

PROFIT AND LOSS SHARING AS A SUBSTITUTE FOR INTEREST IN ISLAMIC BANKING

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1. Introduction

Almost two decades ago, the International Development Review carried an article on the first experiment with Islamic banking¹.

Although the initial experiment was aborted for various reasons, its founder became an important and active member of what has recently started to be referred to as the "Islamic Banking movement". Reviews of this movement can now readily be found in the growing literature on Islamic banking². In this article I intend to concentrate only on the novel financial instruments introduced by Islamic banking. It will be compared with conventional banking and finance to highlight the differences. This pedagogic device could be useful to a western audience but has unfortunately been neglected so far. Since there are some substantive difference, in theory, in the operational mode of the conventional and Islamic banks or banking system, it appears worth-while to expose the reader unfamiliar with these developments to what may otherwise appear an irrelevant curiosity. Beyond this, since religious sentiments of the large bulk of muslims may have urged governments to try these experiments, whether with an electoral mandate or for political legitimacy in its absence, these recent innovations are very likely to be around for a considerable time. Since Islamic banks, and in particular the systemic change to Islamic banking, can have important socio-economic consequences in some developing areas of the world, there is a need to expose more scholars and general readers concerned with development to these new or rather revived concepts.

The primary motivation behind Islamic banking is generally stated to be the elimination of *ribā*; this is narrowly defined as interest though most scholars now accept a wider definition for the concept. The definition adopted for this paper is as follows: *ribā* is an excess which, in an exchange or sale, accrues to the lender without the return of any equivalent countervalue, substitute or recompense to the other party³.

Legitimate countervalue is determined with reference to Islamic law of which there are

1 R.K. Reddy, «The Egyptian Municipal Saving Project», *International Development Review* 9, No. 1 (1967): 2-5.

2 Traute Wohlers - Sharf, *Arab and Islamic Banks* (Paris: OECD, 1983).

3 See Joseph Schacht, «Riba», *Encyclopaedia of Islam*, 1939 ed. Also see Ziaul Haque, «Riba, Interest, Profit», *Pakistan Economist* (May 24, 1980): 16.

several sources and schools⁴. However, there is a broad consensus that the provision of diverse forms of labour or the shouldering of risk attached to a socially productive activity or enterprise do qualify as legitimate countervalue. There is also a body of opinion that holds the drawing of rental income, whether it be interest or rents from absentee ownership, monopoly, hoarding or speculative activity to be prohibited⁵. On the other hand, profit accruing from transactions in a free market system have been viewed by jurists as legitimate.

The arguments most commonly proffered in support of the banning of interest income is that it is a prespecified fixed sum irrespective of the outcome of the business venture the funds finance. Thus the drawers of interest income in most cases effectively pass the entire risk of the business activity on to the borrowers/entrepreneurs and hence they are not entitled to a return according to how *ribā* has been defined above. That money in of itself has a time value is not viewed as reason for a return to accrue to it. The generalisation of this is the viewing of diverse forms of unearned income as illegitimate.

This broad definition of *ribā* therefore has an advantage in that it unifies the premise on which seemingly unrelated activities have been banned in Islam. Most countries have adopted a narrow view of *ribā* as simply interest and have not concerned themselves with the other economic activities banned in Islam which may fall under the rubric of *ribā*. This is in keeping with the "modernist" view that equates *ribā* with only usury or excessive interest, although what constitutes an excess is difficult to define⁶. I will utilise the broad definition of *ribā* since it is easier to work back to conceptualise the functioning of institutions using a narrower definition.

The novel instruments introduced by proponents of Islamic banking, as a substitute for interest, are based on profit-and-loss sharing (PLS). The basic idea is that instead of a fixed predetermined interest rate, the parties to a financial contract agree in ad-

4 The four major *Sunni* Schools of Islamic Law were founded by Abū Hani'fā (d. 767), Mālik ibn Anas (d. 795), Muhammad ibn Idrīs al-Shāfi'ī (d. 819) and Ahmed ibn Hanbal (d. 855). For an analysis of differences in their methodology see Umar Abd' Allah, «Mālik's concept of 'Amal», (Ph. D. diss., University of Chicago, 1978), pp. 101-129, 146-195. Although the Shi'a sect has its own schools, Iran, where the Shi'a are in overwhelming majority, is experimenting with the same financial instruments in its banking reform as are all the other muslim countries. See William Pike, «Iran banks go back to the roots», *South* (June 1984): 39.

5 Haque, «Riba», pp. 14-35. Also see Abd-al-Hamid Abu - Sulayman, «The Economics of Tauheed and Brotherhood», *Contemporary Aspects of Economic Thinking in Islam* (n.p. American Trust Publications, 1976), pp. 5-54.

6 Sabri F. Ulgener, «Monetary conditions of Economic Growth and the Islamic concept of Interest», *Islamic Review* 55, no. 2, (1967): 12; Homayoun Katouzian, «Riba and Interest in an Islamic Political Economy», *Peoples Mediterraneens* No. 14 (1981): 102.

vance to a portion of the profit if any accrues and also to the portion of the liability in a loss if that occurs.

This paper is comprised of two sections. In the first section the instruments and institutional structure of Islamic banks are briefly outlined. In the second section an Islamic financial system is compared to a conventional financial system. The economic ramifications of this financial reform have been covered elsewhere⁷.

2. Islamic Financial Framework

Islamic financial instruments currently in use are adaptations of commercial contracts found existing during the inception of Islam. Islamic legal literature is the original source material for a description of these instruments⁸. This paper is concerned with their contemporary adaptations.

The method for adapting medieval financial practice to modern banking is to modify modern banking institutions so that they embody the principles implicit in the former. Four of these principles of particular importance are listed here. First, all loans must finance socially productive activity. Second, risk-taking, when related to a productive activity is entitled to a reward. Third, financial risk rests solely with the lenders and not with the managers or agents. Fourth, as earlier mentioned, interest is forbidden because it is a predetermined fixed sum due to the owner of loanable funds irrespective of the outcome of the business venture. Two of the financial modes that do embody these principles are *mushāraka* and *mudārabah*.

Mushāraka is essentially a partnership contract. Under the latter, the bank and the borrower or agent undertake to contribute jointly to the capital and management of the business venture. The share in the profit and the duration of the joint venture are agreed upon in advance. In some cases, a "self-liquidating" form of partnership can be agreed upon, in accordance with the agent's ability to pay back the principal. Loss is shared in proportion to the contribution of each party to the capital, unless the agent is proven to be the cause of loss due to negligence or some wilful action. The contract may specify that the agent is wholly responsible for the management and must keep the bank in-

7 Shahrukh R. Khan, «An Economic Analysis of PLS Banking», *Pakistan Journal of Applied Economics* (Winter 1985).

8 For a comparative account of these instruments in the different schools of Islamic Law see A.L. Udovitch, *Partnership and Profit in Medieval Islam* (Princeton: Princeton University Press, 1970).

formed with regular progress reports. Alternatively, the banks may be granted new rights to oversee the utilisation of the funds.

Under *mudāraba* all funds are contributed by the bank, and the agent is solely responsible for entrepreneurship. Profits are once again shared on some agreed-upon formula whereas the losses are entirely borne by the lenders, except for the qualification mentioned above. The agent, in case of business failure, loses his time and effort.

The difference in the two contracts seems really one of degree rather than of principle. What distinguishes them from each other is whether or not the agent supplies any capital of his own. Because of their similarity in most other operational aspects, both are broadly referred to as profit and loss sharing (PLS) contracts. *Mudāraba* is often referred to as "profit-sharing". However, since the agent does stand to lose his time and effort, the broader term PLS has been adopted for it also.

So far, one important unanswered question concerns the source of funds for the bank. To answer this query, one must review the type of accounts an Islamic institution offers and, by doing so, introduce depositors as the third party to the PLS contracts. Islamic banks invite deposits in checking, saving, and investment accounts. The first two are similar (though not identical) to conventional banking accounts of the same names. One difference is that banks sometimes have to obtain permission of the depositors to use funds deposited in these accounts for financial investment. The deposits are guaranteed, but there is principle no return of any form on them. In practice, some banks do offer special privileges, like interest-free loans for the purchase of consumer durable on installments, or even profit-shares on savings accounts. Without these inducements, there would be no way of distinguishing between saving and checking accounts. Since saving accounts are guaranteed, no risk is borne by the saver. Given this absence of risk, a return on savings accounts in the form of profit-shares, or special privileges granted by the banks, may be viewed as a violation of a fundamental principle of Islamic banking.

Investment deposits are presented as account unique to Islamic banking. These deposits which are not guaranteed have to be above a minimum amount and for at least a minimum specified time duration. Withdrawal from the account before the specified time would result in a penalty in the form of foregoing part or all of the profit. Deposits are either "authorized", i.e. used for particular projects that the bank intends to be a party to or they are "unauthorized", i.e. used for the general investment fund. In the former case, depositors would share in the profit or loss of a specific project, whereas in the latter case, they would be a party to the generalised outcome of the bank's loaning and investment activities.

Both of the PLS contracts avoid *ribā* in that no predetermined share for the lender is specified irrespective of the outcome of the business venture. Also, risk is borne by the lenders rather than the agents. However, there are certain cases in which the return to lenders could be considered questionable because the capital is subjected to negligible risk. This appears to be the case in unauthorized investment accounts because in modern banking risk can be reduced to a negligible amount by diversification.

Although bank failures are not unheard of, especially when economic conditions are depressed, there is no way of establishing whether the profit earned on unauthorized accounts is commensurate with the risk undertaken. In fact, in practice banks are establishing a reserve fund, by retaining some percentage of the profits in each fiscal year, to guarantee depositors a return. While this banking innovation—which most banks currently in existence are practicing—may encourage investment deposits, it serves the direct link between a productive endeavor and the subsequent profit or loss to the financial contributor. Authorized accounts avoid these pitfalls by tying the fortunes of the lender to that of the particular project they finance.

3. Islamic vis-a-vis Conventional Financial Markets.

Financial markets in the advanced industrial economies are highly sophisticated and complex. They function to provide lenders and borrowers with choices depending on their liquidity preference and risk-return trade-offs. In addition, there are institutions to oversee the market and intermediate between lenders and borrowers. Here, only the broad features of this market will be contrasted with PLS financing. For this purpose, I will first consider how PLS is to replace debt and equity financing as commonly practiced, and second, how PLS institutions will be expected to replace various intermediary institutions of a conventional financial market.

3.1 *Debt and Equity Capital*⁹

In a conventional financial market, business can rely on debt or equity financing to make up for their shortage of long term funds. Debt financing may take the form of term loans. Since these are negotiated directly between borrowers and lenders, they minimise formal procedures in comparison to bond or stock financing. They also allow for the possibili-

⁹ This section is in large part based on Eugens F. Brigham, *Fundamentals of Financial Management* (Illinois: Dryden, 1978).

ty of a change in contract, if the need arises, due to changed economic circumstances. Like bonds and stocks, PLS contracts have several member as parties to the contract, and therefore are unlikely to maintain the flexibility of term loans.

Issuing bonds may in some circumstances be an easy and cheap source of credit. As is true of loans bonds entail repaying the principal on maturity and a fixed interest. Bonds can be of numerous types, the most common of which are the following: mortgage bonds, debentures, subordinated debentures, convertible bonds, income bonds, index bonds, or redeemable bonds. These different categories allow the various needs of the borrower and lender to be accommodated and therefore widen the market. However, bond financing differs from term loans and PLS in that the contracts themselves are transferable. This does allow for the possibility of capital gains or losses. Also, the return on bonds is considered unacceptable from an Islamic view-point since it is pre-specified and fixed in amount. In both debt financing and PLS there is a principal due back to the lender when the loan matures as specified in the contract.

In equity financing, the lenders forward capital to firms in buying shares of stock. However, unlike debt financing, the size of their stock holdings determines the extent of their ownership of a corporation and hence their right to vote. Ownership can therefore be used as an instrument of control by casting votes to elect the directors, who in turn select the management. The existing stockholders also have the right to the first purchase of new shares. This can limit the dilution of ownership. It could enable an outside group of stockholders (those not controlling management) to pre-empt management from warding off a bid for control (by means of a proxy fight) by issuing new stock. Although proxy fights are rare, the threat can serve to focus management's attentions on the stockholder's interests.

Under debt capital or PLS, the same countervailing pressure cannot be applied since forwarding funds is not tied to ownership. In these cases, the firm's possible need for future capital may keep it in line. Equity capital is also advantageous because dividends can only be paid out of profits, which prevents having to liquidate as in the case of a default on loans. In this aspect, PLS, does resemble equity financing, since it actually eliminates the borrower's risk of default. Whereas in equity financing, the borrower has discretion in determining dividend policy, under PLS the borrower must part with the lender's share of the profit once that is determined. Stocks, like bonds are transferable. In this case, ideally, the performance of the firm is reflected in the market value of the stock. However, the market value can depart from the real value due to speculative activity.

PLS participation certificates can be made transferable under certain restrictions which prevent the market value and the value quoted at different intervals by the investment company from differing. In practical terms, the difference between these certificates and equities is that the profit is added to the face value of the certificate and reflected in its increased value but not appropriated as dividends. Similarly, losses are actually subtracted from the face value, rather than registered in a fall or absence of dividends, and in the drop in the market value of a security. These gains or losses are actually realized when the certificate matures. In the meantime, someone in need of liquidity can pass on a commitment of funds (to a project) by selling the certificate for its stated worth at a certain time.

Even in this case, speculation can be attempted. One may choose to sell a certificate and realise the profits if one expects the project being financed to perform less well. However, if others expect the same, then this will not be reflected in a fall in the value of the certificate but in the individual's inability to sell it. Thus, adherence to the face value of the certificate may make it less liquid. In effect, this comes about from refusing to allow any capitalisation to take place, which happens implicitly in the determination of the market value of securities. For stock, the performance of a company, along with several factors concerning the economic environment which affect the company's performance, would be implicitly capitalised into its market value. Due to expectations, it is possible in this case for the market value not to reflect the realities of a company's past productive performance. These expectations may also be the cause of bringing about capital gains or losses, which may or may not accurately reflect the performance of a company.

In the case of PLS participation certificates, capital gains are ruled out since the value at any time reflects the history of the economic performance of a company from the time the contract was engaged in, and this is the only value at which purchase is possible. The sellers of a certificate can claim a share only up to the time they were participants in a company. In being constrained to sell at the stated value, they are prevented from arriving at the value of the certificate by capitalising on the basis of expectations of the future performance of the company. By purchasing the certificate at its stated value, the new owners grant to the old the profit or loss that is their due for the risk they have borne and are simultaneously contracting to be participants in the future profits or loss of the company.

Avoiding the use of a stock exchange entirely is a very extreme measure which would lead to severe rigidities in the financial system. In a sense, attempting to get rid of the stock market because it is open to abuses is like getting rid of the whole market system because it is open to abuses, i.e., monopoly and hoarding. In both cases, the answer

probably is to impose regulations rather than throwing out the baby with the bath water. In the case of a stock market, the normal malpractice regulations could be accompanied by a capital gains tax, tailored to vary inversely with the length of holding of securities. Unlike debt financing, both PLS and equity financing are suited to projects that have a great deal of fluctuation in their returns¹⁰. However, equity financing differs from PLS in that the costs of flotation are often substantial and may run up to 25% of the issue price for small issue. Also, unlike PLS the character of stocks can be altered to provide for the needs of both the lender and the borrower. Thus for example, stocks can be categorized into either class A or class B, where the latter would be company stock, with sole voting rights, but these would not pay any dividends until the company has established its earning power. Provisions for convertibility, such as converting class A into class B, when B pays more than the amount specified for A, enhance the flexibility of stocks as a financial asset. Preferred stock and cumulative preferred stock, which afford no ownership privileges, make available the risk/return option.

3.2 *Financial Institution*

PLS can be embodied in various kinds of financial structures. In current practice, some countries have opted for joint-stock banks co-existing with interest-based banks (the Middle Eastern approach) while others have opted for a wholesale change of the banking system so that all transactions are on an Islamic footing (Iran and Pakistan present examples of such experiments).

As explained, ordinary commercial banks function differently from the Islamic institutions. Certain other financial institutions exist in advanced industrial countries' financial markets, whose functioning differs in less obvious ways from, for example, an Islamic joint stock bank.

Investment banks are one such financial institution¹¹. New corporations which cannot use stock exchanges and find it difficult or inconvenient to dispose of their own stock may rely on investment banks. Of course, these banks will sell stock only of corporations they consider promising. Profits of the bank result from selling stock at prices greater than those quoted to them. Although investment banks are subject to the risk of un-

10 This point is made in the context of a comparison of debt and equity financing by Ernest W. Walker, *Essential of Financial Management* (Englewood Cliffs: Prentice-Hall, 1965), p. 101.

11 For an overview of investment banking see Irving Friend et. al., *Investment Banking and the New Issues Market* (Cleveland: World Publishing company, 1967), pp. 1-79.

marketable stocks, in practice, they minimize this risk by forming an underwriter's syndicate in conjunction with other banks.

An Islamic joint stock bank receives an agreed upon share of the profits depending on its share (derived from the sale of stock) of the total funds loaned. When banks are not pure intermediaries, their fortunes are linked to the business ventures being financed even if their own contribution of funds is negligible. This linking occurs because the bank's share of profits is determined by PLS contracts. In fact, the banks engage in a double PLS contract. As usual, the borrowers contract with the banks, but the banks are now actively represented as lenders. The second contract is between the banks and their depositors, with the banks represented as borrowers. Ultimately, the bank's profit depends on the differential in profit-shares it can negotiate to pay the borrowers and its depositors. Being a party to the risk and hence to profits of a business undertaking, the bank undertakes more than merely arranging the financing. Its co-operation with business could range from a shared project appraisal to managerial advice or direction, depending on the nature of the contract it is engaged in. Whereas ultimately both institutions are intermediaries between lenders and borrowers, investment banks cater more to the needs of the borrowers. Islamic banks are structured such that serving their own needs they simultaneously serve those of the lender (depositor) and borrower. Nevertheless, this harmonious engagement in a productive endeavor should not be exaggerated, as it often is. Prior to the establishment of a contract, a potential for conflict exists in the determination of profit-shares.

Nationalized Islamic banks that function as pure intermediaries would be operationally the same. However, in this case, the bank would have no direct stake in the profit or loss resulting from the contract it facilitates. Such a unit, and particularly one that handles authorized accounts, could be viewed as performing the function of an investment bank. However, as a pure intermediary, it would not be performing the underwriter's function and would exist on a management fee rather than the profits from the distribution of new issue.

In advanced capital markets, various financial intermediaries also work on behalf of the lender. These include personal trust companies, consumer credit institutions, and various forms of saving institutions, such as mutual saving banks and the saving and loan associations. Insofar as these function on the basis of fixed interest rates, which are made possible by the use of their deposits for financial investment, they are less relevant to the discussion of Islamic banking.

Investment companies and mutual funds work by drawing savers' funds in selling them

shares and in return paying both dividends and capital gains¹². Once again, they are able to do this because they use their reserves to invest in a whole range of financial assets that furnish both a regular source of income from dividends and interest. Capital gains can be realized from the buying and selling of securities, and these in turn are also distributed as capital gains to shareholders.

Investment companies are referred to as «close-ended» insofar as they issue a limited number of securities, which are then traded on the securities market. Innovations with this formula have been taking place. Mutual funds are «open-ended» in that they continuously sell their shares to investors, who can redeem them after a specified time period at net asset value. Various kinds of funds emphasize providing income, security, or capital appreciation. Mutual funds are essentially a form of indirect security ownership. Investors have the advantage of relying on the skilled management of the fund. As is true of all institutional investments, due to their size economies, the mutual funds possess other advantages: more is expended on research; diversification is more effective; there is more access to inside corporate information; large sums of money can be committed for longer periods of time. Thus, the lender may conveniently draw income from a relatively safe and liquid investment. The same claim may be made for Islamic PLS banking to some extent.

Although some similarities exist, the differences are focussed on here. The major difference is the form the financial investment takes. First, an Islamic bank must commit its pool of unauthorized funds to productive investment and may not use it for speculative securities trading to maximize capital gains distribution for its stockholders. Thus, a one-to-one relationship must exist between the bank's loaning of funds and the financing of productive activity. This relationship is not necessary in mutual funds. Second, a mutual fund management will have considerable discretion in declaring returns to its shareholders, whereas a PLS contract commits the parties to pre-specified shares of profit. Third, PLS contracts commit funds for a defined investment period and hence are less liquid. Further, if the share is not allowed to be freely transferable, no capital gains and losses are involved, as is possible when a mutual fund share is redeemed or sold. The capital value of the principal committed in the PLS contract may change depending on the performance of the project. Fourth, the high loan value generally incurred due to advertisement expenses of the distribution company, dealer, and

12. This description of mutual funds is based on Stuart B. Mead, *Mutual Funds* (Massachusetts: D.H. Mark, 1971), pp. 1-36, 88-89.

salesmen's commission is not a consideration in the PLS contract. Finally, whereas the mutual funds generally have to declare bankruptcy when they cannot redeem shares, Islamic banks are structured such that they would not be in that predicament.

4. Conclusion

Islamic banks functioning on a PLS basis bear considerable resemblance to several existing mechanisms of financial intermediation and investment. A few points, however, are worthy of note. The most striking is the complexity of the conventional financial markets, where numerous instruments and institutions compete for the savers' funds by providing a mix of risk, return, and liquidity — which PLS seeks to replace. The most distinctive features of PLS are its insistence that loans be tied to productive, non-speculative investment and the lack of discretion institutions have in determining dividends when profit shares have been decided. Also, even though the lenders are paid what could be interpreted as a variable dividend and bear complete financial risk, no ownership of a productive establishment is implied by being a party to a PLS contract. Thus, ownership rights cannot be traded, nor can any capital gains or losses be realized from speculative trading. The latter restriction would also contribute to the inflexibility of Islamic banking.

There are other disadvantages also. Since revenues can be understated and costs overstated, policing costs in Islamic banking could be high. Furthermore, since banks are a party to the production process there would be more demands on their staff for appraisal. However the congruence of interest of the banks and the entrepreneurs, once profit shares are contracted, could be an advantage. Even more than for equity financing, the risk of default is eliminated because profits are shared only when they occur. Further, PLS financing has another advantage over equity financing in that there are no issue charges.

Perhaps the major advantage would be that of providing a populace with a financial system in keeping with their beliefs and in certain cases this could lead to a larger patronisation of the banking system as a whole or of specific Islamic banks depending on the institutional structure adopted.

DISTRIBUTION DES BÉNÉFICES ET DES PERTES COMME SUBSTITUTION DE L'INTÉRÊT DANS LES BANQUES ISLAMIKES

RESUME

Le paiement d'un intérêt (comme un rendement fixe prédéterminé) étant interdit dans les pays islamiques, on cherche actuellement des instruments financiers de nature innovative pour substituer le recours au financement traditionnel. Ces instruments financiers sont basés sur le principe de la distribution des pertes et des bénéfices (P.L.S.: profit and loss sharing). Les caractéristiques les plus saillantes des méthodes P.L.S. consistent dans le fait que les prêteurs reçoivent le cas échéant une participation aux profits des projets qu'ils financent. Dans le cas où les projets enregistrent une perte les prêteurs risquent de perdre leur capital. Malgré ce risque, participer à une méthode P.L.S. ne signifie jamais se transformer en entrepreneur. Les prêts doivent financer des investissements productifs non spéculatifs et les entrepreneurs/emprunteurs ne peuvent pas déterminer à leur gré les dividendes car la distribution des profits a été décidée à priori. Il faut remarquer que les pourcentages et non le montant absolu sont déterminés à l'avance.

Dans sa formulation plus stricte, les méthodes P.L.S. apparaissent limitées et inflexibles. Etant donné que les recettes peuvent être sous-estimées et les coûts sur-estimés, le système présente des difficultés d'application élevées. Il faut ajouter encore que les banques se trouvent chargées de tâches accrues en ce qui concerne l'évaluation et la supervision des projets à cause de la présence de risques élevés et de leur insertion dans le processus de production.

L'avantage du système P.L.S. est peut-être de nature non-économique: en effet ce système offre à la communauté musulmane une possibilité d'être fidèle à ses croyances religieuses. Il ne faut pas oublier que les possibilités moins élevées de faillite peuvent amener à une plus grande stabilité du système financier et à une plus grande demande de ressources financières pour l'investissement.

News from Finafrica

Nouvelles de Finafrica

On April 3rd, Dr. Idriss Jazairy, the Chairman of the International Fund for Agricultural Development, a U.N. agency located in Rome, visited Finafrica Foundation where he met the Foundation Chairman, Dr. Camillo Ferrari, and the students attending Finafrica courses. He illustrated the action of IFAD whose major aim is to make credit available to the poorest layers of the rural population who would not otherwise have access to it. At the end of the conference, a restricted meeting was held to discuss the lines of a closer co-operation between the two institutes.

The 13th Advanced Course in the Economics of Banking was officially opened on April 6th, the 19 participants coming from Cameroon (1), Egypt (2), Ethiopia (2), The Gambia (2), Ghana (2), Kenya (1), Nigeria (2), Solomon Islands (1) Somalia (2), Sudan (2), Swaziland (1), Uganda (1).

On April 7th, in the Conference Hall of the International Co-operation Centre of Milan Trade Fair, Finafrica and CARIPLO organized their annual conference. This year's topic was «The Interaction between Industrialized and Developing Countries: Financial Problems and Trade Protectionism». The conference aim was to stimulate a debate on the most disquieting aspects of international economic relations which seem to be heading towards a growing trade protectionism. The panel of distinguished and authoritative speakers included prof. J.N.O. Allan Meltzer of Carnegie Mellon University (U.S.A.), Dr. A.M. Costa of O.E.C.D. (France), Dr. G. Malvezzi, Deputy General Manager of CARIPLO (Italy), Dr. C. Duarte, Vice-Chairman of C.A.B.E.I. (Honduras), Dr. Nyambe, Vice-Chairman of A.A.F.D.I. (Zambia), and prof. A. Caloia, Chairman of Mediocredito Lombardo. The meeting was presided over by Dr. Camillo Ferrari, Chairman of the Foundation, and welcomed the intervention of Dr. Roberto Mazzotta, Chairman of CARIPLO.

In April, the 20th specialization course in banking participants began their in-branch training at CARIPLO

Le 3 avril, M. Idriss Jazairy, Président du Fonds International pour le Développement Agricole, une agence des Nations Unies ayant son siège à Rome, a visité la Fondation Finafrica où il a rencontré le Président de la Fondation, M. Camillo Ferrari, et a illustré aux participants qui fréquentent les cours l'action de l'IFAD dont l'objectif primaire est de faciliter l'accès au crédit des couches les plus pauvres de la population rurale qui n'a aucune chance d'emprunt avec les institutions de crédit ordinaires. A la fin de sa conférence, M. Jazairy a discuté avec la Direction de Finafrica les lignes d'une coopération plus étroite entre les deux organismes.

Le 13ème cours supérieur d'économie bancaire pour les ressortissants des pays A.C.P. anglophone a été officiellement ouvert le 6 avril. Les participants au nombre de 19 venaient du Cameroun (1), de l'Egypte (2), de l'Ethiopie (2), de la Gambie (2), du Ghana (2), du Kenya (1), du Nigéria (2), des Iles Salomon (1), de l'Ouganda (1), de la Somalie (2), du Soudan (2) et du Swaziland (1).

Le 7 avril, Finafrica et CARIPLO ont organisé leur conférence annuelle dans la Salle du Centre de la Coopération Internationale à l'occasion de la Foire de Milan. Le thème de la conférence «L'interaction entre Pays Industrialisés et Pays Emergents: les Problèmes Financiers et le Protectionnisme Commercial» visait à stimuler le débat sur les aspects les plus inquiétants des relations économiques internationales qui semblent de plus en plus s'orienter vers un protectionnisme croissant. Parmi les orateurs, étaient des experts de premier plan: M. le prof. J.N.O. Allan Meltzer de la Carnegie Mellon University (U.S.A.), M.A.M. Costa de l'O.C.D.E. (France), M.G. Malvezzi, Vice-Directeur Général de CARIPLO (Italie), M.C. Duarte, Vice-Président du B.C.I.E. (Honduras), M.L.M. Nyambe, Vice-Président de l'A.I.A.F.D. (Zambie) et M. le prof. A. Caloia, Président du Mediocredito Lombardo. La conférence était présidée par M. Camillo Ferrari, Président de la Fondation, et a vu l'intervention de M. Roberto Mazzotta, Président de CARIPLO.

Au mois d'avril, les participants au 20e Cours de Spécialisation Bancaire ont commencé leur stage pratique

which also included contacts with head office departments. The aim is to grant them a first hand experience of bank operations in Italy at branch and head office level.

In the framework of the MBF Development Banking module, participants had the opportunity of benefiting of the experiences of proff. Angelo Rossi and Nicholas Jequier, visiting professors from the Lausanne Institut des Hautes Etudes en Administration Publique.

From April 27th to 29th, Dr. G. Villa and Dr. F. Tambussi attended the conference on «External Debt Managers' Training» organized in Geneva by UNITAR, the U.N. agency for training and research.

On April 28th, Finafrica MBF participants attended a seminar organized for them by the University of Bergamo where the University Rector, prof. Pietro Ferri, who is a member of Finafrica MBF Scientific Committee, introduced the discussion on «Capital accumulation and LDC's: the experiences of Third World shocks».

From 11 to 15th May, Finafrica welcomed Mr. Peter Michel, visiting professor from Delft RVB, who lectured on agricultural credit in developing countries in the framework of the 20th specialization course in banking.

On May 15th, Finafrica welcomed the visit of H.E. Mr. Michel Doo Kingué, U.N. Under-Secretary General and Executive Director of UNITAR as a first step towards the development of an appropriate co-operation between the two institutions.

From 18th to 22nd May the 20th specialization course participants were in Rome where they attended a seminar co-ordinated by various officials of the Italian Ministry of the Treasury. During their stay, they also had the opportunity of visiting ACRI, the Association of Italian Savings Banks, and IPACRI, the Italian Sav-

dans les agences et les Services Centraux de la Caisse d'Epargne de Milan qui leur a permis d'avoir une vue d'ensemble des opérations de banque au niveau périphérique et central.

Dans le cadre du module sur les Banques de Développement, les participants au cours Master en Banque et Finance ont eu l'occasion de bénéficier de l'expérience de deux professeurs de l'Institut des Hautes Etudes en Administration Publique de l'Université de Lausanne, M. Angelo Rossi et M. Nicholas Jequier.

Du 27 au 29 avril, M.G. Villa et M.F. Tambussi ont participé à la conférence sur «La Formation des Gestionnaires de la Dette» organisée par l'UNITAR, l'agence des Nations Unies pour la Formation et la Recherche, à Genève.

Le 28 avril, les participants au cours Master de Finafrica ont participé à un séminaire organisé spécialement pour eux par l'Université de Bergamo où le Recteur de l'Université, le prof. Pietro Ferri, membre du Comité Scientifique du Cours, a animé la discussion sur «L'Accumulation de Capital et les Pays Moins Développés: les expériences des chocs pétroliers dans le Tiers Monde».

Du 11 au 15 mai, M. Peter Michel, expert de l'RVB de Delft, a tenu son cours de crédit agricole dans le cadre du 20e Cours de Spécialisation Bancaire.

Le 15 mai, Finafrica a reçu la visite de S.E. M. Michel Doo Kingué, Vice-Secrétaire Général des Nations Unies et Directeur Général de l'UNITAR, le premier pas vers une collaboration entre les deux organismes.

Du 18 au 22 mai, les participants au 20e Cours de Spécialisation Bancaire ont participé à un séminaire organisé par le Ministère du Trésor italien à Rome. Pendant leur séjour ils ont aussi eu l'occasion de visiter l'ACRI, l'Association des Caisses d'Epargne italiennes, et l'IPACRI, l'Institut des Caisses d'Epargne italiennes

ings Bank for Automation and E.D.P., whose officials illustrated the structure and functions of their respective institutes.

On May 18th, on the occasion of the inauguration of CARIPLO representative office in Peking, Finafrica organized a follow-up workshop for its Chinese former students which was also attended by high authorities from the banking and financial milieu of the People's Republic of China, the Italian Ambassador, H.E. Alberto Solera, and CARIPLO top management officials. Finafrica was represented by Mr. G. Villa, Secretary General, prof. M. Masini, Technical Assistance Adviser, and Mr. F. Tambussi.

On May 21st, Finafrica welcomed the visit of prof. J.R.S. Revell, Consultant Director of the Institute of European Finance who lectured on «Automation in banking with special reference to developing countries».

On May 22nd, in the conference hall of ABI (the Italian Bankers' Association) in Rome, the two latest volumes published by Finafrica were presented in the presence of representatives of the political, diplomatic and banking world. After an introduction by Dr. F. Gianani, General Manager of ABI, and Dr. C. Ferrari, Chairman of Finafrica, prof. Mario Arcelli of the University of Rome, vice-Chairman of Banco di Roma, spoke on «Money and Banking in Ethiopia» by A. Mauri and C. Caselli, while prof. Vito Saccomandi of the University of Perugia introduced the volume «The Sahel» by D. Pirzio Biroli.

On May 25th, prof. Sandor Ligeti, of Budapest Karl Marx University of Economics, delivered the introductory lecture to the course on Development Banking in the framework of the 20th Specialization Course in Banking.

During the MBF Organization and Automation module, participants visited Bocconi University School of Business Administration.

pour l'informatisation bancaire, dont les fonctionnaires leur ont illustré la structure et les fonctions des deux instituts.

Le 18 mai, Finafrica a organisé, à l'occasion de l'inauguration du bureau de représentation de CARIPLO à Pékin, un séminaire pour ses anciens stagiaires chinois, qui a vu la présence des plus hautes autorités du monde bancaire et financier de la République Populaire de Chine, de l'Ambassadeur d'Italie, S.E. Alberto Solera, et des hauts fonctionnaires de CARIPLO. Finafrica était représenté par M. G. Villa, Secrétaire Général, le prof. M. Masini, Consultant pour l'Assistance Technique, et M. F. Tambussi.

Le 21 mai, Finafrica a reçu la visite de M. le prof. J.R.S. Revell, Directeur Consultatif de l'Institut Européen de Finance qui a tenu une conférence sur «L'Automatisation bancaire dans les Pays en voie de développement».

Le 22 mai, dans le siège de ABI (Association Bancaire Italienne) à Rome, on a présenté les deux derniers volumes publiés par Finafrica en la présence de représentants du monde politique, diplomatique et bancaire de la capitale. Après une introduction de M.F. Gianani, Directeur Général de ABI, et de M.C. Ferrari, Président de Finafrica, le prof. Mario Arcelli de l'Université de Rome, Vice-président du Banco di Roma, a parlé du volume «Monnaie et Banque en Ethiopie» de A. Mauri et C. Caselli, tandis que le prof. Vito Saccomandi de l'Université de Perouse a commenté le volume «Le Sahel» par D. Pirzio Biroli.

Le 25 mai, le prof. Sandor Ligeti de l'Université d'Economie Karl Marx de Budapest a délivré le cours introductif de Banques de Développement dans le cadre du 20ème Cours de Spécialisation Bancaire.

Dans le cadre du module d'Organisation et Automatisation, les Participants au Master en Banque et Finance ont visité l'Ecole de Direction d'Entreprise de l'Université Bocconi de Milan.

In May, Finafrica welcomed the visit of H.E. Jean De Dieu Nitoud, ambassador of Congo to Italy.

On June 5th, Finafrica welcomed a delegation from the Personnel Department of the People's Bank of China, headed by Mr. Hong Yunchen, General Office Director and composed of four more officials, in the framework of their study tour of bank in-service training programme organized under the auspices of the Bank of Italy.

On June 6th and 7th, Dr. Giuseppe Villa and Dr. Felice Tambussi attended the General Assembly of A.A.F.D.I., of which Finafrica is an honorary member, which was held in Cairo (Egypt).

Early in June, prof. Arnaldo Mauri delivered a report on informal finance in Ethiopia at the East-West Centre of the University of Hawaii in Honolulu.

From 15th to 19th June, the students attending Finafrica MBF programme and the 13th Advanced Course in Banking were invited to attend a series of colloquia on the E.E.C. policy vis-à-vis A.C.P. countries as expressed by Lomé III convention in Brussels. During their stay they were the guests of the Commission of the European Communities.

On June 24th, H.E. Mr. Patrizio Schmidlin, the plenipotentiary minister who is now Head of the Italian Ministry of Foreign Affairs Development Co-operation Directorate General, visited Finafrica where he illustrated the guidelines of the Italian Government development co-operation policy as expressed in Law 49 regulating Italy's co-operation with LDC's which was passed by Parliament last February to the Foundation top management officials. After this restricted conference was over, Mr. Schmidlin shortly met all participants attending Finafrica courses.

On June 24th and 25th, Finafrica welcomed the visit of Mr. Paolo Logli, of the E.E.C. Directorate for

Au mois de mai, Finafrica a reçu la visite de S.E. M. Jean De Dieu Nitoud, ambassadeur du Congo en Italie.

Le 5 Juin, une délégation de la People's Bank of China composée de cinq fonctionnaires du Service du Personnel a visité Finafrica dans le cadre d'un programme de visites organisé pour eux par la Banque d'Italie. La délégation dont faisait partie M. Hong Yucheng, Directeur Général du Service, s'était rendue en Italie pour un voyage d'étude sur les programmes de formation sur le champ du personnel bancaire.

Le 6 et 7 juin, M. Giuseppe Villa et M. Felice Tambussi ont participé à l'Assemblée Générale de l'A.I.A.F.D. dont Finafrica est membre honoraire, qui s'est tenue au Caire (Egypte).

Au début du mois de juin, le prof. Arnaldo Mauri a présenté un exposé sur la finance informelle en Ethiopie au East-West Centre de l'Université de Hawaii à Honolulu.

Du 15 au 19 juin, les participants au cours Master et au cours supérieur d'économie bancaire ont été invités par la Commission des Communautés Européennes à Bruxelles pour suivre une série de colloques sur la politique de la C.E.E. vis-à-vis les Pays en voie de développement dans le cadre de Lomé III.

Le 24 juin, le ministre plénipotentiaire, S.E. M. Patrizio Schmidlin, actuellement Chef de la Direction Générale pour la Coopération au Développement du Ministère des Affaires Etrangères Italien, a visité Finafrica et illustré aux responsables les directives de la politique du Gouvernement italien en matière de coopération au développement exprimées dans la nouvelle loi sur la coopération No. 49 approuvée par le Parlement au mois de février. A la fin de cette réunion, M. Schmidlin a rencontré tous les participants aux cours de formation.

Le 24 et 25 juin, M. Paolo Logli, de la Direction Générale Développement de la Commission des Commu-

Development, who lectured on the E.E.C. development financing instruments.

In June, Finafrica welcomed Mr. Abilio Antonio Pilica, Director of the Banco de Moçambique

On June 26th, Dr. Savino Spinosi, a high official of the Ministry of the Treasury and Director of the European Investment Bank illustrated the E.I.B. structure and activities to the 20th specialization course participants in the framework of the course on «Foreign Financing of Development».

Prof. Sergio Bortolani attended, as an observer, the first two weeks of the «Seminar for Trainers in development banks» which was jointly organized in Washington in June-July 1987 by the Economic Development Institute of the World Bank and the Associations of Development Finance Institutions of Africa, Asia and Latin America. The objective of the seminar, brilliantly co-ordinated by Mr. Nicholas Bruck of E.D.I., was to enhance the training skills of trainers in development banks and to review the development of effective training programmes for their institutions. The participation of Finafrica aimed at building up a working co-operation with E.D.I. with a view to designing a new training programme for trainers in the coming year.

nautés Européennes a illustré aux participants au 20e cours de spécialisation bancaire les instruments de financement du développement mis en place par la C.C.E.

Vers la moitié du mois de juin, Finafrica a reçu la visite de M. Abilio Antonio Pilica, Administrateur du Banco de Moçambique.

Le 26 juin, M. Savino Spinosi, haut fonctionnaire du Ministère du Trésor italien et membre du Conseil d'Administration de la Banque Européenne d'Investissement, a illustré la structure et les activités de la B.E.I. aux participants au 20e cours de spécialisation bancaire dans le cadre du cours sur «Le financement extérieur du développement».

Le prof. Sergio Bortolani a participé, comme observateur, aux deux premières semaines du «Séminaire pour les formateurs des Banques de Développement» organisé par l'Institut pour le Développement Economique de la Banque Mondiale en collaboration avec les Associations des Instituts de Financements du Développement d'Afrique, Asie et Amérique Latine à Washington en juin-juillet 1987. L'objectif du séminaire, brillamment coordonné par M. Nicholas Bruck de l'I.D.E., était d'enrichir les compétences techniques des formateurs des banques de développement et d'étudier l'élaboration de programmes de formation efficaces pour leurs institutions. La participation de Finafrica visait à établir une collaboration de travail avec l'I.D.E. dans le but de formuler un nouveau programme de formation pour formateurs pour l'année prochaine.

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