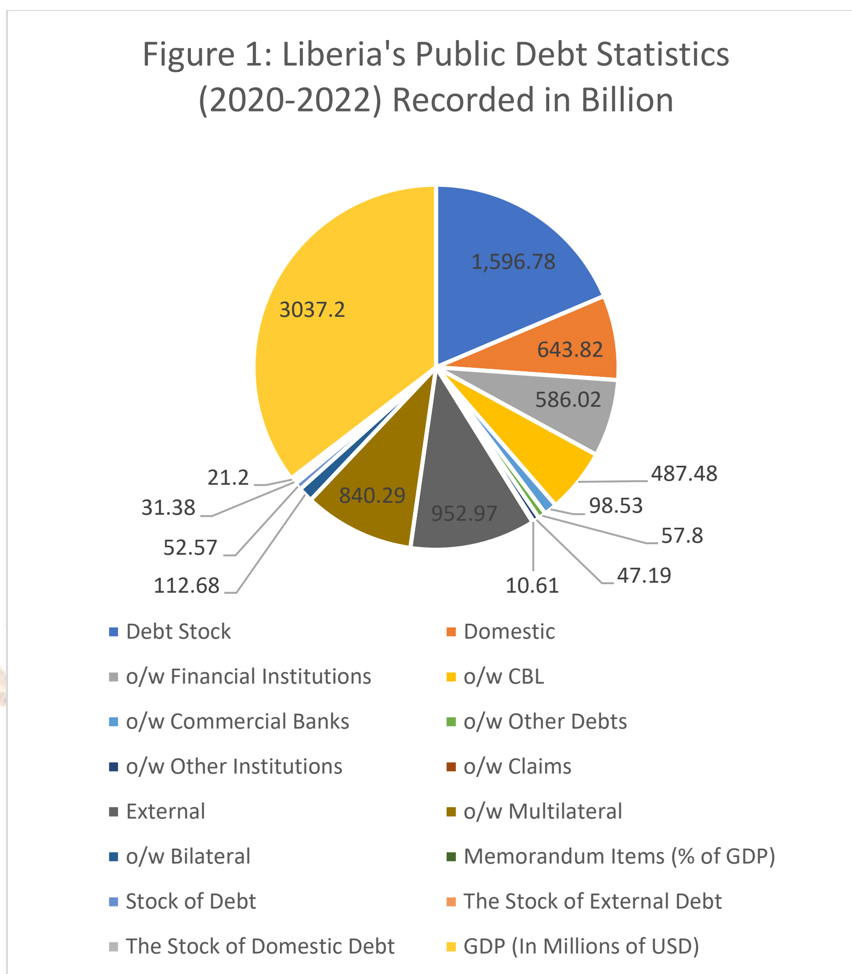
The Need for Development and Investment in DFIs in Liberia

It is undebatable to accentuate that Liberia ranks among the least developed countries in Sub-Saharan Africa. The country's history is characterized by long years of civil unrest, poverty, social and economic inequalities, wanton corruption, and a low human capital index. Although the economy of Liberia dilated by 4.8% in 2022 in the face of global winds from the crisis between Russia and Ukraine, there are high global inflation and a downward trend in demand in advanced economies. This economic expansion was propelled by activities in the mining and agricultural sectors. Interestingly, agricultural growth increased to 5.9% from 3.3% in 2021 as a result of rice and cassava production [30]. With inflation being contained in 2022 irrespective of pressure arising from global fuel and food prices, the fiscal position of Liberia exacerbated in 2022. The fiscal gap is

projected to have increased to 5.6% of gross domestic product (GDP) in 2022 from 2.4% recorded in 2021 [30]. This fiscal deficit stemmed from the change in International Development Association (IDA) lending policy especially the decline in grants and lower than-expected royalties from iron ore owing to the procrastination in the expansion of the ArcelorMittal mining project, expenditure overruns on goods and services, remittances, and subsidies. Disgustingly, Liberia has an overall highly risky debt stress. The country's current debt-to-GDP ratio is 53.4, making Liberia to be assessed as being at moderate risk of external debt stress [1]. Moreover, Liberia's human capital index is as low as 0.32 [31].

It has become a lucid facticity that low-income countries (LICs) have often grappled with large external debts. As a consequence, the International Monetary Fund (IMF) and the World Bank created the Debt Sustainability Framework for such countries in April 2005 with periodic revisions. Debt Sustainability Framework (DSF) seeks to guide the borrowing decisions of low-income countries in a way that correlates their financing needs with their ability to repay now and in the future. According to IMF and ECOWAS benchmarks in relation to debt stress, Liberia's debt portfolio in distress is at a moderate level. During the latter part of December 2022, public debt stock grew to US$2,018.7 billion accounting for 16.6% increase which translates to 51.3% of the country's GDP. This upward trend in the public debt stock was triggered by both domestic and external borrowings. On the domestic side, the debt stock recorded US$884.4 billion which represents 22.5% of the GDP) and 43.8% of the public debt. On the external front, the country's debt amounted to US$1,134.3 billion which is 56.2 percent of the total debt stock and constituting 28.8% of the GDP, causing the increase of 10.5. During similar period, state borrowings from domestic financial institutions summed up to a total of US$195.1 billion which accounted for 5% of the country's GDP. Of this amount, borrowings from local commercial banks represented 59% with the balance of 41% accounting for lending from the Central Bank of Liberia through the Extended Credit Facility (ECF) program of the IMF [32].

Within the same context of debt management, debts from multilateral financial institutions rose to by 12.0% for bilateral debts, there was a recorded decline of 1.3% compared to 2021. The aggregate debts from multilateral institutions accumulated to US$1,022.6 million representing 26% of the country's GDP, while and bilateral institutions lent US$111.7 million constituting 2.8% of Liberia's GDP [32].



Source: Ministry of Finance and Development Planning

Liberia being a post-war nation has colossal development needs to restore it to its pre-war status and get it at par with its counterparts in the community of nations as far as contemporary development is concerned. Investment in agriculture, infrastructure, health, education, security, and other key sectors of the country's economy has become absolutely compelling to attain economic growth and sustainable development. With much objectivity, all of these hinges on the availability of adequate and sustainable capital. However, the availability of development finance institutions to provide the necessary capital is highly disproportionate with the huge development needs of Liberia. Presently, Liberia has only one visibly vibrant development finance institution which is the Liberian Enterprise Development Finance Company (LEDFC) owned by the United States Government. Initially, the Liberia Bank for Development and Investment (LBDI) owned by the Central Government of Liberia was established in 1961 by an Act of National Legislature as a development finance institution. LBDI began full operations as a development finance bank in 1965. Ironically, it has shifted to a full-fleshed commercial bank since 1998 [33]. On the other hand, LEDFC was established in 2007 by the International Finance Corporation (IFC) to provide loans to Liberian owned SMEs [34]. Prior to the advent of the civil war, Liberia had National Housing Bank and the Liberia Agricultural Bank as major development finance institutions which strategically provided diverse loan facilities to boost economic growth and development. These banks subsequently dissipated as an aftermath of the civil crises that befell Liberia.

These troubling economic conditions arising from limited development finance institutions in Liberia, fiscal inadequacies and poor debt management especially at the time Liberia is endeavoring to have viable economic growth and sustainable development, warrant the instigation of purposive and aggressive actions to create and hugely invest in the development of development finance institutions to promote a private sector led development which will stimulate the desired overall economic growth and sustainable development in Liberia. Studies show that development finance institutions (DFIs) play important roles in providing support to private sector operations in developing countries. As part of their operations, DFIs channelize their lines of credit through banks to strategically access Small and Medium Enterprises (SMEs) which are small-scale borrowers in the real sector of the economy. In general, DFIs are noted for enjoying high risk ratings. This gives them the leverage to increase their support to mini banks that work closely with SMEs, startups and social enterprises and other clients in underserved domain of the credit market in least-developed countries that need customized financing interventions. The creation and investment in DFIs will crucially address the finance needs of SMEs in Liberia since SMEs are critical to the growth and development of every nation as a result of their potential to create jobs, income, and wealth in general. Liberia is becoming to have a growing number of SMEs. However, limited capital has constrained these SMEs from optimizing their performances to play their role in stimulating economic growth and development. This financial constraint is also affecting the agricultural medium and small micro enterprises (MSMEs) which are some of the key growth sectors of Liberia's economy [35]. This is largely compounded by high risks such as agricultural seasonality and the effects of climate change which are associated with the agricultural sector. Studies show that development can be promoted through vibrant SMEs. There is a strong nexus between SMEs and economic growth [36]. A positive correlation exists between the relative size of the SMEs sector and economic growth [36]. It was pointed out by [37] that in high-income countries, formal SMEs contribute to 50 percent of Gross Domestic Product (GDP) on average.

In addition to supporting and boosting the performance of SMEs through funds provision, investment in DFIs will be of much significance to Liberia's post-war economic recovery process and sustainable development in a number of notable ways that will have a lasting impact on the country's political, economic, and social well-being. With the deficit of DFIs in Liberia, one of the best ways that the investment in DFIs can contribute to Liberia's economic growth and sustainable development is their capacity to fill funding gaps for long-term and developmental projects which commercial banks are disinclined to do owing to the long gestation periods as well as higher risks that characterize these long-term developmental projects. In this regard, Liberia's long-term developmental projects such as health, education, agriculture, infrastructure, climate change adaption, financial inclusion, governance, and more can be significantly financed by fundings from DFIs over a long period to achieve long-term economic growth as well as sustainable development. Study conducted by [38] is in line with this. From their study, [38] inferred that long-term finance plays a significant role in promoting long-term economic growth and financial stability. With the deplorable road conditions across the country, limited national housing facilities for low-income earners and the fight to transition to clean energy to reduce bio degradation as part of national response to mitigate the effects of climate change, investment in DFIs could positively provide financing alternatives in the form of long-term loan facilities, equity financing and

guarantees to impact projects in the infrastructure, housing, and renewable energy sectors of Liberia. In this case, the creation and investment in DFIs will mobilize the necessary capital to boost farm-to-market road connectivity for trade and commerce expansion. It could also strengthen the National Housing Bank of Liberia to strategically construct sufficient housing units at ideally designated locations across Liberia to accommodate citizens in the lower income bracket of the economy. Another key area where the development and investment in DFIs could be highly advantageous to Liberia's long-term economic growth and sustainable development is financing electricity projects especially renewable energy. Considering the continuous waves of inadequate power supply and constant power outage being experienced in Liberia, DFIs have the potential to fund projects for energy installation, generation, commercialization, or distribution. It is clear that the renewable energy market in Liberia is narrowed and undeveloped due to the lack of the supporting infrastructure for wind and solar, storage technology, transmission lines, and the adaptation of a broader energy grid. The investment in DFIs in Liberia will create the enabling environment to surmount these constraints and foster renewable energy transformation in Liberia. DFIs have the potential to scale up renewable energy financing by ensuring affordable and competitive costing of renewable energies, ignite and drive the development of renewable energies, and finance the overall infrastructure for renewable energies in Liberia. One of the major areas where the significance of DFIs lies is their ability to transfer technical and managerial expertise to their investees, making projects more viable and bankable for commercial funders. Project bankability means that project meets the requirements of the financier in order for the financier to provide capital for the project. With most of the reform interventions in Liberia being done through projects, the provision of technical and managerial expertise will help these projects achieve their utmost objectives. Additionally, while DFIs main line of business is to invest financial resources, DFIs are also critical tools for supporting the improvement of knowledge through capacity building and technical assistance, as well as the consolidation of environmental, social, and corporate governance standards in business practices. [39] asserted that DFIs promote sustainable growth by lowering reliance on aid and improving governance and environmental standards as well as good business practices.

With the proliferation of the concept of domestic resource mobilization as a reliable and sustainable way to end dependency on donor aid in low-income and middle-income countries, intentional investment in DFIs in Liberia will greatly strengthen the country's strife towards achieving enhanced domestic resource to finance strategic national priorities aimed at attaining improved service delivery.

Notably, the development and sustainability of DFIs in every jurisdiction depend on stringent oversight and governance measures which call for building a strong regulatory framework that address the risks that impact the growth of DFIs especially in least-developed countries. Financial institutions in general are confronted with several types of risks including political risk, operational risk, regulatory risk, compliance risk, market risk, credit risk/ default risk, interest rate risk, price risk, strategic risk, transaction risk, reputational risk, foreign exchange risk, liquidity risk as well environmental and social governance risks.

Research Methodology

This research paper principally premises on literature review and the author's insights to showcase the relevance of development finance institutions to driving economic growth and sustainable development in low and middle-income countries.

Results and Discussion

The key findings from the literature review and the author's insights regarding development finance institutions (DFI) as well as discussions are presented as follows. First, the research established that only a single DFI is found within the financial landscape of Liberia. The implication of this high paucity of DFI in Liberia is the limitations of financial products to fund strategic development related projects and activities in a country that is yearning for reforms and revitalization following long years of civil unrest and the outbreak of two disastrous pandemics. Second, it was further established that DFIs are critical tools for alleviating poverty through job creation as a result of their impact on development of small and medium sized enterprises (SMEs) through access to financial services. With SMEs being strategic to the growth of the Liberian economy, the Government of Liberia through the Ministry of Commerce and Industry has established a line of credit for SMEs which amounts to US$20 million grant equivalent, through a partnership with the World Bank Group through the International Development Association (IDA) for the implementation of the Liberia Investment, Finance and Trade Project (LIFT-P) Project [40]. Notwithstanding, the research found that the development of SMEs in Liberia especially agricultural medium and small micro enterprises (MSMEs) is challenged by financial constraints [35]. This implies that the financial constraints imposed on the growth of SMEs in Liberia has limited their performance to optimally play their role in job creation at the time Liberia is struggling with curbing rising unemployment with the rate which was anticipated to attain 3.60% at the end of 2023 [41]. Third, the study revealed that DFIs are noted for sourcing capital to support the development of effective and efficient renewable energy infrastructure in both developed and undeveloped countries. This implies that Liberia can harness the establishment and investment in DFIs as a sustainable solution to its post-war electricity constraints which are inhibiting business growth and expansion as well as industrialization. The fourth finding which evolved out of this study is that DFIs has the potential to enhance domestic resource mobilization to reduce dependency on donor aid in low and middle-income countries. With the rise in donor fatigue across donor-dependent countries including Liberia, the nuance of domestic resource mobilization being a major fiscal vehicle to increase domestic revenue can be leveraged to bolster the conditions for improved service delivery in Liberia as a way to addressing market failure. Lastly, the study shows that DFIs can substantially drive long-term economic growth and sustainable development by financing long-term projects with long gestation periods, increasing their bankability and transferring technical skills and managerial expertise. This means that Liberia can prioritize the creation and investment in DFIs to accelerate the accumulation and deployment of adequate finances for the achievement of the United Nations' sustainable Development Goals (SDGs) in Liberia with lasting impact.

Conclusion

Liberia like other low and middle-income countries around the world has the option and opportunity to maximize the utilization of development finance institutions, as a new fiscal and economic model to strategically chart a new course for its post-war economic revitalization and sustainable development as well as reduce its dependence on donor aid through a robust domestic resource mobilization strategy. Predicated upon the uniqueness of DFIs in propelling long-term economic growth and sustainable development, this paper recommends that the Government of Liberia should institute deliberate actions to legislate the establishment of and investment in regional DFIs across the country as a policy prescription. When established, the DFIs should devise loan products that will tailor to agriculture and cooperative ventures, educational pursuit, housing/ mortgage, SMEs development, health, infrastructure/ roads, energy/ electricity, and other long-term development projects. With the country's low human development index of 0.32, much consideration should be given to different categories of student loans since education is the bedrock of every society. Finally, the paper calls for the promulgation of robust regulatory policies and the establishment of appropriate framework for the oversight and governance aspects of the DFIs to ensure that they are insulated or safeguarded against risks to their survival, growth, and sustainability.

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Conflict of Interest

The author declares no conflict of interest. The author is a Ph.D. candidate studying Management with a specialization in Finance at Texila American University in tandem with the University of Central Nicaragua.

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