

FINANCIAL REPRESSION AND ITS IMPACT ON FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN THE AFRICAN LEAST DEVELOPED COUNTRIES ¹

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1. Introduction

The relationship between real and monetary variables is undeniable. Yet, policy makers in African LDCs have failed to follow an active policy of developing the domestic monetary and financial sector. After nearly three decades of political independence, economic policy in African LDCs is still that growth can be maximized by ever increasing inputs of foreign aid. It is impossible to find a development plan or budget without any mention of foreign resource inflows. As a result, therefore, Africa has become increasingly reliant on foreign aid, which has led to a relaxation of internal resource mobilization efforts. There are, however, signs of increasing aid weariness among donors and of a hardening of aid terms.

No country is too poor to save if the available potential is effectively harnessed. Everywhere in Africa, however, the burden of taxation falls on the subsistence sector and Governments increasingly tailor their policies in favour of the modern sector, with strong fiscal and monetary incentives. Farmers' taxes are often used to support urban oriented infrastructure rather than the promotion of agriculture. Nowhere in the world have the urban sectors been fed such large chunks of «meat» at the expense of the rural sector. In contrast, African peasants still wallow in their backwardness. They are dispersed, unorganized, unschooled, ill-housed, ill-equipped and ill-nourished [ECA (1985)].

Most developing countries have formal plans for industrial development, public infrastructure, (telecommunications, roads, public utilities) foreign trade and agriculture, but regulation of the financial sector rather than its development seems to be the major objective of policy [McKinnon (1980), Long (1983)]. In some countries, government intervention in credit markets has aggravated distortions. There are two main reasons for this. In countries characterized by poor income and investment levels, low interest rates have been justified on the grounds that they will enhance the level of fixed capital formation. Secondly, low interest rates are being deliberately maintained to counter balance the adverse effects of the unorganized money market. In the face of inflationary pressures, however, low interest rates in nominal terms often culminate in negative real interest rates. Thus, the financial markets are further distorted and this affects the efficiency and rate of growth of the economy [Shaw (1973), McKinnon (1973)].

1. There are twenty-eight least developed countries in Africa. Eleven are land-locked and four are island countries. Benin, Botswana, Burkina Faso, Burundi, Central African Republic, Cape Verde, Chad, Comoros, Djibouti, Equatorial Guinea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome & Principe, Sierra Leone, Somalia, Sudan, Togo, Uganda, United Republic of Tanzania.

Furthermore, Africa's institutional infrastructure (insurance, banking, etc.) that was originally designed to meet the needs of the colonial powers, has done little to promote domestic growth [Mauri (1983)]. It is increasingly drawn to the urban seats of power, authority and financial patronage. It is the rich farmers, the foreign-owned firms and the immigrant population (who have easy access to knowledge of modern technology, marketing facilities, managerial expertise and large financial resources) who secure the available credit from the formal banking system. African entrepreneurship, therefore, instead of developing its full potential is denied access to credit. The plight of the African peasants is even worse, for they must continue to rely on the traditional money lender, charging exorbitant interest rates.

Section 2 gives a theoretical account of the savings and investment process and examines its applicability to Africa. This is followed in section 3 by detailed examination of the characteristics of the banking system of African LDCs. Section 4 examines the extent to which mobilized funds have been used to finance investment (including the commercial banking system and specialized credit institutions) while section 5 examines the policy reforms necessary to make the banking system more operational and effective. Section 6 contains the conclusions of the study.

2. Theoretical Framework

The level of savings and investment is only one determinant of the rate of economic growth. Other factors adversely influencing productivity include a shortage of raw materials, unutilized capacity in the industrial sector and the low availability of skilled manpower. «A country's rate of economic growth depends not only on how much it can save, but also on how productively it can invest this savings; this seems to depend on a complex of less easily measurable factors such as the skills and attitudes of its people, or the efficiency and flexibility of its economic organization» [Myint (1965), pp. 15-16].

In this context the process of financial intermediation — the act of channeling funds from surplus to deficit units — becomes of paramount importance. The process can be clearly understood from an examination of the economic system. The economic units making up the economy differ in their initial endowments, abilities, skills and expectations, so saving and investment may not necessarily be undertaken by the same units; some may save more than they are willing to invest and *vice versa*. The distribution of savings differs from the most efficient distribution of investment because savings depend

on the level of per capita income and its growth rate, while efficient investment depends upon entrepreneurial talents, knowledge and willingness to take risk. Savers are not necessarily entrepreneurs, and entrepreneurs may not save enough to finance their own investment [Patrick (1966)]. Thus some mechanism is needed to bridge the gap between the surplus units (savers) and the deficit units (investors). Two basic methods exist: one by the issue of primary securities (bonds, equities, etc.), whereby surplus funds are directly transferred to those whose investment demand is in excess of savings and the second by issue of indirect financial claims through intermediaries which channel surplus funds to those wanting to make real capital investment. The latter indirect financial intermediation process is currently more common [Goldsmith (1969), Bhatia Rattan and Deena Khatkhate (1975)].

Financial intermediation helps the development process in three important ways. First, it increases the volume and rate of savings and also ensures that a rise in marginal savings is expressed in financial form. The rural African who is limited to traditional ways of capital accumulation and storage is thus assured of a reliable savings alternative. Secondly, the introduction of well functioning, financial intermediation could contribute to the creation of a wide variety of financial claims, differentiated by liquidity, yield, maturity, divisibility and safety, whilst also providing a specific utility. For example, money provides utility, as a means of payment, a unit of account and a store of value, while claims of life insurance provide a cover against accident, death, etc. Finally, financial intermediation ensures the most efficient transfer of funds to real capital formation.

A financial — or a debt system — is only one way of mobilizing savings; there may be many others, depending on net benefit and cost. For example, taxes may be imposed on households and businesses and the proceeds used by government for investment projects. In this case, there is less need for a financial intermediary to channel household savings to alternative investments. There is, therefore, no single financial structure and a given growth of output can be consistent with different developments of financial markets. The important aspect to the economy is that factors of production should always be employed to the point where the marginal social cost is equal to their marginal social benefit [Gurley (1967), Gurley and Shaw (1967)].

It has been alleged that «financial institutions can encourage a more efficient allocation of a given total amount of tangible wealth, by bringing about changes in its ownership and its composition through intermediation among various types of asset holders» [Patrick (1966) pp. 177-178]. Unfortunately, there are several ways in which financial in-

intermediaries may fail to lead to greater efficiency of investment allocation. First, while some credit from the unorganized sector in underdeveloped economies finances expenditure which does not accelerate the rate of economic growth, some is used for financing productive often long-term investment. If, however, these savings are transferred to commercial banks, which lend only to credit worthy borrowers for low risk, short-term projects (or to government to finance current account budget deficits), the overall credit allocation may not be improved, in either a static or dynamic sense [Porter (1980)]. Indeed, many potential borrowers may have socially desirable operations, but may be denied access to credit because of lack of collateral, or because they lack the knowledge, information and expertise of foreign immigrant firms which derive from their contact with developed countries. More serious is the reluctance of commercial banks to finance agriculture, mainly because of high loan administration costs. Financial institutions tend to direct their resources to enterprises of proven merit, ability and security, regardless of their productivity [Awad (1971)]. These assertions will be discussed further in Section 4, following a descriptive account of the financial systems in African LDCs.

3. Some Characteristics of the Financial Systems in African LDCs

The financial systems in African LDCs are just as varied as their economic structures. The financial sectors in some countries for example, Lesotho, Botswana, is dominated by branches or subsidiaries of foreign commercial banks. In others, government intervention is pervasive, for example, in Cape Verde, Guinea, Guinea-Bissau, Ethiopia and the United Republic of Tanzania, where the financial system is exclusively owned by the Government.

Although the objective of any financial development programme is to raise the quantity and quality of investment and to accelerate the rate of economic growth, the majority of African LDCs have emphasized the establishment of diversified financial infrastructures — development banks, savings banks, postal savings institutions, housing finance institutions, etc. The benefits however, have not been commensurate with the substantial resource costs involved. It has been alleged that these institutions are «no panacea for solving the basic problem of credit allocation» and that «the fragmentation of the financial sector that follows from legislated specialization tends to produce two undesirable consequences: a decline in overall efficiency and an increase in the degree of concentration». Writing on the drawbacks of banking laws which enforce specialization the study states that:

«In developing countries, demand for even basic financial services has often not yet been appropriately articulated. In such situations, it appears desirable to generate through official intervention such special sources of supply that can meet socially desirable, albeit partially dormant, private demand. For this purpose, developing countries have often established new specialized financial institutions to satisfy the previously unmet demand. Operations of such institutions are generally insulated from competition by appropriate legislation and are even given substantial subsidies. Such actions are often defended by arguments that resemble those employed in the infant industry advocacy.

However, the efficiency gains expected from such specialized and protected institutions are unlikely to be realized, because the necessary competitive conditions are often absent. In fact, a specialized institution created by special statute often assumes a monopoly position. The establishment of a special institution can be justified only if it will expand the overall size of the financial sector, widen its spectrum of financial services and reduce the degree of concentration. In order to accomplish these goals, the new institution needs to be broadly based and, after the infancy phase is over, needs to be exposed to competitive forces across the board [Khatkhate and Riechel (1980), pp. 504-505].».

The financial systems are also characterized by a low financial interrelations ratio, the predominance of indirect financial savings over equity securities, a relatively low share of financial institutions in all financial assets outstanding and the predominance of commercial banks over other types of financial institutions [Goldsmith (1969)].

A third striking feature is that the full savings potential of the household sector has not been effectively developed because the financial infrastructure is underdeveloped. The non-monetized sector is significantly large and the absence of money is detrimental to development since it cannot be used as a medium of exchange, a unit of account or a store of value (see Table I). Further, the non-monetization of savings inhibits the pace of economic development, since surplus wealth is hoarded in unproductive forms, such as cattle, jewelry and food reserves. It should be pointed out, however, that an increase in the supply of money does not necessarily mean an expansion of the money economy; it may well reflect an increase in the supply from the existing monetized sector, rather than an absorption from the non-monetized sector (Chandarvarkar 1977).

Another key characteristic of the financial systems is the exceedingly large borrowing requirement of the public sector and the importance of the central bank as a primary source of funds to the economy and to the deposit money banks. Table II shows that

Table I

NON-MONETARY OUTPUT IN RELATION TO GROSS DOMESTIC PRODUCT (GDP) AND MONETIZATION RATIOS

	Non-monetary output as a percentage of GDP a)	Monetization ratios b)
	A	B
Benin	23	0.77
Botswana	21	0.79
Burkina Faso	38	0.62
Ethiopia	45	0.55
Malawi	39	0.61
Mali	33	0.67
Mauritania	29	0.71
Mozambique	23	0.77
Niger	42	0.58
Rwanda	49	0.51
Sierra Leone	22	0.78
Tanzania	28	0.78
Togo	20	0.80
Uganda	34	0.66

Source: a) Adapted from Derek W. Blades, *Non-Monetary (Subsistence) Activities in the National Accounts of Developing Countries*, Development Centre Organization for Economic Cooperation and Development (Paris, 1975), p. 80. (The non-monetary shares refer to the «Latest year available», which in most cases is 1969 or 1970).

b) The monetization ratios have been calculated on the basis of the percentages in column (A).

Table II

NET CLAIMS ON GOVERNMENT AND CENTRAL BANK ADVANCES TO ECONOMY AND DEPOSIT MONEY BANKS IN SELECTED AFRICAN LDCs, 1987 1)

	Net claims of Govt. as a percentage of total credit	Central bank credit to economy 2)	Central Bank advances to com. banks 3)
Benin	11.26	60.81	48.4
Burundi	54.37	63.49	0.5
Central African Republic	38.60	71.02	44.1
Chad	4.75	64.45	51.7
Ethiopia	51.50	60.78	—
Lesotho	59.59	18.41	—
Malawi	60.24	68.07	—
Mali	44.36	64.60	36.6
Mauritania	18.50	45.02	30.6
Niger	15.35	69.71	27.3
Rwanda	32.11	39.61	3.2
Sierra Leone	84.85	66.82	—
Somalia	43.71	95.87	74.5
Sudan	46.02	76.00	0.3
Tanzania	59.91	60.45	1.9
Uganda	43.87	90.09	37.3

Source: Based on IMF, *International Financial Statistical Yearbook*, 1988.

1) Data for Sudan, Tanzania and Uganda refer to 1986.

2) Total central bank advances as a percentage of total credit extended to the economy.

3) Central bank advances as a percentage of total loans of commercial banks.

in 1987, net claims on government exceeded 50 per cent of the total credit extended by the banking system in Burundi, Ethiopia, Lesotho, Malawi, Sierra Leone and the United Republic of Tanzania.

A further characteristic of the financial systems in African LDCs is that the excessive rules and regulations of the formal financial sector encourages the continued enlargement of the informal sector [Miracle (1980), Holst (1985), Bouman (1977), (1988)]. Consequently, the financial institutions meet only small part of the household sector investment, while the majority of investment is financed by personal savings or from the unorganized money market. The rates of interest of the unorganized sector are exorbitant and may be between 20 and 30 per cent per annum; informal markets handle high risk loans and require a high premium to cover repayment default losses [Wai (1956), Bottomley (1963), Bhaduri (1977)]. These high rates have two consequences: potentially productive worthwhile investment is not taken up whilst resources are diverted toward undesirable ends, such as speculative investment in land and buildings, scarce commodities and jewelry. As the unorganized sector is beyond the reach of central banking policy, credit and monetary management become impossible [Bhatt (1974)].

Finally, the development of national financial institutions is stunted by foreign capital which eases any pressure to adopt and create banking institutions well suited to maximizing the use of scarce domestic capital. This laxity in the resource mobilization effort is clearly brought out when an analysis is made of the trends in domestic savings. There were thirteen African LDCs which registered negative domestic savings rates during 1981-1985 (see Annex 1).

For the African LDCs as a group, gross domestic savings were 4.7 per cent of GDP between 1986 and 1987, compared with 4.3 per cent between 1981 and 1985. These averages conceal disparities among countries; only seven of them exceeded the 4.7 per cent saving rate in 1986-1987, as compared to ten in 1981-1985. Furthermore, record savings gaps were recorded in Lesotho, Cape Verde and Sao Tome and Principe, estimated at 97.4, 27.8 and 20 per cent of GDP respectively.

Gross domestic savings accounted for 31.9 per cent of the investment made by the African LDCs between 1985 and 1987. The balance of the financing came from external sources, with a high component of unrequited transfers. The average resource deficit was equivalent to 10.1 per cent of GDP between 1985 and 1987 [ECA (1988)].

The record of financial savings has also been unsatisfactory. The ratio of financial savings to gross domestic product (defined as a change in broad money) has fluctuated, but shown no sustained tendency to increase (see Table III).

Table III

RATIO OF FINANCIAL SAVINGS A) TO GROSS DOMESTIC PRODUCT 1980-1986 IN SELECTED LDCs (in per cent)

	1980	1981	1982	1983	1984	1985	1986
Benin	8.4	4.7	5.6	-0.3	2.9	0.2	n.a.
Burundi	3.5	3.5	-0.4	3.8	0.6	2.8	0.1
Ethiopia	1.0	2.7	2.7	5.1	2.5	5.5	4.5
Gambia	2.0	4.6	3.8	6.5	1.5	11.6	1.9
Malawi	2.1	4.5	2.8	1.1	5.6	-0.2	4.5
Mauritania	2.1	5.4	0.3	1.1	2.8	n.a.	n.a.
Niger	2.5	2.7	-1.7	-0.0	2.9	1.0	n.a.
Rwanda	1.1	0.6	0.1	1.3	1.1	2.0	2.0
Sierra Leone	3.6	0.4	8.0	4.9	5.8	13.3	18.1
Tanzania	8.8	6.5	6.9	6.4	1.3	8.2	7.3
Togo	2.5	10.9	6.2	0.2	6.3	n.a.	n.a.

Source: Based on IMF, *International Financial Statistical Yearbook*, 1988.

a) Defined as a change in broad money (M2), that is, currency outside banks, plus demand deposits, plus quasi monetary savings.

4. The Banking System and Loanable Funds

In the majority of African LDCs, open markets for primary securities are insignificant and the available data on financial assets other than currency, demand and quasi-monetary deposits is extremely limited. Data on the Gross National Product (GNP) for most countries is not readily available and GDP figures have been used to facilitate comparison.

Table IV shows the ratio of monetary liabilities to GDP (currency, demand and quasi-monetary deposits) for thirteen African LDCs. The M2/GDP ratio, giving an indication of real additions to the ongoing loanable capacity of the banking system, rose markedly in the Sudan (0.171 to 0.612) and in Togo (0.172 to 0.490), between 1970 and 1985. It may be seen that in the Sudan, the enormous relative growth of currency and demand deposits was responsible for the growth in M2 (money supply) whilst in Togo, both currency demand and quasi-monetary deposits grew enormously.

Between 1970 and 1985, the M2/GDP ratio averaged 0.326 in the United Republic of Tanzania and 0.253 in Ethiopia and the Gambia. In most other countries, however, the M2/GDP ratio, reflecting outstanding bank finance provided to both the government and the private sector, was abysmally low, ranging from 0.114 in Rwanda to 0.225 in

Table IV

THE FINANCIAL STRUCTURE OF AFRICAN LEAST DEVELOPED COUNTRIES
(Monetary and GDP data in undeflated billions of local currency)

Country	Demand desposit & currency (M ₁)	Time & savings deposits	Total (M ₂)	Gross domestic Product	Ratio of M ₂ to GDP	Domestic credit as % of GDP
<i>Benin</i>						
1970	9.6	0.4	10.0	69.7	0.144	10.4
1975	26.9	5.0	31.9	113.1	0.282	26.1
1980	45.4	16.0	61.4	245.6	0.250	28.4
1985	87.1	24.5	111.6	499.8	0.223	30.2
<i>Burkina Faso</i>						
1970	9.1	0.2	9.4	98.7	0.095	1.8
1975	22.5	1.8	24.3	137.7	0.177	12.1
1980	41.7	11.6	53.2	272.0	0.196	20.8
1985	69.5	23.8	93.3	455.9	0.205	15.9
<i>Burundi</i>						
1970	2.1	0.1	2.2	19.0	0.116	8.9
1975	3.3	0.1	3.4	33.2	0.103	6.9
1980	9.6	2.8	12.4	85.6	0.145	15.3
1985	18.2	5.7	23.9	141.3	0.169	19.1
<i>Ethiopia</i>						
1970	0.43	0.19	0.62	4.5	0.138	11.6
1975	0.88	0.30	1.18	5.5	0.215	15.2
1980	1.57	0.63	2.20	8.5	0.258	32.8
1985	2.70	1.29	3.99	10.0	0.399	49.0
<i>Gambia</i>						
1970	0.02	0.003	0.02	0.08	0.244	10.0
1975	0.04	0.01	0.05	0.22	0.227	20.5
1980	0.06	0.03	0.09	0.42	0.214	46.6
1985	0.16	0.09	0.25	0.74	0.338	71.2
<i>Malawi</i>						
1970	0.03	0.02	0.05	0.27	0.185	10.8
1975	0.07	0.05	0.12	0.53	0.226	23.2
1980	0.10	0.09	0.19	1.00	0.190	33.3
1985	0.17	0.22	0.39	2.02	0.193	33.9
<i>Mauritania</i>						
1970	1.1	0.14	1.25	11.2	0.112	12.8
1975	2.9	1.10	4.00	20.6	0.194	24.5
1980	5.7	1.4	7.1	38.1	0.186	30.7
1985	12.1	1.7	13.8	44.5	0.310	45.4
<i>Niger</i>						
1970	8.8	0.8	9.6	111.0	0.086	7.6
1975	20.1	2.2	22.3	157.7	0.141	10.8
1980	64.6	13.3	77.9	536.2	0.145	15.4
1985	80.6	27.5	108.1	682.3	0.158	16.8

Table IV (Cont'd)

Country	Demand deposit & currency (M ₁)	Time & savings deposits	Total (M ₂)	Gross domestic Product	Ratio of M ₂ to GDP	Domestic credit as % of GDP
<i>Rwanda</i>						
1970	2.2	0.4	2.6	37.7	0.069	5.2
1975	4.9	1.1	6.0	52.8	0.114	9.0
1980	12.0	3.2	15.2	108.0	0.141	3.2
1985	14.7	8.7	23.4	173.3	0.135	9.6
<i>Sierra Leone</i>						
1970	0.03	0.01	0.04	0.35	0.114	7.4
1975	0.06	0.03	0.09	0.57	0.158	17.9
1980	0.15	0.11	0.26	1.29	0.202	32.0
1985	0.90	0.31	1.21	3.80	0.314	46.0
<i>Sudan</i>						
1970	0.12	0.01	0.13	0.76	0.171	23.1
1975	0.28	0.05	0.33	1.85	0.178	30.6
1980	1.08	0.17	1.25	4.95	0.252	35.7
1985	4.14	1.96	6.10	9.98	0.612	58.4
<i>Tanzania</i>						
1970	1.68	0.54	2.22	9.17	0.242	16.6
1975	4.28	1.27	5.55	19.01	0.292	29.2
1980	13.35	4.17	17.52	42.12	0.416	44.3
1985	25.51	13.88	39.39	111.83	0.352	46.0
<i>Togo</i>						
1970	10.2	2.5	12.7	73.7	0.172	4.9
1975	21.6	6.7	28.3	128.3	0.220	20.3
1980	55.3	17.2	72.5	238.4	0.304	29.2
1985	82.7	60.5	143.2	292.1	0.490	21.2

Source: Based on IMF, *International Financial Statistical Yearbook*, 1988.

Benin. These low ratios mainly indicate the existence of a large non-monetized sector and the virtual absence of corporate securities.²

Domestic credit as a proportion of GDP rose markedly in Ethiopia, Lesotho, Malawi, Mali, Sierra Leone, Mauritania, Sudan, Uganda, the Gambia, Somalia and the United Republic of Tanzania. The sharp rise in the credit-GDP ratio in these countries was

2. In financially mature industrialized economies, the M2/GNP ratio could exceed the one per cent range because of a diversified set of financial institutions and instruments. In Japan, for example, the M2/GNP ratio stood at 1.1 per cent in 1987.

caused by the fast borrowing requirements of the Government. In 1987, net claims of the Government accounted for over 40 per cent of the total credit extended to the economy.

In most African LDCs, quasi-monetary savings, which are the key element in achieving real growth in the banking system showed no sustained tendency to increase. Real interest rates remained negative, implying at least a tendency to substitute the hoarding of goods and self-investment for financial savings.

Apart from repressing the savings mobilization effort, the low/or negative rates of interest tend to generate excess demand for institutional funds, of borrowers, placing too much emphasis on collateral and assets. Moreover as interest rates drop, the banking system attempts to direct a larger proportion of its loan portfolio to the most credit worthy borrowers. Since interest rate subsidy is usually proportional to the amount of the loan, the well-off borrower benefits from larger subsidies, while small-scale enterprises and farmers of limited means receive low amounts. The high degree of correlation between levels of income and access to credit perpetuates the unequal distribution of wealth [Adams and Vogel (1984)]. On the undesirable aspects of credit rationing, one study suggests that rationing tends to inhibit innovation, in that new enterprises, or those introducing technologies with which banks are unfamiliar, tend to be discouraged. [McKinnon (1980)]. Commercial banks in African LDCs are usually located in urban centres and concentrate on funding large farming enterprises, consumer based industries and the foreign trade sector. As a result, small farmers and indigenous small-scale enterprises remain financially repressed, although they possess quite a large share of the deposit resources on which bank credit is based.

Table V shows the structure of commercial bank credit in selected African LDCs. The data is startling and shows clearly that commercial banks are loath to offer credit to the agricultural sector where over 80 per cent of the population work. The most notable exceptions are Malawi and Rwanda where agricultural credit stood at 43.8 and 37.6 per cent respectively of their total loan portfolio and the growth rates were a compound annual average of 27.4 and 18.5 percent respectively. The Gambia attained 31.4 per cent of its portfolio in financing agriculture, but had a negative growth rate of 14.4 per cent.

Another obvious effect of credit rationing in the formal markets and of discrimination against the traditional sectors, is an increased recourse to informal finance. In the rural areas of Niger, for example, access to institutional credit is extremely limited. The findings of a recent survey indicate that almost one-half of the rural households sampled

Table V

SHARE AND AVERAGE ANNUAL COMPOUND GROWTH RATES OF AGRICULTURAL AND TRADE CREDIT IN TOTAL LOAN PORTFOLIO OF COMMERCIAL BANKS OF AFRICAN LEAST DEVELOPED COUNTRIES

Country	Period	Agricultural credit in total loan portfolio of commercial banks (% of shares)	Agriculture credit average annual compound growth rates	Domestic & foreign trade credit in total loan portfolio of commercial banks (% of shares)	Domestic & foreign trade credit. Average annual compound growth rates
Benin 1/	1984-1986	13.5	— 3.8	27.3	5.3
Botswana 2/	1981-1987	8.5	1.9		
Burkina Faso 3/	1984-1986	5.2	19.8	34.2	41.4
Burundi 3/	1986-1988	3.1	29.4	43.9	22.4
Central African Republic 4/	1983-1988	1.0	60.4	69.0	— 1.1
Chad 4/	1983-1988	0.9	—23.8	74.2	13.5
Ethiopia 5/	1980-1987	4.9	6.8	58.2	— 0.3
Gambia 6/	1983-1987	31.4	—14.4	23.9	2.6
Lesotho 7/	1983-1988	4.7	96.6	55.1	9.1
Malawi 8/	1973-1986	43.8	27.4	26.1	9.2
Mali 1/	1984-1986	4.1	12.9	45.7	1.7
Rwanda 9/	1980-1986	37.6	18.5	19.5	23.4
Sierra Leone 10/	1976-1985	3.7	27.8	53.2	16.2
Somalia 11/	1978-1984	9.3	— 4.0	56.0	26.1
Sudan 12/	1982-1987	0.3	17.4	41.1	30.7
Tanzania 13/	1970-1986	5.3	13.8	66.9	23.2
Togo 1/	1984-1986	1.9	—18.0	42.0	5.9

Source:

1/Banque Centrale des Etats de l'Afrique de l'ouest, *Annual Report* 1986 (including short, medium and long-term credit).

2/Bank of Botswana, *Statistical Bulletin*, volume 13, No. 1, March 1988.

3/Banque de la République du Burundi, *Bulletin Mensuel*, Douzième Année, No. 1 janvier 1989 et onzième Année No. 8 - août 1988.

4/Banque des Etats de l'Afrique Centrale *Statistique Monétaire* No. 154 - août - septembre 1988 No. 132; No. 140, mars 1987; No. 132, mai 1988; No. 124 - août-septembre 1985; 123 juin, juillet 1985.

5/Commercial Bank of Ethiopia, *Annual Reports*, 1979/80 - 1986/87.

6/Central Bank of the Gambia, *Quarterly Bulletin*, No. 4, October-December 1987.

7/Central Bank of Lesotho, *Quarterly Review*, vol. VII, No. 3, September 1988.

8/Reserve Bank of Malawi, *Financial and Economic Review*, vol. XX-No. 1, 1988.

9/Banque Nationale du Rwanda, *Bulletin* No. 13, décembre 1986.

10/Bank of Sierra Leone, *Economic Review* vol. 20, No. 1&2, January - June 1986.

11/Central Bank of Somalia, *Bulletin* No. 55, March 1985.

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had not obtained a single loan in the last five years; fifty four per cent secured at least one loan during the period and only four per cent had regular access to credit, receiving five or more loans in the same period. The average randomly selected rural household borrowed 30 thousand CFA francs, or about 19 per cent of the average agricultural income [Cuveas (1987)]. (see Table VI).

Credit rationing also inhibits economic flexibility. At low interest rates, non-price criteria are used to ration loan-funds. Credit may be allocated on the basis of political pressure by sponsors and consequently, projects that have easy access to bank loans are often neither the most productive, nor the most profitable. Expounding on the undesirable practice of public enterprises one study described subsidized loan rates as an assessment upon depositors, being biased against savers and labour, acting as a bonus for products and processes that utilize capital intensively. The projects assisted are often poor, in terms of anticipated rates of return and factor productivity. Foreign exchange is wasted because loans encourage imports of capital equipment or stimulate exports based on imported materials which realize small, even negative, value added in terms of international prices. «The subsidized loan rate represents repression at its worst» [Shaw (1973), p. 87].

In the vast majority of African LDCs state-owned or state-managed enterprises constitute a large and a rapidly growing sector. One mechanism for financing these state-owned enterprises is by diverting resources from the commercial banks towards the subsidized uses placed by the central bank. In Mali, for example, reserve money rose from 6.3 per cent of outstanding demand, saving and time deposits, in 1978, to 26.3 per cent in 1987. Over the same period, the loan/deposit ratio of the deposit money banks stood at 145.1 implying central bank accommodation to meet the growing demand for bank credit from the public sector. In Chad, reserve requirements with the Central bank more than doubled between 1978 and 1987, the loan/deposit ratio jumped to 262.7 per cent and central bank advances as a percentage of total loans by deposit money banks reached about 52 per cent. (see Table VII).

These exorbitant reserve requirements, caused by uncovered budget deficits and political pressure to channel subsidized credits to particular borrowers through specialized credit agencies have become one of the prime causes of financial repression [McKinnon (1980)].

Furthermore, an effective low ceiling on real loan rates accentuates risk aversion and liquidity preference in the commercial banking system. Consequently, financial intermediaries have little incentive to explore new lending opportunities [Mauri (1971), Shaw

Table VI

INSTITUTIONAL AND NON-INSTITUTIONAL BORROWING BY RURAL HOUSEHOLDS IN NIGER

	Institutional	Non-institutional	Total
Access per cent of households	22.4	83.9	
Average amount CFA	15 916	31 757	
Expected borrowing CFA	3 565	26 651	30 216
Percent of agricultural income	2.2	16.7	18.9
Share of each source per cent	11.8	88.2	100.0

Source: Cuveas (1986) based on Ohio State University Survey, 1985.

Table VII

TRENDS IN RESERVE MONEY OF DEPOSIT MONEY BANKS

c) Country	Reserve money in total demand + time deposits a) per cent		Loan/deposit b) ratio 1987	Central Bank advances - % 1987
	1978	1987		
Burundi	12.1	17.3	117.5	0.5
Chad	9.0	19.2	262.7	51.7
Mali	6.3	26.3	164.0	30.6
Niger	20.1	37.8	145.0	27.3
Rwanda	10.9	12.1	100.5	3.2

Source: Based on the IMF *International Financial Statistics Yearbook 1988*.

a) Reserve money in total outstanding demand + time deposits.

b) Credit extended to Government and Private Sectors as a percentage of total deposit resources (demand, time + saving deposits).

c) Central Bank advances as a per cent of total loans of deposit money banks.

Table VIII

TRENDS IN LOAN/DEPOSIT RATIOS OF COMMERCIAL BANKS IN SELECTED AFRICAN LDCs (1987)

Country	Credit/deposit ratio 1)	Excluding government credit
Ethiopia	92.7	43.62
Lesotho	72.2	34.00
Malawi	68.9	49.07
Rwanda	100.5	74.67
Sierra Leone	74.4	30.74
Somalia	45.6	45.56 a)
Sudan	60.7	59.71 a)
Tanzania	101.6	69.74 a)
Uganda	37.3	36.88

Source: Based on IMF *International Financial Statistics Yearbook, 1988*.

1) Credit extended to the Government and Private Sectors as a ratio of total deposit resources (demand, time and savings deposits).

a) Denotes 1986.

(1973)]. The commercial banks in African LDCs have a sound resource base, but prefer to deploy excess liquid assets in treasury bills and government bonds, where risks are marginal. Few African LDCs have deliberately directed the lending pattern of the commercial banks to generating development. In some countries, the banking system is heavily underlent, reflecting a reluctance to be committed to the national economic development effort.

Table VIII shows the credit/deposit ratios of the commercial banking sector in selected countries. It will be noted in particular, that when Government borrowing (treasury bills, etc.) is excluded, several banking systems are considerably under-extended.

The development banks have not performed well either. In the majority of African LDCs, development banks rely heavily on foreign loans and government contributions. They are financial intermediaries only in their credit extension activities for they rarely mobilize savings, even though many were empowered to do so in their statutes of establishment. It is cheaper to draw loanable funds from the central banks concessionary rediscount lines than to promote voluntary savings [Adams (1985)]. The Banque de Développement du Mali portfolio is largely financed by the central bank through rediscounting, which accounted for 61 and 60 per cent of total outstanding credit in 1981 and in 1982 respectively [Masini (1987)].

Usually, the central bank is instructed to lend to (or discount the loans of) the credit agency at very low (or in real terms a negative) rates of interest. Monetary control thus becomes more arduous. If a central bank merely lends directly to the agency, the resulting excess supply of base money leads to price inflation. It would be less inflationary simply to tap the resources of the traditional deposit banks — commercial and savings — by raising their reserve requirements. The problem is, of course, that this increases the degree of repression in the rest of the financial system. Essentially, the subsidy to the new credit agency is at the expense of other potential borrowers and of bank depositors [McKinnon (1980)].

Annex 2 shows the structure of development bank long-term liabilities in selected African LDCs. The implications of these rising debts is a cause for concern. Debt servicing and amortization absorb large proportions of any new resources allocated, thereby reducing the amounts available for new lending. Banks are obliged to service their foreign debts in the currencies of the loan. Depreciation of the local currency immediately raises the local currency value of the foreign currency debts so that foreign exchange risks are associated with foreign currency debts [Bourne and Graham (1980)].

The precarious state of development banks in African LDCs is clearly brought out in an analysis of debt/equity, liquidity and profitability ratios.

Annex 3 shows debt equity and liquidity ratios and the return on investment and equity in seven development banks. The debt/equity ratios, demonstrating the banks ability to meet short and long-term obligations, show a deterioration which is particularly marked in the Agricultural and Industrial Development Bank of Ethiopia (10.3:1 in 1980 to 17.6:1 in 1985) and the Investment Bank of Malawi (2.8:1 in 1980 to 5.0:1 in 1986). Over the same period, the liquidity ratios of the Agricultural and Industrial Development Bank of Ethiopia were 0.6:1 and 0.4:1 in 1981 and 1985 respectively, while that of the Malawi Development Corporation was 1.1:1 and 1.2:1 which implies a shortage of working capital. In contrast, the liquidity ratios of the Tanzania Rural Development Bank were remarkably high at 22.3:1 in 1982 and 14.2:1 in 1986, implying the existence of an idle non-productive cash balance.

The return on investment and equities was far from satisfactory and averaged below 10 per cent in the majority of the specialized credit institutions. This can be explained partly by fixed interest rates barely covering average operating costs, which are rarely revised in line with prevailing levels of inflation.

Finally, there are two aspects of domestic policy to which attention should be continuously directed.

Repressive influences on the domestic financial structure can encourage deterioration in the quality of foreign finance. If domestic rates of interest are below world levels, foreign entrepreneurs or transnational owners of domestic subsidiaries will be encouraged to resort to the domestic market and minimize the inflow of equity or other foreign capital [McKinnon (1980)]. In Central Africa, for example, due to the transfers of capital within the Franc Zone, savings were transferred for deposit in France where the rates of interest were higher. Furthermore, French enterprises investing in the Zone preferred local financing rather than the most costly borrowings from native French Corporations [Yondo (1983)]. In the BCEAO countries, interest rates were increased in 1975 and 1980; the 1975 reform included not only an interest rate increase but also the establishment of an inter-bank call market. The main objective of this reform was to prevent excessive interest rate differentials from pulling funds from the BCEAO area and to provide profitable employment for the banks' surplus funds, which previously had been invested abroad [Leite (1982)].

This assertion should, however, be interpreted with caution. To begin with, raising the

discount rate in African LDCs does not automatically attract the floating capital flow, as in reality it is more sensitive to political risks than to high gains. Even local savings are sensitive to these risks, and are syphoned off to a number of accounts abroad for protection. Secondly, the discount rate only affects banks when they lack liquidity. When there is an abundance of deposits or reserves, the banks can do without the refinancing from the central bank. Thirdly, the discount rate of handling has indirect effects which should be taken into account prior to decision making. A lowering can certainly increase the credit volume, but this, in turn, can cause imports to increase as well because of external dependence, which erodes currency reserves and decreases the basis of currency and credit [Yondo (1983)]. In addition, there is in some countries a lingering distrust of government and institutions associated with government, which dissuades people from exposing their assets in a way which, they fear, might invite interference, control, taxation or outright confiscation. The result is that African economies remain severely under-monetized, so depriving countries of the opportunity to make use of the large amounts of development capital available literally on their doorsteps [Abebe (1987)].

Lastly, an overvalued exchange rate makes imported goods and services, external borrowing and foreign exchange cheap options, which encourages their use. The subsidy implicit in an overvalued exchange rate accrues mainly to urban based importers, manufacturers and employees, while the rural based producers of primary products for export suffer an implicit tax [Da Costa (1982)]. It has been argued that the net effect is a massive transfer of wealth from the rural to the urban areas — further reducing the agricultural base which is so important in developing countries whose main assets are mainly land and labour [Lipton (1977)]. The domestic financial system should not have to compete in an artificial international environment; the exchange rate should be consistent with the country's domestic financial requirements.

5. Suggested Policy Reforms

5.1 *Interest Rate Policy*

The effective functioning of a sound financial structure presupposes the existence of appropriate financial institutions and institutional philosophy; financial instruments that are consistent with savers' and borrowers' preferences; and a rational structure of positive real interest rates [Bhatt (1986)].

The issue of interest rates is the most contentious subject on which there is no

private sector, which will not disappear by freeing interest rates, reduce the scope for private long-term finance and stock market. The important aspects are that real interest rates should not be set at levels too far removed from realistic estimates of the shadow opportunity cost of capital [Diaz - Alejandro (1985)].

Imperfections of the financial markets have also to be considered in determining the appropriate level of interest rates. The lending operations of banks in LDCs are bedeviled by numerous risks absent in perfect credit markets, where there is full information about the borrowers, so that lending rates include a premium for bearing risk. As a result, the difference between the deposit rate and the loan rate is often larger than in developed countries. Unless market imperfections are modified significantly, the financial system will not be in a position to offer a real interest rate on deposits, which increases the rate of return to capital [Roe (1982)].

5.2 Institutional Reforms

The direction which the evaluation of the financial structure of African LDCs should take depends on specific country circumstances. Experience suggests, however that the commercial banking system will set the pace because of their principal function of credit creation. This is, however, only one element in the process for the manner in which bank credit is utilized is not less important in the growth process. The credit needs of agriculture, small-businesses and industries and many traditional enterprises are still met by the non-banking traditional institutions, such as the money lender. The broadening of the scope of the banking system, in geographical and functional coverage, is necessary to meet the credit needs of these strategic sectors [Madan (1964), Abdi (1977)]. The efforts of many African LDCs to overcome marketing, technological, managerial bottlenecks of the small enterprises sector however must not be ignored. Many of these have helped indigenous enterprises, but the overall situation has not changed perceptively. Some countries show some predisposition towards the multipurpose banking system of the German type, which not only offers economies of scale, but also packages of credit combined with managerial and technical assistance [Fry (1981)].

One aspect of the neglect by the organized banking system of rural and small industries is that banking business was essentially urban-oriented. The commercial banking system has been criticized for making a reverse transfers of funds from less developed areas to the more prosperous ones. This pattern of credit allocation, however, could be overcome by effective credit planning. The Indian example is often cited to indicate the potential and possibilities of credit planning as an instrument of economic policy. The plann-

ed extension of banking facilities to bring about greater regional balance is known as the Lead Bank Scheme, under which, the emphasis is to locate growth centres, assess deposit potential, identify credit gaps and evolve a coordinated programme of credit development for each district, in cooperation with the various banks and credit agencies already operating in the area [Narasimhan (1980), Copestake (1988), Joglekar (1981)].

The banking system should pursue imaginative and flexible policies to bring about significant structural shifts in the employment of their resources, particularly in the areas of medium and long-term lending [Mauri (1983)]. The risks of illiquidity remain an impediment to banks participation in term lending. A solution may be to design an institutional arrangement which can, through refinancing facilities, eliminate or alleviate the illiquidity problem.

Development finance institutions are frequently financed from external sources. The concessionary interest rates are often lower than those paid to voluntary private savings, which discourages private deposits. Even if initially, all or part of the capital of development finance institutions is provided by the Central Bank, consideration should be given to financing the capital of such institutions from other sources.

Central banking policy has done little to assist the financial system to support rural development. They do not adequately monitor the activities of commercial banks to encourage them to exploit the financial savings potential of rural areas. The role of a central bank cannot be restricted to that of a regulator; it should not be confined to passively adapting its techniques to suit the changing economic structure, but should actively modify the financial structure itself to promote development.

6. Some Broad Conclusions

In most African LDCs, the role of the financial intermediaries in the growth process has been neglected. The power of credit as an instrument of development and potential role of credit policy techniques and institutions in the scheme of overall planning has also not received adequate attention. The official attitude to resource mobilization has been extremely lax partly due to foreign resource inflows and partly due to the inexpensive rediscounting terms and facilities provided by the central bank⁴ [Adedeji (1979),

4. The excessive external orientation of Africa's development efforts are documented in a series of lectures delivered by Adebayo Adedeji. «*Towards a Dynamic African Economy*», selected speeches and lectures, 1975-1986 (Frank Cass, London) 1989.

(1988), (1989)]. If account is taken of the growing signs of aid-weariness among donors and the hardening of aid terms, it must be obvious that Africa's salvation cannot be won by proxy. Nor should it be. Economic development is basically a national enterprise, and development begins in the hearts and souls of those who aspire to greater mastery of their own destiny.

The central bank must be responsible for evolving the sound financial infrastructure required for rapid development by developing the credit institutions, instruments and yield structure that are essential for the efficient mobilization of savings and the allocation of resources that is consistent with development objectives.

The available evidence indicates that interest rate liberalization is not efficacious unless there is a competitive market. In countries where the banking system has not been nationalized, an oligopolistic financial system will have opportunity to extract economic rents from the public, by effectively raising the asset and liability rates so as to increase its profits, while reducing the financial operations to a level below the optimum. The monetary authorities should then pursue a discretionary and flexible interest rate policy that takes into account the rate of inflation, the market conditions and the needs of the public when determining the interest rates level [Agu (1988), Galbis (1978)].

Annex 1

GROSS DOMESTIC SAVINGS RATE OF AFRICAN LDCs
(Percentage of GDP at constant market prices, 1980 = 100)
1981-1985

Negative rates	Growth rate 0-5%	Growth rate 5-10%	Growth rate 10-15%	Growth rate Over 15%
Benin, Burkina Faso, Cape Verde, Central African Republic, Chad, Djibouti, Equatorial Guinea, Guinea Bissau, Lesotho, Mali Mauritania, Rwanda Sao Tome and Principe	Ethiopia, Sierra Leone, Somalia Uganda	Burundi, Gambia, Niger, Sudan, Malawi Tanzania	Comoros Togo	Botswana, Guinea

1985-1986

Benin, Cape Verde, Central African Republic, Chad, Djibouti, Ethiopia, Guinea Bissau, Lesotho, Mali Mauritania, Rwanda Sao Tome and Principe	Burundi, Burkina Faso Gambia, Somalia, Uganda, Sierra Leone	Equatorial Guinea, Niger, Sudan, Tanzania,	Comoros Malawi	Botswana, Guinea Togo
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1986-1987

Benin, Cape Verde, Central African Republic, Chad, Djibouti, Ethiopia, Gambia Guinea Bissau, Lesotho, Rwanda, Sao Tome and Principe, Tanzania	Burkina Faso, Gambia, Burundi, Mali Mauritania, Sudan, Uganda	Niger	Comoros Equatorial Guinea, Malawi	Botswana, Guinea Togo
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Annex 2

STRUCTURE OF LONG-TERM LIABILITIES IN SELECTED LDCs

	A	B	C	
	Local long-term debts outstanding	Foreign long-term debts outstanding	Total outstanding liabilities	B as a % of C
in million of local currency				
<i>The Tanzanian Investment Bank</i>				
1983	36.4	352.0	388.4	90.6
1984	59.5	567.7	627.2	90.5
1985	37.5	719.0	756.5	95.0
1986	35.9	1 451.2	1 451.2	97.5
1987	34.4	1 671.3	1 705.7	98.0
<i>The Agricultural and Industrial Bank of Ethiopia</i>				
1981	50.5	66.5	417.0	15.9
1982	58.2	90.2	148.4	39.3
1983	50.9	82.3	133.2	38.2
1984	49.2	83.8	133.0	37.0
1985	50.3	105.4	155.7	32.3
<i>The Investment and Development Bank of Malawi</i>				
1981	9.0	6.0	15.0	40.0
1982	9.6	7.3	16.9	43.2
1983	10.8	8.7	19.5	44.6
1984	11.3	9.8	21.1	46.4
1985	11.3	8.8	20.1	43.8
<i>Somali Development Bank</i>				
1980	26.3	20.2	46.5	43.4
1981	16.8	35.4	52.2	67.8
1982	25.8	44.4	70.2	63.2
1983	46.7	96.8	143.5	67.5
1984	43.5	115.0	158.5	72.5

Source: Compiled from the Annual Reports of the banks concerned.

Annex 3

DEBT AND LIQUIDITY RATIOS INCLUDING RETURN ON INVESTMENT AND RETURN ON EQUITY
IN SELECTED LDCs

	Debt Equity ratio a)	Liquidity ratio b)	Return on investment c) %	Return on equity c) %
<i>The Tanzania Investment Bank</i>				
1983	0.9:1	3.4:1	1.5	3.0
1984	1.1:1	2.8:1	2.4	5.0
1985	1.0:1	3.0:1	2.9	6.0
1986	1.7:1	2.3:1	0.5	0.1
1987	2.0:1	2.7:1	0.3	0.8
<i>The Tanzania Rural Development Bank</i>				
1982	3.4:1	22.3:1	—	—
1983	3.5:1	14.2:1	—	—
1984	3.6:1	12.4:1	(0.1)	(0.5)
1985	3.7:1	13.3:1	(0.2)	(1.0)
1986	3.8:1	14.2:1	(0.2)	(1.0)
<i>The Agricultural & Industrial Bank of Ethiopia</i>				
1981	10.3:1	0.6:1	(1.1)	(12.0)
1982	14.1:1	0.6:1	(0.9)	(14.0)
1983	13.0:1	0.5:1	(0.6)	(9.0)
1984	16.1:1	0.4:1	(0.5)	(8.0)
1985	17.6:1	0.4:1	0.3	6.0
<i>The National Development Bank of Sierra Leone</i>				
1977	1.5:1	14:1	1.9	5.0
1978	2.2:1	10:1	(3.6)	(11.0)
1979	4.7:1	1.2:1	(15.7)	(88.0)
1980	4.7:1	1.3:1	(9.8)	(56.0)
1981	2.5:1	1.8:1	(9.1)	(32.0)

Annex 3 (Cont'd)

	Debt Equity ratio a)	Liquidity ratio b)	Return on investment c) %	Return on equity c) %
<i>The Investment and Development Bank of Malawi</i>				
1980	2.8:1	3.1:1	1.6	6.0
1981	3.3:1	2.6:1	1.3	6.0
1983	4.6:1	3.6:1	0.8	4.0
1985	4.8:1	2.7:1	0.7	4.0
1986	5.0:1	2.0:1	1.3	8.0
<i>The Malawi Development Corporation</i>				
1981	3.2:1	1.1:1	0.9	4.0
1983	3.7:1	1.1:1	1.4	7.0
1984	3.0:1	1.4:1	2.7	11.0
1985	5.1:1	1.2:1	3.0	18.0
<i>The Somali Development Bank</i>				
1980	0.4:1	2.9:1	0.2	0.3
1981	0.4:1	3.2:1	0.1	0.2
1982	0.4:1	3.5:1	0.2	0.3
1983	0.7:1	3.1:1	0.2	0.4
1984	0.6:1	2.0:1	0.5	0.8

Source: Compiled from the balance sheets and income statements figures of the Development banks for the indicated years.

a) Debt equity ratio connotes the bank's ability to meet its short and long-term obligations. It is computed by simply dividing total debt by net worth. The lower the ratio the greater is the ability of the bank to meet its total debts.

b) Liquidity ratio connotes the bank's ability to meet short-term obligations. The higher the ratio, supposedly, the greater is the ability of the bank to pay its short-term liabilities. It is computed by dividing current assets by current liabilities.

c) Return on investment (ROI) and return on equity (ROE) connote the profitability of the bank and its efficiency of operation. They are computed by dividing net income by total assets to determine ROI and by dividing net income by net worth to determine ROE. The higher the rates of ROI and ROE the better is the bank in its profitability.

N.B. Figures in bracket denote a negative sign.

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Abstract

The relationship between real and monetary variables is undeniable. Yet, policy makers in African LDCs have failed to follow an active policy of developing the domestic monetary and financial sector. The power of credit as an instrument of development and potential role of credit policy techniques and institutions in the scheme of overall planning has also not received adequate attention. The official attitude to resource mobilization has been extremely lax partly due to foreign resource inflows and partly due to the inexpensive rediscounting terms and facilities provided by the central bank.

The direction which the evaluation of the financial structure of African LDCs should take depends on specific country circumstances. The effective functioning of a sound financial structure however presupposes the existence of appropriate financial institutions and institutional philosophy; financial instruments that are consistent with savers' and borrowers' preferences; and a rational structure of positive real interest rates.

Experience suggests, that the commercial banking system will set the pace because of their principal function of credit creation. This is, however, only one element in the process for the manner in which bank credit is utilized is no less important in the growth process. The credit needs of agriculture, small businesses and industries and many traditional enterprises are still met by the non-banking traditional institutions, such as the money lender. The broadening of the scope of the banking system, in geographical and functional coverage, is necessary to meet the credit needs of these strategic sectors.

The available evidence indicates that interest rate liberalization is not efficacious unless there is a competitive market. In countries where the banking system has not been nationalized, an oligopolistic financial system will have the opportunity to extract economic rents from the public, by effectively raising the asset and liability rates so as to increase its profits, while reducing the financial operations to a level below the optimum. The monetary authorities should then pursue a discretionary and flexible interest rate policy that takes into account the rate of inflation, the market conditions and the needs of the public when determining the interest rates level.

LA REPRESSION FINANCIERE ET SES EFFETS SUR LE DEVELOPPEMENT DU FINANCEMENT ET LA CROISSANCE ECONOMIQUE DANS LES PAYS AFRICAINS LES MOINS AVANCES

RESUME

La relation entre variables réelles et variables monétaires est indéniable. Cependant, les dirigeants des pays africains les moins avancés n'ont pas su appliquer des politiques dynamiques en vue de développer leur secteur monétaire et financier intérieur. De même, une attention suffisante n'a pas été accordée à l'importance du crédit comme instrument de développement et au rôle potentiel des politiques, techniques et institutions de crédit en matière de planification générale. En effet, l'attitude officielle face à la mobilisation des ressources a été extrêmement laxiste, en raison, d'une part des flux de ressources extérieures, et d'autre part, des conditions et facilités de réescompte peu coûteuses accordées par la banque centrale.

L'évaluation de la structure financière des PMA africains devrait être orientée en fonction des conditions propres à chaque pays. Le fonctionnement effectif d'une structure financière saine suppose cependant l'existence d'institutions financières et d'une philosophie institutionnelle appropriées, ainsi que d'instruments financiers conformes aux préférences des épargnants et des emprunteurs et d'une structure rationnelle de taux d'intérêts réels positifs.

Toutefois, l'expérience montre que le système des banques commerciales en définira les modalités en raison du rôle principal joué par ces dernières en matière de création de crédits. Néanmoins, il ne s'agit là que d'un élément du processus car la manière dont le crédit bancaire est utilisé revêt également une importance pour la croissance. Les besoins de crédit du secteur agricole, des petites entreprises et industries et de bon nombre d'entreprises traditionnelles continuent d'être satisfaits auprès d'institutions traditionnelles non bancaires telles que les prêteurs sur gages. Il est nécessaire d'élargir la portée tant géographique que fonctionnelle du système bancaire pour satisfaire les besoins en crédit de ces secteurs stratégiques.

Il ressort des éléments disponibles que la libéralisation des taux d'intérêt ne peut être efficace que dans un marché compétitif. Dans les pays où le système bancaire n'est pas nationalisé, le système financier oligopolistique pourra retirer une rente économique du public en augmentant effectivement les taux de l'actif et du passif de façon à

accroître ses bénéfices tout en réduisant les opérations financières à un niveau inférieur au niveau optimal. Il faudrait alors que les autorités monétaires appliquent une politique des taux d'intérêt discrétionnaire et souple qui tienne compte du taux d'inflation, des conditions du marché et des besoins de la population lors de la détermination des taux d'intérêt.

