AGRICULTURAL CREDIT AND THE SUBSIDY QUESTION

1. Introduction

A subsidy is introduced into a transaction when it is considered that the market forces do not reflect the true benefit of the transaction, and therefore, the introduction of a distortion is desirable. It is widely accepted that markets in developing countries, as elsewhere, rarely reflect overall economic costs and benefits, hence subsidies are frequently introduced (1). This paper, however, does not set out to debate the subsidy issue *per se*, and it does not deal specifically with the outwardly similar but clearly separate issue of income transfer. Rather it examines the implications for credit programmes of a government decision to subsidize, in some form, the production activities of small farmers. In particular it seeks to identify the most effective avenue for subsidy, whether or not a credit programme is operative.

A major point which should be made at the outset is that government resources available for providing subsidies are very limited and, of necessity, their allocation to this use means that some other government activity is deprived of funds. This is reason enough for care in operating subsidies, but it is also important to note that they can be a powerful economic lever and, as such, can do much harm if used unwisely.

2. Types of subsidy

Two main avenues for subsidy exist. The first is the direct subsidy, which means an alteration to the price structure of a farmer's actual transactions. These include the prices paid by the farmer for inputs and for direct production services such as credit (in this case the price paid is the interest charge, plus any commitment or other fee) and the price received by the farmer for his produce. An indirect subsidy, on the other hand, involves financial assistance, one or more steps removed from the transactions in which the farmer is engaged. Possibilities here include subsidization of the administrative costs of credit programmes and price stabilization schemes, and the provision of research and extension services. Assistance which has some features of a farm production subsidy, but which is more in the nature of development investment, includes the provision of infrastructural items such as roads, markets, clinics and schools.

(1) For example, a country faced with a possible food shortage may want to encourage increased supply by raising farm-gate prices in order to avoid spending foreign exchange on imports.

3. Direct subsidies

Some forms of direct subsidy are very readily introduced by a government, especially in situations, not uncommon now in many countries, where the state is actively involved in credit programmes and even, in some cases, in input supply and produce marketing. Indeed, in the absence of a taxation system, these transactions provide the only direct financial contact between the farmer and the state, and for this reason may be regarded as a convenient avenue for subsidy (2).

Subsidized credit is probably the easiest of all subsidies to apply. Unfortunately, in most circumstances it is also the type which has most disadvantages. In this context the subsidy is direct, that is, it relates to the farmer's transaction in obtaining credit, his payment of interest. There is a certain amount of evidence to show that in many credit programmes the interest rate charged should be of the order of 25 to 30 percent, if all the costs involved (cost of capital, administration, losses due to default and inflation) are to be covered. In fact, of course, interest rates in small farmer credit programmes are very much lower than this and, indeed, are often lower than the rates charged in other sectors of the economy. This creates a dangerous situation, where it is likely that cheap farm credit will be siphoned off into investments which have little to do with developing the small farmer. The subsidy in this case does not affect production of this sector since it does not reach those for whom it was intended.

A second disadvantage associated with very low interest rates is the familiar argument that the farmer's investment policies may be thereby distorted since the true cost of capital is not reflected in the farmer's transactions. In this case a shift to more reliance on capital and less on labour might be expected. The disadvantages inherent in this are further compounded because such a shift in production factors usually involves an increased managerial task. Cheap credit may cause wasteful use of capital and even premature consumption, thus reducing capital formation at the village level.

(2) A further type of direct assistance is the « grant-in-aid ». This is given to an individual farmer as an incentive to increase production, and may, for example, consist of a sum of money to help with a capital project. Thus a grant-in-aid is similar to a subsidy. However, there are heavy administrative demands with the operation of grant-in-aid schemes, if allocation is to be fair and just; this is likely to preclude their use save in exceptional circumstances.

Third, when interest rates are very low then demand for credit may well exceed supply, making rationing necessary. This need for rationing causes several major difficulties. Inevitably it places an extra burden on the administrative staff of credit institutions and, because of pressure from would-be borrowers, a situation exists where the chances of corruption are great, with a consequent harmful effect on staff morale. But the primary direct effect on small farmers is allocative, in that when rationing takes place the smaller man is likely to be muscled out by those who have more influence with the officials supplying inputs and credit. A related disadvantage is that when a low interest-rate policy has been in force, those officials who have the power to change interest rates may have personal reasons for keeping them low, reasons which are not connected with assisting the small farmer.

Fourth, there is always the danger that a credit institution lending money at a subsidized rate of interest is somewhat at the mercy of its political masters and may find itself insufficiently compensated. In these circumstances it faces the danger of decapitalization, it will almost certainly be forced into a situation where it concentrates on large loans to established farmers in order to economize, and it may find difficulty in raising capital, partly because of its inability to offer attractive interest rates on deposits.

Finally, subsidized interest rates have a tendency to hinder the integration of capital markets, thus decreasing the efficiency of the economy by restraining the transfer of resources.

Let us speak now of subsidies on inputs. Some circumstances justify the introduction of subsidized inputs. For example, although it is generally better to popularize the use of new inputs and technologies by demonstrating clearly their productivity and profitability in existing market conditions, it may sometimes be necessary to sweeten the pill by operating a well defined policy of reducing the cost of the inputs for a limited period of time. This has the effect of reducing the risk of the innovation to the farmer, and also reduces the working capital requirement during the introductory phase. Sometimes a government may decide to subsidize farming in a particularly disadvantaged area or region. In these circumstances a subsidy to cover transport costs may be in order. Also a government may seek to popularize a particular technique or practice by making it possible at a subsidized price. Thus tea and rubber replanting operations in Sri Lanka are heavily subsidized by the Government.

Apart from the special cases noted above, however, subsidies on inputs should normally be avoided since they suffer from many of the disadvantages associated with operating farm credit at subsidized rates of interest. Thus there are likely to be allocative difficulties because of the need for rationing, and those with greater influence with supplying agencies are likely to obtain inputs more readily than others: it is not always the former group that can make the more productive use of the inputs concerned. Again, a direct subsidy on certain inputs, for example machinery, may lead to more reliance on capital as opposed to labour than is really justified at a given stage of development.

Finally direct subsidies on output prices are to be mentioned. A subsidy on output prices needs careful handling in order to ensure that the intended recipients receive the full benefit of the subsidy, and therefore that the subsidy has the desired effect on production. This is all the more important since this type of subsidy can be very expensive. In this connection since it usually involves the setting of a pre-planting price, with the marketed output being an unknown factor, the commitment by the government is open-ended. A further disadvantage associated with a subsidy on output prices is that when applied in areas where large farmers are interspersed with small, such a policy tends to increase income disparities. This may be an argument for applying an indirect subsidy in such circumstances. However, the upward adjustment of output prices, by means of a subsidy, can be very effective in encouraging production of certain types of farm produce in particular localities.

A subsidy on output prices is distinct from a price stabilization scheme. The latter sets out to remove or reduce the effect of price uncertainty by operating a fund which is credited when market prices are higher that the set farm-gate price, and debited when the reverse applies. Despite the distinction between the two types of intervention, a price stabilization scheme may involve subsidy. This may be direct, in that an output-price subsidy is fed into the stabilization fund, or, as is common, indirect in the form of a grant to assist with the costs of administering the scheme.

4. Indirect subsidies

The biggest advantage of an indirect subsidy is the fact that it is hidden. A peasant farmer, in receipt of what is clearly a subsidized item, perceives a

hand-out and this in itself affects his attitude to farm production. The direct subsidy either strikes him as constituting bribery, thus arousing his suspicion, or makes him feel that he is being asked to participate in something which is less than serious. In neither case is his attitude towards increasing agricultural production improved. On the other hand, when government resources are directed towards the identification of profitable technologies, to the organization of extension, marketing and credit services and to the provision of necessary infrastructure such as roads, bridges and storage facilities, then the effect on the farmer and his attitude towards farm production is positive.

It is useful to point out that the subsidization of credit institutions' operations in remote areas, particularly when these bodies also provide a savings facility, can bring about indirect benefits to farm production through helping to commercialize the attitude of rural populations towards farm investment and production. In more remote areas this process might be termed monetization, but the essentials are similar to commercialization, as are the effects; for it has been amply demonstrated that increases in agricultural production are greatly facilitated by a perceived need for a cash income from farming.

Indirect subsidies, in the form of assistance designed to build up the viability of credit institutions are a feature of many government programmes. The most common type of subsidy here is the provision of loanable funds at concessionary rates of interest. If rates to farmers are kept high, then the spread between interest paid and interest received may be sufficient to enable the institution to be viable. On the other hand, it seems more common to seek to tie down interest rates paid by farmers. Thus when in 1971 the rate paid by the Thailand Bank for Agriculture and Agricultural Cooperatives (BAAC) to the Bank of Thailand was reduced from 7 to 5 percent, the rates for short and medium-term loans to farmers were reduced from 12 to 10 percent. Because of this tendency it may be more effective for government to assist banks and other credit institutions by providing other types of assistance such as: the payment of salaries of key primary cooperative society officials (as in Bangladesh), the free training of bank employees (as is the case with the Rural Banks in South Vietnam), free audit service (Vietnam). There are probably other types of subsidy to credit institutions, but a special note can be made of crop insurance schemes, such as that operating in Sri Lanka where, in 1969/70, 82,000 ha. of crop were insured. This scheme apparently

has no direct link with a credit programme but it does rely heavily on a government subsidy.

Yet a further type of subsidy is government action which results in loan repayment obligations being waived. This has been done occasionally in Sri Lanka, for example, and has also been commonly employed in Greece. The dangers implicit in this measure are well-known to all bankers, but in some circumstances this type of action is forced, for example, by crop failure. When this is widespread and general, then a government can, of course, designate a given zone as a disaster area and take special measures, such as waiving loan repayment obligations. Designation of disaster area is done, for example, in Malaysia. If, on the other hand, only a few farmers have been affected then the crop failure is more likely to be due to poor management.

The only sound solution for this situation is preventive, not curative, in that a loan should not be given unless a farmer can be identified as being a sound manager at his technology and size level. But failures do occur and when this does happen then action leading to the re-scheduling of the defaulting farmer's debts to a long term loan could be taken.

5. Conclusion

Once a decision has been made to subsidize small farmers' production activities, the temptation to do this by offering loans at unrealistically low interest rates should be resisted. In certain cases a strategically aimed subsidy on output, or even in inputs, may be applicable but, in general, indirect subsidies, such as those paid to institutions providing farm services, and, in particular, forms of assistance which strengthen the viability of these institutions, are likely to be the most satisfactory type for the small-farmer sector.

Above all it is desirable to avoid the type of financial assistance which is granted on an *ad hoc* basis since this can lead, on the one hand, to corruption of those responsible for disbursement and, on the other, to distortion within the economic system. Whilst much progress has been made in the direction of channelling subsidies towards sound institution building and to other directly useful infrastructural-type development, scope still exists for an appraisal of certain practices such as the tendency to keep interest rates on farmers' loans unnecessarily low.

Richard A.J. Roberts

LE CREDIT AGRICOLE ET LE PROBLEME DES SUBSIDES

RESUME

L'Auteur examine le problème des subsides à l'agriculture en faisant la distinction entre les formes de subside directes et les formes indirectes. Il exprime, en se fondant sur une série de considérations, un jugement défavorable sur les subsides directs et notamment sur le crédit accordé à des taux d'intérêt réduits.

Il serait préférable, à son avis, que les pouvoirs publics qui veulent soutenir le secteur agricole recourent aux subsides indirects et, en l'occurrence, aux services d'assistance technique et économico-commerciale gratuits en faveur des agriculteurs ainsi qu'aux investissements en infrastructures dans les zones rurales.

Money and credit in Africa

Monnaie et crédit en Afrique

BANKING DEVELOPMENTS IN AFRICA

The Government of Somalia has set up a commission to draft a feasibility study for a Housing Financing Section under the formula of "crédit foncier" at the Somali Credit and Savings Bank. Members of this commission are Messrs. Abbas Yasin Ahmed, Scerif Abubaker Mohamed, Abdrhaman Mohamed Giama and Arnaldo Mauri of FINAFRICA.

Algeria, Libya and the United Arab Emirates have agreed to set up an Arab Investment Bank. The bank will be based in Abu Dhabi and its initial share capital will be 60,000,000 U.A.E. dirhams.

The financial ministers of Moslem countries met in Saudi Arabia to work out the final details of a project to establish the Islamic Development Bank. An agreement was signed under which the overall capital contributions to the new institution will be 900,000,000 dollars.

Information has been received that the Arab Development Bank for Africa is to be set up as part of general plans for cooperation between Arab and African countries.

Mr. Konan Bédié, Minister of the Economy and Finance of the Ivory Coast, has been elected Chairman of the new joint IMF-I.B.R.D. Development Committee. The immediate objective of this new body is to review the economic situation of developing countries hit by the increase in oil prices and plan suitable action to deal with this situation. In the longer term, the committee will be concerned with how

DEVELOPPEMENT BANCAIRE EN AFRIQUE

Les Autorités somalies ont créé une commission chargée de préparer une étude sur les possibilités de réalisation d'une section de crédit foncier au sein de la Somali Savings and Credit Bank. Font partie de cette commission MM. Abbas Yasin Ahmed, Scerif Abubaker Mohamed, Abdrhaman Mohamed Giama et Arnaldo Mauri de FINAFRICA.

L'Algérie, la Lybie et les Emirats arabes (United Arab Emirates) ont décidé de constituer une Banque Arabe d'Investissement ayant son siège central à Abou Dhabi et un capital initial de 60 millions de dirhams U.A.E.

Les ministres financiers des nations musulmanes, réunis en Arabie Séudite, ont discuté les derniers détails pour la constitution d'une Banque de Développement Islamique et ont signé un accord qui établit un volume global d'apports financiers de 900 millions de dollars.

Dans le cadre des programmes de solidarité arabo-africaine, on apprend la fondation d'une Banque Arabe de Développement pour l'Afrique.

M. Konan Bédié, Ministre de l'Economie et des Finances de la Côte d'Ivoire, a été élu président du nouveau comité ministériel commun F.M.I.-Banque Mondiale. Ce nouvel organisme a pour but immédiat d'examiner la situation des pays en voie de développement frappés par l'augmentation du prix du pétrole et les mesures à adopter pour faire face aux hausses de prix des matières premières. A plus

to transfer real resources to developing countries.

The Cameroon Republic has become the 100th member country of the International Finance Corporation.

As part of plans to nationalize the economy of Madagascar, the Government has acquired controlling interests in two foreign banks. It now has a 40.65 per cent stake in the 1,000,000,000 MF capital of Banque Commerciale de Madagascar, and a 10.35 per cent interest in Caisse Nationale de Prévoyance Sociale, which gives an actual State control of 51 per cent. The Government has also acquired a 51 per cent interest in the 750,000,000 MF share capital of Banque Malgache d'Escompte et de Crédit.

As a result of mergers in the Congo, only two banking institutions will exist in this country in the future in addition to Banque Nationale de Développement and Banque des Etats d'Afrique Centrale. The first merger has already been consummated between Banque Nationale de Paris and Société Générale, resulting in the establishment of Union Congolaise de Banque in which the Congo Government holds a 51 per cent interest. In the next few months Banque Internationale pour l'Afrique Occidentale and Crédit Lyonnais will also merge to form a single bank also controlled by the Government.

The Finance Minister of Ghana has issued new regulations under the heading of the New Currency Amendment Decree which provides for very severe penalties for offenders who do not comply with Ghana's currency regulations. The Decree prohi-

long terme, le comité commun devrait s'occuper du transfert de ressources réelles vers les pays en voie de développement.

Le Cameroun est devenu le centième membre de la International Finance Corporation.

Au cours du processus de nationalisation de l'économie du Madagascar et d'étatisation de son système bancaire, l'Etat malgache a acquis une participation de majorité dans deux banques étrangères. L'Etat possède maintenant dans la Banque Commerciale de Madagascar — capital social: 1 milliard de Fr. malgache — une participation de 40,65%, la Caisse Nationale de prévoyance participe avec 10,35%, ce qui donne un contrôle public de 51%. L'Etat a également acquis dans la Banque Malgache d'Escompte et de Crédit — capital social: 750 millions de francs malgaches — une participation de 51 pour cent.

Processus de concentration du système bancaire au Congo: outre la Banque Nationale de Développement et la Banque des Etats d'Afrique Centrale, il n'y aura à l'avenir au Congo que deux autres établissements bancaires. Un premier regroupement, déjà effectué, concerne la Banque Nationale de Paris et la Société Générale, qui ont formé l'Union Congolaise de Banque sous le contrôle de l'Etat (51%). Dans quelques mois on assistera également à la concentration de la Banque Internationale de l'Afrique Centrale et du Crédit Lyonnais en un unique établissement avec participation majoritaire de l'Etat congolais.

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bits unauthorized export and import of funds in excess of the equivalent of 20 cedis in Ghanaian currency and lays down fines and prison sentences of up to 10 years for forgers. It also prohibits the circulation of foreign legal tender in Ghana.

Heads of agreement have been signed to set up the Union des Banques de la Méditerranée. Partners in this venture are two Algerian banks, Banque Nationale de Algérie and Crédit Populaire d'Algérie, and six French banks, Banque Nationale de Paris, Crédit Lyonnais, Société Générale, Banque de Paris et des Pays Bas, Crédit Commercial de France and Crédit Industriel et Commercial. The share capital of the new entity is 80,000,000 francs held in equal proportions as between the Algerian and French partners. Union des Banques de la Méditerranée is to be a deposit bank with emphasis on merchant banking operations. It will have three main functions: a) to finance trade between Algeria and France; b) issuing loan stock on international capital markets on behalf of either country; and c) dealing with the financial problems posed by emigration.

Another Franco-Algerian institution has also been established. This is Banque Franco-Algérienne, whose shareholders are the three French State-controlled banks and the Algerian Commercial Bank.

The Nigerian Industrial Development Bank is to have a controlling interest in a new commercial bank to be set up with an initial share capital of 1,500,000 nairas. The other partners in the new institution

Le commissariat des Finances du Ghana a émis un règlement intitulé « New Currency (Amendment) Decree » fixant des peines très sévères pour les transgresseurs aux normes qui règlent la circulation monétaire. Le Décret interdit notamment l'importation et l'exportation non autorisées de sommes supérieures à 20 cédis en monnaie nationale; il établit des amendes et jusqu'à dix ans de réclusion pour les faussaires et interdit la circulation de monnaie étrangère au Ghana.

Un protocole d'accord pour la constitution de l'Union des Banques de la Méditerranée a été signé entre deux banques algériennes (Banque Nationale d'Algérie et Crédit Populaire d'Algérie) et six banques françaises (Banque Nationale de Paris, Crédit Lyonnais, Société Générale, Banque de Paris et des Pays Bas, Crédit Commercial de France, Crédit Industriel et Commercial). Le capital de la nouvelle banque est de 80 millions de francs également répartis entre les deux groupes de banques. L'Union des Banques de la Méditerranée sera une banque de dépôt ayant vocation de banque d'affaires et remplira trois fonctions essentielles: financement des échanges commerciaux entre les deux pays; interventions sur le marché international des capitaux pour le compte du pays qui le demande; coopération à la solution des problèmes financiers de l'émigration.

Un autre établissement franco-algérien, la Banque Franco-Algérienne, est né de la fusion des trois établissements français nationalisés et de la Banque Commerciale d'Algérie.

are Morgan Guaranty Trust of New York, the London merchant bank Baring Brothers and Co., and the National Insurance Corporation of Nigeria.

A number of foreign banks have received authorization to establish branches in Egypt. These are Banco di Roma, Crédit Foncier de France, First National Bank of Chicago, Chase Manhattan Bank, First National, Bank of America, American Express, Manufacturers Hanover Trust, Lloyds Bank International, Barclays Bank International, the British merchant bank Morgan Grenfell and the Canadian Bank of Nova Scotia.

The State-controlled Egyptian commercial banks have produced a plan proposing that the Egyptian pound be floated. The aim of this proposal is to encourage foreign investment in Egypt and to raise the cost of imports. No statement on the proposal has yet been issued by the Government itself.

The Minister of Finance in the Niger Republic has appealed to the population to take an active part in the savings promotion campaign at present being organized by the Banque de Développement de la République du Niger and the Niamey branch of Banque Internationale pour l'Afrique Occidentale.

La Nigerian Industrial Development Bank va participer avec une quote-part de majorité à la constitution d'une nouvelle banque commerciale dont le capital social a été fixé à 1,5 millions de naïras. Les autres sociétés intéressées à cette initiative sont: la Morgan Guaranty Trust Company de New York, la Baring Brothers and Co. de Londres et la National Insurance Corporation of Nigeria.

De nombreuses banques étrangères ont reçu l'autorisation d'ouvrir des agences en Egypte. Il s'agit du Banco di Roma (Italie), du Crédit Foncier de France (France), de la First National Bank of Chicago, de la Chase Manhattan Bank, de la First National, de la Bank of America, de l'American Express, de la Manufacturers Hanover Trust (U.S.A.), de la Morgan Grenfell (Grande-Bretagne), de la Bank of Nova Scotia (Canada).

Les directeurs des banques commerciales étatiques égyptiennes ont présenté un plan où l'on propose la fluctuation de la Livre égyptienne. Cette mesure viserait à encourager les investissements étrangers en Egypte et à augmenter le coût des importations. Il n'y a pas de commentaire officiel à cette nouvelle.

Le ministre des finances du Niger a lancé un appel à la population afin que celle-ci participe activement à la campagne de promotion de l'épargne organisée par la Banque de Développement de la République du Niger et par l'agence de Niamey de la Banque Internationale pour l'Afrique Occidentale.

Italian survey

ECONOMIC CONDITIONS

The most ominous new cloud to darken the economic scene in Italy towards the close of the year is that industrial production has now stopped expanding. Until September output had been rising, though at decreasing rates; since then a marked slackening of domestic demand has caused a reversal in virtually all branches, most of all in transport vehicles and closely connected supply industries (engineering, steel, chemicals). In year-on-year terms industrial production was down 4.5 per cent in October and 11.9 per cent in November. Companies swiftly responded with a cut in their investment plans, cancelling some projects and postponing many. Employment suffered less because, for the time being at least, the brunt is being taken by short-time working and few redundancies have actually occurred so far; but in October 241,000 more workers were on short time than a year earlier. Overall, however, industrial production (excluding building) during the 11 months to the end of November 1974 was still up—by 5.5 per cent—on the corresponding 1973 figures, and its share in the formation of the gross national product is expected to be 4 per cent higher than last year.

The decline in demand and production did little to slow down the tempo of domestic price rises. The cost of living (which is calculated with reference to the consumption of a standard family of wage earners) followed a 3.3 per cent jump in September with somewhat more sedate

Nouvelles italiennes

LA SITUATION ÉCONOMIQUE

L'événement qui a marqué de la façon la plus voyante l'aggravation de la situation économique nationale en cette fin d'année a été l'interruption de la phase de croissance qui, bien qu'avec un certain ralentissement, avait intéressé l'activité industrielle jusqu'en septembre. Cette inversion de tendance, causée par un net affaissement de la demande intérieure, concerne pratiquement tous les secteurs de la production et prend des proportions particulièrement inquiétantes dans l'industrie des moyens de transport et dans tous les secteurs qui s'y rattachent (mécanique, métallurgie, chimie). La réduction de la production à des niveaux inférieurs à ceux des mêmes mois de 1973 (— 4,5% en octobre, 11,9% en novembre) a eu des reflets négatifs sur les programmes d'investissement des entreprises. Bien des projets d'investissement ont été annulés ou différés. Le contrecoup sur l'emploi a été par contre mieux supporté puisque, pour l'instant, seule la zone du sous-emploi s'est élargie: d'octobre à octobre le nombre des travailleurs à horaire réduit s'est accru de 241.000 unités mais les niveaux de l'emploi n'ont pas subi de grands changements.

Le bilan du secteur industriel — sauf pour le bâtiment — apparaît encore dans l'ensemble assez positif (+ 5,5% en 11 mois) et devrait donner au produit national un apport plus élevé (4%) qu'en 1973.

Malgré la contraction de la demande et de la production, la dynamique des prix

increases of 2.1 per cent in October and 1.5 per cent in November; yet compared with a year ago, the rate of inflation was still gathering pace, rising from 24.6 to 26.2 per cent from the end of September to the end of November. The consumer price index, defined with reference to the whole of the population, closely followed the cost of living; wholesale prices rose less steeply than before, as indeed they had been doing since August, but even so this did little to bring down the annual rate of increase (+39.8 per cent in November).

Nor can any comfort be derived from the balance of payments. The improvement in the period July to September was not followed up in the subsequent two months, when capital flight made its reappearance—no doubt mainly because of the prolonged government crisis. The trade deficit up to the end of November was more than twice as high (6,525 billion lire) as in the first eleven months of 1973. Oil was responsible for 4,646 billion of the total, and food and agricultural imports for virtually the whole of the rest. To some extent the steady widening of the trade gap was attributable, too, to a faster rise in import than in export prices. Except for the first quarter, exports actually expanded at a reasonably satisfactory pace in volume terms, while import growth, held back by restrictive measures, gradually slowed down to quite low rates far short of those in 1973.

The bond market is in the doldrums. Fast inflation has pushed up short-term interest rates to dizzy heights, and the disa-

intérieurs n'a manifesté aucune décélération appréciable. Après la montée en flèche de septembre (+ 3,3%) l'accroissement mensuel du coût de la vie — qui se base comme chacun sait sur la consommation d'une famille type de travailleurs salariés — s'est atténué graduellement (+ 2,1% en octobre; + 1,5% en novembre). Dans l'ensemble de l'année, toutefois, le taux d'inflation s'est intensifié: 24,6% fin septembre; 26,2% fin novembre.

L'indice des prix de consommation, rapporté à toute la collectivité nationale, a suivi substantiellement l'allure du coût de la vie et l'indice des prix de gros a confirmé la phase de décélération qui s'est amorcée depuis août sans toutefois provoquer de réductions appréciables du taux d'inflation annuel (39,8% en novembre).

La situation des comptes avec l'étranger demeure difficile. Une certaine amélioration de la balance des paiements entre août et septembre n'a pas eu de suite et les deux mois successifs, marqués principalement par la longue crise de gouvernement, ont subi les effets négatifs de nouvelles fuites de capitaux. En ce qui concerne les échanges commerciaux, signalons que, durant les onze premiers mois, le déficit global a atteint un montant de 6.525 milliards, soit plus du double par rapport à la même période de 1973; l'incidence des produits pétroliers (4.646 milliards) demeure prépondérante tandis que le rest revient presque entièrement aux achats de produits alimentaires et agricoles. Le déficit a continué à

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strous effect on bond prices was stemmed only by support intervention on the part of the monetary authorities and obligatory buying on the part of banks. In the equity market, the end of the government crisis led to a few short-lived spurts of recovery, but ultimately investors paid more heed to the ominous production figures and by the end of the stock exchange annual period share prices had tumbled to a new low for the year.

The outlook remains poor at least until the middle of next year. Without restimulation, industrial production must be expected to fall further under the combined impact of slackening domestic demand and mounting difficulties in finding outlets on export markets.

se dilater en raison également d'une hausse des prix plus forte à l'importation qu'à l'exportation. Quantitativement, en effet, les ventes à l'étranger ont connu — sauf au premier trimestre — un rythme de croissance assez satisfaisant tandis que l'allure des achats relantissait progressivement — à cause aussi des mesures limitatives qui ont permis de maintenir leur taux d'expansion annuel à un niveau fort modeste et largement inférieur à celui de 1973.

Le marché des obligations se trouve encore dans une situation extrêmement difficile car les taux d'inflation élevés ont poussé à des niveaux inusités les taux d'intérêt à court terme, de telle sorte que seuls les interventions des autorités monétaires et les achats des établissements de crédit sont parvenus à contenir les effets déflationnistes sur les cours. Sur le marché des actions également, après quelques signes de reprise dus à la solution de la crise gouvernementale, les considérations négatives dictées par l'allure défavorable de la production ont fini par l'emporter et les cours ont subi, à la fin de l'année boursière, une nette réduction qui établit ainsi les minimums de l'année.

Les perspectives ne s'annoncent guère positives, du moins jusqu'à la moitié de 1975. La production industrielle, par manque de stimulation appropriée, pourrait subir une ultérieure contraction du moment que la demande intérieure tend à céder et les produits deviennent de plus en plus difficiles à placer sur les marchés étrangers.

NEWS OF FINAFRICA

● On October 31, 1974, World Thrift Day, the eighth training course in the economics of banking for African countries was started at FINAFRICA. The 70 participants, coming from 31 African countries, are now taking special courses to acquaint themselves with the Italian language. At the same time basic economics classes are being taught in order to provide a common background for the banking subjects which will be dealt with in the spring period.

● Two new books have been published by Cassa di Risparmio delle Provincie Lombarde in the series devoted to African banking systems: the first one, by Dr. C. Caselli, deals with the banking system of Tanzania, and the second one, by Prof. L. Frediani, is about the liquidity policy of commercial banks in Kenya. Also, the English and French translations of the studies on the banking systems of Gabon and Lesotho have been issued.

● During the year several missions were undertaken by FINAFRICA experts. Dr. Nesci worked with an F.A.O. team in Tunisia doing research on planning for agricultural credit development. Dr. Forestieri prepared with an F.A.O. team a field research on agricultural credit for small farmers in Zambia. Dr. Romairone and Dr. Balestrazzi did a preliminary visit to Togo to discuss with the representatives of the Agricultural Bank of Togo plans

NOUVELLES DU FINAFRICA

● Le 31 octobre 1974, journée mondiale de l'Epargne, a marqué l'ouverture au FINAFRICA du huitième cours de perfectionnement en économie bancaire pour les pays africains.
Les 70 participants, venus de 31 pays d'Afrique, suivent maintenant des cours spéciaux pour se familiariser avec la langue italienne. On leur impartit également des notions d'économie politique générale pour leur assurer une base commune d'approche aux questions bancaires qu'ils aborderont au printemps.

● La Cassa di Risparmio delle Provincie Lombarde vient de publier deux nouveaux ouvrages dans la collection consacrée aux systèmes bancaires africains: le premier, rédigé par la Dr. Clara Caselli traite du système bancaire de la Tanzanie; le second, par le Prof. L. Frediani envisage la politique de liquidité des banques commerciales au Kenya. Les traductions en anglais et en français des études sur les systèmes bancaires du Gabon et du Lesotho viennent également de paraître.

● Durant l'année, les experts de FINAFRICA ont accompli plusieurs missions. Le Dr. Nesci a travaillé avec l'équipe de la F.A.O. en Tunisie sur un programme de développement du crédit agricole. Le Dr. Forestieri, toujours avec une équipe de la F.A.O., a effectué une enquête « in loco » sur le crédit agricole pour les petits agriculteurs de Zambie. Le Dr. Romairone et le Dr. Balestrazzi ont effectué une visite préliminaire au Togo pour dis-

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and problems for the development of the bank and possibilities for technical assistance.

● Positive developments are reported for the technical assistance projects in which FINAFRICA is engaged, alone or in co-operation with other Italian agencies and institutions. The new Ghana Post Office Savings Bank, in spite of the name, is a true financial institution devoted to mobilization of domestic personal savings. Two experts from Italian savings banks are assisting the institution in the take-off period and will be working in Ghana during the next two years. Professors Bortolani, Mottura, Raggetti and Ruozi from FINAFRICA, after the preliminary research and organizational work, have been reaching Accra from time to time in order to solve specific problems. The deposit collection activity, including checking accounts, is developing at a high rate. Improvements in granting loans, as expected, are slower. The Italian government is sharing with the Cassa di Risparmio delle Provincie Lombarde assistance and aid expenses.

● Prof. Mauri from FINAFRICA visited at the end of July the Savings and Mortgage Corporation of Ethiopia. Prof. Mauri participated in a Board meeting of the S.M.C.E. and had contacts with authorities at the Central Bank to discuss future development of the institution.

cuter avec les responsables de la Banque de l'Agriculture les programmes et les problèmes de développement de la Banque et sur l'éventualité d'une assistance technique.

● On note des développements tout à fait positifs en ce qui concerne les projets d'assistance technique dans lesquels FINAFRICA s'est engagé, seul ou avec l'aide d'institutions et d'offices italiens. La nouvelle Caisse d'Epargne Postale du Ghana est, malgré son nom, un véritable établissement financier voué à la mobilisation de l'épargne familiale. Deux experts des Caisses d'Epargne italiennes assistent le nouvel établissement dans sa période de démarrage et séjourneront encore deux ans au Ghana. Les Professeurs Bortolani, Mottura, Raggetti et Ruozi de FINAFRICA, après avoir achevé le travail préliminaire de recherche et de mise au point, se sont rendus plusieurs fois à Accra pour résoudre certains problèmes contingents. L'activité de collecte, y compris la vérification des comptes se développe à un rythme soutenu. Les progrès dans l'octroi de prêts sont plus lents, comme prévu. Le Gouvernement italien et la Cassa di Risparmio delle Provincie Lombarde se partagent les frais d'aide et d'assistance.

● Le Prof. Mauri de FINAFRICA s'est rendu, à la fin de juillet à la Savings & Mortgage Corporation of Ethiopia. Il a participé à un Conseil d'Administration de la S.M.C.E. et a eu des entretiens avec les Autorités de la Banque Centrale sur le futur développement de l'Etablissement.

● The construction of the new headquarters of the Somali Savings and Credit Bank is under way in Mogadishu. The central bank of the Italian savings banks has granted a soft loan for this purpose. Prof. Mauri and Dr. Nesci from FINAFRICA visited the S.S.C.B. in August in order to discuss further assistance and aid by the Italian savings banks.

● After the last preparatory mission in July, conducted by Prof. Mottura with Dr. Tambussi and Dr. Alberici, on October 31 the Sudanese Savings Bank has been inaugurated in Wad Medani. The ceremony was attended by Sudanese authorities and by Dr. Acciaro of the Italian Association of Savings Bank, by Dr. Zuccari of Cassa di Risparmio delle Provincie Lombarde and by Prof. Mottura from FINAFRICA. The institution started operations on November 2 and the first savings account has been opened to President Nimeiri. The activity of the S.S.B. is bounded today to the Gezira region, but —as the name suggests— its branch network will cover in the future most of the Country. Two experts from Italian savings bank will spend a two-year period with S.S.B. The Sudanese Savings Bank will continue to receive assistance and aid from Italian sister institutions during the take-off phase.

● In the period June-September Dr. Masini from FINAFRICA has worked in the

● La construction d'un nouveau siège de la Somali Savings and Credit Bank est en voie de réalisation à Mogadishu. L'Association des Caisses d'Epargne Italiennes a accordé un prêt à bas intérêt à cet effet. Le Prof. Mauri et le Dr. Nesci se sont rendus en août à la S.S.C.B. pour discuter les termes d'une assistance et d'une aide futures de la part des Caisses d'Epargne italiennes.

● Après une dernière mission préparatoire effectuée en juillet sous la direction du Prof. Mottura, du Dr. Tambussi et du Dr. Alberici, on a inauguré le 31 octobre à Wad Medani la Caisse d'Epargne du Soudan. La cérémonie s'est déroulée à la présence des Autorités soudanaises, du Dr. Acciaro de l'Association des Caisses d'Epargne Italiennes, du Dr. Zuccari de la Cassa di Risparmio delle Provincie Lombarde et du Prof. Mottura de FINAFRICA. L'Etablissement est entré en activité le 2 novembre, et le Président Nimeiri a souscrit personnellement le premier livret. L'activité de la S.S.B. est limitée pour l'instant à la seule région de Gezira, mais le réseau de ses filiales est appelé à s'étendre sur tout le territoire national. Deux experts de l'Association des Caisses d'Epargne Italiennes suivront le nouvel Etablissement pendant deux ans. La Caisse d'Epargne soudanaise continuera à recevoir l'aide et l'assistance de ses consoeurs italiennes pendant toute la période de mise en route.

● De juin à septembre le Dr. Masini de FINAFRICA a travaillé à la section « Fi-

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Housing Finance, Building and Physical Planning Section of the Economic Commission for Africa of the United Nations in Addis Ababa, Ethiopia. The purpose of the mission was the production of Country dossiers on savings mobilization in selected African countries, as a follow up to the publication of the document written by Prof. Mottura entitled "Savings Mobilization in Developing African Countries" (E/CN.14/HOU/107). This is part of the joint E.C.A.-CARIPLO project on "Mobilization of Financial Resources".

- In April and October Professors Mottura and Onado from FINAFRICA gave lectures on finance and credit operations in Kinshasa and Lubumbashi (Zaire).

- Experts from FINAFRICA participated also in international meetings related to development and savings mobilization. Prof. Bortolani went to the Conference for setting up the European Association on Development Centers (Gent, September). Prof. Mauri participated in the F.A.O. regional seminar on agricultural credit to small farmers in Asia (Bangkok, October). Prof. Ruozi was present at the World Congress on Agricultural Credit (Teheran, November).

- Finally, FINAFRICA is ready to start for spring 1975 a two-month intensive course in the economics of banking operations. This special course, to be oper-

nancement de l'habitation, de la construction et de l'aménagement du territoire » de la Commission Economique pour l'Afrique des Nations Unies à Addis Abeba en Ethiopie. Le but de la mission était d'établir des dossiers sur la mobilisation de l'épargne dans certains pays africains expressément choisis pour donner une suite au document rédigé par le Prof. Mottura sous le titre « La mobilisation de l'épargne dans les pays en voie de développement » (E/CN.14/HOU/107). Cette action fait partie du projet conjoint C.E.A.-CARIPLO sur la mobilisation des ressources financières.

- En avril et en octobre les Professeurs Mottura et Onado de FINAFRICA ont tenu des conférences sur les opérations de finance et de crédit à Kinshasa et à Lubumbashi (Zaïre).

- Des experts de FINAFRICA ont participé également à des congrès internationaux sur le développement et la mobilisation de l'épargne. Le Prof. Bortolani a assisté à la Conférence pour la formation d'une association européenne sur les centres de développement (Gand, septembre). Le Prof. Mauri a pris part au séminaire régional de la F.A.O. sur le crédit agricole destiné aux petits agriculteurs d'Asie (Bangkok, octobre). Le Prof. Ruozi a assisté au Congrès mondial sur le crédit agricole (Téhéran, novembre).

- FINAFRICA, enfin, est prêt à entreprendre, au printemps 1975 un cours intensif d'économie bancaire qui aura la durée de deux mois. Ce cours spécial, qui

ated in Milan, is devoted to previous participants in the training courses organized by the Cassa di Risparmio delle Provincie Lombarde. The purpose is that of providing African bank personnel who have developed specific work experience in the field of savings mobilization an opportunity to meet with colleagues and to share their ideas in a course which will make use of active teaching methods and seminar meetings.

se tiendra à Milan, est destiné aux élèves qui participent aux stages de perfectionnement organisés par la Cassa di Risparmio delle Provincie Lombarde. Leur but est de donner aux cadres bancaires africains possédant déjà de l'expérience dans le domaine de la mobilisation de l'épargne une occasion de rencontrer leurs collègues et d'exprimer leurs idées dans le cadre d'un cours basé sur l'enseignement pratique et sur les séminaires.

African survey

● The Fiera del Levante, the Regional Government of Apulia and the Istituto Italo-Africano organized a Round Table Conference on September 20 at the Fair in Bari, Italy. The subject was: "Exploitation of Agricultural Produce with Particular Reference to Edible Oils: Prospects for International Cooperation in Agricultural and Food Production in Africa South of the Sahara". The Economic Ministers of eleven African countries took part in the conference along with representatives of leading Italian State-controlled organizations and private enterprises. In addition to Italian Government representatives, experts from the E.E.C. Commission, F.A.O. and the United Nations also attended the meetings. The conference was planned as the second stage in a broader plan for cooperation between Europe and developing African countries, in line with a proposal made by the Deputy Secretary of the United Nations, Mr. Doo-Kingué, when he visited Italy last year.

● E.N.I. (the Italian State-controlled oil company) is pursuing its policy of integrated projects in countries where it carries out its petrochemical operations. In this context, an agreement was signed on October 12 under which E.N.I. will prospect for and develop oil fields in Libya. A letter of intent has also been signed between Comerint (a company controlled jointly by E.N.I. and Istituto Mobiliare Italiano), the Algerian Minister of Industry and Energy and the national Algerian oil company Sonatrach. This arrangement,

Nouvelles africaines

● La Direction de la Foire du Levant, la Région des Pouilles et l'Institut Italo-Africain ont organisé à la Foire du Levant une table ronde sur le thème: « Valorisation de la production agricole notamment en ce qui concerne les huiles alimentaires: problèmes et perspectives de coopération internationale en Afrique sub-saharienne dans le secteur de la production agricole et alimentaire ». La table ronde a eu lieu le 20 septembre grâce à la participation des Ministres économiques de 11 pays africains et à celle des représentants des plus importants organismes publics italiens et des plus grosses entreprises privées. Outre les représentants du Gouvernement italien, il y avait aussi des experts de la C.E.E., de la F.A.O. et des Nations Unies. On peut considérer cette table ronde comme la seconde étape d'un plus vaste programme de coopération entre l'Europe et les pays africains en voie de développement, coopération que le Secrétaire-Adjoint des Nations Unies, M. Doo-Kingué, avait préconisée l'année dernière lors de sa visite en Italie.

● L'E.N.I. poursuit sa politique d'interventions intégrées dans les pays où elle déploie son activité typiquement pétrochimique. Dans cette perspective, vient se placer, auprès du nouvel accord conclu le 12/10 pour la recherche et l'exploitation d'hydrocarbures en Lybie, le protocole d'accord paraphé par Comerint (société à participation E.N.I.-I.M.I.), le Ministère de l'Industrie et de l'Energie d'Algérie et la Compagnie pétrolière nationale algérienne Sonatrach. Cet accord repropose une expérience déjà tentée fa-

based on previous favourable experience with Libya, provides for E.N.I. to undertake a major training programme designed to supply Algerian industry with skilled workers. Under these arrangements a training scheme will be set in hand to provide 2,300 skilled workers for Algeria's building industry within the shortest possible time. Subsequent schemes will be initiated in the short- to medium-term for electricians, maintenance personnel, refrigeration technicians, mechanics and vehicle operators. The overall scheme provides for 10,000 to 12,000 workers to be trained each year by 1977. E.N.I. will also carry out a survey of Algeria's present industrial structure and its growth prospects, in order to forecast the country's requirements for skilled workers up to 1988. It will also look into the opportunities of establishing a joint Algerian-Italian company, in which Algeria would have a controlling interest, whose aim would be to coordinate and carry out national labour training schemes. The letter of intent also sets out the guidelines for an independent unit to plan and produce training programmes and act as a kind of clearing-house for experiences and methods of professional training.

● In line with the same spirit of cooperation aimed at developing local industrial management skills, the E.N.I. offshoot, Nigerian Agip Oil Company, recently held a seminar with a view to providing the Nigerian Press with information on the problems of oil exploitation and use, which are significant issues

vorablement avec la Lybie: il permet de confier à la société italienne la réalisation d'un important programme de formation d'ouvriers qualifiés destinés aux structures de l'industrie algérienne.
Le contrat prévoit: 1) la formation à très court terme de 2.300 ouvriers qualifiés pour le secteur du bâtiment; 2) interventions à court-moyen terme pour les secteurs de l'électricité, entretien, technique du froid, mécanique, usage des machines et bâtiment, capables de garantir avant la fin de 1977 la formation de 10-12 mille ouvriers qualifiés par an; 3) étude des structures actuelles de l'industrie algérienne et de ses possibilités de développement rapportées aux besoins de personnel qualifié d'ici 1988, et analyse des possibilités de créer une société mixte à participation algérienne prédominante ayant pour objet la coordination, la réalisation et la vérification du programme de formation. Le protocole d'accord envisage aussi dans ses lignes essentielles la réalisation d'un centre autonome qui aura non seulement la fonction de projeter et de produire des programmes didactiques, mais aussi de devenir le point de regroupement et de rencontre des expériences et des méthodologies dans le domaine de la formation professionnelle.

● Dans le même esprit de coopération au développement de capacités locales pour la gestion des activités industrielles, la Nigerian Agip Oil Company (du groupe E.N.I.) a organisé un séminaire ayant pour but de porter à la connaissance de la presse nigérienne les problèmes inhérents à la production et à l'utilisation du

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in this country, now the seventh largest oil producing nation in the world.

● Italcable, a member of the IRI-STET group, has announced that it has set up a direct satellite link between Italy and Zambia with the assistance of its subsidiary Telespazio. The link came into operation on October 1, and carries cable, telex and telephone communications.

● A subsidiary of Imprese Italiane all'Estero - Impresit S.p.A. has recently been awarded contracts to build two sections of road in Nigeria. These are the 82 km stretch between Daki and Takwaszuru and the road linking Zuru, Birnin and Yauri, a distance of 94 km. The total value of these contracts is some Lit. 14.5 billion. Impresit is also expanding its successful operations in East Africa. A group subsidiary, already engaged on major contracts for the Governments of Kenya and Tanzania, will also participate in the construction of Mombasa Airport.

pétrole, problèmes qui revêtent une particulière importance dans un pays, comme le Nigeria, qui a conquis le septième rang dans le monde parmi les pays producteurs de pétrole.

● Italcable, du groupe IRI-STET, a fait savoir que depuis le 1er octobre l'Italie et la Zambie sont reliées directement, via satellite, pour les communications télégraphiques, télex et téléphoniques. Cette liaison a été réalisé en collaboration avec la société associée « Telespazio ».

● Une associée du groupe « Imprese Italiane all'Estero - Impresit S.p.A. » vient d'obtenir les contrats pour la construction de deux tronçons routiers en Nigeria (Daki-Takwaszuru, 82 Km et Zuru-Birnin-Yauri, 94 Km) pour un montant de 14,5 milliards de lires. La société Impresit rencontre également un succès croissant dans les pays de l'Est africain; une associée du groupe, qui exécute déjà pour le compte de la Tanzanie et du Kenya d'importants travaux, participera à la construction de l'aéroport de Mombasa.

Book reviews

Revue bibliographique

A.M. HAY and R.H.T. SMITH: *Interregional Trade and Money Flows in Nigeria in 1964*, Oxford University Press, Ibadan, 1970.

This book is the outcome of lengthy research carried out on the spot by its Authors, aimed at estimating the volume and value of trade and flows between the five main geographical regions of Nigeria, i.e. the North, South, West, Central West and the Lagos area, in an attempt to arrive at a partial reconstruction of each region's balance of payments and a regional breakdown of the national accounts.

The book opens with an introductory chapter explaining its aims. This is followed by a chapter reviewing the economic and social causes behind interregional trade, that is, the complementary nature of each region, the degree of urbanization and the location of main towns, the geographical distribution of foreigners, food deficits in some areas, and finally the structure and location of existing industry.

The next chapter gives estimates in volume and value of interregional trade flows in main agricultural, mineral and industrial products, preceded in each case by a detailed description of the methods used. This is the biggest merit of the chapter, in that it gives a clear idea of the enormous practical difficulties that have to be tackled in a project of this kind in view of the lack of reliable statistical information, particularly on prices of products at the places they are produced and regional transport costs.

The book then goes on to deal with trade between major cities and between those cities and their hinterlands. The last chapter provides estimated trade balances for each of the five regions covered, and explains the reasons for the deficits or surpluses encountered. In the last few pages of the book, the Authors tackle a most interesting problem, namely the relationship between money flows and trade flows, particularly the mechanism whereby the differences between input and output flows are likely to be regulated. They put forward three hypotheses on this point, but make the proviso that it is exceedingly difficult to quantify them accurately. In some cases, for instance, differences may be adjusted by using surpluses arising from foreign trade; in others, the adjustment is made by the revenue authorities regulating tax revenue vis-à-vis Government spending: or again, surpluses in "invisible items" may intervene, this term being taken to apply not only to foreign, but also to interregional trade. Here, the major role played by the banks and insurance companies, and to a lesser degree, by professional operators, emerges in all its significance.

To conclude, one can say that the book's greatest merit does not lie in the Authors' ability or otherwise to provide data on the situation in Nigeria. Indeed, interest does not rate high on this score and in any case the analysis goes back to 1964, since when many changes have taken place. Where the book's greatest interest lies, which makes it still worth reading even four years after it was originally published in 1970, is the fact that the

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Authors have attempted to carry out a research project in a significantly original way, using methods that could usefully be revived and developed far more than they have been so far, since they offer very promising prospects not only to economists who want to make practical applications of money flow theories, but also to politicians in developing countries who are looking for models that can be applied to economic policy, especially in the planning field.

Here there is no denying that the model put forward by Hays and Smith has considerable shortcomings that could be improved. For example, any attempt to plot money flows over a longer period than just one year would certainly be more effective and might allow for errors in estimates to be offset to some degree.

Also, the discussion in the last few pages of the book about how regional trade balances are adjusted needs to be gone into more thoroughly, and not only in quantitative terms. Clearly, further progress in this direction is likely to be hampered by what in some countries could prove to be insurmountable obstacles, not so much in theory, as in actual practice, owing to the lack of reliable statistics and thus difficulty in working out estimates. Nevertheless this is an interesting and significant field. For instance, a survey of this kind could be of major importance in a country organized on a federal basis suffering from regional imbalances, or a country which needs to be able to assess the effects of a policy based on special development areas.

Clara Caselli

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