

**THE CREDIT MARKETS OF AFRICA**  
A series of monographs under  
the general editorship of  
Professor Giordano Dell'Amore

# **BANKING SYSTEMS IN AFRICA**



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THE CREDIT MARKETS OF AFRICA

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Professor Giordano Dell'Amore

SERIES OF MONOGRAPHS ON THE CREDIT MARKETS OF AFRICA

No. 1. *Banking Systems in Africa*

IN PREPARATION:

Sergio Bortolani: *The Banking System of Niger*

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# BANKING SYSTEMS IN AFRICA

EDITED BY GIORDANO DELL'AMORE

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## FOREWORD

Economists everywhere are increasingly coming to acknowledge the fundamental importance of a country's banking's system for its economic and social development. The banking system does much to set the pace of income formation; it plays a part in income distribution, in the process of saving and in the allocation of investment as between different geographical areas, economic sectors and firms; it can use interest rates as a dynamic factor of development, contribute to monetary stability and influence short-term economic conditions.

Governments in their turn are increasingly abandoning their past agnostic attitude to the structure and working of the banking system. Beyond law enforcement and the imposition of a tendentially systematic and organic order, public control is now actively concerned with maximizing the efficiency with which the banking system discharges its functions in relation to the aims of economic policy.

More than elsewhere, such an approach is necessary in developing countries, where the banking system is defective in many respects, not least because it is so new. In Africa, the banking system is to all intents and purposes a creation of the last 25 years, when the colonial system went out and the era of national independence began; the process is by no means completed, and

African countries are still far from possessing the full range of different types of banks which are found in advanced countries.

Throughout Africa, there are now central banks doing their best to co-ordinate financial activities and to maintain monetary stability; but they are greatly hampered in the discharge of their tasks by their inability, in the given circumstances, to make successful use of the means of intervention habitually employed by central banks in developed countries. There is an obvious case for trying to co-ordinate the efforts made by all these new central banks to enhance their own effectiveness, where necessary by the creation of such indispensable credit institutions as do not yet exist.

Co-ordination on the international scale appears essential especially in the matter of the formation of national savings, their circulation and constructive use—for saving is the key to faster and continuous social development. This was the idea which led the International Institute of Savings Banks to convene the Milan Conference of September 1971.

In organizing this highly important meeting of leading personalities from the world of finance in Africa, the *Cassa di Risparmio delle Provincie Lombarde* felt it would be useful to provide all participants with a synthetic view of the structure and functions of banking systems in Africa. This is the purpose of the present volume, which is the joint work of the *Servizio Studi* of the *Cassa* itself and a number of my former students, now on the teaching staff of the *Università Commerciale L. Bocconi* at Milan. It is based on first-hand investigations supplemented by such little pertinent literature as exists, and, of necessity, represents only a first attempt at introducing some unity into the treatment of so exten-



sive a subject matter. The work is open to subsequent additions on the basis not only of further direct investigations, but of the discussions at the Milan Conference.

However limited the purpose of this publication, it does present an overall and comprehensive survey which surely is of more than passing interest, if only because it brings to light the existing banking systems' great divergence and hence underscores the need for co-ordination in the ultimate interest of economic and social development throughout the African continent.

If this volume does something to spread awareness of this need, the authors' work will not have been in vain, and the *Cassa di Risparmio delle Provincie Lombarde* will be happy to have given yet one more proof of its effort to extend technical assistance to the countries of Africa, in the disinterested spirit of friendship and solidarity which the people of Italy entertain towards them.

Milan, June, 1971

GIORDANO DELL'AMORE



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**BANKING SYSTEMS  
IN AFRICA**



## ALGERIA

*Algeria lies in North Africa. It has a coast line of some 1,300 km along the Western Mediterranean. Area: 2,300,980 km<sup>2</sup>. Population (1966 census): 12,101,994. It gained its independence from France on 3 July 1962. The country is rich in mineral resources, especially oil (44 million tons in 1969).*

### ORIGINS OF THE CENTRAL BANK

The first *Banque d'Algérie* was founded on 4 August 1851, with powers to issue bank notes and coin. In 1878 the French Treasury opened a special account for this bank, in order to align the fluctuations of the Algerian franc with those of the French franc. This co-ordination of monetary policy survived until 20 May 1940, when military events interrupted it. In November 1942 the occupation authorities made Algeria a member of the sterling area and fixed the par value of the Algerian franc at 300 to the pound sterling and 75 to the U.S. dollar. Subsequently these exchange rates were reduced to 200 and 50, respectively.

On 6 December 1944 Algeria rejoined the franc zone and since then its currency has followed the French franc through all its vicissitudes. After independence, Algeria separated its public finances from those of France as of 1 January 1963, and from that date began to develop its own economic and financial policy.

A little earlier, the law No. 62-144, of 13 December 1962, established the *Banque Centrale d'Algérie*, which took over from the Bank of Algeria as issuing bank on 1 January 1963. On 10 April 1964, finally, a new currency unit, the dinar, was introduced to replace the Algerian franc, with the same par value in terms of the French franc.

#### ORGANIZATION OF THE CENTRAL BANK

The *Banque Centrale d'Algérie* is a national public corporation endowed with juridical personality and financial autonomy. Its initial capital was wholly subscribed by the state. Its organs are the Governor, the General Manager, the Board of Directors and the Auditors.

The Governor is the Bank's official representative and is responsible for the conduct of its affairs. The law requires that he be consulted by the government in all cases when it takes decisions concerning money and credit, or likely to have repercussions in the monetary field. The Governor is *ex officio* chairman of the Board of Directors. He is assisted in his functions by the General Manager, who is directly responsible to him.

The General Manager is in charge of the Bank's internal affairs and the conduct of its business. He takes the place of the Governor in case of the latter's absence or disability.

The Board of Directors consists, in addition to the Governor and the General Manager, of: (1) four to ten members appointed in the light of their qualifications for the important functions they are called to discharge in connection both with the conduct of the nation's economic and financial affairs and with the administration of public or semi-public institutions in the field of credit and economic development; (2) two to five members chosen for



their experience in industry, agriculture or trade; (3) two or three directors representative of the interests of labour organizations, including one nominated by representatives of the Bank's staff. The term of office of board members is three years, but they can be re-appointed several times.

The Central Bank has two auditors, who must be chosen from among senior staff of the Ministry of Finance. All the above-mentioned appointments are made by decree of the Head of State, upon recommendations of the Ministry of Finance.

#### FUNCTIONS OF THE CENTRAL BANK

The statutory functions of the Central Bank are to create and maintain, in the monetary, credit and foreign exchange fields, such conditions as are most conducive to the national economy's orderly development. The Bank controls monetary circulation and credit distribution, and to this end acts as a bankers' bank, to the exclusion of any direct relations with private clients. In exceptional circumstances involving reasons of national interest, the Bank may transgress this rule<sup>1</sup>.

The Central Bank has a monopoly for the issue of bank notes and coin having force of legal tender in the country. New

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<sup>1</sup> In effect, the Central Bank has never been able so far to discharge in full its function as a bankers' bank. There is no adequately broad capital market in Algeria and the local commercial banks make no use of rediscounting facilities, because they have hitherto always had more liquid assets than they needed for credits. This has deprived the Central Bank of any effective powers to control the distribution of credit. Furthermore, the power of control over the commercial banking system has in practice been withdrawn from the Bank and is exercised directly by the Ministry of Finance and Planning. Unable as it is to act as the bankers' bank the *Banque Centrale d'Algérie* engages in transactions with the public as a matter of current practice, rather than only in exceptional cases as the statute provides.

money may be issued by virtue of gold and foreign exchange operations, credit operations, open market operations and loans to the government.

It is, finally, incumbent upon the Bank to take part, through its representatives, in the preparation of laws and regulations concerning foreign exchange transactions, to enforce foreign exchange control and to act as Exchange Office.

#### THE CENTRAL BANK'S RELATIONS WITH THE STATE

The Central Bank acts as the government's financial agent in all cash, banking and credit transactions. It handles all Treasury operations, debit and credit, free of charge. No interest is paid on the credit balance on the Treasury's current account. In addition the Central Bank takes care, also free of charge, of placing and servicing government or government-guaranteed stock.

In case the Treasury has a cash deficit, the Bank may advance money to the government up to the limit of 5 per cent of budget revenue, subject to a maximum duration of 240 days in any one year.

#### MONETARY AND CREDIT POLICY

The Central Bank has at its disposal a wide range of means by which to maintain monetary stability and co-ordinate credit distribution with the government's economic policy. These means include changes in the official discount rate, open market operations, changes in reserve requirements, the establishment of rediscount ceilings, and the qualitative and quantitative control of credits granted.

The Central Bank rediscounts trade bills with at least three signatures and bank bills with two signatures, provided the signa-

tories are natural or juridical persons known to be solvent and the bills have maturities of not more than three months. The Bank may also rediscount — always subject to the maximum limit of three months — paper representing medium-term credits extended to finance an expansion of production, specified exports or building. Such bills are renewable for successive periods of three months, up to a maximum of five years. Exceptionally, and subject to prior approval by a majority of at least two thirds of the Board of Directors, the Central Bank may accept for direct discount short-term private bills signed by at least two persons known to be solvent, provided it is in the national interest.

#### THE BANKING SYSTEM

Both local credit institutions and the great French banks have played a part in developing the Algerian banking system. Before independence, the French banks, with their efficient network of branches and agencies, had acquired a position of overwhelming predominance as regards both deposits and bank credits.

After independence, the whole credit sector was nationalized and reorganized with a view to the requirements of economic planning. The country now has only five banks: the Central Bank, three commercial banks and a development bank. Each of the three commercial banks specializes in particular fields.

The *Banque Nationale d'Algérie* took over the network of the *Crédit Foncier d'Algérie et de Tunisie* and now has about half the country's bank branches. It acts as intermediary for all financial transactions with foreign countries and performs banking services for the public at large, for companies and trade associations, including in particular all socialist ventures.

The *Crédit Populaire d'Algérie* has inherited the organization of the people's banks and of the *Société Marseillaise de Crédit*. Its field of operations is to provide credit to the crafts, medium and small industry in general, and more particularly for the development of the hotel industry, tourism, fisheries and related activities. This bank's tasks furthermore include the provision of credit to co-operatives (other than agricultural ones) and the financing of hire-purchase sales, with particular reference to vehicles and capital goods, especially machinery.

The *Banque Extérieure d'Algérie* took over the *Crédit Lyonnais en Algérie* and many foreign banks operating in the coastal areas. Its main purpose is to facilitate and develop Algeria's economic relations with other countries. Consequently, it is mostly concerned with exports and imports. It tends to promote a dynamic export policy, by providing firms with the funds they must have for sound management. The bank also has a central foreign department which furnishes business men with every kind of information concerning Algeria's economic relations with other countries, together with such information as might be helpful in the selective choice of imports.

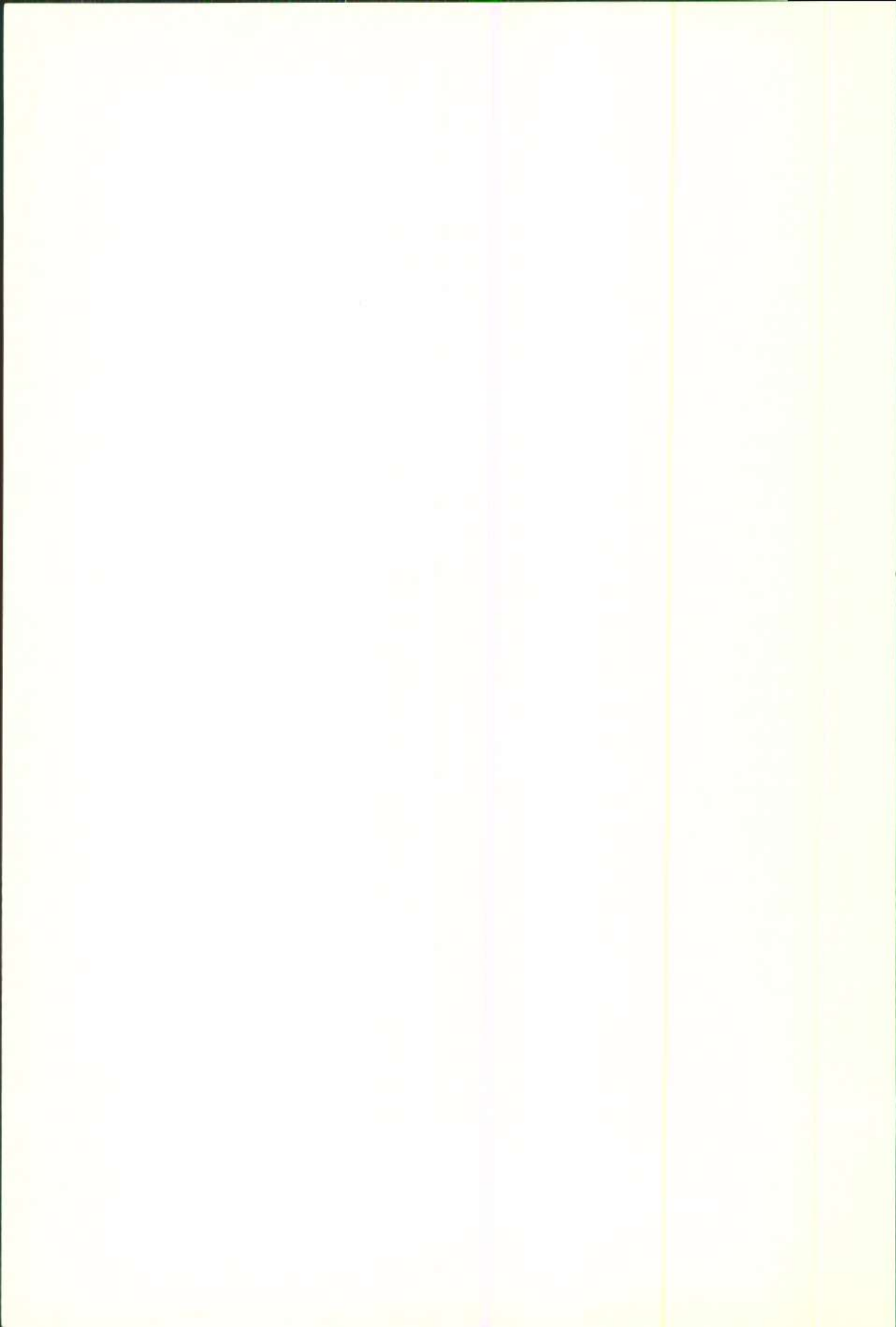
Deposits are accepted not only by these three national banks, but also by two institutions administered by the Ministry of Posts and Telegraphs, namely the *Caisse Nationale d'Epargne et de Prévoyance* and the *Centre des Comptes Courants Postaux*. Between them, these attract a considerable part of the nation's savings, which they channel towards social purposes and building.

The *Caisse Algérienne de Développement* is a development bank set up primarily for the purpose of pooling financial resources of domestic and foreign origin and making them available for the financing of investment under government plans. As a rule, such investment is financed by medium- or long-term loans. The bank

may, however, at its own discretion, acquire on behalf of the state equity holdings in companies judged to be of "national character". In case of need, the bank indirectly helps to finance companies by guaranteeing, in its own or in the government's name, such credits as they may obtain from other credit institutions at home or abroad.

Among special credit institutes, mention must be made, finally, of the former *Caisse Algérienne de Crédit Agricole Mutuel*, which financed agricultural development by means of working-capital and improvement credits. However, this agricultural credit institute was liquidated by ordinance of 24 September 1968, and its functions transferred to the *Banque Nationale d'Algérie*.

The commercial banks accept money on current account, on deposit accounts either as demand or time deposits, and against cash certificates. They grant credit in the form of credit lines on current account, contangoes, supervised credit, advances against securities and discount of bills. Within the banking system, liquid funds are mobilized by rediscounts, drawing on Central Bank credit lines, and, for certain specified operations, by rediscount with the development bank. The latter draws its funds from the government or raises them through domestic or foreign loans.





## BOTSWANA

*Botswana lies in southern Africa in arid, sparsely populated territory (the Kalahari Desert). Area: 600,372 km<sup>2</sup>. Population (1968 estimate): 611,000. Formerly the British protectorate of Bechuanaland, it became self-governing in March 1965 and independent on 30 September 1966, remaining in the Commonwealth. The government was at first established at Mafeking, South Africa, and transferred only at the end of 1965 to Gaberones, which thus became Botswana's capital. The country's principal wealth is its livestock of some 1,250,000 heads of cattle.*

### MONETARY CIRCULATION (RAND AREA)

Botswana, together with Lesotho and Swaziland, two other former British protectorates in southern Africa, is part of a monetary and customs union with, and under the hegemony of, South Africa. The common currency of the four countries is the South African rand, whose par value is 1.40 U.S. dollars (1.7 rand = 1 pound sterling). South Africa, because of its preponderant economic strength, exercises a dominating influence on the economic and financial affairs of the other three countries.

Almost the whole of their foreign trade passes through South Africa, and even such few goods as reach Botswana and Swaziland

directly are subject to customs tariffs fixed unilaterally by South Africa. However, in December 1969 a new customs agreement was initialled, which amends the previous one in important respects. It gives the three other countries a larger share in the proceeds, and entitles them to levy additional duties on imports of goods competing with those produced domestically, and so ought to protect their nascent industries even against products of South African origin.

The current monetary agreement provides for the South African rand to be used as legal tender in all four participating countries. The sole bank of issue is the South African Reserve Bank. The three former protectorates are not represented on the Board of Directors of that bank, nor have they any possibility of influencing monetary policy, which South Africa alone determines. Since none of them has either a central bank or a currency of its own, the three states also have no monetary policy of their own and derive no profit from the monetary circulation. On the other hand, they need not accumulate any gold reserves to back their foreign trade, since the South African gold reserve acts as the shock absorber for their balance-of-payments deficits. The exchange control system of the three countries, too, is the same as that of South Africa.

Botswana, Lesotho and Swaziland are at present trying to negotiate a new monetary agreement which they hope will give them a voice in matters of exchange control and fiscal policy, concede them a share of the interest on the assets held by the Central Bank and enable them to raise capital in the Republic of South Africa by procedures similar to those used for South African government bonds and Treasury Bills.



## COMMERCIAL BANKS

Two of the largest of British overseas banks operate in Botswana: Barclays Bank D.C.O. and the Standard Bank. Between them they imprinted rather particular characteristics on Botswana's banking system. Barclays Bank, for instance, has four branches and 16 agencies. Each agency has a staff of 15 or so — a manager, an accountant, a sub-accountant, tellers and ledger clerks, all of whom are nearly always young white South Africans, plus a certain number of trainees or lower staff of Botswana nationality. These staff members move about among the various commercial centres of the area which they serve, travelling either by rail or in a motor van specially equipped as an ambulant bank counter for the many villages in the country's interior, which are visited every two weeks.

The public have a choice of three types of account: 1) current accounts, which bear no interest but have the advantage that they can be drawn on by cheque; 2) savings accounts, which bear 4.50 per cent interest on the daily minimum balance, have an upper limit of 8,500 rands and cannot be drawn on by cheque, seven days' notice being required for withdrawals in excess of 170 rands; 3) time deposits, which have upper and lower limits for the amounts that can be deposited on them, and bear interest at rates varying with the amount and the fixed duration of the deposit. The most common are 12-month deposits, allowing for earlier withdrawals upon a month's notice, in which case no interest is paid on the sums withdrawn.

Personal loans to the public usually take the form of overdrafts, at a prime rate of 8.50 per cent and an ordinary rate of 10 per cent. Commercial credits generally run up to two years,

but are subject to annual review and repayable on request. The banks do not normally grant housing credits.

### THE POST OFFICE SAVINGS BANK

Botswana has a Post Office Savings Bank, which mobilizes the public's savings through a network of 22 branches. This function was previously exercised by the savings department of the South African Post Office. The P. O. Savings Bank accepts only sight deposits, on which it pays 4.50 per cent. The first 42.50 rand of deposit interests are free of income tax. Many savings previously held in South Africa have been transferred to the P. O. Savings Bank of Botswana, whose deposits are rising at a steep annual rate. Its original by-laws required two thirds of the deposits to be invested abroad, but this rule was recently abrogated in view of the need to increase the country's liquid funds so as to promote economic development.

### THRIFT AND LOAN SOCIETIES

Botswana has nine thrift and loan societies, sponsored and controlled by the department of co-operatives. These societies are important in two respects. 1) They accept even the smallest deposits, say 10 cents or so; 2) the deposits are loaned to the Co-operative Development Trust (at the rate of 4.50 per cent), which relends them (at 5 per cent) to members of the co-operative movement. The thrift and loan societies, though free to use their funds in other ways, do not make direct loans. The only other thing that some of them do with their funds is to keep them as time deposits with commercial banks.

## THE NATIONAL DEVELOPMENT BANK

The National Development Bank of Botswana was set up in 1964, as a public corporation whose capital is wholly owned by the state. The funds needed for capital subscriptions, incidentally, are raised by the sale of land in public property. The bank finances its activities by its own funds as well as by loans from the United States and the United Kingdom.

The bank is managed by a board of directors under the chairmanship of a senior civil servant. Its loans mainly go to farmers, to finance farm management, land improvement and the structural reinforcement of farm enterprises, with particular reference to the purchase of new land and livestock, and to irrigation plant.

In addition, the National Development Bank has taken on the management of the American Revolving Loan Fund, which in its time was set up to supply credit to small individual farmers or groups of farmers. The bank keeps a sizeable part of its resources in short-term deposits with the Botswana Meat Commission. This is the country's largest and most prosperous industrial undertaking, and enjoys easy access to commercial bank credit; in these circumstances the Development Bank comes in for some criticism for using its funds in this way, instead of devoting them entirely to effective development.

## CONCLUSIONS

It may be of interest to mention that a lively debate is now going on in Botswana concerning the expediency or otherwise of the country's establishing a central bank and a currency of its own, or alternatively a government department for credit control. Another

question much debated is whether or not the National Development Bank should be transformed into an agricultural credit bank (thus formally assuming functions which it already performs) and a new development bank set up for credit to industry and trade.

Finally, there is a demand for housing credit to be provided by a special institute, possibly linked to the Post Office Savings Bank; this is regarded as a means of repatriating and mobilizing the funds which now go to the building societies of South Africa. It is a fact that the latter do not invest in Botswana, so that the savings which reach them from Botswana are not available for the country's own economic development.