

## AFRICA, THE OIL CRISIS AND REFORM OF THE INTERNATIONAL MONETARY SYSTEM

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1. It is now a year and a half since the oil crisis burst upon the world, and we are beginning to get a clearer view of its implications and of possible solutions. In the first shock of total uncertainty following October 1973, many countries adopted defensive, short-term policies designed to re-adjust balance-of-payments deficits in purely monetary terms. Now the three groups of countries involved, the oil producers and the oil consumers, both developed and developing countries, are trying to work out and apply longer-term strategies.

The main efforts have been directed to the recycling of oil funds via private international capital markets and through the International Monetary Fund (IMF) scheme of oil facilities, which was renewed and extended in January 1975. Rather more problematic is the so-called Kissinger-Simon plan for a common front of consumers and an OECD self-help recycling fund, agreed upon in April 1975 and scheduled to come into operation before the end of the year.

2. African oil-importing countries have been hit very hard by the four-fold increase in the price of crude, and are at present in a weaker position than ever in their economic relations with the rest of the world. How can they hope to get their external payments back into some sort of balance? A few possible ways out of the crisis are sketched below.

**(a) Increased exports of raw materials.** Trade flows are of paramount importance in the international economic relations of any country and most of all of developing ones, because for a long time to come exports are the only means by which they can obtain foreign exchange for the purchase of capital and consumer goods and for the repayment of existing debts — and this means, in the last analysis, that it is on exports that the chances of economic development must rest.

It is tempting for the producers of other vital agricultural and mineral raw materials to follow the example of OPEC, the cartel of oil-exporting countries. By fixing sales prices, other nations of the Third World might hope to improve their terms of trade. But OPEC has the advantage of conditions which cannot be reproduced for other commodities, to wit, concentration of output in a limited area and a fair degree of homogeneity among member nations. Most often sources are widely dispersed (copper for instance, is found in Africa and in Latin America), so that market control is left in the hands of multinational

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companies and stable commodity agreements are hard to achieve. In consequence, the problems of exports must be seen in a broader context.

**(b) Triangular flows between oil exporting, industrial and developing countries.** An interesting proposal known as the "Carli plan" was discussed not long ago at a conference in Cairo. It involves all the three groups of countries concerned and presupposes Arab adherence. As the scheme is outlined in a document prepared by the Bank of Italy, the main idea is that oil-exporting countries should channel their excess funds to developing nations, which in effect would mean basing credit on the real resources of the latter instead of, as now happens, on those of the industrial nations. These loans would give the beneficiaries the means to make large-scale purchases in industrial countries and thereby enable the latter to adopt more expansionary policies, which in turn would make room for more exports from developing countries and in general would ease the adjustment process. Subject to an equitable distribution of the burden of interest payments on these loans and to the establishment, where necessary, of joint ventures to smooth the way for these flows, it should be possible to reconcile conflicting requirements in one overall perspective.

**(c) Aid-linked Special Drawing Rights.** Another scheme under active discussion concerns the vital role of Special Drawing Rights in the proposed, but perhaps still distant, reform of the international monetary system. Special Drawing Rights (SDRs) have, since 1 January 1970, been a new instrument of international liquidity. They are created by the IMF and allocated by it to member nations in proportion to their Fund quotas. The first allocation, for the years 1970-72, amounted to SDR 9.5 billion, which were a net addition to gold, dollars and other strong currencies used for payments among the central banks of different nations. The effective value of SDRs lies in acceptance by the countries participating in the scheme, which means that central banks are committed to accept SDRs (up to specified amounts) in payment for their credits as an alternative to settlement by other assets.

3. As the SDR scheme works at present, it is a means of channelling new liquid resources to developing countries, which so far received 27 per cent of the total, this being the sum of their IMF quotas. A question springs to mind immediately: Is it right that all the poorer countries together, numerous

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as they are and beset by the most pressing financial needs, should get barely more than one quarter of total allocations? Since under proposals now under study for the reform of the international monetary system SDRs are destined in the future to play a key role as a component of liquidity, reserve assets and means of payments, is it possible and realistic to hope that the SDR scheme will be so altered as to make more generous allowance for the needs of developing countries?

This is what is known as the "link problem", the link, that is, between SDR creation and development financing. It is a problem which has been debated for years. Briefly, two types of link are proposed: one organic, the other inorganic. The first would imply that a more or less sizeable part of SDRs be used directly to finance development, leaving the remainder to be allocated as at present; the second type of link would require the IMF to credit part of the SDRs to the finance institutions of the World Bank group, to be used by them for loans to developing countries.

In either case there would be a larger automatic flow of resources to the Third World and in time this flow might partially or wholly replace today's bilateral capital transfers, with all their snags and limitations.

Without underestimating the implications of this link for international liquidity, nor its possible inflationary effects, such a system would surely be a real breakthrough in the unbalanced relations between the industrial and the developing world, and it would narrow the gap without imposing unduly heavy conditions upon the latter. The interest rate on SDRs was raised, as of 1 July 1974, from 1.5 to 5 per cent; if it were brought even closer to market levels, this would admittedly place an inevitable burden upon developing countries, but would also induce the sellers of capital goods (the industrial nations) to keep the SDRs received in payment for their supplies. The system would not be free, but it would have the merit of institutionalizing a transfer mechanism carrying the ultimate guarantee of supra-national control either by the International Monetary Fund or by the World Bank.

4. These proposals have had a mixed reception so far. Developing countries obviously have welcomed the idea of a link in one form or another; the leading industrial nations are divided. A majority (including Italy, which has supported the "inorganic" type of link ever since 1969) seems to be in favour of a link, but two, the United States and Germany, are against it. It is perhaps hardly

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surprising that the world's richest nation should be hostile to such a scheme, for fear that some day a new means of international settlement might replace the dollar, the chief vehicle of American expansion in the world.

This inevitable clash on the question of the new function of Special Drawing Rights in connection with the reform of the international monetary system is assuredly of great import, for ultimately only global solutions can in the long run really benefit the Third World.

Sergio Bortolani

## L'AFRIQUE, LA CRISE DU PETROLE ET LA REFORME DU SYSTEME MONETAIRE INTERNATIONAL

### RESUME

*En prenant comme point de départ les conséquences découlant de la récente crise du pétrole, l'Auteur analyse les alternatives les plus importantes de longue période susceptibles de porter remède au déséquilibre des balances des paiements des pays en voie de développement. En examinant, en particulier, l'augmentation des prix des matières premières, il considère la possibilité de la formation d'un trust des pays producteurs de pétrole, de la création de flux entre les pays exportateurs du pétrole, les pays développés et les pays en voie de développement (plan Carli) et de la réforme du système monétaire international, notamment en ce qui a trait aux liens existant entre le financement du développement et la création de nouveaux droits de tirage. Sur ce dernier point, l'Auteur souligne l'opportunité de réformer le système d'attribution des droits spéciaux de tirage en vue de créer des avantages pour les pays en voie de développement.*



## Money and credit in Africa

## Monnaie et crédit en Afrique

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● The Spanish-Libyan Bank has been established with its head office in Tripoli. The new bank which will have a capital of 27 million Libyan dinars has been formed by seven Spanish banks, other than the Libyan Government and other institutes.

● Discussion are being held for the creation of a Libyan-Algerian bank with its head office in Paris and a capital of 40 million francs.

● Permission has been granted to the Bank of America together with the Egyptian Industrial Bank, the Saudi Arabian private banker Mr. Abdulla Ben Musaead and other participants for the establishment of a new banking institute in Cairo. The new bank, which will have a capital of 10 million dollars, will be dealing with the financing of industrial projects.

● A treaty has been signed establishing the Economic Community of the West African States in which 15 countries participate. Two special committees, namely the committee of West African Central Banks and the committee for capital requirements have been created within this new community. Their aim is that of finding, in the long period, a multilateral system which will establish a guideline for the payments between member countries. In the short run it will be applied to the bilateral system of settlement. It has also been established a Co-operation, Compensation and Development Fund.

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● La banque hispano-libyenne avec siège à Tripoli vient d'ouvrir ses guichets. Cette nouvelle banque aura un capital de 27 millions de dinars libyens et 7 banques espagnoles outre le gouvernement libyen et autres banques y participent.

● Des négociations sont en cours pour la création d'une banque libyo-algérienne, avec siège à Paris et au capital de 40 millions de francs.

● La Bank of America a eu l'autorisation de créer un nouvel institut au Caire, conjointement à la Banque Industrielle Egyptienne, au financier saoudien Abdulla Ben Musaead et à d'autres participants. La nouvelle banque, qui aura un capital de 10 millions de dollars, déroulera son activité dans le financement des projets industriels.

● Le traité constitutif de la Communauté Economique des Etats de l'Afrique de l'Ouest à laquelle participent 15 pays a été signé. Au sein de cette Communauté ont été créés 2 comités spéciaux: le Comité des Banques Centrales de l'Afrique de l'Ouest et le Comité chargé des problèmes afférant les capitaux, dans le but de créer à longue échéance un système multilatéral de règlement des paiements entre les pays membres. Dans l'immédiat on appliquera des systèmes bilatéraux de règlement. En outre, un Fonds de Coopération, Compensation et Développement a déjà été créé.

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- It has been announced that the project of establishing a Kuwait-Senagalese bank is under way.
  - The council of ministers of the Ivory Coast have approved by a decree the project of establishing a National Savings and Credit Bank.
  - Again in the Ivory Coast, the establishment of the first Brazilian Commercial Bank is in progress.
  - Within the process of nationalising the economy, two banking institutes, namely the B.I.C.I. Dahomey and the B.I.A.O. Dahomey, have been transformed into branches of the Société Dahoméenne de Banque.
  - President Amin of Uganda has accepted the proposal put forward by the Libyan President Gheddafi, for the establishment of a bank for African development, with its head office in Uganda and which will be financed by the oil producing nations.
  - The new government of Madagascar has issued a decree, whereby the banks and insurance companies have all been nationalised. This measure hits in particular the Banque de Madagascar, Banque Malgache d'Escompte et de Crédit, Banque Financière et Commerciale Malgache Mandroso and Banque pour le Commerce et l'Industrie de Madagascar.
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- Le projet de constitution d'une banque koweïto-sénégalaise a été annoncé.
  - Le conseil des ministres de la Côte d'Ivoire a adopté un projet de décret pour la création d'une banque nationale d'épargne et de crédit.
  - Toujours en Côte d'Ivoire est en projet l'ouverture de la première banque commerciale brésilienne.
  - Dans le domaine du processus de nationalisation de l'économie, deux établissements bancaires, la B.I.C.I. Dahomey et la B.I.A.O. Dahomey, ont été transformés en succursales de la Société Dahoméenne de Banque.
  - Le président de l'Ouganda Amin a accepté la proposition du président libyen Gheddafi pour la création d'une banque de développement africain, avec siège en Ouganda, financée par les pays producteurs de pétrole.
  - Le nouveau gouvernement malgache a émis un décret de nationalisation des banques et des établissements d'assurance. Cette mesure touche en particulier la Banque Commerciale de Madagascar, la Banque Malgache d'Escompte et de Crédit, la Banque Financière et Commerciale Malgache Mandroso et la Banque pour le Commerce et l'Industrie de Madagascar.
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## Italian survey

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### NEWS OF FINAFRICA

● At the presence of the Minister for the Scientific Research, Mario Pedini, who represented the Italian Government, and of the most important personalities of Milan, Prof. Giordano Dell'Amore handed over the diplomas to the African students who attended the 8th Course in Banking organized by Cassa di Risparmio delle Province Lombarde in association with the Ministry for Foreign Affairs.

After having briefly recalled the origin of the course, which started in 1967 with 24 students coming from 10 different countries, Prof. Dell'Amore underlined its particular usefulness in the formation of bank staff for the developing countries. The full development of a country, declared Prof. Dell'Amore, can start only if there is a sound banking and financial system able to benefit from the particular high propensity to save existing in developing countries, not yet affected by high consumption trends. Prof. Dell'Amore also recalled the other initiatives undertaken by Cassa di Risparmio in favour of the African continent. Among them, the series of monographs on the credit markets of Africa, which recently reached 12 volumes; the conference on the mobilization of savings in African countries and the Conference on the Agricultural credit held in Milan in 1971 and 1973 respectively; the support given in favour of the activity carried out by the Economic Commission

## Nouvelles italiennes

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### NOUVELLES DU FINAFRICA

● En présence du Ministre pour la recherche scientifique Monsieur Mario Pedini, comme représentant du gouvernement italien, et des plus hautes autorités milanaïses, le prof. Giordano Dell'Amore a délivré les certificats aux boursiers africains qui ont suivi le 8<sup>e</sup> Cours de Spécialisation Bancaire pour les pays africains organisé par la Caisse d'Epargne en collaboration avec le Ministère des Affaires Etrangères. Le prof. Dell'Amore, après avoir retracé la brève historique des cours, commencés en 1967 avec 24 boursiers provenant de 10 pays différents, a souligné l'importance de la formation des cadres bancaires pour les pays en voie de développement. Le développement d'un pays ne peut s'effectuer que s'il s'appuie sur une solide structure bancaire et financière, qui permette entre autre de tirer partie de la haute propension à l'épargne des pays en voie de développement, non encore contaminés par des tendances élevées de consommation. Le prof. Dell'Amore a ensuite rappelé les autres activités poursuivies par CARIPLO au profit du développement africain. Parmi celles-ci, l'ensemble de recherches consacrées aux « Marchés du crédit des Pays d'Afrique » qui a atteint le douzième volume; l'organisation à Milan en 1971 de la Conférence sur la mobilisation de l'épargne en Afrique et de la Conférence en 1973 sur le crédit agricole dans les pays en voie

for Africa of the United Nations; the establishment of the working group FAO/CARIPLO on agricultural credit in developing countries; the technical and financial aid for the creation of new savings banks in Africa or for the resettlement of the existing ones.

Then Prof. Dell'Amore thanked Minister Mario Pedini for the kind attention he devoted in the past to the initiatives undertaken by FINAFRICA when he was in charge as Minister for Foreign Affairs. He also expressed the hope that African students may appreciate the cordial hospitality received and may remember Italy as a democratic country which in spite of the existing difficulties allows the free development of ideas and of the human activity.

● In June Prof. Mauri went to the Somali Democratic Republic with the view of examining with the Somali credit authorities a project aiming to promote the mobilization of savings for investment in the building sector. Early in July he visited in Addis Ababa the Savings and Mortgage Corporation of Ethiopia. He also had the opportunity of discussing with the credit authorities of Ethiopia the resettlement of the Ethiopian banking system.

● In July, at FINAFRICA, Prof. Salvatore Cimino — Economic Adviser of the Presi-

de développement; la formation du groupe de travail FAO/CARIPLO sur le crédit agricole dans les pays en voie de développement; la participation à l'activité de la Commission Economique pour l'Afrique des Nations-Unies; les missions d'assistance technique et financière pour la constitution de nouvelles caisses d'épargne et pour une transformation vers des structures plus modernes de celles déjà existantes. Le prof. Dell'Amore a ensuite remercié le Ministre Pedini pour l'intérêt montré à l'égard des activités de l'organisme FINAFRICA quand il était Ministre des Affaires Etrangères et a exprimé aux boursiers le désir de les voir ressentir la chaleur de l'accueil et se souvenir de l'Italie comme d'un pays démocratique qui, malgré les difficultés, permet la libre expansion des idées et de l'activité humaine.

● Le prof. Mauri s'est rendu en juin en Somalie pour s'entretenir avec les responsables du crédit somalien sur un programme de promotion de la récolte de l'épargne à destiner au financement du secteur du bâtiment. Début juillet le prof. Mauri a visité à Addis Abeba la Savings and Mortgage Corporation of Ethiopia et a eu l'occasion de discuter avec les responsables du crédit éthiopien un plan de restructuration du système bancaire de ce Pays.

● En juillet, au FINAFRICA, le prof. Salvatore Cimino, Conseiller Economique du



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dent of the Republic of Senegal — met some Italian businessmen to whom he illustrated the many opportunities offered them in Senegal and in general in Western Africa, as well as the investments they might make in the "free industrial port" of Dakar.

● At FINAFRICA, at the end of June a meeting was held of the Committee charged with the organization of the general conference of the European Association of Development Research and Training Institutes, which is about to be created. Such a conference will be held in Linz (Austria) in September.

● FINAFRICA will take part in the World Conference on Credit for Farmers in Developing Countries, which will be held in Rome on 14-21 October 1975. In 1972, FAO and Cassa di Risparmio delle Provincie Lombarde (CARIPLO) decided to carry out a study on the fundamental features and policies of the agricultural credit system in developing countries (with particular reference to the African continent) and on projects for technical and financial aid. This study had been carried out by a working group formed by members of FAO, World Bank and Cassa di Risparmio, and supervised by Prof. Giordano Dell'Amore, chairman of Cassa di Risparmio.

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Président de la République du Sénégal, a eu un entretien avec des hommes d'affaires italiens, pendant lequel il leur a présenté les perspectives qui leur sont offertes au Sénégal, et en Afrique Occidentale en général. Le prof. Cimino leur a en outre décrit les possibilités d'investissement dans la « zone franche industrielle de Dakar ».

● Fin juin, le FINAFRICA a eu le plaisir d'accueillir une réunion du Comité organisateur pour la conférence générale de l'Association européenne des institutions de recherche et de formation en matière de développement, qui est en phase de constitution. Cette conférence se déroulera en septembre à Linz (Autriche).

● Le FINAFRICA participera à la Conférence Mondiale sur le Crédit Agricole aux Petits Exploitants dans les Pays en voie de développement qui se tiendra à Rome du 14 au 21 octobre 1975. En 1972, la FAO et la Cassa di Risparmio delle Provincie Lombarde (CARIPLO) décidèrent de mener une enquête pour réexaminer la politique et les prérequis institutionnels du crédit à l'agriculture dans les Pays en voie de développement, particulièrement en Afrique, et pour définir le plan des opérations pour l'assistance technique et financière. Un groupe de travail s'en est occupé, composé de représentants de la FAO, de la Banque Mondiale et CARIPLO, présidé par le prof. Giordano Del-

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The working group had drafted a document (Agricultural credit for development), which will represent the official paper of the conference to be held in Rome. Such a conference is organized by FAO and the financial support is given by various governments, international organizations, Cassa di Risparmio and FAO.

L'Amore, président de la Cassa di Risparmio delle Provincie Lombarde. Le groupe de travail a produit entre autre, le document « Le crédit agricole pour le développement » qui constituera le texte-base de la conférence de Rome. La conférence est organisée par la FAO avec le soutien financier de divers gouvernements, agences de développement, de la Cassa di Risparmio et de la FAO même.

## African survey

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● A contract for the construction of an engineering training centre in Arzew has been signed by the Italian firm Comerint and the Algerian firm Altra, belonging to the Sonatrach group. The contract is the result of previous agreements between the Ministry of Industry and Energy of Algeria and E.N.I. — an Italian public agency. The centre will train 700 people per year and will start its activity with the technical support of Comerint, which will train the Algerian teaching staff as well.

● On behalf of Société Nationale des Industries de la Cellulose, the Italian firm Ingeco, will build in El-Arrach (Algeria) a factory for the production of folding-boxes and bags. The raw-materials of paper and carton will be supplied by Sonic. The new factory will start its activity in about two years and will have a production capacity of 25,000 tons a year. It could employ a staff of 700 people and will include a graphic arts centre as well.

● Sowit S.p.A. of Milan has started the delivery of a desalting equipment for Libya. The project had been made by Sowit and carried out by Belleli S.p.A. of Mantua. The equipment will supply about 9,000 m<sup>3</sup> of water a day.

● On behalf of the Sudanese Government, Generale Impianti Divitex will build a

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## Nouvelles africaines

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● A la suite de précédents accords conclus entre le Ministère de l'industrie et de l'énergie algérien et l'E.N.I., la société italienne Comerint et la société algérienne Altra du groupe Sonatrach, ont signé un accord pour la réalisation « clefs en main » d'un centre de formation de techniciens à Arzew. Ce centre pourra former 700 techniciens par an. La société Comerint s'occupera également de la formation du personnel-enseignant algérien et procurera l'assistance technique dans un premier temps.

● La Société italienne Ingeco créera à El-Arrach, Algérie, pour le compte de la Société Nationale des Industries de la Cellulose, une usine pour la transformation du papier et du carton, produits par la Sonic, en sacs et boîtes pliants. L'ensemble industriel sera prêt dans environ 2 ans et aura une capacité de production annuelle de 25.000 tonnes. L'usine qui sera également équipée d'un centre d'arts graphiques, emploiera jusqu'à un maximum de 700 personnes.

● La Société Sowit de Milan a commencé la livraison d'un système de dessalage commandé par la Libye. La société Sowit s'est occupée du projet et la société Belleli de Mantoue de la réalisation. L'implantation a une capacité de débit d'environ 9000 mc. d'eau douce par jour.

● Le gouvernement du Soudan a ordonné à la société Generale Impianti Divitex la

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cotton-mill at Gadow in the Shendi region. It will be delivered by 1977 and will include machineries for spinning, weaving, printing, as well as a power-plant. Its production capacity of cotton fabric could reach 16 million meters a year. Generale Impianti Divitex will carry out this project in association with other Italian firms (Marzoli, Omez, Officine Galileo, Reggiani, SAE, Grandi Motori Trieste). At the start of its activity, the new cotton-mill will receive for two years the technical support of Generale Impianti Divitex.

● A contract for 150 billion lire to carry out the largest integrated agricultural project for Africa has been signed in Nigeria by the Sokoto Rima Basin Authority (of the Nigerian Government), the Italian firm Impresit and its Nigerian affiliate Impresit Bakolori. The contract has been signed for the construction of a dam to be built over the river Sokoto (an affluent of Niger). The dam which will be 50m high and more than 5 km long will form an artificial lake of 450 million m<sup>3</sup> of water for irrigation purposes. At the foot of the dam there will be built a hydroelectric generating station for the supply of power both for irrigation and for industrial and private needs. Further down there will be built irrigation and farming works consisting of 30,000 ha of land; 2,000 km of canals for irrigation and drainage; 1,000

réalisation « clefs en main » d'un ensemble industriel pour le traitement complet du coton à Gadow, région de Shendi. La livraison est fixée en 1977 et comprendra des implantations de filature, de tissage, finissage et imprimerie de 16 millions de mètres de tissus de coton par an, avec des services annexes et une centrale électrique. Réunies en consortium avec la société Generale Impianti Divitex on trouve beaucoup d'autres entreprises italiennes (comme Marzoli, Omez, Usines Galileo, Reggiani, SAE, Grandi Motori Trieste). La Divitex prêtera assistance technique pendant 2 ans à la gestion de l'implantation.

● Un contrat de 150 milliards de liras a été signé au Nigeria entre la Sokoto Rima Basin Authority (du gouvernement nigérien), la société Impresit et sa filiale nigérienne Impresit Bakolori pour la réalisation du plus grand projet agricole mis en oeuvre jusqu'à présent sur le continent africain. Le contrat signé au Nigeria prévoit la construction d'une digue sur le fleuve Sokoto (affluent du Niger) d'une hauteur d'environ 50 mètres et de plus de 5 km. de long, qui formera un lac artificiel de 450 millions de mc. entièrement destinés à l'irrigation. Au pied de la digue, une centrale hydroélectrique donnera l'énergie nécessaire pour l'irrigation et pour les infrastructures civiles et industrielles. A l'aval de la digue seront édifiées toutes les constructions nécessaires à l'irrigation et à la culture d'un terrain de 30.000 ha:



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km of roads; 100 km of banks; pumping stations; houses for farmers; aid centres (for agricultural, mechanical and veterinary needs) as well as professional training centres. Factories to transform and preserve farm produce are also foreseen: flour-mills; sugar refineries; refrigerating equipments; stables and slaughter-houses; equipments for fishery; etc. All this, which represents a very important project of reform, will require the co-operation of more than one thousand Italians and eight thousand Nigerians (technicians and workers) for six years. By 1980 all the works must be over. Other Italian firms will be involved in the realization of such a project of reform. A company has also been established in Nigeria by Impresit to carry out all the works foreseen by the contract, a capital share of which has also been subscribed by the Federal Government of Nigeria.

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2000 km. de canaux d'irrigation et de drainage, 1000 km. de routes, 100 km. de barrages de protection, des stations de pompage, des habitations pour les agriculteurs, des centres d'assistance technique (agricole, vétérinaire, mécanique), des centres de formation professionnelle. En outre, sont prévues des industries pour la transformation et la conservation des produits agricoles (moulins, sucreries, conserveries, implantations frigorifiques, étales et abattoirs modernes, équipement pour la pêche). Il s'agit là d'un grand projet de bonification intégrale. A cette réalisation sera nécessaire la collaboration pendant 6 ans de plus de 1000 italiens et de 8000 nigériens (techniciens et ouvriers). L'achèvement des travaux est prévu pour 1980. Au projet et à l'organisation des oeuvres participent de nombreuses autres entreprises italiennes. A cette société que l'Impresit a créée au Nigeria pour la réalisation des travaux, participe en tant que co-actionnaire le gouvernement fédéral du Nigeria lui-même.

## Book reviews

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EDWARD S. SHAW: *Financial Deepening in Economic Development*, Oxford University Press, London-Toronto, 1973.

By financial deepening Shaw means the accumulation of financial assets at a faster pace than the accumulation of non financial wealth and total output. Thus, when financial deepening is occurring "stocks of financial assets aggregatively grow relative to income or in proportion to tangible wealth and their range of qualities widens". It is the author's contention that the development of the financial sector of the economy does matter despite the little attention which has been paid to it in the development literature. Up to now models have been produced that leave little room for the real world complexities, especially in relation to "lagging" economies where homogeneous markets, perfect foresight, instantaneous frictionless adjustments are even less likely to be hypothesized.

Shaw presents first the implications of money and finance for growth in a basic neoclassical model and in a keynesian version which allows for risk and risk aversion. In both versions money is seen as part of real wealth. The major value of the Wealth View is seen in the emphasis on the relative price of money and its significance in money deepening, which in its turn has important effects: a negative income effect due to substitution of money to physical wealth in savings allocation and a positive income effect due

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to the increase in productivity of labour and capital brought about by the services of money.

The author then sets out to develop its own model in which money is still seen as "an instrument for economizing on services of human and physical wealth in the search-and-bargain process", but is now the "debt of the issuer, whether monetary authority or private bank", rather than wealth. While building his own, Shaw relaxes the unrealistic assumptions usually adopted in growth models, thus creating a sharp (and badly understood) contrast with the two previous views. Money not being wealth there is no substitution effect, but there still is a positive and even more accentuated income effect, while the absorption of factor inputs by the monetary industry has a negative one. Furthermore there is a positive effect of the growth in real money on the propensity to save and an investment effect brought about by the unification of the capital market, diminished uncertainty regarding forward rates of return and more discriminating choice among investment alternatives. All this takes place through financial deepening and the key to the process is in financial liberalization.

Shaw's predicament for financial liberalization is very simple: let prices for financial instruments be relevant prices and ensure that markets for financial instruments be competitive, while controlling money supply.

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This would disclose the scarcity of savings and at the same time stimulate saving and "raise accessible rates of return on investment". Relevant interest rates would often indicate the opportunity to abandon capital intensive projects for labour intensive ones and when the elasticity of substitution of labour for capital is greater than one, this also means a greater share of labour in income.

The rest of the book is then devoted to analyzing the means through which financial repression is performed and the means through which it could be eliminated. Specific chapters are devoted to the interrelation of financial deepening-liberalization with fiscal policy, foreign trade and exchange policy and short-run management of the economy.

The basic thrust of the book still lies in the light it sheds on financial intermediation (as a stimulant for saving and as a fundamental resource allocation device) and on the crucial role real rates of return play in the process. Financial development implies decentralization of decision making and reliance on market prices as a guide for resource allocation (and this applies also in a socialist context). Throughout the book many "realistic" examples are given of how administrative methods lead to mismanagement of the economy and of how manipulation of relative prices are likely to result in contradictory policies. Financial liberalization and the complementary fiscal and foreign

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trade and exchange policies, should avoid all this. On one side, the intrinsic difficulty of decision making in a complex system would be made more manageable, on the other side, the process would imply the defeat of the economic myopia and political weakness that characterizes the choice for financial repression.

This is by now a well known book. Still, we did not want to lose the opportunity of bringing it to the attention of the reader. Though criticized as lacking in "statistical" evidence and too simplistic in sketching contrasts between shallow finance-lagging economies and financial deepening-growing economies, it has been said that "this little volume... should be welcomed as a bible by all economic advisors concerned with financial policy in developing economies".

We still raise a problem concerning the heart of financial intermediation. Once overcome particularistic pressures and myopic "shortcuts" that lead to financial repression, once understood the basic conditions of market equilibrium, the problem is simply shifted on a microeconomic level. That is to say, what will, then, ensure that credit officers in the financial sector will want to behave in such a way as to ensure the maximum attainable return to society. Furthermore, what might be simple to assess *ex post*, in the aggregate, as a viable contribution to growth is much more difficult to appraise *ex ante* at a microeconomic level. The implications on ag-

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gregate performance of accepted views about financial and economic equilibrium in the management of credit institutions — and of the ensuing lending rules, chosen risk/return combinations — are far from having been defined. On one hand, lending risk “attitudes” constitute a prob-

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lem apart, on the other, credit granting by “commercial banks” based mainly on cash flow analysis, in the best of cases, does not seem to fit in typical aggregate statements for optimal allocation of resources.

*Mario Masini*



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**RASSEGNA TRIMESTRALE**

REGISTRATA PRESSO IL TRIBUNALE DI MILANO AL N. 102 DEL 27.3.1974  
REDAZIONE: CASSA DI RISPARMIO DELLE PROVINCE LOMBARDE  
SERVIZIO STUDI E STATISTICA - VIA WITTGENS, 4 - 20123 MILANO

Direttore Responsabile  
**GIUSEPPE CARCANO**

GRAFICA COMENSE - VIA PROVINCIALE PER LECCO, 30 - 22038 TAVERNERIO (COMO)

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