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Access to Finance: Determinants and Limitations to the Demand Side of Finance for Liberia's Rural Market

Andy Saye Gbatu
Ph.D in Management, Texila American University, Guyana

Abstract

This study reviews the theoretical literature regarding determinants and the limitations to the demand side of rural finance in Liberia with the coming into effect of the National Financial Inclusion Strategy (NFIS). The outcome of this study reveals that education, income level, household assets, and agriculture rank as the outstanding drivers of the demand for finance in Liberia's rural market. Obviously, the demand for financial services in the rural market of Liberia is very high. However, the demand is limited by a litany of factors such as slow economic growth & lack of job opportunities, poor public infrastructure, structural unemployment, few diversification opportunities, seasonality in agriculture, imperfect information & supervision, and poor social protection and market failures. The keywords used by the author in this article encompass creditworthiness, information asymmetry, financial inclusion, Pareto efficiency, poverty alleviation, and rural finance.

Keywords*: Credit worthiness, Financial inclusion, Information asymmetry, Pareto efficiency, Poverty alleviation, Rural finance.*

Introduction

Access to financial services acts as a key driver for propelling economic growth and poverty reduction. Financial services provide the tools to invest in income-generating activities, save for the future, and much more. Despite the development of rural community financial institutions in Liberia and the implementation of the National Financial Inclusion Strategy (NFIS), the Liberian financial market faces challenges that continue to negatively impact financial inclusion, especially the determinants for the demand for finance for the rural population of Liberia. These challenges among other things include limited access points, particularly in rural areas, poor infrastructure, and slow economic growth/limited job opportunities for the rural populace.

In order to mitigate these challenges, strong public policies are needed to support the implementation of national financial inclusion strategies by increasing the spread of rural community financial institutions across the country. The policies should also call for the allocation of adequate resources to improve the road network in the rural parts of Liberia with rural community financial institutions, and provide stable electricity, information technology infrastructure, and improve communication channels and provide job opportunities for the rural populace. From all indications, the best solution to address these gaps is to improve the infrastructure landscape for the rural market. The major limitations to the overall improvement of the rural finance market in Liberia are incessant widespread corruption, waste, and abuse of state resources that continue to undermine national development. In terms of achievement, there is an incremental spread of rural community financial institutions (RCFIs) in Liberia. Currently, there are twelve RCFIs in

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Corresponding Author: andysgbatu@yahoo.com

the fifteen counties of Liberia. The objective of this study is to identify the determinants and limitations to the demand side of finance for Liberia's rural market and proffer solutions to harness those determinants that are not working in the wake of the operationalization of the national financial inclusion strategy by the Central Bank of Liberia. Moreover, this paper contributes to the literature on rural finance in driving sustainable economic development in developing countries.

The remaining portion of the paper is layout in the following manner: section two (2) presents the literature review, section three (3) constitutes the research methodology, section four (4) encompasses the presentation of the research results/findings, section five (5) covers the discussion of the research results/findings and section six (6) presents the conclusion of the study. Financial inclusion is a concept of novelty in Liberia. Though there are rural community financial institutions in Liberia, there are no research studies conducted regarding the assessment of the performance of these institutions. Further research is needed to be conducted to explore this area of the rural finance market in Liberia. Liberia is a country replete with natural resources, founded by the American Colonization Society (ACS) in 1822 as a home to freed slaves. The country is located in West Africa. The virtually two decades of fratricidal conflict decimated the country's population and caused its social, political, and economic decadence making it a fragile state [1].

While reeling from the effect of the Ebola Virus which hit Liberia in 2014, again in 2020, the country witnessed a horrific outbreak of the Covid-19 Virus pandemic with a devastating effect at a cross-cutting level. Notably, these two global pandemics led to the plummeting of the prices of Liberia's key export commodities including iron, rubber, and palm oil. As a result, the major value chains of these commodities that provide a livelihood to the rural population were badly affected. As such, poverty alleviation visibly became the major determinant of the demand for financial services in Liberia, especially for rural dwellers [1]. The emergence and spread of the Rural Community Financial Institutions (RCFIs) through the implementation of the NFIS by the Central Bank of Liberia, has relatively created some means for the rural populace of Liberia to access finance as a way of supporting their livelihoods.

The project sought to address rural communities' lack of access to financial services. To achieve this objective, the project proposed the creation of twelve (12) Rural Community Financial Institutions (RCFIs). These institutions were to be created in rural areas with a high concentration of workers receiving salaries and/or larger farming communities where a possible agricultural value chain is created [2].

As of December 2021, there are twelve (12) rural community financial institutions in Liberia with geographical distribution in eight (8) of the fifteen counties as follows:

Table1. Number of Rural Community Financial Institutions in Liberia

County	Number of RCFIs
Gbarpolu	1
Grand Kru	1
Lofa	3
Nimba	3
River Gee	1
Rivercess	1
Sinoe	1
Bong	1
Total 12	

Source: CBL 2021 Annual Report

Between 2020 and 2021, RCFIs performance took an upward trend. Deposits increased by 22.36 percent to L$227.57 million, from L$185.98 million. Moreover, loans & advances dilated by 43.95 percent from L$128.52 million to L$185.01 million [2]

According to CBL 2021 Annual Report, RCFIs have been funded by the International Fund for Agricultural Development (IFAD) through a Rural Community Finance Project with technical support from Afriland Bank Liberia. The project which commenced in August 2019, is worth about US$5.5million and a grant of US$0.5 million and is expected to provide additional resources for the RCFIs in the form of an improved capital base, fixed assets, IT system, and human resources for these entities as well as support the establishment of ten (10) additional RCFIs across Liberia.

The presence and steady spread of RCFIs across Liberia presents a positive step and opportunity in breaking long-term entrenched barriers to the spread of financial services to the rural poor, and this seems to incrementally bridge the gap between the banked and unbanked populations in present-day Liberia. In spite of the minimal gains realized so far regarding financial inclusion in Liberia, there is still a need for the formulation of strong public policies that build a diverse ecosystem involving commercially viable financial- service providers, and sustainably increase access to a wide range of financial services for small-scale rural producers and ordinary rural dwellers.

There are different definitions that various authors, scholars, and researchers have ascribed to the term financial inclusion. The term financial inclusion is defined in many ways based on contextual usage and uniqueness. From a broad spectrum, financial inclusion refers to the degree of access of households and firms, especially poorer households, and small and medium-sized enterprises (SMEs), to financial services.

According to World Bank, financial inclusion is defined as the "proportion of individuals and firms that use financial services" [4]; while the Asian Development Bank stated it is "ready access for households and firms to reasonably priced financial services [5]. Furthermore, the Alliance for Financial Inclusion has identified "four ways through which financial inclusion can be defined, in order of complexity: access, quality, usage and welfare" [6], and the Consultative Group to Assist the Poor (CGAP) considers financial inclusion as "a world where everyone can access and effectively use the financial services they need to improve their lives that does not mean developing separate financial markets for the poor" [7].

Assertively, financial inclusion has immensely contributed to economic and financial development via growth inclusivity and better equality of income. Predicated upon its consequentiality, it is fast becoming entrenched and dominant in the contemporary discourse of finance and development. This uniqueness has given financial inclusion humongous consideration by many scholars, researchers, and global development institutions including the World Bank, the Asian Development Bank, International Monetary Fund, and more [8].

Moreover, in a bid to optimize financial inclusion in spurring economic development, G20 leaders recently approbated the Financial Inclusion Action Plan and established the Global Partnership for Financial Inclusion. These two landmark interventions are significantly geared toward the expansion and availability of financial services. Additionally, the importance of financial inclusion has given rise to Asia-Pacific Economic Cooperation (APEC) Finance Ministers' Process. Consequently, this led to the establishment of mechanisms for reviewing and evaluating matters related to financial inclusion. The ever-growing relevance of financial inclusion to the achievement of financial and economic development has made the development of financial inclusion a major objective for the implementation of the Association of Southeast Asian Nations

(ASEAN) Framework on Equitable Economic Development [8].

Many countries around the world have espoused several approaches to the implementation of financial inclusion. One of these approaches is the provision of rural finance to the rural section of the population that cannot access institutional finance through traditional banking institutions. Similarly, Liberia has adopted rural finance as one of its key strategies to achieve financial inclusion.

A litany of authors, scholars, and institutions has contributed to the body of knowledge in the field of rural finance with varying definitions of what it entails. Rural financial services "encompass all savings, lending, financing, and risk minimizing opportunities (formal and informal) and related norms and institutions in rural areas" [9].

Rural finance is the provision of financial services for rural farming and non-farming populations at all income levels [10]. For many decades, rural credit has been used as a major development strategy by emerging economies. The inception of the use of rural credit can be traced to the 1950s following many decades of government policies aimed at the advancement of colonial economic interest over agricultural-based production. To provide colonial powers with agricultural goods, credit was fundamentally made accessible to large-scale commercial production with smallholders and local markets being left unattended to [11]. With the passage of time and the emergence of independent nations, development strategies took a paradigm shift with the emphasis being placed on the provision of assistance to the rural poor. As a way of ending the low flow of capital, low productivity and low savings of the rural poor, rural credit along with other inputs including

improved seeds, fertilizers, organic pesticides, and other capital investments were considered as key strategy [11]. Interestingly, the dawning of the Green Revolution in the 1960s provided an indication that farming yields had the potential to increase significantly provided that improved seeds, fertilizer, and other inputs were used. This success attributable to the Green Revolution paved the way for the obtainment of resources for the Agency for International Development (AID) and the World Bank to underwrite the cost of research intended to ameliorate agriculture-based technology and advance the role of rural financial institutions such as rural development banks and cooperatives as the only lenders of credit to the rural poor [11]

Several paradigms and policies have been used in developing countries to address the difficult and costly problems of providing financial services in rural areas. The old rural finance (RF) paradigm dates back to the 1960s and 1970s. Based on lessons learned from the old paradigm and revised financial systems approach, the new RF paradigm merged in the late 1980s which gained a broader consensus in the 1990s [12]. The old Rural Finance (RF) paradigm dates to the 1960s and 1970s. Rural Finance got momentum in the 1960s and 1970s all around the world, particularly in Asia and Latin America. Many rural credit projects were taken up under public sectors. Since the special costs and risks involved in RF made formal financial institutions reluctant to extend & expand credit facilities in rural areas, therefore, governments and donors were urged to intervene in rural financial markets. The following types of interventions were advocated by the researchers/ practitioners under this paradigm:

1. Lending quotas on banks and other financial institutions.
2. Refinance schemes, of Loans at preferential interest rates.
3. Credit guarantees; and
4. Targeted lending by development finance institutions (DFIs).

The interventions were intended to increase rural lending by reducing the costs and risks to lenders that made loans to preferred rural clients and sectors. Subsidized interest rates, Loan waivers, and forgiveness programs were also used to reduce the debt burden of priority-sector

borrowers, especially following floods, droughts and periods of floods, droughts, and periods of low farm prices. Credit was considered an important means to speed agricultural development, expand exports, promote small farmers, reduce poverty, and ensure cheap food supplies to urban areas. Multilateral and bilateral donors invariably supported the approach taken by many governments and funded many of the targeted supply-led projects. This approach helped some developing countries, especially in Asia, to improve agricultural yields in the short term. But it was not sustainable over the long term. It was also costly and failed to reach most rural households.

After the ill-fate of most of the RF programs under the old paradigm, microfinance providers, such as NGOs and credit unions emerged in the late 1970s which became known as the new rural finance paradigm [13]. They targeted the unbanked poor, who had been left out by the huge investments made in the financial market under the old paradigm. These microfinance institutions in fact brought about the revolution by proving that the poor are bankable, but the customary banking system had failed to serve them appropriately. Based on the lessons learned from the old paradigm and the emerging microfinance revolution, the new RF paradigm began to emerge in the late 1980s which gained momentum in the mid-1990s. The new paradigm adopts a financial systems approach, using market principles to deliver financial services in rural areas. This system is aimed at facilitating rural development that, in turn, will promote asset creation and poverty reduction. The new paradigm treats finance as a way to expand and integrate markets, rather than as a policy tool for targeting a specific segment of the market. The new RF paradigm is based on the principle that a commercial and market-based approach is most likely to reach large numbers of clients on a sustained basis. It recognizes that financial services are part of an interactive system of financial infrastructure and social and cultural norms. Government has a role to play in establishing a favorable or "enabling" policy environment, infrastructure and information systems, and supervisory structures to facilitate the smooth functioning of rural financial markets, but it should play a more limited role in direct interventions.

In most rural settings in developing countries, access to finance is greatly affected by a high degree of information asymmetry which necessitates the role of intermediation or intermediaries between the deficit spending unit and the surplus spending unit in the circular flow of resources in the economy. In this context, surplus units are defined as economic units whose income exceeds spending on goods and services. Conversely, deficit units are those economic units whose spending on goods and services is more than their income.

It has become a known and undebatable fact that lending to the poor population is crucial to poverty alleviation. However, traditional financial institutions have exhibited more disinclination in granting credit to poor households due to their inability to meet the selection criteria such as the imposition of physical collateral set by these financial institutions. As a way of eradicating moral hazard emanating from information asymmetry between the banks and borrowers, banks often resort to collateral requirements for loans. The usage of collateral helps in the determination of the worthiness of microcredit as well as addresses the problems of incentivization and enforcement.

In generality, the application to take a loan is not sufficient evidence of demand. As such, the demand for loans or credit can be viewed from two perspectives: the legitimate demand and the spurious demand. Legitimate demand is defined by the willingness and ability of the rural population to demand different types of financial services at the prices and terms and conditions at which they are offered or could be offered under competitive conditions, while a spurious demand for loans suggests the loans that people do not plan to repay or that they do not expect will be

collected. Under a loan arrangement, an amount of current purchasing power that is certain is exchanged for an uncertain promise to repay in the future. The possibility of spurious demand for loans necessitates the need to define legitimate demand as the existence of a true willingness and ability to repay the loan, given the terms and conditions included in the "price" vector of the transaction.

In examining the demand side of rural finance, it is important to consider a few kinds of literature that provide a theoretical underpinning for the demand side of rural finance. Household borrowing is principally induced by two factors which encompass income vacillations and lower savings. The temporary oscillations in households' income cause them to incur debt [14]. In addition to this, it is argued that people choose to seek borrowing due to the insufficiency of their savings, and they also use these borrowings to meet their investment needs [15]. The rationale for peoples' desire to borrow is profoundly supported by the Life Cycle Income Hypothesis (LCIH). The proponent of this hypothesis, Franco Modigliani postulated that income vacillations and lower savings are the two reasons that give rise to borrowing or credit by households.

According to LCIH, households save at an early age and dissave in old age. In some cases, households tend to borrow due to temporary gyrations in their income. This theory accentuates that income during a lifetime is hump-shaped, it is low at early ages and after attaining a maximum point, it declines. It further underscores that the more the income is hump-shaped, the greater the debt is incurred [16].

Generally, there often exists a gap between people's current income level and their desired level of income. To fill this gap, people often become constrained to resort to borrowing or loan-seeking behavior [17, 18]. People employ the surplus realized from their loans to underwrite the costs of education, consumption, and housing. The demand for households' debt varies with age [19]. The variation in households' debt according to age has been emphasized by some researchers. They noted that debt increases at decreasing rate with age [20-22].

Studies also unearth that the extent of the incurrence of household debt amount is determined by the size of households. With income being constant, it has been proven that controlling expenditure is a daunting task. As a result, debt becomes necessary to incur [23, 21, 24]. The volume of loans that households can access is greatly influenced by income level. This is justified by the significance of income to loan granting decisions considering credit worthiness which provides a cushion against the risk of potential credit default. Individuals in higher income brackets have the prospects of being granted large amounts of loans [25, 19, 26]. The employment status of households is very key in affecting demand for loans or debt. Secured and predictable jobs bolster a secured environment for the repayment of loans. Since people with lucrative and secured jobs in the formal sector are likely to possess high creating ratings, it is very easy for them to access huge loans of varied sizes [27]. Inarguably, a positive relationship subsists between households' education and their level of earnings. In most cases under ideal conditions, people's level of educational attainment dictates their remunerations. The positive influence of education on income is a key determinant of people's debt-carrying capacity. With higher education and work-related expertise, people can decide to seek loans with the hope that their projected income will enable them to liquid [28]. In many countries, financial institutions operating within the formal sector normally use collateral as the main prerequisite for granting loans to people due to moral hazards resulting from information asymmetry. In this regard, financial assets have been considered some of the best collaterals owing to their positive relationship with debt. Financial assets serve as mortgages in obtaining loans [29]. Another form of financial asset exists in the form of home

ownership which is noted to be crucial in discussing debt as many people take home loans. It mainly accounts for the upsurge in household debt in many countries [30].

Access to information addresses information asymmetry amongst participants in the economy and is crucial in ensuring the wider participation of all in the processes of development. Notwithstanding, the task lies in ensuring the smooth flow of public information to rural citizens. The evolving innovations in the application of information communication technologies have explored a new epoch of propagating information. Interventions such as credit counseling, awareness creation, and financial education tailoring to the benefits of financial inclusion are consequential for the effective growth and development of financial services in rural settings. Technology is another factor that promotes awareness or education which affects the demand for rural finance. It is very pivotal in integrating strategies for achieving inclusive growth. The utilization of technology infrastructure is critical in building up a reliable credit information system and database on customers, reducing transaction costs and facilitating better pricing of risk, improving the efficiency of the financial system, and thereby increasing the access of unbanked rural people efficiently. The application of technology to rural finance has proven to be effective in reducing transaction costs sharply and the time taken by banks in processing applications, maintaining accounts, and disbursing loans. It has a great deal of potential to address the challenges associated with outreach and credit delivery in rural areas, more cost-effectively. However, more studies need to be conducted in assessing the extent to which IT platforms can provide a variety of financial services to rural clients at affordable costs and on a timely basis.

Studies evidence that the demand for credit is a function of two factors:

1. The ability to repay which is dependent on the income level at current loan terms and conditions, and
2. Investment opportunities that encompass feasible income-generating activities. The repayment capacity of a household is a function of the net revenue of household/firm, seasonality of income risk, and net revenue: The net revenue of a household is perhaps the most important in terms of debt-carrying capacity.
3. The seasonality of income in conjunction with the annual net revenues as well as the consistency of income is a principal factor in determining loan reimbursement. Highly variable incomes may not be consistent with rigid repayment schedules. This volatility in peoples' incomes creates a limiting factor in peoples' decision to borrow or not. For people found in the agricultural sector, this risk remains one of the major driving forces affecting production and investment decisions in transition economies. In such cases, the most predominant types of risk affecting farm investment decisions are price/inflation risk, policy risk, and production risk. As a result of these risks, farmers in some countries are provided limited loan sizes.

The key determinants for the demand side for rural finance for Liberia's rural market include education, income level, household assets, and agriculture/smallholder farming.

Education plays a major part in driving the demand for rural finance in Liberia. As of 2021, the rural population in Liberia was reported at 47.43% [31]. With limited employment opportunities for these rural dwellers, access to education often influences their decisions to access credit to support the educational endeavors of their dependents from the primary level up to university.

Households' income level in rural Liberia is invariably low. This factor determines the need for households to seek credit. Moreover, household assets are crucial elements that

households base their decision on when borrowing. This is since most microfinance institutions in Liberia hook their lending on physical assets as security.

Evidently, 60% of Liberia's population earns their basic livelihoods from agriculture including forestry which accounts for 31.5% of the country's 2021 gross domestic product (GDP) [32] Predominantly, agricultural activities are carried out by smallholder farmers with limited technology. To boost their financial capacity to increase their wealth and food production through agricultural projects, these smallholders rely on both formal and informal financial as well as non-financial institutions for loans/credits.

The adoption of the Grameen Model of rural financing by Rural Community Financial Institutions has been very successful in reducing credit risk among loan seekers. The Grameen model is also known as the "grassroots" of microfinance models. Its originator is Professor Mohammed Yunus from Bangladesh who introduced it in the 1970s [33].

This model seeks to link the unbanked population to the banked population. Using this model, instead of collateral, which is costly and unaffordable for the unbanked population, prominent businesswomen are placed in groups to access loans. With the financial capacity of the prominent businesswomen, they can cover up for other women in the groups with limited or no creditworthiness in the event of potential credit default. To preclude the risk of default, those prominent women within those groups assume the responsibility of monitoring the business activities or investment projects of their group members [34].

The combination of several factors accounts for the limitations to the demand side of finance for Liberia's rural market. Prominent amongst these are slow economic growth and lack of job opportunities, poor public and private investment, structural unemployment, few diversifications of opportunities, low income, seasonality in agriculture, imperfect information and supervision, and poor social protection and market failures.

Though the Central Bank of Liberia (CBL) 2021 annual report points to steady growth of the Liberian economy with projected GDP of 3.6% in 2021 and an inflation forecast of 7.6%, the country is still challenged by a high unemployment rate. In 2021, the unemployment rate for Liberia was 4.1 %. The unemployment rate of Liberia increased from 2.1 % in 2002 to 4.1 % in 2021 growing at an average annual rate of 4.11% [35]. Comparatively speaking, in general terms, rural areas are often lagging when it comes to socioeconomic indicators and are branded by low levels of GDP per capita which culminate in lower standards of living, lower incomes, and limited access to services quality products [36]. The unfavorable labor market conditions in Liberia result in limited job opportunities that remain one of the outstanding constraints to the demand side of rural finance.

Poor infrastructure including roads network, communication channels, and electricity continue to pose a huge challenge to Liberia's overall development. Specifically, this has limited the flow of financial services to the rural position by imposing huge transaction costs. It was pointed out that poor infrastructure, non-competitive markets, and poor information all lead to high transaction costs [37].

A few pieces of literature highlight structural unemployment in rural areas as being one of the limitations to the demand for rural finance. It is emphasized that high unemployment levels in rural areas are often of a structural nature, due to insufficient education and skills of workers [38]. Accordingly, it was suggested that disproportionality between labor demand and supply emanates from the lack of match between the job skills required by firms and those being provided by workers [39].

Due to limited vocational institutions across the rural landscape of Liberia, there has been insufficient specialized education for rural dwellers to seek other employment opportunities. With agriculture being the

primary occupation for 60% of Liberia's population, this shows that there are few diversification opportunities for rural dwellers to drift away from on-farm employment irrespective of minimum farm assets to pursue alternative income-generating means aside from agriculture [40]. This leads to structural impediments to adjustments in labor [41]. In addition to that, it is opined that the decisions of individuals regarding the discontinuance or continuation of farm activity is either contingent upon the favorable condition in off-farm labor markets which is demand-pull factors, or strategy for survival when rigid off-farm labor markets conditions arise otherwise known as distress-push factors [42]. Obviously, these conditions affect the demand for rural finance in Liberia.

In a general context, the rural areas in Liberia are characterized by low income as compared to the urban settings. This is said to be accounted for by low human capital, low wages, and low job quality which usually limit the opportunities and living standards of the rural dwellers. These conditions are exacerbated by limited social protection programs.

Another limiting factor that affects the demand for rural finance for Liberia's rural market is seasonality in agriculture. The nature of agricultural activities is noted to be seasonal. This seasonality spurs gyrations in the demand for labor and the productivity of labor owing to seasonal employment, migration, changes in wages, and ubiquitous unemployment [43].

Imperfect information and supervision rank as some of the major limitations to the demand for rural finance in Liberia's rural market. Asymmetric information between lending organizations and borrowers creates moral hazards leading to a high ratio of non-performing loans (NPLs) to total loan portfolios. Particularly, the CBL 2021 annual report cited that the financial sector of Liberia remains challenged by rising in nonperforming loans (NPLs), with NPLs ratio to total loans increasing from 21.17 percent in 2020 to 22.41 in 2021. Notably, the high NPL rate combined with Liberia's weak insolvency scheme weighs on the balance sheet of banks, making lending more difficult and non-inclusive.

Poor social protection and market failures in Liberia contribute to the limitations of the demand side of rural finance. International best practice suggests that Social Protection programs tend to perform better if important interactions between them are exploited. Unfortunately, there is a lack of coordination necessary to realize the full potential of such interventions in Liberia [44]. The proper functionality of the labor market which encompasses social protection, efficiency, and fairness is fostered by labor market institutions with the objective to achieve sound labor market governance [45]. The disparities in the performance of economies across countries stem from fluctuations in labor market institutions. Generically, labor codes and social protection are said to be underdeveloped or poorly carried out in rural areas as a result of the prevalence of self-employment, casual labor, and informal agreements which are inaccessible to governments. Additionally, the case in Liberia is worst for hard-to-reach areas. Poor transportation systems and communication channels make it challenging to provide social protection to people living in the rural part of Liberia. Inarguably, market institutions, policies, and regulations form an integral part of the determination of the allocation and distribution of labor. Failure to ensure the adequate functioning of these factors has the proclivity to give rise to market failures. The intervention of the government in the market through policy prescriptions should generate outcomes that demonstrate Pareto efficiency to preclude the inefficient allocation of resources.

There is a compelling need for the policy actors of Liberia to address these constraints faced by Liberia's rural market in accessing finance. I believe robust policy measures will suffice in remediating these gaps to ameliorate the flow of financial services to the rural poor in

Liberia. These measures will eventually help in poverty alleviation and sustainable development in the medium to long run.

Research Method

The method used for this study is searching for the literature on rural finance. A systematic review was carried out. To ensure that this study is informed by sufficient theoretical underpinning, several books, theses, journals, articles, and reports related to the determinants and demand side of rural finance were sought, gathered, and thoroughly reviewed by the author. Moreover, an interview was held with the Manager of the rural community financial institution in Sanniquellie as a representation of key stakeholders of the rural community financial institutions of Liberia. Also, the author's personal knowledge and observations regarding the trend of rural finance in Liberia were utilized as sources of information in the development of this article. The outcome of these reviews, interview, personal knowledge, and observations formed the core basis for the literature review and findings of this study. This study was carried out in Liberia with a specific focus on the rural setting.

Results

Findings from the study through literature review are presented under two major headings:

1. Determinants for the demand for finance for Liberia's rural market- It was revealed that the demand for finance for Liberia's rural market is fundamentally driven by the following factors:
   a) education.
   b) households' income level, and assets; and
   c) agriculture.
2. Limitations to the demand side of finance for Liberia's rural market-The study shows that the below constitutes the limitations to the supply side of finance for the rural market of Liberia:
   a) Slow economic growth and lack of job opportunities.
   b) Poor public and private investments.
   c) Low income.
   d) Seasonality in agriculture.
   e) Imperfect information and supervision; and
   f) Poor social protection and market failure.

Discussion

As indicated by the findings which evolved out of this study, the rural market of Liberia's demand for finance is mainly influenced by educational pursuit, income level, and assets of households as well as agriculture. Investment in education is considered paramount for addressing Liberia's human capacity gap aimed at propelling national development. For this reason, many parents and adult Liberians in rural areas seek loans/credits to finance the educational endeavors of their children and dependents as well as themselves [31]. Few available jobs that offer low wages and salaries for rural dwellers in Liberia lead to an income gap. To fill this income gap resulting from low wages/salaries, they are constrained to obtain loans to cope with many expenditure streams. Agriculture is the major occupation for Liberia's rural dwellers who accounts for 60% of the population [40]. As such, this heavy dependence on agriculture as a primary source of support for their livelihoods creates a huge demand for finance.

As it relates to the limitations of finance for the rural market of Liberia, the slow pace of economic growth and lack of job opportunities are inhibiting the capacity of the rural populace to access finance. The fact remains indisputable that the Liberian economy is becoming to experience gradual growth with a projected GDP of 3.6 in 2021 [3]. However, unemployment among youths comprising graduates from tertiary, vocational/technical institutions as well as the uneducated ones remains a daunting task to surmount with the country's unemployment rate of 4.1% as of 2021 [35]. Most importantly, public, and private investments in infrastructure such as roads, electricity, communication, and

information technology are generally poor in the rural parts of Liberia. These have contributed to the development of limited channels for the flow of financial services to rural dwellers through financial and non-financial institutions. Those seeking financial services are often constrained to commute over longer distances to access financial services which leads to high transaction costs for these rural dwellers. The continuous advancement in the technological epoch has given rise to the demand for certain skill sets for certain jobs. It has become obvious that this has brought about structural unemployment of many rural dwellers who do not have the required skill sets for the few available jobs. Interestingly, agriculture ranks as the primary occupation for 60% of Liberia's population [40]. This has caused the workforce of the rural population to be largely confined to agriculture. Sadly, this has not been able to engender an environment that provides diversification of opportunities for the rural populace. Additionally, low income has continued to characterize Liberia's rural setting. This is largely attributed to the scantiness of jobs coupled with limited and low education and skills of the rural populace. This has given rise to low-income levels among people found in this segment of the population. Another daunting situation for rural dwellers is the seasonal agricultural activities in Liberia. With buck of the country's population being involved in agricultural activities, during peak agricultural season, productivity increases with a corresponding increase in income levels for households. On the downside, agricultural output declines during the low agricultural season which yields low-income levels [43]. These natural occurrences continue to affect rural households' ability to access credit because of the unpredictability of repayment schedules. One of the key constraints that continue to affect the supply of finance in the rural market of Liberia is information asymmetry between lenders and borrowers. This often results in adverse selection and subsequent moral hazard since in fact, lenders are not willing to incur high costs for monitoring the projects of borrowers. banks' fears to expand their lending portfolios to the rural population premised on the growing statistics of non-performing loans. Evidently, the ratio of non-performing loans to total loans for Liberia's increased from 21.17 percent in 2020 to 22.41 in 2021 for commercial banks in Liberia [3]. This has narrowed the credit market when it comes to the flow of finance to the rural populace. Finally, social protection programs and coverage for the rural populace in Liberia are poor or ineffective due to the lack of coordination among them [44]. Adequate programs are not designed to tailor to the social protection needs of people found in this bracket and the Government of Liberia has not succeeded in efficiently allocating resources to address the welfare of its citizenry due to changing priorities, widespread corruption, and abuse of state resources.

Conclusion

A great deal of literature suggests that the global effort to achieve development in developing countries around the world has been greatly challenged by two well-entrenched forces: widespread poverty and inequality. As a way of surmounting these threats, several approaches or strategies have been explored and operationalized. One of such that continues to yield optimal results is financial inclusion. Financial inclusion has been unquestioningly viewed as a key tool in stimulating economic and financial development in developing countries where poverty and inequality are ubiquitous. It creates access to finance by those in the low-income bracket, thus engendering inclusive growth and equality. Liberia is a developing country with the devastating effect of prolonged civil war and two global pandemics as well as widespread poverty and unemployment. This presents a strong case for access to finance for the country's rural market as a means to support the livelihoods of rural dwellers. The study unearthed that the determinants of finance for Liberia's rural market include education, income

level, age, households' assets, and agriculture. The study concludes that access to finance for Liberia's rural market is limited by slow economic growth & lack of employment opportunities, poor public and private investments, structural unemployment few diversification opportunities, low income, seasonality in agriculture, imperfect information & supervision as well poor social protection & market failures. These gaps can be addressed by harnessing the National Financial Inclusion Strategy (NFIS) through strong policy formulation and robust implementation.

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Conflict of Interest

I write to categorically state that I do not have any personal relationship with any of the editors of the Publishing House. Also, I have no commercial, legal, or financial relationship with the publication business involving the Publishing House. I am only a bona fide student of Texila American University. As part of the partial requirements for a Ph.D, I am required to publish two articles.

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