

Chapter IV

FUNDS FOR LENDING: RURAL SAVINGS

338. The reasons for the heavy dependence of agricultural credit institutions on governments have been explained above. This dependence usually relates not only to the provision of suitable conditions for agricultural credit operations, and financial support to assist with establishment and operation costs, but also to the provision of funds for on-lending. Governments are virtually certain to be involved in the latter because the funds concerned are lent in a high risk field, have relatively slow turnover and there is great difficulty in obtaining an adequate return on capital. The involvement may be by way of actual provision of funds or by the arrangement of a government guarantee.

339. Increasing government involvement in this field is a clearly discernible trend in most areas of the world. Those countries which were formerly colonies have seen two fundamental changes. These are:

- local central banks have usually been established, and
- banking activity is no longer conceived merely as a commercial exercise, e.g., the discounting of commercial bills and self-liquidating paper, but as a force for development.

340. The banking system now obtains funds from public sources under laws allocating resources to favour certain productive sources, from central bank re-financing, from foreign capital and from deposits. A more detailed consideration of sources is given below.

LOCAL PUBLIC FUNDS

341. Public authorities in their turn collect these resources in three ways:

- through taxation either general or *ad hoc*;
- by drawing on special funds set up in connection with the sale of certain goods (for example, profits of marketing boards) or on the occasion of negative variations of exchange rate (the case of Mali, for instance, where money is drawn from the funds of the *barême*).

CENTRAL BANKS

342. Capital is also obtained by *refinancing* certain operations at the central bank. Such money creation is balanced by increased domestic production, provided always that it is *productive* loans which are refinanced. In addition there is an increasing drain of money from circulation due to hoarding by the public (and especially by small farmers). These factors tend to restrict the inflationary pressures of this policy, but even so constant vigilance is necessary because of the obvious dangers of this course of action.

FOREIGN CAPITAL

343. It is necessary here to make a distinction between public and private foreign capital. In their turn, public sources are classified in different ways according to whether the funds concerned are granted on a bilateral or multilateral basis, that is through special international organizations. Again, the funds may be made available as grants, soft loans or loans at market conditions.

344. Private sources are almost always represented by multinational companies or big companies engaged in the trade of certain agricultural products. Generally these companies operate through commercial banks.

345. Foreign assistance in agricultural credit is of two types, first, loans for on-lending, and second, assistance to establish or strengthen credit

institutions assisting the small farmer. A shortage of capital for lending to farmers is frequently experienced. This occurs especially in the early stages of development when institutional saving is at a very low volume and when existing financial resources (often under the control of commercial banks) are practically all utilised for more attractive uses such as industrial or commercial (especially import/export) activities. In these circumstances pump-priming foreign finance may be urgently required in order to facilitate agricultural development in a particular area or country. There are a number of advantages and disadvantages associated with this practice. The advantages are as follows: extra finance can markedly speed up development, foreign exchange may be made available at a highly important time, better and more efficient banking may be encouraged. The disadvantages are: the loan may involve undesirable political ties to the capital-exporting country, the recipient bank may have its banking policies restricted undesirably, repayments of the loan and interest in foreign exchange may prove to be a heavy burden.

346. Assistance directed towards institution building has been and may continue to be a significant parallel activity to the provision of capital for on-lending. The creditor country or bank may wish to control closely the activities of the institution handling its funds. As noted above, this control may result in greater efficiency. Or it may be detrimental, especially if the institution is modelled unnecessarily after similar bodies in developed nations, for no better reason than the fact that the officials or consultants concerned are familiar with or have loyalty to a particular institutional type, even though this type may be basically unsuited to carry out the functions required of it.

LOCAL PRIVATE SAVINGS

347. Though it has been estimated that 80 per cent of savings which are formed in developing countries come from the private sector, this is unlikely to be a significant source of capital for a newly established agricultural credit institution, with the possible exception of those in some Latin American countries. However, as development proceeds

this source of finance is likely to become more and more important until the stage is reached where it is the chief source of funds for farm loans. (We are concerned here with savings in monetized economies, though it is recognized that saving — resulting from abstention from consumption — also occurs in those areas where money plays a very minor role or may even be virtually absent).

348. **MOBILIZATION OF RURAL SAVINGS.** Development, both industrial and agricultural, involves the increasing use of capital resources. Saving (in this sense capital formation) takes place when consumption is less than income. Some capital for developing nations can come from countries commonly called developed, but it is quite clear that domestic saving has been and is of ever-increasing importance. Although this is generally accepted, and it is also generally accepted that development in the long-term involves a transfer of resources (land, labour and capital) from the agricultural to the industrial and service sectors of the economy, it is a matter of debate and, probably, of consideration of individual cases as to whether the rural sectors should immediately provide savings for industrial development in the urban areas or, as thought by many, whether an initial flow of resources into rural areas is necessary in order to provide sufficient development to build up a saving capacity which, in turn, can provide resources for urban development.

349. But no matter how the latter issue is resolved, it does not affect the need for rural savings. For the rural areas of developing countries usually contain most of the population and therefore the bulk of the labour supply. At low levels of development, productive capacity (and hence income and capital formation capacity) depends largely on labour. Moreover, small farmers are able to save money. There are many examples from Africa and elsewhere of high propensities to save from current income.

350. Cash saving by small farmers helps continued development primarily by increasing the volume of funds available for investment. This is true whether the money is invested directly by the income earner or

whether it is deposited in a credit institution. Savings held by the owner in a liquid form at home, a not uncommon practice in much of Africa, do not contribute directly to agricultural development since they are not invested. (Their deflationary effect, enabling a government to increase the stock of investment funds by money creation, has been noted above.) In addition, of course, hoarded funds fulfil an important need, namely the provision of a fund to meet contingency expenditure.

351. The transition from a barter economy to a monetary economy directly favours a greater formation of household savings and makes possible their mobilization. This is because this process offers to the savers a more differentiated range of investment opportunities — and allows the channelling of the savings, on the part of the financial intermediaries, towards investments which are considered productive. Effective formation and mobilization of household savings depends on a few fundamental prerequisites of a legal, political and economic nature. These in turn depend to a large degree on the policies and interventions of public authorities.

352. *Legal prerequisites.* The legal system in force in a specific country has a profound effect on the public's propensity to save. It is therefore not realistic to expect an adequate formation of household savings in the absence of the following fundamental conditions:

- (i) certainty on the part of the potential saver of being able to enjoy in the future directly or indirectly (through his heirs) his financial or real investments;
- (ii) the possibility of transferring the ownership of goods or financial assets without incurring an excessive penalty;
- (iii) the existence of guarantees against economic risks to the saver from unwise administration of credit institutions.

353. *Political prerequisites.* The savings-investment-income-savings cycle can be influenced in a decisive manner by a series of factors of a political nature which combine to directly determine the effectiveness of the actions taken to encourage the formation and mobilization of savings.

Such factors include:

- (i) political stability;
- (ii) knowledge on the part of the public authorities of the function carried out by the process of formation and mobilization of household savings in the economic development of the country; interventions aimed at making the population understand the importance of household savings;
- (iii) interventions by the public authorities aimed at ensuring an orderly development of the credit market, promoting in particular those structural transformations necessary for increasing the efficiency of the market itself; in this context the public authorities must:
 - promote policies aimed at the formation and mobilization of household savings;
 - create bodies which are competent in financial and monetary matters and endowed with the necessary authority;
 - put into practice direct or indirect control of the financial intermediaries through the central bank and encourage the installation of new credit institutions in accordance with the programmes of economic development;
 - promote institutions with policies designed to mobilize local savings for further lending to farmers of the same rural community rather than for urban development such as urban housing;
 - promote at a national level propaganda campaigns for savings, using all available means.

354. *Economic prerequisites.* The prerequisites of an economic nature necessary for a dynamic formation and mobilization of savings are:

- (i) availability of a minimum income; on this issue it still must be noted that in many developing countries savings may form even at a level of monetary income seemingly below or at the subsistence level. Once the subsistence needs are met, the monetary income from both the sale of the marketable surplus and from off-farm wage labour is, to a significant extent, saved;

- (ii) stability of the purchasing power of the currency, or the existence of a measure, such as index-linking of savings, to counter the disincentive effect of inflation on the propensity to save money. Inflation in fact has a negative influence on the public's propensity to save, with the result that the economy is not guaranteed a sufficiently strong base of savings to support the investment necessary to enable developing countries to progress, independent of considerable external assistance. The lower level of investments that can result from this situation leads in turn to a diminishing of the aggregate national income and of the savings capacity of the population;
- (iii) the active participation of central banks, to carry out counter-cyclical actions where necessary, to act as the central financial organ, to be responsible for the surveillance and disciplining of all credit institutions, thereby ensuring their solvency and efficiency.

355. THE SAVING FUNCTION. When income exceeds consumption then saving is effected. The level of income does, of course, determine the total amount available for consumption and saving (this is a purely arithmetical truism), but the factors affecting the proportion of income saved have been the subject of much debate over the years. Classical economic theory emphasized the importance in this connection of the relative benefits to be gained by saving, for example, the rate of interest on deposited funds and the nature of other investment opportunities. Later writers felt that the rate of saving was influenced largely by the amount of real income, with a greater proportion of income being saved as real income increases. But more recent consumption/saving theory, based on empirical evidence, does not see a simple relationship between income and the saving function. This work shows that where income rises rapidly, and where considerable disparities in income levels exist in a given community, then saving levels tend to be high.

356. This finding is supported by many socio-anthropological observations. It parallels the situation of those countries where commodity booms have provided those conditions identified as being conducive to high

savings levels, evidence for which was given above. Thus not only is there a need for domestic savings for development, but nuclei for such savings already exist in many areas, and the volume might confidently be expected to increase in the future.

357. **THE NEED FOR SAVINGS INSTITUTIONS IN RURAL AREAS.** Despite the possibility of direct investment of savings, and the importance to the farmer of a contingency reserve fund (as noted above), savings institutions have an important role to play in rural areas of the developing world. First, they provide a means by which monetary capital transfers can take place between sectors and within the rural sector. At any given time, some farms may be in a capital-surplus position and others may have investment opportunities beyond their immediate capital resources. The introduction of an institutional savings and loan facility might be expected to encourage transfers of this type and hence increase the efficiency with which rural savings are utilized.

358. Second, an institution, properly established and operated, provides a safe facility for those depositors who already wish to save.

359. Third, the existence of an institution may in itself be an encouragement to savers, and an institution is in a position to implement incentives to increase further the extent to which savings are made. This encouragement can be effective in the actual formation of savings and not merely in their mobilization into a banking institution.

360. Fourth, saving with an institution, particularly when that institution also provides credit, has an additional effect on agricultural development, this effect being of a secondary nature and relating to the commercializing of farmers' attitudes towards farming. This process of commercialization is basically similar to monetization and has been shown to be vitally important in encouraging farmers to regard land as a provider of a cash income, over and above its role in supplying food for the family.

361. Naturally it is essential for savings facilities to be established on a suitable legal base so that depositors' funds are properly safeguarded.

362. FACTORS AFFECTING INSTITUTIONAL SAVING. It is important to distinguish between voluntary saving and saving which is, to all intents and purposes, forced. The factors affecting the former type are discussed first. Some investigatory work has shown that, although conscious of interest rates, and influenced by them, small farmers rate *safety* and *ease of access* as the most important factors influencing them to save with an institution. Clearly in an inflationary situation the maintenance of the purchasing power of savings would come under the "safety" heading. This points to the applicability of those programmes, such as have been implemented in several countries, where savings are value-linked, so that the principal values of the deposits are adjusted upwards with inflation by an indexing procedure.

363. Some village level studies carried out in various countries have indicated that small farmers frequently hoard money or other highly liquid assets (e.g., gold). One reason for this is the natural human habit of accumulation for its own sake. But more important may be the need to have funds on hand in case of expenditure necessitated by unexpected contingencies — for example, funerals. Experience has shown that it is not easy to persuade small farmers to institutionalize these hoarded funds to any great extent. That is, even with ready access to a savings institution, a person who opens a savings account is unlikely to initially deposit more than a small proportion of the hoarded funds being kept chiefly as an insurance against unexpected expenditure. However, extra savings resulting from increases in family income are a different matter and it is likely that a much higher proportion of these savings can be institutionalized. Thus it is important to ensure that suitable savings facilities are in existence in areas where agricultural incomes are likely to rise, or where other development work involving off-farm job opportunities is to be undertaken. Beer-hall operators are only too quick to locate their businesses in these areas. Government banks have a social responsibility to do likewise and to thus provide easy access to savings facilities. In this way a much more satisfactory alternative use for surplus cash would be available.

364. Many small farmers feel that savings institutions are only for those persons in the community who are financially substantial. This indicates the need for education campaigns designed to point out that the holding of a savings account can be advantageous even for the small saver. It is also important to tailor what is required of a bank client to the habits, needs and motivations of the local people, therefore in many areas there may be a need to simplify bank procedures.

365. It is not really possible to gauge the effect of incentive rates of interest on the quantity of savings deposited with institutions. This is because the small depositor commonly receives three to four per cent, and this rate is too small to be regarded as a strong incentive to save. Nevertheless, some farmer-depositors are clearly attracted by interest, and in areas of the world where an incentive rate is offered, such as in parts of South East Asia, there has been a big response. For example in South Vietnam rural banks have offered 18 per cent on ordinary deposits, with 14 per cent on those deposits eligible to take part in a type of lottery.

366. It is, of course, possible for a savings institution to introduce measures designed to encourage saving; thus consideration can be given to special-purpose saving schemes (i.e., saving for a particular end, such as house-purchase), to insurance of deposits (as practised in Uganda), to a savers' lottery (as operated in France, the United Kingdom and El Salvador), to recruiting local agents to collect savings on a commission basis (as in the case of an Indian Savings Bank scheme where such agents are paid a commission of one per cent), and to the linking of savings to a life insurance programme where the beneficiaries of a deceased estate receive a multiple of the savings of the deceased person; this type of scheme is a feature of some co-operative savings and credit societies. A further important factor may be a strong link between saving and the provision of credit. Many feel that an opportunity to obtain credit from an institution, when such credit is needed, is an important incentive to save money with that institution.

FORCED SAVING

367. Much of the forced saving involving small farmers has been as a result of the operations of marketing boards, particularly in the case of those boards handling export commodities. Part of the policy here was to operate a price stabilization fund, built up by setting a relatively large spread between the price paid to the producer and that received by the board. But the trend of export prices, since 1945 particularly, was such that the stabilization funds became extremely large and were frequently (and unfortunately) invested overseas. Later some of these funds were channelled back and were used for development purposes.

368. Almost all co-operative programmes include some kind of forced saving, even if this is limited to a requirement for members, on joining, to purchase share capital. Also, in the case of saving and credit co-operatives, it is frequently necessary for a would-be borrower to have saved a certain proportion of the amount of the loan for which he has applied. In many credit unions the making of regular savings deposits of a certain minimum amount is a requirement for continued membership. The Comilla scheme, in Bangladesh, has operated a similar procedure. Agricultural co-operatives in Iran have required five per cent of the value of a loan to be paid by the borrower into the funds of the society. This is forced saving, and is in addition to the interest charge of six per cent.

369. In highly planned and centrally controlled economies, where input and output prices are fixed by the government, forced savings accrue through input/output price relativities, in a similar manner to the savings generated by marketing boards.

370. Forced savings can be substantial, but because they have no direct educative effect on small farmers, their value as aids to developing rural financial markets is limited.

TYPES OF SAVINGS INSTITUTIONS

371. To what extent do the various types of savings institutions accommodate the factors identified as promoting institutional savings?

The institutions which may be considered include: post office savings banks, commercial banks, agricultural and development banks, co-operative structures (including credit unions), and savings banks.

- Post office savings banks have a wide network of branches, thus satisfying the accessibility requirement, and are usually well-enough known to inspire confidence. However they are not associated primarily with savings promotion since, for them, this is very much a secondary activity; moreover they do not normally make loans. Post office savings banks may therefore be regarded chiefly as agencies for the collection of savings. Since they tend to be highly centralized in direction and make their funds available mainly for central government use, the savings they collect are only likely to come back to agriculture through central government channels, but in many cases even this is unlikely.
- Commercial banks, development banks and agricultural banks vary a good deal in the extent to which they can actively promote saving and in the extent to which they are interested in doing so. A common handicap is the fact that their branch networks are frequently inadequate to provide the necessary accessibility; moreover they are often associated with large entrepreneurs, both industrial and agricultural, and therefore may not be geared to providing services for small farmers. Commercial banks have sometimes discouraged the small saver by operating a minimum deposit policy, the amount of which was unrealistically high, for example, as much as \$ 30 in some cases.
- Co-operative structures, with the village co-operative societies as local agents, are often in a position to provide satisfactory accessibility for the small saver. They may also be actively interested in promoting saving by small farmers. However, they sometimes inspire rather less confidence in depositors than some other financial institutions and many believe that their contribution to rural saving may be best expressed in collaboration with an institution which is intrinsically more closely associated with banking. Nevertheless, as noted in Chapter III, co-operatives (and

especially multi-purpose societies) have a notable record in mobilizing rural savings in many developing countries. For example the Kenya multi-purpose co-operatives now have savings far exceeding the total requirement for seasonal loans. A credit union may, perhaps, be regarded as a special type of savings and credit co-operative. Like other co-operative structures it is strongly linked to the local community and can provide a valuable service in supplying credit for member's contingency expenditure requirements and some small production loans. However, the sums of money collected in the early stages are usually small. The initial role of credit unions with respect to the mobilization of rural cash savings may therefore be chiefly educational, and they are recognized for their special effectiveness in this field.

- Savings banks are essentially non-profit making institutions vested in a particular community. They exist to serve that community by providing a facility for depositing cash savings and for obtaining loans. Although relatively new, and untested in many parts of the world, they have characteristics which make them potentially very suitable as savings institutions for rural areas. First, they have a statutory concern for savings promotion and protection. Second, like co-operative societies, they are closely identified with a particular area, and, being non-profit making institutions, they are able to apply their operating surpluses to the benefit of the inhabitants of that area. These financial resources also make it possible for them to carry out educational programmes with respect to saving promotion. Third, because their investment portfolios are not built solely on the basis of profitability, they are in a position to devise and implement investment policies geared to improving the lot of the local community. This characteristic is, of course, also shared with co-operative societies. Fourth, as they become larger they may attain the position where they are able to devote large sums to the improvement of infrastructural elements, thus reinforcing the effectiveness of their credit policies. Savings banks share the disadvantage of commercial, agricultural and development banks, that is, they may not be able to establish

initially a satisfactory branch network, although some type of arrangement with co-operative societies might overcome this problem, and might lead to a mutually beneficial partnership.

372. *Operational Issues.* Regardless of the nature of the savings institution, the arrangements for deposit and withdrawal must be simple and easily understood. Experience has shown that pass-books are the most convenient tool for handling savings. These enable a depositor to know his balance at a glance, and also make it relatively easy for him to understand the concept of interest.

373. A further operational issue of considerable importance is the time period a savings office is open during the day. New savers in particular like to know that their funds are readily accessible. This means that part-time offices and mobile banks are less satisfactory than branches which are open during normal office hours, but of course it is recognized that the volume of business in some areas may be such that these types of facility must be considered. If the institutional facility is not readily accessible then this will increase the incidence of hoarding or of entrusting funds to employers, merchants and missionaries.

374. *To sum up*, then, a situation now exists where a demonstrated ability to form savings in many rural areas coincides with a need for such capital. It is clear that in these circumstances the development of institutional saving and credit facilities would greatly assist the efficient utilisation of this resource. Social and economic circumstances differ widely, so that it is not possible to identify one particular institutional form as the ideal blueprint, even if it were desirable to do so. What can be done, however, is to emphasize the importance to the saver of safety and accessibility, with incentive interest rates on deposits as a further possible factor in encouraging farmers to save with institutions. Links between the co-operative movement and savings, agricultural or development banks may be of benefit to each type of institution and may also, thereby, assist the small farmer by facilitating the establishment of financial institutions specifically geared to meeting his needs.

375. The importance to many governments, both now and in the past, of revenue derived from marketing board profits on export crops (i.e., forced saving), is clear, but, despite the advantages of this system of financing development, namely ease and cheapness, this method must be complemented to an ever-increasing degree by voluntary saving.

376. The Kenya example, where the co-operative marketing societies also run a banking service, with an apex co-operative bank, is an impressive model of what can be achieved through the co-operative system. However, some aspects of the Kenyan situation, particularly the nature of the chief cash crop — coffee, an export crop requiring bulk processing and marketing — have meant that specially favourable conditions exist in that country for the establishment of business-like banking sections within the secondary co-operative marketing unions on behalf of the primary societies. In other countries it may take some time and effort before co-operatives can achieve the necessary position of trust to make them suitable as savings institutions. One way to hasten this process is to closely associate co-operatives with banks — i.e., so that they act as bank agencies, under bank control and supervision.

377. The importance of accessibility of funds has been stressed above. This calls for a relatively dense branch network of savings offices. Combining these with loans offices has clear advantages, both with respect to administration costs, and in connection with the investment of rural savings in rural areas. The cost of such a network is heavy, but, as discussed in Chapter III, this is a very suitable item for government subsidy.

TRADITIONAL SAVINGS INSTITUTIONS

378. Solidarity and the spirit of mutual aid are very significant characteristics of rural societies. This applies particularly to those which are traditional. These sociological components are deeply rooted and form the basis for a large part of the associative relationships and of the various initiatives which arise from the community.

379. The associative relationship that are found in traditional societies concern both social and economic matters. Nevertheless the structure itself of the traditional societies and the inadequate degree of monetization of the economy do not permit a clear-cut distinction to be made between the economic components and the social and religious components of community life.

380. Among the associative mechanisms of an economic nature developed within the societies in question are traditional savings institutions. These institutions are quite simply communal funds administered on a trust basis by president-treasurers who, because of seniority, lineage, personality and/or education, occupy a high position within the community.

381. The institutions with which we are dealing can be subdivided into two broad groups, according as to whether the characteristics of a credit or an insurance type prevail, keeping in mind that such criteria for subdivision might become significantly less meaningful depending on the various local traditions. To the first group belongs a series of credit institutions commonly called "rotating credit associations". The institutions belonging to the second group might be termed "mutual aid associations".

382. Whether the institution to which a person belongs is credit-type or insurance-type, his cash contribution is by nature contractual. Because of this, the periodic savings put into the fund are not strictly a residual with respect to the whole of consumption, but rather they constitute a priority over non-essential consumption.

383. **ROTATING CREDIT ASSOCIATIONS.** Even with various differences, the rotating credit associations present a common scheme of operation, based on — as their name implies — a rotative system. The members, by means of periodic deposits, make up a communal fund from which each in turn withdraws certain amounts at regular intervals; the assignment of these sums can take place through the drawing of lots or be arrived at by mutual agreement amongst the members. The deposits and withdrawals continue until each member has received the

agreed standard sum of money.' The duration of the associations may be unlimited or pre-determined, further, the association can be open or closed, in the sense that it admits or does not admit the entrance of new members or the departure of existing ones.

384. The establishment of rotating credit association within rural communities has usually had the purpose — still valid and important in certain cases — of protecting the populace from usury by means of financial mutual aid, the organization of this aid being facilitated by the existence of associative-type ties which are deeply rooted among traditional communities. Under such circumstances a high proportion of the loans to the associates are destined to enable consumer goods to be purchased. To this extent these associations do not directly facilitate or foster investment in rural areas.

385. A secondary function of some rotating credit associations has been to mobilize rural savings to finance the productive activities undertaken by the partners. One example is that of the *Ke* societies in Korea, some of which enable machinery to be purchased. Nevertheless the contribution of these associations to the formation of agricultural capital is generally rather small.

386. **MUTUAL AID ASSOCIATIONS.** As has been previously seen, these organizations pursue various objectives of an insurance and social nature. As a result they have structural and functional characteristics which are different from those typical of rotating credit associations. For example, they are generally permanent bodies and their field of operation includes broader aims than those which characterize rotating credit associations. Thus they are potentially in a position to mobilize more funds over a greater time span.

387. The failures originating from some development policies, characterized by western type models, that have attempted to transplant in their entirety the credit structures typical of advanced countries into developing countries, have brought about a renewed interest in the various forms of traditional solidarity. Such failures have also made it necessary to consider in more depth the contribution that the traditional

savings institutions make (or could make) to the process of economic development. In particular it has been suggested that an evaluation be carried out of the possibility and/or the timeliness of utilizing these institutions as a bridge towards institutions which are modern both in their actual operations and in the principles which govern their operations (credit unions, savings banks, etc.).

388. At first sight there would appear to be considerable justification for an optimistic view of the direct contribution which could be made by traditional societies. They have, after all, shown that they can readily attract deposits. But their usefulness is basically limited by the fact that they have objectives of a social and/or religious nature, in addition to economic objectives. Thus there is no general answer to the question as to the extent to which traditional societies can be modified into modern banking institutions. But, without more evidence to the contrary, it would appear that the development role of indigenous credit societies should be regarded as being passive rather than active. That is, they should not be considered as potential collaborators but rather as objects of study before a credit scheme is formulated in any given area. Such a study would provide information as to the potential, for example, for using registered co-operative societies as channels for public funds since it would assist in the assessment of the ease by which these societies might be established. It would also provide useful guidance as to the prevailing money usage in the area.

CONCLUSIONS AND RECOMMENDATIONS

The points which are set out below are intended to summarize some of the more important issues discussed in the report. Headings are used to group the points by type of decision, but frequently a particular issue may well be such that it could be classified into more than one section.

The paragraph references given in brackets refer to the sections in the text of the report with which the given issue is most closely associated.

GOVERNMENT RESPONSIBILITIES AND FINANCIAL SERVICES TO FARMERS

1. Agricultural credit should be recognized as a crucial factor in rural development, and consequently, it should be clearly programmed into national development planning. (Paras. 7-10)
2. Since motivations of the various interested groups in the field of agricultural credit differ, appropriate machinery should be established at, say, the district level to ensure that the real needs of farmers are met. One move in this direction could be to establish district committees which include participation by representatives of small farmers. Such committees should have appropriate channels of access to the central government so that the latter can be made aware of any inconsistencies in government interventions in the farm sector. (17-22; A36)
3. Public resources must be made available to agricultural credit institutions in order both to enable them to build up satisfactory

branch networks and so that they have sufficient funds for direct production loans. (48-52; 291-300; 305-316; 342)

4. When subsidies are available governments should apply these to the establishment and administrative costs of credit institutions, rather than seeking to pass on the subsidy to farmers in the form of low interest-rate loans. (305-316)
5. The rate of interest charged to the end user is of greater importance to the lending institution than to the farmer-borrower. The latter's needs for assistance lie more in timely supply of credit rather than in excessively cheap loans which a government may be tempted to give in lieu of more fundamental and more effective assistance. (262-273)
6. There is no "best" administrative structure for agricultural credit. Much depends on individual country circumstances. Development agencies and production-contract buyers have advantages with respect to the provision of other services with credit, whilst banking and co-operative structures are usually more flexible in the types of investment they can finance. In many cases attention could be given to complementary activity between service institutions; for example between co-operative societies and agricultural development banks, where the co-operatives would service farmers and the banks would service co-operatives. (239-261; A40)
7. More attention than is usual should be given to assessing credit programmes not only according to their impact on production and on land and labour productivities, but also in their ability to promote the attainment of socially desirable objectives such as greater opportunities for poorer sectors. They should not merely be judged by financial criteria. (226-238)
8. Bank statutes should be framed to ensure the effectiveness of the bank in assisting, on an ongoing basis, those sectors of the population that it has been established to service. Suitable board composition and government financial support can be framed accordingly in the statutes. (332-337)

GOVERNMENT DECISIONS ON ECONOMIC POLICIES

9. The effectiveness of price as an incentive for increased production through the use of better inputs should be recognized and measures taken accordingly to improve farmers' terms of trade. (16-21; 33-47; 78; 85-96; 151; 159)
10. Care should be taken to ensure that favourable farm production conditions brought about by a rational output price policy are not nullified by large increases in the prices of inputs. In other words a suitable balance between the two must be struck. (108-112)
11. Central banks should assume more direct responsibility for banking institutions servicing farmers. Their assistance can be with respect to financing, supervision and, not least, in putting pressure on governments to ensure that a suitable economic environment exists for agricultural credit operations. (342; A38; A39)
12. Taxation programmes in rural areas must be carefully framed so that the policy of improving farmers' terms of trade is not significantly affected. (63-78)

GOVERNMENT DECISIONS ON AGRICULTURAL CREDIT AND OTHER SUPPORTING SERVICES

13. Co-operatives or farmers' associations should be encouraged as a means whereby the farming sector might have greater leverage in decision-making, especially on matters concerning the allocation of services in rural areas and, sometimes, farmers' terms of trade. (151-154)
14. Marketing must be coordinated carefully with credit both so that market outlets are available for credit-induced production increases and so that, where possible, loan repayments can be made through the marketing system. Any introduction of warehousing credit systems should be generally preceded by investigation as to whether marketing conditions favour their use by the farmers they are intended to help. (131-144; 277-288)

15. Care should be taken to ensure that price support and stabilization programmes are effective at the *farm gate* and not just at the wholesale level in major centres. (97-107)
16. Consideration should be given to the identification of land by a system of registration, not for collateral purposes, but to enable lending institutions to ensure that it is available to farmer-borrowers. Lending procedures would also be simplified if the land area is already known. (113-123; 180; 205 b.)
17. A suitable legislative framework for the provision of services such as irrigation to farmers should be provided. (124-130)
18. Poor loan repayment performance is not simply a problem in its own right but is, rather, a symptom of deficiencies in technology, in terms of trade or in lending procedures and recovery arrangements. Attempts to rectify a situation where there are poor repayment levels should therefore involve investigating all these facets. (16; 161)

RESPONSIBILITIES OF AGRICULTURAL CREDIT INSTITUTIONS

19. Agricultural credit institutions should carry out appropriate field studies prior to implementing their lending programmes. These studies should indicate the type of loan required so that the borrower genuinely benefits. (12-14; 163-165)
20. Lending procedures can be continually refined as more and more information becomes available about farming, in particular, concerning farmers' experience with credit-purchased inputs in a given district. (163-185)
21. Where financial resources are scarce and the necessary information is available, banks should attempt to grade borrowers in terms of farm managerial ability, using this as a criterion in lending. (186-199)

22. A bank should see the security for its loaned funds as lying in the effectiveness of its lending procedures and in the suitability of the technological-economic environment within which the credit-financed farm production is to take place. (200-225)
23. Lending by banks for increased production is dependent *inter alia* on suitable technology being available. Research/extension staff of agricultural ministries are normally regarded as providing the necessary link between farmers themselves and research personnel so that the latter are made aware of any difficulties over the productivity of inputs or technologies they have advocated. However, this chain does not always work well. Banks are in an admirable position to provide an additional chain for such information from the farmer back to the research department so that technologies and inputs being financed on credit are truly productive and profitable at the farm level. (7; 14; 23; 195; 197)
24. Care must be taken to build sufficient flexibility into lending terms so that unnecessary hardship is avoided. Particular care in this respect is needed in the case of short-term loans rediscounted by central banks. (167-173)
25. The dignity of the farmer-borrower must be upheld so that the lending institution has for him a service rather than servitude aspect. This means that he should not be made to feel alien or inferior in his dealing with banks. (247; 259)
26. Agricultural credit institutions should recognize, early on in their development, the importance of mobilizing rural savings. This is both in order to supplement other financial resources and also to act as an educative means, leading to a more suitable environment for productive economic activity. Credit can be a powerful means of savings promotion and the involvement of local personal savings can foster better debt management at the farm level. (256; 347-361; 371-377)
27. Where traditional savings clubs exist note should be taken of any special features these have, and attempts made by banks to incorporate these features in their operations. (378-388)

28. Staff training policies should recognize the need, along with the obvious requirements relating to technical competence, for improving the morale of agricultural bank personnel. Encouragement of a professional attitude is also important, and all three aims can be assisted by the possibility of bank staff obtaining a recognized professional qualification. (249; 270; 322-328)
29. Bank managements should investigate ways of fostering dialogue with their junior professional staff, especially those in the field. Too often inefficiencies and poor morale result from poor staff-management contact. Contacts of this type may also assist in the development of procedures designed to counter corruption. (329-331)
30. Lending institutions need to be ready to develop procedures whereby credit services can be brought to a larger number of farmers. One method, now needing more detailed investigation, is group lending. (26; 302-304)

Appendix

EVOLUTION OF FINANCIAL SERVICES IN THE RURAL AREAS OF DEVELOPING COUNTRIES

FINANCIAL SERVICES

A1. The discovery that debt can be sold must rank among the more profound of man's discoveries. A debt instrument identifies a claim held by a creditor, specifying terms on which the claim is to be settled by a debtor. The creditor's reward is "interest", a payment that varies with the length of the loan, at a rate that depends on the creditor's perception and willingness to assume default-risk, and the debtor's perception of gain from the loan.

A2. The most primitive transactions is a two-party exchange between saver (creditor) and borrower (debtor). The interest agreed upon represents payment for arbitrage exacted by the saver and is limited by his comparative advantage in holding the debt instrument. Though primitive, the two-party financial exchange provides the basis for settling commodity transactions with an exchange of debt instrument. Thus a departure is provided from a barter economy.

A3. The efficiencies inherent in two-party transactions are decidedly limited, owing to the small size of the market over which such exchanges can prevail. Negotiability widens the range over which debt instruments can be sold and over which financial equilibria can be established. Hence wider commodity markets also can be developed. Holders of debt differ with respect to preferences in maturity of debt instrument and willingness to assume risks. For example, the debt instrument acquired by a

commodity seller may be sold to a third party more willing than he to hold the instrument until it matures. The second exchange benefits the seller by providing cash at an earlier date, and the buyer of the debt instrument by providing a form in which he can hold his savings. By acquiring earlier cash liquidity, the seller lowers his costs. Part of the benefit is shared with the commodity buyer — for example, the farmer who buys seeds or fertilizer subject to the negotiable debt contract.

A4. Negotiability is vastly increased by the appearance of "financial" intermediaries; firms specializing in the purchase, sale and modification of debt instruments. Financial intermediaries are recognized by the predominance of claims held by and owed to others among their assets and liabilities. A financial intermediary evolves in response to demand among creditors for debt instruments that differ from other debt instruments acquired from debtors in terms of maturity, risk or both. If the returns from transforming debt instruments in these terms are perceived as more than the cost of making the transformations, a financial intermediary might be expected to evolve in response to the market opportunity. In such a way financial markets are formed which provide services such as linking debtors with creditors and also connecting financial intermediaries that differ in location, function and preferences in debt instruments. This provides "money substitutes" for firms and households, and a far richer financial environment in which choices are made in production, marketing, consumption and risk management.

A5. In a broad sense, currency too is a debt instrument, the debtor being the agency of issue, the creditor being the currency holder. The terms specify payment on demand, without interest. We shall, however, identify currency, along with demand deposits, as "money", reserving "debt instruments" to include claims to be settled by payments fixed in money (or commodity) terms. In many ways money is inferior to debt instruments in properties useful to savers. Were money the only means for settling commodity exchanges, the economy would be held to a very primitive state.

A6. The opportunities for financial intermediation are facilitated by monetization, by widely accepted (and enforceable) norms of contract performance and enough volume, by class of debt instrument, to provide scale economies in the management of flows and inventories of the debt instruments. Financial service sources provide a variety of debt instruments for savers and differentiated sources of loans for borrowers. They lower transaction costs and improve alternatives in production, marketing, consumption and risk management for firms and households. Financial instruments, both money and debt instruments, may complement or compete with other assets in the portfolio decisions of firms and households. They widen the alternatives for managing risks.

A7. Failure in the evolution of financial services localizes financial equilibria in space, time and type of debt instrument. Widely varied interest rates (and other terms of loans) persist without attracting arbitrage. And the payment for arbitrage that does occur tends to be exorbitant. The results are seen in costly commodity transactions, misallocated resources, stifled economic development and unequal economic opportunities. Havens are provided for moneylenders. Farmers are left dependent on self-finance and costly forms of risk management. Savers are denied access to attractive forms in which to hold their savings. In short, credit is restrained, costly and uncertain. And savings are limited in form, quantity and mobility. Indeed monetization itself is retarded. Firms and households are driven to hoards of gold, jewels or other commodities that, because of wider acceptance, provide a more feasible source of liquidity. Examples abound in Africa and elsewhere.

A8. Financial service sources fail to evolve if the rewards for financial intermediation are perceived as too small by those who could commit resources to the task. Many reasons can be suggested. Underdeveloped monetization may limit the negotiability of debt instruments. The quality of debt instruments may be too uncertain to provide the basis for wide marketability. The demand for debt instruments among savers may be so limited that the price(s) at which they can be sold

exceed the price(s) borrowers can pay for loans, plus the costs of intermediation. Opportunity costs may preclude the commitment of resources for financial intermediation.

A9. Related to and underlying one or more of these hypotheses is the possibility that debt contracts are so limited in enforceability that the debt instruments do not meet marketability requirements beyond two-party transactions. Finally, regulatory constraints may preclude the commitment of private sector resources to the task of financial intermediation. No one or any given combination of the hypotheses is likely to be equally plausible among countries in which financial services have failed to develop. Yet none can be overlooked in a search for explanation of their failure or for remedies for such failure.

A10. *Historical factors.* Having described how the development of financial services can be crucial for rural progress, we now consider how their present state has been shaped by history. For example, in Africa, the history of the colonial period had a significant effect on the development of the present banking and financial systems. There are two overall characteristics of the former period.

A11. First there was dualism between the organized credit market — where the supply was fed by one or more banks and demand by some privileged economic units, especially big import-export companies — and the non-organized credit market where loans were generally granted in kind (often by shopkeepers themselves) and rates of interest were usurer's rates. This is typical of situations, as mentioned above, where financial markets and services are poorly developed.

A12. Second there were similarities between the organized credit market in the colony and in the mother country, where the former was embryonic in comparison to the latter (with poorly developed functional specialization, limited scale and variety of operations, a weaker competitiveness, and so on) but showed malformations such as to preclude a satisfactory institutional development. Moreover, these colonies frequently lacked a monetary authority with powers to protect the country's financial structure and mould it in the most suitable forms for satisfactory economic and social development.

A13. The relevant characteristics of two different types of colonization (French-British) were, briefly, as follows: ¹

- British colonies: Basically financial services arose as a result of pragmatic decisions involving the development of extractive industries (e.g. copper mines), export-oriented agriculture and, in general, the needs of settler traders and farmers. Thus private commercial banks formed the bulk of the financial infrastructure. In Asia, as opposed to Africa, the British banks tended to take over existing local banks.
- French colonies: The typical feature of the development of financial services was that they were generally planned, financed and controlled by the home government. Also French colonies were less oriented towards trade than were the British.

A14. In all early colonial systems agricultural credit for indigenous farmers was given little attention. When such programmes were initiated then they were largely the result of political moves to gain or consolidate control over the indigenous population, for example, when loans were given following politically-motivated riots.

A15. With the coming of independence the objectives for development changed. No longer was attention focussed on the means by which colonies could serve the interests of the colonial powers. Rather attention was given to development of the new nations themselves and, in this connection, it is striking to note that the current vogue for developmental approaches which emphasize quality of life of the masses, rather than simply aiming at production targets, was anticipated by some leaders of new nations many years ago.

¹ The British and French systems were the more important because of the size of the territories involved. Other colonial systems, such as the Italian, Portuguese, Spanish and German, had their own typical features; for example, with the Italian colonies, metropolitan banks opened branches in the main towns where the most important import-export companies had their head offices. The major inconvenience of the system was rigidity, since any important issue had to be finally approved by the head office. The major advantage was that these big institutions could more easily bear the economic and financial risks involved, by this activity in the colonies.

A16. So much for the historical generation of financial services and for the case for their continued development. This development is of course necessary no matter what type of overall political/economic strategy is adopted, for there will always be the need for financial intermediation. Even in the extreme case of a fully-fledged communist state, with no institutionalized private savings and no private ownership of capital, the generators of savings, namely the state trading organizations, must be linked by a financial intermediary with those sectors of the government production apparatus requiring capital for productive investments of various types.

A17. This is an extreme case. The structural realities in most countries, even those with a markedly socialistic political philosophy, are likely to be quite different. Nevertheless, the *type* of development strategy adopted may have a considerable influence on the evolution of various kinds of institution within the financial market. In Chapter III consideration was given to the respective advantages and disadvantages of a range of institutions channelling credit to small farmers.

A18. In the following section the trend in rural development strategies will be outlined, and this is followed by a brief discussion of the effect of this trend on the evolution of financial services.

TRENDS IN RURAL DEVELOPMENT STRATEGIES

A19. In the early stages of the development of rural areas, attention has frequently been given to the development of a particular (often export) crop. Sometimes this development has been closely guided by governmental authorities (groundnuts in Senegal); in other cases the development has been more in the nature of a response by individual producers to a market opportunity (cocoa in Ghana and in Western Nigeria). When credit schemes were linked to these developments then loans were issued on the basis of the "crop package". This specified a standard loan on a per unit area basis, calculated on the basis of "normal" input requirements and output expectations. The credit package was designed for an area or district and not for an individual.

The associated practices forming the package were intended to become general and, even, permanent features of farm production in a given area, and the package was also intended, at least initially, to constitute a demonstration to farmers not yet in the scheme.

A20. There is no doubt that this single crop strategy enabled many farmers to achieve greater productivity and higher incomes. But it has its shortcomings. Basic among these is the fact that it tends to pay too little attention to the provision of ancillary services, and, concentrating as it does on only one part of the farm enterprise, it ignores the totality of the farm operation. It also ignores the managerial differences found between farmers, and other "input" type factors which could result in very much greater improvements in resource productivity.

A21. Consequently the system was refined in an attempt to overcome these weaknesses. The result is generally known as *supervised credit*. In this attention is given to the immediate environment within which farm production is carried out. Elements of concern include: land tenure, size of holdings, identification of improved techniques and inputs relating to a wide range of production possibilities, input supply, market outlets, provision of services such as advice, in addition to credit.

A22. Programmes of supervised credit involving the supply of credit, productive inputs, technical and educational assistance have been organized principally in Latin America (Bolivia, Brazil, Mexico, Paraguay, Venezuela, etc.) and in Asia. They have been eminently successful in many places, but have sometimes been criticized on the grounds that they concentrate too much on the individual farmer and give too little attention to the community-level factors which can be crucial for the continued growth of the farm sector and, in particular, of the services supporting this sector.

A23. This need has led to the search for a feasible alternative strategy which would, in effect, be a development of supervised credit with supporting services. Hence the term "integrated rural development" has been coined. Unfortunately the name has been easier to produce than the details of the strategy, but some basic principles are clear.

A24. Thus, it is now widely recognized that any strategy for rural development would vary with: the type of farming; the pattern of land utilization; the type of tenure structure; the structure of production and supporting services; the degree of commercialization and monetization of the economy; the extent of urbanization and industrialization; the extent of over-population in the agricultural sector; the degree to which the national development plans call upon the agricultural sector to provide capital for industrialization; the availability or otherwise of financial resources in the form of revenues from oil, mineral extraction, tourism, etc.

A25. In the face of this complex of factors, decisions must be made at various levels: national, rural-urban links and field.

A26. *At the national level* macro-economic policies must be formulated which aim at appropriate overall orientation and coordination. These would include, amongst others, the achieving of better terms of trade for the farmer and striking a balance between production objectives in the short-term and equity aims in the medium and long-term. These issues have been elaborated in Chapter II; suffice it to note here that without suitable macro-economic policies it is idle to expect the few so called "integrated area development projects" to achieve the objectives of rural development.

A27. *At the level at which rural-urban links operate:* the concept of a rural-urban linkage system is a composite of (i) different types of agricultural services, namely, credit, marketing, input supply, mechanization services, servicing of agro-industries, etc.; (ii) the administrative structure, which should preferably be on a decentralized decision-making basis; (iii) the financial/fiscal structure concerned with taxes and flow of government funds to the rural areas; and (iv) other technical services offered by government, such as extension and education.

A28. The four sub-systems together constitute the rural-urban linkage system which has to be oriented in such a manner as to ensure fair trade terms for small farmers and the rural poor, and to serve as an effective

instrument of the state for the flow of resources to and from agriculture. With regard to agricultural services, in particular, it may be stated that while in a relatively prosperous economy with an expanding urban sector non-institutional agencies (e.g., commercial firms) can well serve the needs of agriculture, the problem is altogether different in an economy beset by scarcities, unfair trade terms, black-marketing, etc. Particularly in countries where the size of the marketable surplus of small farmers is relatively small, the need is first to ensure increased production and then to mobilize savings. In such situations the rural credit institutions, as well as marketing and processing institutions, have to work towards mobilization of resources and cannot function merely with a profit motive. They should serve the socio-economic objectives laid down in the state policy.

A29. The system of agricultural services, together with its component elements, namely credit, marketing, etc., should be capable of facilitating vertical integration within itself and horizontal integration between marketing, processing, input supply, price support operations, etc. In other words the system should be capable of coordinating its activities not only internally in relation to different specialized units but also with complementary arrangements and other institutions undertaking rural development activities. It should also be capable of being ubiquitous and capable of operating at relatively low cost. Yet it should be in a position to act as an autonomous system; its structure and autonomy should guarantee open public operations.

A30. Unless such a system, together with the adequate sub-systems and the component elements, is adequately built in as an integral part of the overall rural development programme, one could not expect either national plans formulated at the capital or expensive area development projects to solve the problem of rural poverty.

A31. *At the field level:* integrated area development projects at the field level should primarily aim at optimum utilization of the resources available in the area. There are three main aspects to this, technological, institutional and financial.

A32. As regards the technological aspects, the most crucial factor is to ensure that the potentialities of the region are examined on the basis of a careful system analysis of crops, land, water, animals, forestry and fisheries. There should be a sectoral development plan for ensuring the development of each of these resources. The sectoral development plans have to be adequately integrated with the area development programme.

A33. With regard to the institutional aspect, the minimum unit of planning has to be an area served by a rural market town. The rural market town should be the nucleus for all development programmes. The rural-urban linkage system referred to in the previous section has to interface efficiently with the rural institutions at the rural market town level. The entire complementary institutional structure, where the rural-urban linkage system interfaces with the local-level institutions, including farmers' organizations, should be so conceived as to serve as the local-level planning and implementing unit for all development programmes. Thus the rural market towns should be the venue for coordination between input supply, marketing of output, processing of agricultural products, extension, and planning of development projects, as well as for financial services.

A34. The institutional structure at the local level should be capable of solving local problems through an interdisciplinary approach and should be capable of determining priorities and formulating local plans. It is at this level that the national plans (derived from macro-economic policies) should be properly coordinated with the local plans (these being based on an inter-disciplinary study of local resources and determination of priorities). Thus whereas the overall objectives and policies could be determined for the country as a whole, the extent to which an effort in a given direction will go has to be determined for each rural market town community. It is only by providing for such that the two-way planning process can be effectively used for implementing integrated rural development programmes.

A35. As regards financial planning at the local level, the problem is essentially one of balancing investment needs with the mobilization of required funds. The responsibility for balancing should be wholly that of local-level institutions within the concept of an integrated rural development programme. Unless the balancing of funds with investment needs is done at the local level, rural development programmes directed from the capital city are inevitably heading for failure.

IMPLICATIONS OF DEVELOPMENT STRATEGIES ON FINANCIAL SERVICES

A36. As noted earlier in this chapter, financial intermediaries enable holders of funds to find investment opportunities and enable would-be investors to locate the finance they require. The investment opportunities implicit in the type of development strategy outlined in the previous section have several features. *First*, they are not necessarily going to attract capital without strong government concern and subsequent action. *Second*, there may be a need for operation of a selectivity procedure; for example, certain sectorial schemes within an area development programme may need specialized attention and assistance from servicing bodies, including those providing credit. *Third*, there is a need for real and effective coordination of financial and other service activities, this coordination being both horizontal and vertical in nature, with a great deal of emphasis placed upon local, field level planning and coordination.

A37. Government concern and necessary action may be expressed through more or less *ad hoc* measures and budgeting allocations or, and this is usually to be preferred, by the central banks in collaboration with the Treasury. Indeed there has been a definite trend for central banks to take a more and more active role in promoting rural development. They have done this by the provision of short-term funds, by establishing refinancing institutions for longer term finance, by assisting with various types of action designed to strengthen banking institutions, for example, by the provision of training facilities and by carrying out inspection and control activities.

A38. Central banks in their capacity as controllers of other banking institutions are in a good position to promote the establishment of special credit institutions to handle sectorial development programmes, where this type of move is considered desirable. Thus a special agency might be charged with livestock development, and although perhaps basically a bank because of its specialization, it can be active in other aspects of livestock development such as extension and coordination with veterinary departments.

A39. Again central banks can actively encourage the establishment of good branch networks. The desirability of this is described in detail in Chapter III, whilst the rural development trends noted in the previous section reinforce the necessity of having adequate access to savings and credit institutions.

A40. This brings us to the third point noted above, that is the need for vertical and horizontal integration of services. Logically a bank is not well suited to this task. Its prime responsibilities are to safeguard the funds at its disposal and to make a profit. These responsibilities do not allow a bank to readily carry out the wide range of tasks involved in servicing small farmers. Multi-purpose co-operative societies are much more suited to this function, as are crop development programmes and development corporations. These can all channel credit to farmers, but are basically concerned with the crop or livestock product, not only with the loan repayment. In the light of the trend towards greater integration of rural development efforts, it is likely that this type of institution, particularly the multi-purpose co-operative, with special features (such as savings promotion) described in Chapter III, will become of increasing importance in developing countries.

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