Title: The Nature and Consequences of Weak Financial Markets in Post Conflict Countries: A Preliminary Report on a Case Study of Liberia

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Abstract:

This presentation is a preliminary report on a CCCU-funded research project undertaken in Liberia on the problems of financial reconstruction following the end of civil war. Although wars of all kinds disrupt economic activity, if the right conditions are in place, recovery can be rapid (as in Germany and Japan after the end of World War II). In the absence of a functioning financial system, however, recovery will be difficult, if not impossible. Rebuilding the financial system in context where it has been severely damaged by war time monetary policies and reduced capacity requires creatively and the use of a variety of non-traditional approaches. In this presentation we use preliminary findings from our research to discuss the current problems and consequences of weak financial markets in rebuilding the Liberian economy and explore the feasibility of scrip as a complement to other initiatives such as microcredit, remittances, banking sector reform and aid from bilateral and multilateral in rebuilding and strengthening the financial system in post war Liberia. We believe that churches and other Christian organizations, as trusted institutions, potentially have a role to play in the financial reconstruction of Liberia, and so, ultimately, in paving the way for poverty reduction and appropriate development.

Liberia's monetary history before and during its civil war reflects a series of policies that have tended to devalue the local currency. In 1982 the government introduced its own currency for the first time in a century, in the form of five dollar coins that circulated alongside the US dollars that have historically been the official currency of Liberia. As the public preferred the US dollar relative to the new currency due to a lack of confidence in the ability of the government to the protect the value of the local currency, the Liberian dollar began quickly to trade at a lower rate against the US dollar although officially the two currencies were at par. Again in 1985, barely four years before the war began in late 1989, the government introduced (and over-issued) five dollar banknotes, further reducing the value of the Liberian currency. Again in the late 1990's after the cessation of major battles in the Liberian civil war, additional banknotes (in five, ten, twenty and hundred dollar denominations) were also introduced.

These policies put upward pressures on inflation and led to the depreciation of the local currency. Using the recent monetary history of Liberia, we examine the effects of these different media of exchange on stability and local business revival at the small scale levels. Moreover, as international assistance, (i.e. official development assistance) has begun to flow into the country from bilateral and multilateral sources due to improvements in governance and external debt management, the effects of these external factors on the monetary situation relative to local businesses and communities in reconstruction efforts are also assessed.

Just as churches and Christian missionary organizations have become interested in the use of microfinance to generate rural development, we explore the potential role of churches in financial reconstruction in the area of the provision of scrip, owing to their significance as trusted institutions in

society (i.e. as a repository of social capital). The findings should be transferable to other post-conflict situations in developing countries, potentially speeding recovery and a reduction of dependence on outside aid. Christian institutions, which have, in general, a high level of credibility, could play a facilitating role in currency issue, similar to the role that they currently play in microfinance provision and microenterprise incubation.