

## CHAPTER IV

### THE BANKING SYSTEM OF GABON



## 1. BANKING AND CREDIT LAWS

The achievement of independence has led the member States of the Monetary Union of French Equatorial Africa to exercise directly, as regards regulation and control of banking activities, the functions which previously revolved upon the Monetary Committee for the franc area. The Federal Republic of Cameroon took the initiative with a decree of 24th March 1962 "*portant réglementation de la profession bancaire et créant des organismes destinés à assurer l'étude et la mise en oeuvre de la politique du crédit ainsi que le contrôle de la profession bancaire*" (regulating the banking profession and creating bodies intended to work out and apply credit policy as well as the control of the banking profession)<sup>1</sup>. Similar provisions were thereafter enacted by the Central African Republic (Act of 21st April 1962), the Republic of Congo (Act of 15th June 1963), the Republic of Gabon (Decree of 2nd November 1964) and the Republic of Chad (Decree of 4th February 1965).

The Gabon Decree consists of 44 Articles grouped under three headings:

Title I: the banking profession, the nature and origin of the funds entrusted to the banks (Articles 3-17);

Title II: the bodies destined to work out and apply credit policy, and the organisation and control of banking activities (Articles 18-37);

Title III: transitional provisions (Articles 38-44).

<sup>1</sup> See *L'Organisation Monétaire et Bancaire*, *op. cit.*, p. 17.

The first Article is of particular interest. Here, in fact, the scope of the Decree is limited to two types of bodies: banks and financial institutions. For the purposes of this Article, "all undertakings which habitually receive from the public, in the form of deposits or in any other form, funds which they employ at their own risk in discount, credit or financial operations" (Art. 1) are considered as banks.

This definition thus gives the typical characteristics of a credit institution: systematic pursuit of activities as an intermediary for credit, management of funds at its own risk, and use of the monetary resources of others<sup>1</sup>. However, these institutions to be able to carry on their activities must have a minimum amount of capital. This minimum has been fixed, whether for national or for foreign banks, at a sum of 200 million CFA francs for banks established as limited liability companies and of 50 million CFA francs for all others<sup>2</sup>. The above-quoted figures are reduced to 100 million and 25 million respectively for institutions which have only one permanent office. We should furthermore note that this capital must be fully paid up within a period of time which shall be established by the Banking Control Board. Banking undertakings must be established, in accordance with the provisions of Article 4, in the form of general partnerships, joint-stock companies and limited liability companies. All the institutions we are considering are required *inter alia*<sup>3</sup>:

<sup>1</sup> In this connection it is worth consulting Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, Milan, Giuffrè, 1969, p. 30-39; Ugo Caprara, *La banca*, Milan, Giuffrè, p. 414; Tancredi Bianchi, *Le banche di deposito*, Turin, Utet, 1969, p. 1-7.

<sup>2</sup> The monetary authorities of Equatorial Africa have not, in this way, imposed discriminatory measures affecting foreign operators.

<sup>3</sup> See Article 8 of the Decree of 2nd November 1960.



- (i) to join the Professional Association of Banks and to make known to this Association, within a month of their registration on the list of banks, the names of their representatives and deputies at the Association;
- (ii) to close their books on 31st December and to draw up a financial report in accordance with the rules laid down by common agreement between the Minister for the National Economy and the Minister of Finance at the proposal of the National Credit Board;
- (iii) to draw up interim statements of accounts in the course of the year. These statements must be compiled at quarterly intervals, except in the case of banks designated by the Banking Control Board which must submit them monthly;
- (iv) to provide the Central Bank with all the information it may require from them regarding the credits granted;
- (v) to conduct all their operations of issue or conversion of the public debt under the conditions established by common agreement of the Ministers of Finance and for the National Economy;
- (vi) to comply with certain individual decisions, concerning, for instance, the closure of offices;
- (vii) to comply with decisions of a general character regarding interest rates on credit and debit operations, the establishment of common services, liquidity regulations, the training of staff, and the regulation of competition.

All banking institutions, with the exception of the Gabonese Development Bank, which enjoys special status in this respect, are grouped in three categories: deposit banks, commercial banks, and medium- and long-term credit banks.

Deposit banks are defined as "institutes which receive sight deposits and fixed-term deposits from the public which must,

however, mature within two years". They are precluded from holding shares in firms other than banks, financial institutions or those building societies which are necessary to their activity, in excess of 10% of their capital.

"In no case may the total value of these holdings, inclusive of subscriptions for new share issues, exceed 75% of the resources of the institutions concerned. Investment beyond this limit, as indeed any use of the deposits for acquiring shares or investing in property, is prohibited unless specifically authorised by the National Credit Board" (Art. 10).

The main activity of commercial banks is "taking up and managing equity holdings in enterprises already existing or being set up, and granting credit of unlimited duration to public or private bodies which possess, have possessed or will possess these holdings" (Art. 10). These loans may be granted up to an amount not exceeding the sum of their own resources and deposits with a fixed term or withdrawal notice of at least two years. Furthermore, it should be noted that in accordance with Article 10, commercial banks may "collect deposits at sight or with a fixed term of under two years only from their own staff, from firms to which they have granted advances, from private persons or companies whose main activity is trading and finally from the shareholders of firms in which they have invested funds, provided that these shareholders hold security accounts with the bank".

On the other hand, credit institutions which predominantly grant financing for over two years, are described as medium- and long-term credit banks. They may only accept deposits with a fixed term of not less than two years<sup>1</sup> and, as regards investments, are subject to the same limitations as deposit banks.

<sup>1</sup> The authorisation of the National Credit Board is required for receiving shorter-term deposits.

At this point it should be noted that the definitions of Article 10 have been inspired by the text of Article 2 of the French Law of 10th July 1946<sup>1</sup>. The specialisation which this law imposed clearly aimed at preventing the conversion of deposit banks into mixed banks<sup>2</sup>. Accordingly, the need of businesses for medium- and long-term finance should have been met by the medium- and long-term credit banks and by the commercial banks.

<sup>1</sup> This Act was subsequently amended by Decree 66/81 of 25th January 1966, whereby the deposit and commercial banks were exempted from the fixed term requirement for the deposits received by them. See Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 198 and Roberto Ruozi, *L'evoluzione strutturale e funzionale del sistema bancario francese*, Milan, Giuffrè, 1966, p. 94.

<sup>2</sup> As is known mixed banks are "deposit banks which are engaged in investment credit operations while granting current short-term loans". See Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 277. They acquired shares or supported the relative floating capital with appropriate concession of credit, proposing, as a rule, that these shares should thereafter be placed on the market. Naturally, other things being equal, such behaviour by the mixed banks would have negative effects on the possibilities for development of small and medium-sized firms which, being unable to have recourse to the stock market, normally find capital through bank credit and it would naturally have been the more hazardous the smaller the relationship between own capital and fiduciary mass would have been. This is discussed at greater length by Guido Carli in *Relazione della Banca d'Italia per il 1968*, p. 352. At the same time, while we recognise that long-term loans by deposit banks may be quite possible, it would seem advisable to have medium-term loans negotiated in a specialised form. Bianchi and other authors single out the following circumstances as reasons for this preference:

- (i) reduction of the costs inherent in the assessment and coverage of the risks of medium-term credit transactions;
- (ii) enhancement of the effectiveness of the central monetary authorities' policy;
- (iii) the hazard, for deposit banks, of a concentration of the risks inherent in any one category of loan transactions.

See Tancredi Bianchi, *Il mercato del credito a medio termine*, Turin, Utet, 1970, p. 101; Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 150-161 and Roberto Ruozi, *L'evoluzione del sistema bancario francese*, op. cit., p. 85-86.

It was the intention of the legislator that the first group of institutions should have met the need for long-term credit and the second, apart from meeting this need, should also have met the need for promotion of a balanced development of the companies concerned, by providing additional funds to share the risks<sup>1</sup>. These institutions should have access to the following sources of funds:

- (i) their own capital;
- (ii) special current account deposit operations<sup>2</sup>;
- (iii) issue and placement of fixed-interest securities;
- (iv) time deposits with the public;
- (v) re-financing from the Central Bank<sup>3</sup>.

We should note that the institution's own capital, especially in the case of commercial banks, fulfils strategic functions of the highest importance in that it allows greater diversification of investments, more extensive autonomy in the face of the central monetary authorities and recourse to borrowing on a larger scale<sup>4</sup>. We should further bear in mind that deposit banks would

<sup>1</sup> Investment banks, "while their institutional speciality is the concession of loans, often transform themselves into temporary participants and therefore become liable to the business risks of the firms to which they have given credit". Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 150 and 173. We should further observe that sometimes these institutions promote the creation of firms, thus assuming the functions of entrepreneurs. Naturally these participations must be of a temporary nature, since otherwise they would cause these institutions to take on the character of investment companies.

<sup>2</sup> These financial relationships give rise to a constant debit balance for the institution, and are almost always arranged with deposit banks which are directly participating with capital funds.

<sup>3</sup> Through this procedure, the monetary authorities can selectively influence the development of given entrepreneurial activities.

<sup>4</sup> See Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 165 and T. Bianchi, *Il mercato del credito*, op. cit., p. 113. Dell'Amore points out that in some cases investment banks make preponderant use of their own capital.



benefit, at least in the long run, from an increase in the collection of funds on the part of the special institutions. The latter may, in fact, with the funds provided by investors, grant financing to impart a more balanced financial structure to developing firms. This frees the firms from the necessity of relying exclusively, for their own development, on their autofinancing capacity and also makes recourse to credit from the deposit banks less hazardous and, finally, less costly. Hence, other things being equal, these banks, in so far as the activities of the specialised institutions have met the long-term needs of business undertakings, may grant higher amounts of short-term credit with greater safety.

Furthermore, the productive investments made by enterprises, besides requiring a larger amount of short-term credit, lead to an increase in the gross national product, the net national revenue and the monetary base, and to an increase in the fiduciary supply of deposit banks. This enables them to make larger investments under more flexible conditions. Hence, in so far as these considerations are valid, deposit banks might find it advantageous to invest part of the resources they have collected in fixed-interest securities issued by the specialised institutions<sup>1</sup>.

<sup>1</sup> On this point see W. T. Newlyn, *Money in an African Context*, *op. cit.*, p. 14-15; T. Bianchi, *Il mercato del credito*, *op. cit.*, p. 121. In this connection, Bianchi observes that "the economic stability of bank management is linked with the movement of the operations negotiated and not with their composition; in other words, it is linked with flows and not with stocks". It must be stressed, however, that this activity as an intermediary between short term and long term should be limited to the quota of savings which is included among current deposits, this because of the shortage in the supply of sufficiently diversified credit resources. This is due to the lack of elasticity in supply and to the high volume of imports arising through productive investments in the States of Equatorial Africa. On this issue it is worth while consulting E. E. Cameron, "The Crédit Mobilier and the Economic Development of Europe", *Journal of Political Economics*, December 1953. Finally we may observe that it is through similar behaviour that deposit banks enlarge the liquidity range of the circulating financial assets on a given credit market, in which the public and businesses can

This high degree of specialisation should be guaranteed by the two 10% and 75% clauses. In fact the first clause is too heavy for large deposit banks and too liberal for small banks<sup>1</sup> while the second, as it does not lay down criteria to be used for assessing investments, is easily evaded. Moreover, the possibility of acquiring a substantial holding in commercial banks and in financial institutions<sup>2</sup> allows the banks in question to acquire and retain indirectly, through the system of participation in banks, holdings higher than those which the legislative standard was specifically intended to keep within the limits noted<sup>3</sup>. It should, however, be noted that, if and when the activities of a bank no

invest. In so far as this does occur it will help in the creation of a financial market whose existence, besides making it easier to resolve bank liquidity problems, is a necessary condition for the successful operation of credit institutions. In this connection see Geoffrey Bell, "Competing for Deposits", *The Banker*, March 1970, p. 289.

<sup>1</sup> This issue is discussed at length by Roberto Ruozi, *L'evoluzione del sistema bancario francese*, *op. cit.*, p. 196 ff.

<sup>2</sup> The field of action of the financial institutions is restricted, pursuant to Article 27 of the French Law of 13th June 1941, to the activity of commission agent and of intermediary in operations involving stocks and shares and private and public securities, to short-term and medium-term credit operations and to foreign exchange, to the acceptance in guarantee or for collection of bills, cheques and public securities. We should note that Article 1 restricts banks to discount, credit and financial operations. In French commercial practice, however, banks are allowed to carry out operations covered by financial institutions and vice versa. It is incumbent upon those institutions which have to work with their own funds, or with resources not provided by the public, to prove that the amount of the funds received from the public, in whatever form, is represented, on the credit side of balance sheet, by an available counterpart which is at least equal in absolute value and consists exclusively of short-term public securities and sight deposits with banks or financial institutions. On this point see R. Ruozi, *L'evoluzione del sistema bancario francese*, *op. cit.*, p. 114 ff. and Sergio Bortolani, *The banking system of Niger*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1971, p. 47.

<sup>3</sup> See Roberto Ruozi, *L'evoluzione del sistema bancario francese*, *op. cit.*, p. 107.

longer correspond to the conditions that had justified its original classification, the National Credit Board may decide, on a proposal from the Banking Control Board, to change this classification.

However, the lack of African national entrepreneurs, the reluctance of local businessmen to invest in variable income securities<sup>1</sup>, and the presence in the countries of Equatorial Africa and in Cameroon of foreign firms which, because of their size and structure, are in a position to satisfy their own financial needs on international markets, with considerable possibilities for diversifying their sources of finance make all too obvious the inadequacy of the necessary conditions for the practical operation of the deposit banks. It seems therefore that in the present context there is no real possibility of establishing the high degree of specialisation intended by the legislator. This makes it imperative for the monetary authorities to intervene so as to create the necessary conditions for specialised institutions to operate, in particular those institutions which accept and invest funds. The need to set up development banks which will encourage the growth of small firms and the development of agriculture, so as to make larger markets available to these firms, is therefore felt particularly strongly in the countries under discussion, especially if one considers that these institutions make it possible for deposit banks to carry out a well-organised intermediary function between short- and long-term investments.

Articles 12 and 13 of the Decree of 2nd November 1964 then define in turn the criteria for classifying foreign banks and

<sup>1</sup> It is clear that the participations assumed by commercial banks must be mobilized within a reasonable time, so that their lending activity should not transform itself into that of managing share holdings. We should further observe that if shares issued by national firms are placed with foreign operators there will be a transfer of the decision-making centres in favour of the latter, and therefore a greater dependency of the economic system on foreign countries.

their obligations. In accordance therewith, banks are considered as foreign if they are controlled by non-resident operators. In order to carry on their business in Gabon, these institutions must:

- (i) keep at their offices separate accounts for the operations which they carry out on Gabonese territory;
- (ii) provide proof that they have invested, in these operations, capital of their own, to an amount not less than the minimum required for national banks <sup>1</sup>.

The second section of Title I defines the origin and nature of the funds entrusted to the banks. In the first place, pursuant to Article 15, firms other than banks are forbidden to collect from the public deposits at sight or deposits with a fixed term of under two years. The following are not considered as funds collected from the public:

- (i) sums received by way of participation in the share capital of a firm;
- (ii) sums received by or deposited with by the partners of an ordinary or limited partnership;
- (iii) funds which a person or an enterprise obtains by way of discount or advances or by the temporary discount of the securities of persons or of enterprises exercising the banking or a related profession;
- (iv) deposits by the staff, provided they do not exceed 10% of the share capital (Art. 14).

Banks and financial institutions operating on Gabonese territory are subject to the provisions of the Act we are considering.

<sup>1</sup> Pursuant to decisions No. 1-66 of the National Credit Board, the list of foreign banks in the "deposit banks" category is as follows: *Union Gabonaise de Banque* (UGB), a limited liability company with a capital of 200 million CFA francs; *Banque Nationale de Paris* (BNP), a limited liability company with a capital of 210 million CFA francs; *Banque Internationale pour l'Afrique Occidentale* (BIAO), a limited liability company with a capital of 40 million CFA francs.



On the other hand, the following institutions are regulated by their own conventions:

- the Central Bank;
- the Development Bank;
- the Post Office Savings Bank;
- the Central Fund for Economic Co-operation (CCCE);
- international financial bodies;
- insurance companies.

There are furthermore many limitations imposed on those who are at the head of a banking institution or of enterprises which carry out banking activities, among them the requirement of Gabonese nationality and disqualification from public office, following certain penal and civil sanctions<sup>1</sup>.

Finally, the Decree requires registration in the list of banks as a necessary condition for the pursuit of lending activities, and requires these institutions to cease all their operations, in a period which may not exceed six months, in the event of their being struck off this list.

## 2. SIZE, STRUCTURE AND CONCENTRATION

In order to be considered efficient the banking system must be in a position to:

- (i) supply, in the technical form and with the maturity dates desired by its customers, credit amounts consistent with monetary stability;
- (ii) maintain the level of interest rates within limits, so far as is possible;
- (iii) reduce the cost of providing credit to the minimum.

<sup>1</sup> Pursuant to Article 11, the banks established in Gabon before this Decree were entitled to the exemptions provided for as regards nationality. It is anticipated however that the National Credit Board may well allow exceptions in this connection.

To this end, credit institutions should be subject to a strict structural and functional discipline, which must seek to promote the development of the banking system in such a way that its structure and its operation achieve ever higher levels of efficiency, under flexible conditions<sup>1</sup>. Hence, with an adequate structural policy which encourages helpful concentration<sup>2</sup> within the limits of the system, and with a rational policy as regards the geographical

<sup>1</sup> A credit institution will be proportionately more efficient as the range and size of its lending and borrowing operations increases and the difference between its credit and debit interest rates decreases. See Giordano Dell'Amore, *Economia dei saggi attivi bancari*, Milan, Giuffrè, 1971, p. 164; Marco Onado "Aspetti economici della legislazione bancaria italiana", *Il Risparmio*, March 1971, p. 437. We should further observe that safeguarding the solvency of credit institutions is no longer the primary objective of public controls, even though these, among their many purposes, must seek to prevent competition between banks from becoming so intense that it may indiscriminately jeopardise the solvency of credit institutions. The pursuit of such an objective is all the more necessary in developing countries because the financial assets issued by such institutions are allowed to assume the functions of money in addition to the fact that the mobilisation of savings is facilitated. On this point see Paolo Mottura, *Il controllo pubblico della concorrenza bancaria*, Milan, Giuffrè, 1970, p. 646, Tancredi Bianchi, *Le aziende di deposito*, Turin, Utet, 1969, p. 234 ff., Giordano Dell'Amore, *L'economia delle aziende di credito*, Vol. II, *I sistemi bancari*, Milan, Giuffrè, 1969, p. 880, Roberto Ruozzi, *Le economie di scala*, op. cit., p. 64 and John Hicks, *Saggi critici di teoria monetaria*, op. cit., p. 31-32.

<sup>2</sup> According to the Governor of the Bank of Italy, in promoting this concentration process one should not abandon the principle of maintaining a credit system founded on a large number of decision-making centres, independent of each other. See Bank of Italy, *Relazione del Governatore per l'anno 1964*, Rome, 31 May 1965, p. 473-474. In this connection it seems that adopting the criterion of "limited area branch banking" would make it easier for the central monetary authorities to achieve a better structural policy. In fact, if these authorities wished to intensify concentration, they could promote the opening of new branches within the urban areas, where the latter tend to increase the degree of concentration, and to restrict branching out outside the metropolitan areas, where the growth of territorial expansion tends to reduce it. See Jack M. Guttentag and Edward S. Herman, "Banking Structure and Performance", *The Bulletin*, New York, No. 41-43, February 1967, p. 14-18.

distribution of branches, it seems possible to achieve considerable economies of scale and, in the last analysis, a reduction in the costs of intermediary activity<sup>1</sup>.

The size of credit institutions has a preponderant influence over their functional characteristics and the structure of their costs<sup>2</sup>. Furthermore, collection and investment policies change as those institutions grow.

In fact, the possibility of diversifying extensively their own sources of collection has a helpful influence on the variability of the monetary reserves, appreciably reducing the size of the

<sup>1</sup> See Bank of Italy, *Relazione del Governatore per l'anno 1968*, Rome, 31 May 1969, p. 355, Lyle E. Gramley, "A Study of Scale Economies in Banking", *Monthly Review of the Federal Reserve Bank of Kansas City*, 1962; Paul M. Horvitz, *Economies of Scale in Banking*, Commission on Money and Credit, Private Financial Institutions, Englewood Cliffs, N.J., Prentice Hall Inc., 1963; George Benston, "Branch Banking and Economies of Scale", *The Journal of Finance*, May 1965, p. 312-333, and Roberto Ruozi, "Le economie di scala nelle aziende di credito italiane", *Il Risparmio*, July 1968, p. 66 ff. and the large bibliography quoted therein.

<sup>2</sup> See Roberto Ruozi, *Le economie di scala*, *op. cit.*, p. 64 ff.; Lyle E. Gramley, "Growth and Earnings at Individual Commercial Banks", *Monthly Review of the Federal Reserve Bank of Kansas City*, December 1969, p. 9-18, and R.D. Cowthorne, "Selected Factors affecting Bank Earnings", *Monthly Review of the Federal Reserve Bank of Kansas City*, p. 1-8; Almarin Phillips, *Competition, Confusion and Commercial Banking*, in Harold A. Wolf and R. Conrad Doenges (eds.), *Readings in Money and Banking*, New York, Appleton-Century-Crofts, 1968, p. 6-7. This last author observes that the data available on economies of scale are of little significance. This is because the measurement of operational efficiency is influenced by many factors not related to efficiency. These factors involve the varying composition of the assets and liabilities of the banking institutions and the different service policies which they have adopted. On this point, see Richard E. Bond, "Deposit Composition and Commercial Bank Earnings", *Journal of Finance*, March 1971, p. 50. In this connection we should note that a bank may obtain from larger banks the services which it cannot economically provide. This is for instance an important justification for the central institutions. However, these possibilities are not such as to cancel out entirely the disadvantages of size.

temporary fluctuations which influence that economic factor. This enables credit institutions to reduce the amount of their monetary reserves and thus to increase the amount of the investments which they make in various technical forms<sup>1</sup>. Their expansion policies may presuppose heavier financing in space and time of their own investments, thus reducing management risks and eventually improving their economic and financial stability<sup>2</sup>. Furthermore, the process we are considering enables banks to improve, to their own advantage, their contractual bargaining position and to enjoy greater freedom in choosing their customers. Credit institutions will most probably use this greater freedom of choice to extend their own dealings with firms whose structural and functional characteristics enable these institutions to achieve greater reliability in the flow of their own monetary receipts and outgoings. This kind of behaviour, however, should lead to calling in credits granted to small and medium-size undertakings, setting up, to the detriment of the latter, a process of credit rationing<sup>3</sup>.

At the same time we should note that an increase in the degree of concentration may bring about negative results as regards the distribution of financial services between the various regions

<sup>1</sup> See S. M. Goldfeld, *Commercial Bank Behaviour and Economic Activity: A Structural Study of Monetary Policy in the Postwar United States*, Amsterdam, North Holland Publishing Company, 1966, p. 70.

<sup>2</sup> See Marco Onado, "La disciplina legislativa delle dimensioni bancarie", *Il Risparmio*, May 1971, p. 762-763 and the bibliography quoted there; Mario Monti, *Gli obiettivi delle banche - I tassi d'interesse e la politica monetaria*, Milan, Tamburini, p. 12 and Lyle E. Gramley, "Deposit Instability at Individual Banks", *Monthly Review of the Federal Reserve Bank of Kansas City*, *op. cit.*, p. 50, 52, 53.

<sup>3</sup> See A. Pin, *Il razionamento del credito bancario*, *op. cit.*, p. 484-485. According to this author the margin of unsatisfied customers is due to the existence of a continuing gap between the demand for credit which reaches the banks and the part thereof which is met at current interest rates.



of a country, between the various sectors of production and, within each sector, between the different types of companies. This occurs especially when the large banks adopt a strict businesslike policy, and prefer to concentrate their own activity in the most developed areas and work with the firms which can provide a high rate of immediate return. Under these conditions, local banks alone can provide customers in their areas with an adequate supply of finance and meet the demand from companies to whom the big banks are applying this rationing policy<sup>1</sup>.

It is obviously important therefore that there should be an adequate territorial network of credit institutions enabling all enterprises to have practical access to the financial services they require. Hence one should encourage the constitution of banks of the various categories and the opening of branches in economically less-developed regions, in rural areas and in centres which, while they have bank branches, appear to justify the activities of new credit institutions<sup>2</sup>.

<sup>1</sup> See Tancredi Bianchi, *Le banche di deposito*, op. cit., p. 310; Roberto Ruozi, *Le economie di scala*, op. cit., p. 67. The latter author provides, in the above-mentioned work, a very important explanation of the relation between the size of banks and their bargaining power. In fact, according to this author, the bargaining power of the institutions we are discussing depends, regardless of their size and that of their customer firms, on the structure of the market in which a bank and its customers have to operate. This illustrates clearly the dangers of generalisations in this field. See R. Ruozi, *Le economie di scala*, op. cit., p. 60. Similar observations are made by A. Phillips who holds, however, that, other things being equal, the bargaining power of a company which is seeking credit will be higher if this firm is "willing and able to 'shop' among banks and the other financial institutions for the best terms". Or, in other words, that "the monopoly power of sellers is inversely related to the ability of customers to 'shop'". See A. Phillips, *Competition, Confusion and Commercial Banking*, op. cit., p. 8.

<sup>2</sup> This is discussed at length by George Benston, "Do large banks neglect small business?", *Journal of Finance*, September 1966; Donald Jacobs, "The Interaction Effects of Restrictions on Branching and Other Bank Regulations",

Furthermore, we should remember that the various banks do not provide completely identical services. Banking activities generally rise to the combined production of a fairly diversified range of services. Every bank creates its own image of economic efficiency, technical capacity and financial competence in the public mind which distinguishes it from the rest. Hence, since the credit facilities offered by the banks are not completely identical so far as the various operators are concerned, there is a process of qualitative diversification which brings about an effect of "splitting" of the markets for individual banking services<sup>1</sup>. This brings about many sub-markets which, although connected interdependently within the credit market where they are included, represent, to a sufficient extent, the market structure to be borne in mind when considering the competition between the various institutions and the relationships which connect them with applicants for credit<sup>2</sup>. Hence the study of concentration in credit activity must relate to each of the component parts of the credit market, taking into account, however, the complex limits on interdependence which affect these component parts.

*Journal of Finance*, May 1965, p. 344-345, and T.A.B. Corley, "The Small Firm and the Banker: Aspects of the Bolton Report", *The Bankers' Magazine*, January 1972, p. 5-8.

<sup>1</sup> See Paolo Mottura, Introduction to *Concorrenza e controllo nell'attività bancaria*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1970, p. 32; Marco Onado, *La disciplina legislativa delle dimensioni bancarie*, op. cit., p. 767, and Dean Carson - Paul H. Horvitz, *Concentration Ratios and Competition*, in *Studies in banking competition and the banking structure*, Articles reprinted from the *National Banking Review*, The Comptroller of the Currency, Washington, 1966, p. 19 ff.

<sup>2</sup> We shall observe that small and medium-sized businesses have relatively few alternatives open to them since, in addition to their limited operational mobility, they are handicapped by other factors, e.g. transport costs, the difficulty of establishing credit relationships with institutions in other markets, the tendency

From what has already been set out one may deduce that variations in geographical distribution and in size exercise an influence in the make-up of operational costs and returns and make it advantageous for credit institutions to implement a policy of interest rates different from that previously followed<sup>1</sup>. It is known however that for a given institution, interest rates on loans vary appreciably depending on the bargaining power of the

of banks to diversify production and to specialise according to the type of customers, etc. Hence, the demand for credit by small enterprises will be faced with comparatively rigid conditions because of the small number of alternatives open. This, at least in the short run, enables banking institutions in particular and supply operators generally to carry on noticeable monopoly practices in their lending activities. On occasion this may take on the form of a differentiated oligopoly and, in extreme cases, may permit these firms to control the process whereby credit and debit interest rates are formed especially when their customers consist of small businesses which are unable to find viable alternative sources of finance or destination for their deposits in their own area. This market structure may also explain, to some extent, the notable variance which affects the intensity of banking competition as soon as demand begins to shrink due to the economic situation or the way the market structure develops. On this issue see: A.D. Alhadeff, *Monopolistic Competition and Banking Markets*, in E. Roberts Kucune (ed.), *Monopolistic Competition Theories: Studies in Import. Essays in honor of Edward Chamberlain*, New York, John Wiley & Sons, 1967, p. 357-379; Paolo Mottura, Introduction to the volume *Concorrenza e controlli nell'attività bancaria, op. cit.*, p. 31; Roberto Ruozzi, *I finanziamenti bancari alle aziende agricole*, Milan, Giuffrè, 1964, p. 200 ff. and *Concentrazione bancaria e credito all'agricoltura*, Milan, Giuffrè, 1971, p. 13 ff. and J.M. Guttentag and Edward S. Hermann, "Banking Structure and Performance", *The Bulletin*, New York, February 1967, No. 41-43, p. 10-17. It is clear moreover that the concentration ratios calculated on the basis of the local communities will be more or less definite than those based on larger territorial areas depending on the type of clientele involved. Thus, for instance, concentration coefficients on a national or international basis are the most significant for national or multi-national firms.

<sup>1</sup> Phillips asserts that banking activities may be regarded as "an industry where competition should be limited by the public authorities to maintain liquidity in the operations of payments and to add security to the depositors". See Almarin Phillips, "Competition, Confusion and Commercial Banking", *The Journal of Finance*, May 1964, p. 32.

operators who are seeking credit, on the technical form of the transactions concluded with these operators, on the number of credit lines given to them and on what they may reasonably expect in the future<sup>1</sup>.

At the same time, in so far as their ability to attract customers is independent of the corresponding interest rate on deposits, the banks may pay different rates on deposits with the same economic and technical features. Naturally the difference in these rates will be in inverse proportion to the liquidity of the market and of the banking system<sup>2</sup>. Hence the cost of negotiating credit will fluctuate to a greater or lesser extent with individual banks, but will show a common tendency as the economic and monetary situation improves or deteriorates. For instance, in countries which lack an efficient money market and, generally

<sup>1</sup> The oscillations in the interest rates of loans will differ considerably according to the type of credit institution under consideration and to the particular structure of the banking systems as the degree of response of the various credit institutions to given decisions of monetary policies will differ according to circumstances. In particular, deposit banks have, given equal terms, a more varied structure of interest rates than special credit institutions as the businesses with which they deal have not the same negotiating strength and afford them ample discrimination on the territorial level. Also the management policy of the above banks is more susceptible to variations caused by internal liquidity conditions as determined by the policy of the monetary authorities. On this topic see Giordano Dell'Amore, *Economia dei saggi attivi bancari*, op. cit., p. 236 ff., A. Gambino, *Economia creditizia*, op. cit., p. 324, and Joe S. Bain, *Pricing, Distribution and Employment*, New York, Holt, Rinehart & Winston Inc., 1953, p. 273-315.

<sup>2</sup> We should remember that, under condition of free choice, credit institutions will base their own policy, not on the rates which the Central Bank requires for refinancing operations, but rather on the interest rates which they are in a position to obtain from the firms which use their credit facilities: consequently, their debit rates may be higher than the yield rates of medium and long-term securities. See Giordano Dell'Amore, *Economia dei saggi attivi bancari*, op. cit., p. 236 ff. and A. Gambino, *Economia creditizia*, op. cit., p. 324.



speaking, in developing countries, rates on loans and on transactions between banks tend to rise at certain recurring periods, because of the slowness in the process of readjustment between the demand and supply of funds. The countries moreover show considerable territorial imbalance between the level of credit interest and the average level of debit interest because of the marked segmentation which affects the credit market of these countries<sup>1</sup>.

Moreover, the action undertaken by the central monetary authorities to keep the volume of money and of quasi-money within gradually more reasonable limits represents a permanent factor of diversification of interest rates. Thus, as the instruments available to these authorities are strengthened, permitting them to resort at the same time to a policy of official rates and of variation in refinancing ceilings and in the qualitative features of the paper credit and of the securities accepted for refinancing purposes, the repercussions of interests on bank loans have to become more complex, so that they cannot be assessed without adequate knowledge of all the procedures involved in the use of these instruments<sup>2</sup>. However, even though the activities of credit institutions are closely linked to the policy of the issuing institutions, we should note that they have their autonomous system of receivable rates of interest which depends very much

<sup>1</sup> Furthermore, in the absence of special credit institutions, these imbalances may give rise to a process of credit rationing at the expense of certain categories of operators. See Roberto Ruozi, *Concentrazione bancaria e credito all'agricoltura*, *op. cit.*, p. 15.

<sup>2</sup> To be able to arrive at an accurate assessment of the effects of its policy, the Central Bank must determine the behaviour of the banking system and above all consider whether it tends to maximise profits or size, within the limits imposed by the market and by the monetary authorities. This point is extensively discussed by Mario Monti, *Gli obiettivi delle banche*, *op. cit.*, p. 37.

on their own structural and functional character<sup>1</sup>. And this autonomy is reinforced by the fact that rates on loans are always worked out for specific technical forms and various customers, involving fairly different risks for the banks, such as to justify quite considerable differences in interest rates<sup>2</sup>. Given the complex relations which exist in the structure and *modus operandi* of credit institutions, it seems that an appropriate structural policy<sup>3</sup> and a firm line as regards size are not sufficient, over a short period, to ensure that banking activities will be carried on under conditions which guarantee maximum efficiency in organisation and trade. In this context it would seem useful to set up a cartel agreement which will endeavour to maintain a certain stability in the system of interest rates<sup>4</sup> and determine minimum rates for credit interest and maximum rates for debit interest, leaving banking firms free to apply higher credit rates

<sup>1</sup> We should bear in mind that these considerations also apply to the banking systems of developing countries, characterised by the presence of a significant number of foreign banks and client firms. In this kind of situation, it is in fact highly probable that the structural and functional deficiencies of the banking and economic systems prevent the monetary authorities from acting decisively on movements of capital and on the relation between the national and foreign currency held by these banks. On the other hand, where the system mainly consists of national banks, the structural and functional defects which characterise them allow the monetary authorities to influence the receivable interest rates of banking firms directly, through an articulated refinancing policy as a result of which the above interest rates tend to stay closer to the official rates in their fluctuations. See Giordano Dell'Amore, *Economia dei saggi attivi bancari*, *op. cit.*, p. 206-207.

<sup>2</sup> See A. Gambino, *Economia creditizia*, *op. cit.*, p. 338-339.

<sup>3</sup> We should remember that no structural policy can be implemented in the short term.

<sup>4</sup> On the other hand it does not seem advisable for the authorities to impose political prices in the strict sense, because besides suppressing free competition, they may bring about a severe and damaging shortage of banking credit in the less-developed areas of a country. We should however bear in

or lower debit rates than those established without limitations of any kind. All this leads one to deny that bank syndicates do away with the necessary flexibility in decisions regarding credit rates where they allow substantial variations from the prices applied to various debtor businesses in a given area and, all the more so, in different areas<sup>1</sup>. At the same time, through the discipline of debit rates, the monetary authorities seek to prevent the trend in debit interest rates applied to bank deposits from having repercussions on the activities of specialised credit institutions and from inducing an excessive propensity in the public towards holding liquid assets at the expense of other financial assets<sup>2</sup>,

mind that only an adequate restructuring of the banking system can ensure an adequate flow of credit for these areas. See Giordano dell'Amore, *Economia dei saggi attivi bancari*, *op. cit.*, p. 267 and Charles M. Linke, "The Evolution of Interest Rate Regulation on Commercial Bank Deposits in the United States", *The National Banking Review*, June 1966, p. 458-459.

<sup>1</sup> To avoid partial evasion of these agreements it is necessary that the monetary authorities:

- (i) be invited to amend the conditions of the agreement when the market situations makes a speedy review advisable;
- (ii) exercise wisely their own functions of supervision and control of lending activities.

See Giordano Dell'Amore, *Economia dei saggi attivi bancari*, *op. cit.*, p. 270 ff.

<sup>2</sup> Competition as regards deposits and interest payable tends to spread, in periods of restriction, from deposit banks to all the other credit institutions which make up the banking system, causing grave losses of liquidity, in the less enterprising firms and in the specialised credit institutions. The latter, to meet their own commitments, must have recourse to the Central Bank, which will virtually be obliged to grant the requested refinancing. All this will result in an increased public liquidity, higher cost of capital, along with a restrictive influence on the level of investments. This subject is extensively discussed by Paolo Mottura, *Il controllo pubblico della concorrenza bancaria*, *op. cit.*, p. 25 ff.; Lucio Izzo, *Saggi di analisi e teoria monetaria*, *op. cit.*, p. 57-58; Donald R. Hodgman, *Commercial Bank Loan and Investment Policy*, Champaign, Illinois, 1963, p. 116-135, 158-160, and David C. Motter, "Bank Mergers and Public Policy", *The National Banking Review*, September 1963, p. 96, note 23.

thus precluding to maintain the desired equilibrium in the flow of savings and in the financial channels of the economy. Furthermore, in the short term, we should observe that, in the case where the ceiling on payable rates has to be strictly observed, deposit banks can only act independently over their own size in a marginal way, that is, by varying:

- their indebtedness at the Central Bank;
- their indebtedness towards foreign countries;
- the balance of inter-bank accounts;
- the distribution of the funds available through activities with a different capacity for generating deposits<sup>1</sup>.

However, in order to maintain a certain equilibrium in the system of interest rates, it seems advisable to give the central monetary authorities direct control over the structural and functional characteristics of the banking system<sup>2</sup> which will then

<sup>1</sup> See Mario Monti, *Gli obiettivi delle banche*, op. cit., p. 6-7. Monti also points out that, where the ceilings on debit rates are rigidly enforced, these rates represent a variable instrument of monetary policy, whereas when not enforced, they form one of the most important endogenous variables in the banking system, which the monetary authorities can only hope to control indirectly, and in every case, after they have understood the way in which the banks go about deciding the interest rates to be offered to their customers on their deposits. On this issue, see also James Tobin, "Deposit Interest Ceiling as a Monetary Control", *Journal of Money, Credit and Banking*, February 1970, p. 4-14; Milton Friedman, "Controls on Interest Rates Paid by Banks", *Journal of Money, Credit and Banking*, February 1970, p. 15-32; Lyle E. Gramley, *Growth and Earnings*, op. cit., p. 11; *The Operation of Monetary Policy since Radcliffe*, in D.R. Croome and H.G. Johnson, *Money in Britain, 1959-1969*, OUP, 1970, p. 212, and Brian Griffiths, *Competition in Banking*, IEA, 1970, p. 14, 44-46, 56-57.

<sup>2</sup> This question is extensively discussed by Giordano Dell'Amore in *Un ventennio di evoluzione delle Casse di Risparmio italiane*, Milan, Giuffrè, 1966, p. 5 ff. and *Il contributo del sistema bancario alla politica del risparmio*, Milan, Giuffrè, 1967, p. 6 ff. We should bear in mind that compliance with the limits of remuneration on deposits and investments may not be enforced and that the monetary authorities prefer to ensure compliance through a system of



be responsible for using these instruments in such a way as to create a structure that, by balancing the positive and negative aspects of a high degree of concentration, ensures for banking activities:

- (i) a high level of efficiency, in the sense of reducing the costs of making credit available;
- (ii) the best use of resources in order to promote savings, investments and the national revenue;
- (iii) the ability to prevent large transfers of funds between the various financial operators.

### 3. INSTRUMENTS FOR THE STRUCTURAL AND OPERATIONAL CONTROL OF THE GABONESE BANKING SYSTEM

The monetary authorities of Equatorial Africa and of Cameroon have a number of instruments with which they can influence the structure of the Gabonese banking system. In fact, the provisions of Articles 6, 8 and 10 of the country's banking legislation enable them to exercise effective control over the size, territorial distribution, concentration and, finally, over the entire structure of the Gabonese credit system.

It is in fact the National Credit Board of the issuing area which is empowered to enter businesses in the list of banks where it appears that the requested authorisation is justified by the needs of the economy. The expansion of an institution as regards size or territorial distribution could, however, escape this control if enlargement is achieved through merger operations or through a

incentives. In many cases however the proposed incentives appear calculated to improve the economic position of the banks rather than to contribute towards effective observance of these limits. See Mario Monti, *Gli obiettivi delle banche*, *op. cit.*, p. 46.

process of buying holdings giving rise, for instance, to a chain banking system<sup>1</sup>. The monetary authorities may however make use of the provision of Article 8, according to which credit institutions must submit to certain individual decisions, such as de-registration or the closure of branches. In practice this compels such institutions to seek prior authorisation of the central monetary authorities for the operations we have already mentioned.

The possibilities of control over the structure of the banking system are further reinforced by Article 10. Pursuant to this article, in fact, on behalf of the National Credit Board, the Banking Control Board examines any applications for inclusion on the register<sup>2</sup> of the firms intending to pursue banking activities. Where the Board deems it fit, it may recommend the inclusion of the applicant firm in a category other than the one requested. This Board may further recommend to the National Credit Board that the list be modified when the activities of a bank no longer fulfill the conditions on which its earlier classification was based.

At this point we may usefully consider some decisions of the National Credit Board which influence the behaviour of the banking system and more specifically those which establish a ratio for commercial banks between their own capital and the volume of their commitments, a minimum holding of securities, and a minimum coefficient of liquidity.

<sup>1</sup> As is known, the expression "chain banking" is intended to describe a process of effective merger. In many cases, however, a large bank prefers to establish close links with a small bank rather than effect a merger in the strict sense. This process normally involves the acquisition of shares, enabling the large bank to achieve control over the small bank and to pursue activities which do not fall within its institutional competence. See Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 342.

<sup>2</sup> As observed, under the legislation we are considering, banks may be classified as deposit banks, medium- and long-term credit banks and commercial banks.

The first requirement must be considered together with the provisions of Article 4 of the banking legislation<sup>1</sup>. These provisions provide the monetary authorities with a useful instrument in order to influence concentrations in the banking system. They could in fact, if they thought it desirable, to increase the dimensions and degree of concentration of the system, establish provisions discriminating against small firms. Alternatively, they could discourage the presence of foreign banks if they felt it advisable.

Moreover, we should note that, with this instrument, the authorities concerned would be able to regulate the behaviour of individual credit institutions. They, in fact, by raising the amount of net worth necessary to grant loans in a given amount could have discouraged deposit banks from granting long-term credits, or at least could have made this activity less hazardous, and less dangerous from the standpoint of economic development. The use of this instrument has, however, very definite limits in that, to avoid misconceptions about the functions of deposit banks, their fiduciary reserves are normally larger than their own capital.

At this point it seems worth while considering the decision to establish a ratio between the net worth and the volume of commitments of deposit banks<sup>2</sup> of 7% on loans which can

<sup>1</sup> Pursuant to Article 4, the monetary authorities are empowered to fix, for the various institutions, the minimum amount of net worth. These may use the power which has been given them to establish discriminatory minimum levels, so as to take account of the functional characteristics and the risks involved in the lending activities of the various types of institutions.

<sup>2</sup> See "Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun", *Bulletin Mensuel*, January 1971, p. 37. See the decision of 1st December 1970 of the different national credit boards.

be rediscounted<sup>1</sup> and 10% on those not eligible for rediscounting<sup>2</sup>. What is involved therefore is a liquidity ratio<sup>3</sup> which may have a quantitative and selective influence over the size of the loans granted by the institutions under discussion. In fact, the particular form of legal reserves<sup>4</sup> may compel banking operators not to use part of the resources they have collected<sup>5</sup> for the financing of productive processes. Moreover the different percentages of

<sup>1</sup> It may be useful to specify that the rediscounting ceilings, imposed by the central monetary authorities on individual banks do not duplicate the instrument we are considering. In fact, while the ceiling is intended to limit recourse by banks to refinancing operations, the ratio considered determines the limits beyond which — in the presence of a given amount of net worth — credit institutions cannot grant loans to private operators within the economic system. Naturally the rediscount ceilings allowed to individual banks cannot exceed 14.28 times these banks' own funds.

<sup>2</sup> It is worth observing that this ratio is very suitable for permitting a fair assessment of the system of risks undertaken by deposit banks, in which one takes into account commitments outside the balance sheet. The liabilities, as we have seen, must be separately entered according to the rules of accountancy adopted, in so far as after the registration of the securities considered suitable for rediscounting presented to the issuing institution in order to obtain re-financing, there remains no longer any trace of them in the balance sheets of the banks.

<sup>3</sup> The monetary authorities must however avoid imposing excessive limitations on the management of banks through the use of this instrument. In this case, in fact, they would achieve counterproductive effects, since they would impair the profitability of these institutions. This would significantly reduce the value of the most effective guarantee on which creditors may rely. See Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 460.

<sup>4</sup> It may be worth observing that this instrument is a very suitable one for containing the level of overall demand in economies which, like the one under consideration, are heavily dependent on the rest of the world and by the ability of the credit institutions to borrow from their foreign correspondents.

<sup>5</sup> We may note that a moderate net worth/commitments ratio makes it easier for small institutions to operate, whereas they find themselves in a difficult position if a high ratio forces them to expand, which is not always possible for them, especially in the case of public institutions. See Giordano Dell'Amore,



reserves required for various types of credit may alter the effective yield rates of the various types of loan and thus influence the policy and credit allocation of the deposit banks<sup>1</sup>. Another instrument available to the Gabonese monetary authorities consists in the possibility which they have been given of requiring from deposit banks an investment in *bons d'équipement*, generally to a value equal to a given percentage of the amount of their deposits<sup>2</sup>. In Gabon the coefficient has been fixed at the level of 10%. This form of legal reserve should have as its purpose an increase in the effectiveness of the ceilings of rediscount, preventing banks from liquidating the *bons d'équipement* and reducing their proportionate share of fiduciary currency<sup>3</sup>. However, bearing in mind the functional features of the system we are

*Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 469. It is clear, from what has already been stated, that the monetary authorities may use the instrument to influence the degree of concentration of the system and the dimensions of individual firms. Naturally, the greater will be the frequency of checks in compliance with these ceilings, the greater will result the effectiveness of this instrument for the purpose of controlling the level of overall demand. The requirement for this frequency is all the greater because of the extreme variability which characterises the amount of money in circulation in the course of the year.

<sup>1</sup> See Arnold Dill, "Selective Credit Controls - The Experience and Recent Interest", *Monthly Review of the Federal Reserve Bank of Atlanta*, May 1971, p. 8. This author shows that one is dealing with temporary solutions, inasmuch as it is only possible to obtain an optimum allocation of credit through the operation of financial markets.

<sup>2</sup> To avoid sudden contractions in the liquidity reserves of deposit banks it would be useful for the placement of newly-issued securities at these institutions to be accompanied by the opening of current accounts on the part of the Treasury, so as to avoid negative repercussion on the management of the banks and on the liquidity of the economy. See Donald R. Hodgman, *Commercial Bank Loans and Investment Policy*, Bureau of Economic and Business Research, University of Illinois, Champaign, Illinois, 1963, p. 132.

<sup>3</sup> In this case also the floor will be all the more effective the more frequently it is determined. See David A. Alhadeff, *Concorrenza e controlli nell'attività bancaria*, op. cit., p. 263-264.

considering and in particular its dependence on foreign decision-making centres, it would appear possible to maintain that the recourse to this instrument may be due to the wish to divert towards the public sector a substantial part of the increase in banking credit, rather than to the desire to regulate liquidity according to the requirements of the business cycle<sup>1</sup>.

In so far as this interpretation corresponds to the actual behaviour of the monetary authorities under consideration, we should observe that banking legislation places a further instrument at their disposal for this objective<sup>2</sup>. In fact, according to Article 8, banks are required to make all their operations involving issue or conversion of the public debt in compliance with the conditions which may be jointly established by the Ministry of Finance and of the National Economy. This undoubtedly represents an effective instrument, available to the monetary authorities, to influence the process of conversion of short-term debts into medium and long-term credits<sup>3</sup>.

Furthermore the imposition of a minimum of liquidity ratio enables the monetary authorities to influence the behaviour of

<sup>1</sup> On this point see also Paolo Baffi, "Monetary Stability and Economic Development in Italy, 1946-1960", *Banca Nazionale del Lavoro Quarterly Review*, March 1961, p. 8.

<sup>2</sup> It is highly probable that credit institutions will find it convenient, when they are induced to overload their portfolio of securities, to increase debit rates more than credit rates, in so far as these have size as their objective. On this issue see Mario Monti, *Gli obiettivi delle banche*, *op. cit.*, p. 16 and 33-34, and W. T. Newlyn, *Money in an African Context*, *op. cit.*, p. 121.

<sup>3</sup> It seems worth while observing that the Central Bank through this instrument may influence the structure of credit and debit interest rates of the credit institutions, in such a way that the institutions conform to the objectives of monetary policy, since the policy can control the flow into the credit institutions of assets that can be used as reserves. On this topic, see the interesting study by Lucio Izzo, *Saggi di analisi e di teoria monetaria*, *op. cit.*, p. 58.

commercial banks in such a way as to avoid the occurrence of frequent liquidity shortages<sup>1</sup>. Originally this ratio was 70% but on 31st December 1968 it was raised to 75%. The banks were allowed to approach the new ratio at the rate of one point per quarter. They are thus obliged to keep in ready money or in liquid assets (Treasury bonds, marketable commercial bills, etc.) at least 75% of their own sight or short-term liabilities. And since financial paper can be included among liquid assets only in so far as it can be rediscounted at the Central Bank, it is clear that this provision assumes the form of a selective instrument of monetary control, even if in an incidental manner<sup>2</sup>.

The National Credit Board, on the other hand, has not thought it appropriate to institute a coefficient of investment diversification which compares the net worth of a bank with the total amount of the loans that may be granted to any one operator. This coefficient is intended to reduce the risk element in the management of banks and to enable the monetary authorities to influence the distribution of bank credit when their authorisation is required because the ratio between their own capital and the credit they have granted is above the diversification coefficient. However, bearing in mind the small number of credit-worthy firms, the National Credit Board felt it more appropriate to make the refinancing operations of the monetary authorities comply with borrowing limits on the part of the borrowers, rather than to avoid a compulsory division of risks.

Finally, the National Credit Board, by a decision of 1st December 1969<sup>3</sup>, placed a further instrument in the hands of the

<sup>1</sup> This coefficient was motivated by a decision of the National Credit Board, No. 1-68 of 30th October 1968.

<sup>2</sup> See David A. Alhadeff, *Concorrenza e controlli nell'attività bancaria*, *op. cit.*, p. 263.

<sup>3</sup> This decision took effect on 1st January 1970.

monetary authorities: the control of hire purchases. In fact this decision lays down that:

- (i) hire purchase of producer goods must be subject to the payment, on delivery, of a sum equivalent to 25% of the total value;
- (ii) the duration of the credit may not exceed:
  - 18 months for forestry equipment and for public works, tractors and buses or coaches exceeding 12 tons gross weight;
  - 12 months for passenger or freight transport vehicles weighing under 12 tons and for machine tools.

It is clear that, by these provisions, the National Credit Board intended to exercise a selective control through the Central Bank over the credits granted by deposit banks to firms. These credits, together with self-financing, own equity funds and medium and long-term loans, enable firms to meet part of their needs as regards long-term financing. Hence this provision is justified by the fact that savings within and outside the firms are not sufficient to finance the process of capital accumulation, and by the wish to limit the intervention of deposit banks in the market for medium- and long-term credit. However, since the large firms enjoy greater bargaining power than small and medium-sized firms they can increase their own indebtedness towards deposit banks more readily than the latter and thus avoid the effect of the provisions relating to the control of sales by instalments<sup>1</sup>. We should however note that this possibility depends, in the last analysis, on the degree of autonomy enjoyed by these banks in their relations with the Central Bank, since this will determine the

<sup>1</sup> We should observe that, if the foreign firms exporting the producer goods under discussion set up leasing firms in Gabon, the effectiveness of this provision would be virtually nil. In that event, however, one would be facing the problem of imports financed by foreign credit.



amount of financing that banking operators can grant above the ceilings fixed by the central monetary authorities to individual firms<sup>1</sup>.

We may however assert that the instrument under discussion may encourage a process of industrial concentration at the expense of small and medium-sized firms, and that it tends to restrain the pressure exerted by large firms, through bank financing, on the level of overall demand, on prices and on the country's currency resources, depending on the frequency and intensity of recourse to re-financing processes by the commercial banks<sup>2</sup>.

It seems however that the adoption of selective criteria for short and medium-term credit is inadvisable because, in addition to its uncertain effectiveness, it is liable to create conflicts within the public intervention system<sup>3</sup>.

#### 4. BANK SYNDICATES

In the preceding paragraph we considered the motives that may lead the monetary authorities to set up a bank cartel<sup>4</sup>. As

<sup>1</sup> Small and medium-sized firms can also evade this provision in so far as the importing firms are in a position to obtain larger credits from commercial banks and use these resources to grant payment facilities to these operators.

<sup>2</sup> Naturally, other considerations will apply where deposit banks are given the possibility of borrowing freely from foreign correspondents as in Gabon. In fact, if these have recourse to foreign credit in order to meet the financial needs of their client firms there will be no short-term repercussions on the country's hard currency resources. Even in this case, however, the provision we are considering is calculated likely to promote a process of industrial concentration.

<sup>3</sup> The problem is discussed at length by Lucio Izzo in *Saggi di analisi e teoria monetaria*, *op. cit.*, p. 83 ff.

<sup>4</sup> According to Dell'Amore, rates fixed by voluntary agreements between these banks, especially when these agreements have been concluded under the auspices and with the official or tacit blessing of the public authorities, fall under the heading of administrative rates. See Giordano Dell'Amore, *Economia dei saggi attivi bancari*, *op. cit.*, p. 151.

we have seen, through the introduction of minimum credit rates they intend, *inter alia*, to prevent inadequate competition or an excessive imbalance between supply and demand for loans from inducing banks to reduce their rates on loans unduly<sup>1</sup>. Conversely, by introducing maximum debit rates, these authorities seek to prevent intense competition from leading to an undesirable concentration and weakening of the banking system<sup>2</sup>. More generally, we may assert that, by having recourse to this instrument, the central institutions seek to influence the efficiency of the banking system in order to raise it to the maximum<sup>3</sup>.

Again in Gabon, on 10th October 1968 an inter-bank agreement was negotiated between the *Banque Nationale de Paris* (BNP), the *Union Gabonaise de Banque* (UGB) and the *Banque Internationale pour l'Afrique Occidentale* (BIAO) establishing minimum and maximum rates of receivable and payable interest

<sup>1</sup> It may be worth noting that a price policy is adopted by the banks when they wish to counteract the competition they have to face from other operators in their financial activities. Conversely, on markets where competition from non-banking financial operators is negligible, deposit banks prefer to adopt policies not based on price. See Donald R. Hodgman, *Commercial Bank Loans*, *op. cit.*, Chapters X and I; Clay Anderson, *Competitive Factors in Business Loans of American Commercial Banks*, New York, The Ronald Press Company, 1959, p. 305-311 and L. L. Werboff and M. E. Rozen, *Market Shares and Competition Among Financial Institutions*, in *Private Financial Institutions*, Englewood Cliffs, N. J., Prentice-Hall, Inc., 1963, p. 265-327.

<sup>2</sup> See Clay Anderson, *Competitive Factors in Business Loans of American Commercial Banks*, New York, The Ronald Press Company, 1959, p. 305-311, and Roland Robinson, *Unit Banking Evaluated*, in Dean Carson (ed.), *Banking and Monetary Studies*, Homewood, Illinois, R. D. Irwin, 1961, p. 301-302.

<sup>3</sup> See Brian Griffiths, *Competition in Banking*, *op. cit.*, p. 14, 57; J. S. G. Wilson, "Regulation and Control of the United Kingdom Banking and Financial Structure", *Banca Nazionale del Lavoro Quarterly Review*, No. 89, June 1969, p. 128-145.

respectively. The conditions provided in the cartel agreement are applicable to all operations except those effected:

- (i) between banking institutions;
- (ii) by banks with their staff;
- (iii) to finance the production and marketing of cotton.

Fund-collecting operations are divided into three categories: sight and fixed-term deposits and savings deposits.

The following rates are provided for sight deposits:

up to 200,000 CFA francs	0%
from 200,000 to 2,000,000 CFA francs	1.50%
from 2,000,000 to 5,000,000 CFA francs	2%
above 5,000,000 CFA francs	2.50%

For fixed-term deposits, conditions of remuneration are determined in different ways depending on whether the fixed-term is from three to six months or over six months. Annual interests are as follows:

	3-6 months	over 6 months
up to 200,000 CFA francs	0%	0%
200,000- 2,000,000 CFA francs	2%	2.50%
2,000,000- 5,000,000 CFA francs	2.50%	3%
5,000,000-25,000,000 CFA francs	3%	3.50%
25,000,000-50,000,000 CFA francs	3.50%	4%
over 50,000,000 CFA francs	3.75%	4.25%.

In the event of withdrawal before maturity of the deposit, the institution will grant advances on the term deposits at a rate of at least 1% above the interest on the deposit.

An interest rate of 4% is given for savings deposits provided the sum is between 25,000 and 3,000,000 CFA francs. The holders of these accounts receive a passbook which may be used only in the branches where these payments have been made.

On the other hand, no interest may be paid on deposit accounts in foreign currency<sup>1</sup>.

However, as regards investment operations, the agreement refers to basic interest rates and more specifically to:

B.R. = rate applied by the Central Bank on overdrafts or seasonal loans;

S.B.R. = rate required by the Central Bank for temporary rediscount. These rates may be raised according to the risks involved in these operations.

For credits which are eligible for rediscount, the minimum surcharge is 2.50 per cent.

For medium- and long-term re-financing operations the rate of interest required by the monetary authorities for similar refinancing operations is taken as a base, and a surcharge of 2% or 2.50% is added, depending on whether or not the credits allowed are above 25 million CFA francs<sup>2</sup>.

Bills will be discounted at the following rates:

- (i) for clean, trade bills or foreign bills      S.B.R. + 2%;
- (ii) for documentary bills
  - before the documents are handed over      S.B.R. + 1%;
  - after they are handed over      Bank Rate applied to clean bills.

For non-documentary bills maturing beyond six months, a monthly commission of 1/12% is applied over the excess period, whereas for documentary bills a fixed commission of 0.50% is applied instead. This commission cannot exceed 5,000 CFA francs.

<sup>1</sup> Naturally, in so far as deposit banks resort to liabilities management policies, they discriminate against small deposits. See "After PIB Report", *The Banker*, July 1967, p. 586; Brian Griffiths, *Competition in Banking*, *op. cit.*, p. 57, Robert Lindsay, "The Economics of Interest Rate Ceilings", *The Bulletin*, New York, No. 68-69, December 1970, p. 34.

<sup>2</sup> These conditions apply until the loans which have been granted are eligible for rediscount at the Central Bank.



The rates set out above may be reduced for firms:

- (a) in which the State has made an investment;
- (b) whose activity is of particular interest to the State;
- (c) which have considerable bargaining power.

In these cases the rates are as follows:

- (i) for overdraft financing B.R. + 2%
- (ii) for discounting commercial, clean or foreign bills S.B.R. + 1.75%
- (iii) for discounting bills
  - (a) before the documents are delivered S.B.R. — 0.75%
  - (b) after delivery: rate for clean bills plus a commission of 0.50% up to a maximum of 5,000 CFA francs;
- (iv) for discounting the bills of a group for the financing of equipment B.R. + 1.50%.

The bank syndicate holds a list of the firms allowed to enjoy these preferential rates. However, the oil companies included in this list enjoy these rates only on condition that the credits already obtained by them do not exceed 90% of the maximum granted to them.

For the concession of overdrafts<sup>1</sup> partly or not fully eligible for rediscounting at the Central Bank, additional surcharges are provided, determined as follows:

- (a) on loans of which 50-90% are rediscountable, a commission of 1/18% a month on the highest value of the loan not eligible for rediscounting, conceded to a given firm;

<sup>1</sup> We should note that, in the case of loans which cannot be fully mobilised at the Central Bank, the rates laid down for overdrafts will also be applied to operations involving the discounting of bills. An exception is made in the case of commercial paper, for which one must refer to the rates provided for in this technical form of financing.

- (b) on credits of which less than 50% are eligible for rediscounting, a commission of 1/12% to be calculated on the basis of the criteria set out above;
- (c) on credits not eligible for rediscounting, a commission of 1/8 per cent.

On the other hand, if credits not eligible for rediscounting are granted through the technical form of temporary rediscount, the following conditions will apply:

rates of interest: B.R. + 2.50% plus a monthly commission of 1/18% or 1/12% depending on whether or not the portion of the loan which is not eligible for rediscounting is above 50 per cent.

If the bills are not fully eligible for rediscounting, the banks are required to apply an interest rate equal to the B.R. with a 3% surcharge and a monthly commission of 1/8%<sup>1</sup>.

Finally, the following conditions are laid down for loans covered by a bank guarantee:

	Interest	Monthly Commission
Overdrafts		
Ordinary Clients	B.R. + 2.50%	0.75%
Special Clients	B.R. + 2%	0.25%
Discount of clean trade bills or foreign bills		
Ordinary Clients	S.B.R. + 2.25%	0.75%
Special Clients	S.B.R. + 2%	0.50%
Discount of documentary bills		
Ordinary Clients	S.B.R. + 1%	0.75%
Special Clients	S.B.R. + 0.75%	0.50%.

<sup>1</sup> Again for the temporary rediscount, the commission will be calculated on the highest value attained by loans not eligible for rediscounting, in the period of one month.

It may be superfluous to point out that these penalty rates are intended to encourage compliance by individual firms with the credit ceilings allocated to them by the central monetary authorities.

The syndicate agreement further specifies the conditions relating to the maturity of interest<sup>1</sup>, to commission and other aspects to which, despite their importance, we have not thought it advisable to refer in greater detail due to the limited scope of this work.

## 5. THE CENTRAL BANK RISK POOL

With a view to following more closely the distribution of credit, the Central Bank of the States of Equatorial Africa and Cameroon has organised, at its head office in Paris, a central risk pool for all the countries in the issuing area<sup>2</sup>.

Deposit banks and financial institutions must declare to the Central Bank by the tenth day of every month, the loans and credit facilities<sup>3</sup> granted to each of their clients at the close of business on the last day of the previous month.

<sup>1</sup> Those markets where the Central Bank has a branch or any kind of representation are considered banking markets.

<sup>2</sup> The provisions relating to the establishment and financing of this office came into force on 31st October 1965.

<sup>3</sup> The declaration forms are compiled in such a way as to distinguish between the amount of credit conceded and that which is used. It is thus possible for the central monetary authorities to have the data relating to unused credit margins. This will enable the Central Bank to foresee with an adequate degree of reliability the influence which the decisions of operators enjoying the credit facilities under discussion will have on the economy and on the credit system. In fact, if we assume that operators have as their objective the maximisation of their own size within the limits compatible with acceptable profit margins, the monetary authorities may consider that they will effect as many investments as possible, up to the limits allowed them by the various institutional liquidity ratios and by their own liquidity reserves. Most probably they will assume that — in the above circumstances — an increase in current account overdrafts, following on the use of the facilities under discussion, will compel banks to liquidate their investments or to resort to re-financing operations. This behaviour will necessarily have repercussions on the credit market, on the level of overall demand and on the process of capital

The credit lines granted by every bank must be classified according to their technical form. In particular, as regards discounts, they must indicate separately those conceded on clean bills and those on documentary bills. Furthermore, every bank and every financial institution is required to indicate the technical form of the loans granted to individual operators. They must also show, for discount operations, the credits granted on clean bills and those granted on documentary bills, while they are required to compensate the loans granted to a given operator by opening a credit in current account and through advances and deposits at sight, or fixed deposits placed with them and belonging to the operator concerned.

Pursuant to Article 6, banks and financial institutions are required to make known the position of customers who:

accumulation not acceptable to the monetary authorities. These may however use the instruments at their disposal, for instance the requirement to deposit part of their resources, or, more usually, to use their funds according to given directives, in order to influence the decisions of the banks and induce them to carry on their activity as intermediaries between short and long term in accordance with their objectives. On this issue see W. T. Newlyn, *Money in an African Context*, *op. cit.*, p. 20. It may be worth recalling that, since the use of current account credit facilities is not necessarily neutral, the purchasing power given thereby cannot be considered as money according to the so-called "theory of monetary neutrality" of which Newlyn is an authoritative exponent. One arrives at the same conclusion on the basis of Hicks's definition of money. According to this author, money must be understood as meaning "an entirely liquid asset, not because it is free of interests but because as long as there are transaction costs when passing from a security to money and then to another security, these costs are less than those arising from an attempt to make a direct exchange between one security and another". In fact, according to this author, even bills of exchange may take on a monetary aspect. See J. Hicks, *Saggi critici di teoria monetaria*, *op. cit.*, p. 20-34. In this issue see also Milton Friedman and Anna Schwartz, "The Definition of Money: Net Wealth and Neutrality as Criteria", *Journal of Money, Banking and Credit*, February 1969, p. 1-14, George G. Kaufman, "Current Issues in Monetary Economics and Policy: a Review", *The Bulletin*, New York, No. 57, May 1969, p. 23-34, 42-47 and the extensive bibliography quoted there.



- (i) have obtained credit equal to or exceeding 2,000,000 CFA francs for short-term loans or for 10 million or more for medium and long-term transactions;
- (ii) have been the subject of previous reports from any bank or financial institution established in Equatorial Africa or in Cameroon, unless the central monetary authorities have decided to remove this institution from the list of those entered.

We should however observe that even credits below the limits mentioned above may form the subject of a report. Furthermore, pursuant to Article 9, while the credit lines granted to financial institutions and the credits used by the same must be reported, those granted to deposit banks do not need to be recorded.

Still pursuant to Article 9, banks or financial institutions which grant credits, either as correspondents of national credit institutions which are not bound to make a declaration or on the basis of the guarantees given them by these institutions, are required to make a report in the name of the real beneficiary of the credit. Furthermore, banks established in the issuing area, which participate with foreign institutions in the management of joint credits, must:

- (i) if they are leaders of the consortium, declare their own participation and that of the institutions which are not established in Equatorial Africa or Cameroon;
- (ii) if they are merely partners in the consortium, make known their own share in the financing.

If a customer simultaneously uses lines of credit from a consortium and individual lines, the banks are required to keep these two categories of credit separate in their report<sup>1</sup>.

<sup>1</sup> This separation must of course also be maintained for short-term and medium-term transactions.

Finally, banks which act as leaders of credit consortia must make known to the Central Risk Pool in addition to the facts already mentioned a list of the joint loans which they are managing, with the indication, for each consortium, of the share of participation of individual firms.

Thereafter, for the purpose of processing the information received, the Central Bank will make known to every bank a summary of the situation of the risks that have been listed for each beneficiary. Naturally, it will not supply data relating to the allocation of the credits between banks and financial institutions.

It is thus clear that credit control is an instrument of the greatest importance for the banks and for the central monetary authorities in so far as, besides enabling them to know the indebtedness record of individual operators, it provides a considerable source of information on the way in which the behaviour and structure of the banking system are developing<sup>1</sup>.

This possibility of information, provided by the instrument under consideration, was strengthened by the general decision of 22nd November 1965, issued by the National Credit Board. This decision required banking and financial institutions to report to

<sup>1</sup> The creation of a clearing house may also be considered as a very helpful source of information. The clearing house in fact, apart from assisting the operation of the banking system, allows deposit banks to keep a daily check on the reflux of the funds invested. Thus the managers of a banking institution, if the balance at the clearing house shows an overdraft at regular intervals, will know they are losing liquidity to their own competitors and will accordingly be able to seek the reasons for that loss in order to apply a remedy. Indeed, we should observe that the plus or minus value of clearing house balances will diminish as duplications increase in the overall amount of the deposits, these being caused by the reporting system we are considering, due to the territorial distribution of banks and the inefficiency of the postal service. This point is discussed by Tancredi Bianchi, *Le banche di deposito*, op. cit., p. 45 and Paolo Mottura, *Il controllo pubblico della concorrenza bancaria*, op. cit., p. 30.

the Central Bank any incidents concerning failure to honour cheques or bills of exchange in whole or in part, whatever the cause of the insolvency, and even if no protest was expected, provided that these insolvencies were recorded by the institutions concerned. In this way the central monetary authorities could integrate the data obtained on the bank indebtedness record of businesses operating within the issuing area with greater knowledge of the variability in the flow of banking credit to small and medium-sized firms, as the economic situation alters or when liquidity is subject to stress in the banks providing the finance. The Central Bank is thus in a position to use in a more conscious way selective monetary instruments, so as to exert an influence on the geographical distribution, the structure and the behaviour of banking operators in order to lessen the intensity of the credit rationing procedures which, in developing countries, will bear particularly hard on small and medium-sized firms. As their long-term objective, the monetary authorities can therefore promote a greater articulation of credit intermediary activities by introducing within the banking system institutions such as savings banks and development banks which, through their respective aims, are better suited to provide a steady and adequate flow of credit to the operators under consideration.

To this end, they may also encourage the collection of funds by these institutions, by requiring deposit banks to purchase the securities issued by them, or to grant them medium- and long-term credits. We should however observe that central banks cannot overload the security portfolio of the commercial bank since when credit restrictions are in force or when the demand for credit is expanding this would compel them to mobilise part of their holdings through operations to which the monetary

authorities would have to be the counterpart<sup>1</sup>. Instead, these authorities, were they to induce credit institutions to grant medium- and long-term loans to development banks, could avoid inconsistency in the pursuit of their short-term objectives because the bonds issued by development banks have no monetary functions<sup>2</sup>.

It seems however that the introduction of specialised credit institutions in a banking system could lead to a more efficient allocation of available resources and to an improvement of the financial structure and of the possibilities of development of the small and medium-sized firms as well as to greater autonomy in the decision-making centres of the productive system<sup>3</sup>.

#### 6. THE NATIONAL CREDIT BOARD, THE BANK CONTROL COMMISSION AND THE PROFESSIONAL ASSOCIATION OF BANKS

At this point, having examined some of the instruments of credit policy, it is worth analysing the bodies which are entrusted with the study of monetary policy and the organisation and control of banking activities.

<sup>1</sup> In fact, even though it is highly probable that the demand for money in the countries we are considering is not responsive to variations in interest rates, there will be repercussions on the cost of loans. This will be an obstacle to the creation of a financial market and would reduce the auto-financing capacity of small and medium-sized firms, and, given an oligopolistic distribution system, would cause a rise in the general level of prices. It would thus discourage family operators from saving and, in the last analysis, would have a negative influence on the ability of the system to generate capital. Hence even if the link between the productive sector and the financial sector is not dependent on the rate of interest, the central monetary authorities cannot neglect the control of this economic factor if they wish to promote economic development.

<sup>2</sup> This issue is extensively discussed by Tancredi Bianchi in *Le banche di deposito*, *op. cit.*, p. 213.

<sup>3</sup> It may be worth remembering that while it fulfills essential functions in promoting development, credit intermediary activity can achieve nothing in the absence of entrepreneurial capacity.



The National Credit Board has the specific task of studying credit policy and the distribution of credit, and the structure and operation of the banking system. It also has a watching brief over the banking system through the intermediary of a special commission appointed from its own members whose composition and powers are determined by the provisions of Articles 26, 27, 28 and 29 of the Banking Law.

The Board meets under the chairmanship of the Ministry for the National Economy, and includes:

- the Minister for Finance, who acts as Vice-Chairman;
- the Managing Director of the Central Bank of Equatorial Africa and of Cameroon, or his representative;
- the Managing Director of the Gabonese Development Bank;
- the Director for Economic Affairs;
- the Director of the Foreign Currency Office;
- the Chairman of the National Association of Banks or his representative;
- two representatives nominated by the Chamber of Commerce and a representative of the co-operative bodies, jointly appointed by the Minister for the National Economy and by the Minister of Finance.

When particular problems have to be considered, individuals chosen on the basis of their specific competence may be called in for consulting purposes.

The Board is required to meet at least twice a year when convened by its Chairman. It reaches its decisions by a simple majority. These decisions are valid if a minimum of two-thirds of its members are present or represented; the Chairman has a casting vote in the event of voting being equal. However, in order to analyse certain problems more effectively, the Board may meet in restricted committees whose composition and terms of

reference must be determined at the first ordinary meeting of the Board. It receives the information and the documents which it requires for its work from government departments and from public or semi-public bodies. Furthermore, it obtains from the Central Bank the statistical data concerning economic factors which characterise the activity of the Gabonese banking system, such as, for instance, data relating to:

- the amount of deposits and of bank commitments;
- the amount of loans granted;
- the bank risks recorded by the Central Risk Pool and classified by categories of economic activity;
- money transfers effected by the Central Bank.

This body advises the Government on the measures which it intends to take in order to:

- promote the collection of deposits;
- discourage hoarding;
- convert the economy from a barter to a money basis;
- mobilise, for the purposes of capital accumulation, the monetary resources of the public.

It also advises the State and other public bodies on decisions concerning the issue of fixed-interest securities on the national, foreign and international markets. It must furthermore be consulted as to the credit policy which is to be implemented in order to meet the financial requirements of the development plan. Thus, in this connection, it is entitled to obtain from the planning bodies all the data which may help to assess the characteristics of the Treasury's needs for outside financing. Finally, the Board gives its opinion on the advisability of setting up new banks or new branches and may propose any measure calculated to improve:

- the monetary and credit policy of the central monetary authorities;
- the structure and operation of the banking system.

As we have seen, the National Credit Board has a watching role over the banking system through a commission consisting of the following members:

the Vice-Chairman of the National Credit Board who, in the Banking Control Board, assumes the functions of Chairman; the Managing Director of the Central Bank, or his representative;

the Director of Economic Affairs of the Ministry for the National Economy;

the Director of the Ministry of Finance who is in charge of banking problems.

This Commission meets when convened by its Chairman and reaches its decisions by a simple majority. The Chairman has a casting vote in the event of voting being equal.

It watches over balance sheets<sup>1</sup>, profit and loss accounts and the state of accounts of the banks which must be submitted

<sup>1</sup> It should be noted that, by a decision of the National Credit Board dated 25th February 1965, banks were required to keep to a given and well-defined layout in the compilation of their balance sheets and of their profit and loss accounts. In particular, this decision required credit institutions to specify outside their balance sheet the value of the following classes of risks:

guarantee and collateral commitments;

negotiable bills;

opening of confirmed credits.

The obligation imposed on banks, of declaring outside their balance sheets the value of their marketable securities must be seen in connection with the accounting methods in force, which do not allow them to show the amount of refinancing loans obtained by a banking operator in this particular form, thus obliging him to see to the payment of negotiable bills when they fall due. The reason is that these bills, whilst permitting the firm to enjoy loans conceded through the opening of a current account credit, directly commit the banking institution. If we bear in mind that banks have fairly frequent recourse to the issuing institution with marketable securities we shall clearly see that this provision is desirable, in order to permit a more exact knowledge of the risks to which the institution has become liable by conceding credits on current account, and of the commitments it has taken on by having recourse to these securities.

periodically. In this connection it may request these institutions to provide the information, explanations and justifications which it thinks appropriate. Where it feels that the data available, regarding a particular banking firm are insufficient or unreliable, it may have the institution inspected by a particular official jointly appointed by the Minister of Finance and the Minister for the National Economy.

Furthermore it may propose to the National Credit Board that it should recommend the modification or the integration of banking legislation or the adoption of criteria calculated to guarantee the solvency and the liquidity of the credit system<sup>1</sup>. Finally, this Board has the duty of ensuring compliance with the banking regulations and of penalising any infringements that come to its notice. In particularly serious cases it may directly recommend to the National Credit Board that banks be struck off the list, directors suspended or certain operations prohibited<sup>2</sup>.

It now remains for us to consider another body: the Professional Association of Banks. It is subject to control by the National Credit Board and has as its members all the institutions entered on the list of banks, pursuant to the Laws of 1st July 1906 and 16th August 1907. This body is governed by a Board consisting of a Chairman, who must be a Gabonese citizen, two Vice-Chairmen and a Secretary-Treasurer. The members of the Board are elected for a year by a simple majority and are immediately re-eligible.

The Chairman is required to convene the general assembly in the first half of each year and on any other occasion when he thinks it appropriate.

<sup>1</sup> Naturally, these criteria may be varied for different types of banks.

<sup>2</sup> It may be worth specifying that no reason need be given for the decisions reached by the Board and by the Commission.



The Board takes its decisions by a simple majority and the Chairman has a casting vote in the event of voting being equal.

The Professional Association seeks to promote compliance with banking regulations on the part of its members. To this end it acts as an intermediary between the banks and the National Credit Board and, in certain cases, between the banks and the control commissions. Furthermore its duties also include the study of problems inherent to:

- the exercise of banking activities;
- the creation of joint services;
- conditions of association.

Finally, it is required to give its own views on applications for registration and on National Board decisions of a general nature, especially as regards agreements between banks.

## 7. STRUCTURAL FEATURES OF THE BANKING SYSTEM

Considering the banking legislation of the countries of Equatorial Africa and of Cameroon, one may see that:

- (i) it has kept banks distinct from financial institutions;
- (ii) it has specified the criteria according to which credit institutions could be classified in one of the three categories: deposit banks, commercial banks and medium- and long-term credit banks, subject to its rules<sup>1</sup>.

As defined by these provisions there are at present deposit banks and financial institutions operating in the area under discussion. However there are no commercial banks or medium- and long-term credit banks.

<sup>1</sup> As previously observed, we should note that this law does not regulate the activities of development banks. In fact, the operation of these institutions is governed by special laws, which will be analysed later.

In this context it seems worth observing that French and British banks have largely given way to institutions subject to local law in whose capital, however, they participate with substantial holdings of shares. Indeed, in many cases these represent a majority holding. This process includes, for instance, the creation by the *Crédit Lyonnais* of the *Société Camerounaise de Banque*, in Cameroon; the *Banque Commerciale Congolaise*, in Congo; the *Banque Tchadienne de Crédit et de Dépôts*, in Chad; the *Union Gabonaise de Banque*, in Gabon; similarly, the *Banque Internationale pour le Commerce et l'Industrie du Cameroun*, in Cameroon and the *Banque Internationale pour le Commerce et l'Industrie du Congo* were set up by the *Banque Nationale pour le Commerce et l'Industrie* (the present *Banque Nationale de Paris*); finally the *Société Générale* set up the *Société Générale de Banque* in Cameroon and the *Société Générale de Banque* in Congo.

This process has at times enabled the authorities of a country to gain control in some of the banking institutions we are considering, as, for instance, in the case of the *Banque Commerciale Congolaise* and the *Banque Tchadienne de Crédit et de Dépôts*.

We should also note that this process has led to a more diversified foreign participation. In fact, many American, German, Swiss and Italian institutions have acquired capital holdings in the institutions under consideration.

This process of transformation has not been completed however, in so far as foreign banks are still operating within the area and because it has not led to a complete transfer of decision-making centres from foreign to national operations since, in practice, some have remained in the hands of the original foreign banks. It thus appears that the process under discussion has not substantially reduced the dependence of commercial banks operating within the issuing area on the decisions of foreign operators.

After this brief introduction we may go on to consider the credit institutions which operate in Gabon. They are: the *Union Gabonaise de Banque*, the *Banque Internationale de l'Afrique Occidentale* and the *Banque Nationale de Paris*.

The first of these was set up, in July 1962, by the *Crédit Lyonnais*. It has its head office in Libreville and branches in Port-Gentil and Franceville. Its capital of 200 million CFA francs is distributed as follows:

- 40% is held by *Crédit Lyonnais*;
- 20% by the Republic of Gabon;
- 5% by the *Banque Gabonaise de Développement*;
- 15% by the Morgan Guarantee International Corporation;
- 10% by the *Deutsche Bank*;
- 10% by the *Banca Commerciale Italiana*.

The other two are foreign banks<sup>1</sup> with their head office in Paris and branches in Libreville and in Port-Gentil. The BIAO (*Banque Internationale de l'Afrique Occidentale*)<sup>2</sup> recently opened a branch in Moanda.

<sup>1</sup> Foreign banks, as we have seen, are subject to the law on banks and to the other provisions concerning minimum capital, liquidity ratio and other relationships already mentioned as regards their activities in Gabon and in the other countries of the area.

<sup>2</sup> The capital of the BIAO stands at 60 million CFA francs, distributed as follows:

<i>Compagnie Financière France-Afrique</i>	51%
First National City Bank	49%

Before this last-mentioned institution came in, the BIAO's capital amounted to 40 million CFA francs, subscribed as follows:

<i>Klebe et Cie</i>	2%
<i>Allen et Cie</i>	7%
International Banking Corporation	40%
<i>Compagnie Financière France-Afrique</i>	51%

This last body, in its turn, was controlled to the extent of 40% by a group of large French banks.

Apart from Gabon, these banks operate in many other African countries, as for instance, the Ivory Coast, Mauritania, Senegal, Dahomey, Togo, Mali, the Central African Republic, Upper Volta and Chad.

Hence these institutions raise many delicate problems to the Gabonese monetary authorities through their ability to obtain or grant credit lines arranged by their branches operating in other countries, problems relating to the control of the amount of credit which they can inject into the economy. These are clearly difficult to solve, involving in each case the introduction of ceilings on the level of these transactions <sup>1</sup>.

Finally, as regards the territorial distribution of the above-mentioned banks, we should observe that a large part of the national territory, and in particular rural areas, is entirely devoid of bank branches.

The Gabonese banking system does not consist of commercial banks alone. The *Banque Gabonaise de Développement* also operates as a part of it.

Moreover, while they cannot be included as part of the system under consideration, we should also mention the post office savings banks, the *centres des chèques postaux* and the *Caisse Nationale de Crédit Rural* which assume important functions in the interior of the country.

It is difficult to classify the institutions we have listed according to the duration of the loans they respectively grant. In fact, the commercial banks alone can be considered as ordinary credit institutions in the strict sense, even though they are not precluded from longer-term operations. At the Development

<sup>1</sup> On this point see Paolo Baffi, *Gli influssi della componente estera sul governo della liquidità*, op. cit., p. 51-52.



Bank, on the other hand, we find operations of different duration and a very diverse field of activity.

The *Caisse Nationale de Crédit Rural*, however, has specialised in granting loans to the rural sector.

#### 8. THE GABONESE DEVELOPMENT BANK (GDB)

This bank was established on 31st December 1960 in the legal form of a public limited-liability company<sup>1</sup>. It acquired all the assets and liabilities of the *Société Gabonaise de Crédit* for 80,000,000 CFA francs and issued shares to the value of 320,000,000 CFA francs to be paid up in cash.

In 1962, following a decision of its general assembly on 5th December, a further 600 million francs worth of shares were issued, to be subscribed in cash and paid up by 30th June 1965. Hence its share capital now amounts to 1,000 million CFA francs, distributed as follows:

Gabonese Government 60%

*Caisse Centrale de Coopération Economique* 24%

BCEAEC 8%.

The remaining 8% is subscribed by private individuals and companies<sup>2</sup>.

The essential purpose of this institution is to provide finance and technical aid for all projects which are likely to promote the economic and social development of Gabon. To this end it

<sup>1</sup> See *Organisation Monétaire et Bancaire des Etats de l'Afrique Equatoriale et du Cameroun*, *op. cit.*, p. 12. In pursuance of article 6 of the establishment of the said Bank, its term has been fixed for 99 years from 1st July 1960.

<sup>2</sup> It is worth noting that the development banks of all the countries in the issuing area are of a common origin. They have in fact acquired the capital of particular organisations of social credit which amounted to 80 million in each of the States of Equatorial Africa and to 600 million in Cameroon. When they were set up, the development banks had a capital of 240 million

may effect transactions in its own name or for the account of the State, of local communities or of institutions dependent on them.

The Development Bank's own operations are those which can contribute to the development of industry, craftsmanship, commerce, agriculture, cattle rearing or fishing, or to the improvement of housing, to the development of the co-operative movement and to the furnishing of offices with a professional activity. To fulfil these functions the bank may, pursuant to Article 3 of its Statute, resort to the following operations:

- (i) mobilisation of local resources, either through the issue of debenture loans or by collecting deposits;
- (ii) refinancing operations and the issue of securities on foreign markets;
- (iii) investment in private enterprises, regional development societies, *sociétés d'équipement* and in any other body<sup>1</sup>;

in the Central African Republic, 400 million in Gabon, 420 million in Congo and in Chad and finally 1,000 million in Cameroon. Following operations to increase their capital these amounts were raised, at the end of 1963, to 4,500 million in Cameroon, 1,000 million in Gabon and 420 million in the Central African Republic. As regards the distribution of the original capital, it is significant to note that the participation of the State is predominant in every case, ranging from 50% in Gabon to 61% in Cameroon. The participation of the *Caisse Centrale de Coopération Economique* varies between 25% in Congo and 33% in Chad. The central banks also subscribed from 8% to 10% of the original capital of the five development banks, thus being entitled to a representative on the Board. Finally the *Caisse de Dépôts et Consignations* has acquired holdings in the development banks of Congo and of Gabon equal to those of the Central Bank.

<sup>1</sup> For the Development Bank holdings must represent operations of an exceptional nature which, pursuant to Article 13 of its Statute, require for their implementation, the express approval of the Board, given by a three-quarters majority. These holdings must be on a minority basis and, in every case, not exceed one-third of the paid-up capital of the company which is financed in this way. The inclusive value of the holdings under consideration and of the

- (iv) granting short or medium-term loans, which may or not be eligible for rediscounting, in addition of course, to long-term loans<sup>1</sup>;
- (v) acquisition, management, parcelling out of land, construction of building for housing or for industrial use, to rent with or without option to purchase.

We should note that the amount of finance granted or to be granted on the basis of unused credit margins, existing at any given time, is subject to ceilings which, pursuant to Article 23 of the Statute, are determined as follows:

- (i) for holdings and immobilisation the credit ceiling amounts to 33% of net capital. If endowment funds have been made available for this purpose, they should be included, for such a control, among the bank's own resources;
- (ii) for long-term credits, the ceiling is determined by adding to the bank's own capital and to endowment funds which have not been used in order to acquire holdings of shares the value of the long-term finance granted to the Development Bank and the value of the guarantee funds intended to cover possible losses in connection with these credit operations;
- (iii) for medium-term credits the ceiling is calculated by adding to the balance of the resources, which have not been used for long-term finance, the amount of medium-term credit which has been obtained, of guarantee funds, and of the

other types of investments may not exceed one-third of the bank's own resources and of the endowments received for this purpose. The bank must always reserve the right to sell the securities it has acquired. It may make finance available by way of medium- or long-term credit, by accepting clauses which provide for participation in profits, or their conversion into shares.

<sup>1</sup> Clearly defined time limits are established for these credits. In fact, short-term credits cannot be granted for a period exceeding 15 months, medium-term credits for a period exceeding 5 years and, finally, long-term credits for a period exceeding 10 years.

portfolio which can be rediscounted with the central monetary authorities, the amount of time deposits with more than 12 months to run and, in exceptional cases, a certain sum which must be determined by the Board;

- (iv) for short-term credits the maximum amount under consideration is equal to the balance of resources, not used for medium-term finance, plus the portfolio which is eligible for rediscounting at the Central Bank, the relative guarantee funds, 30% of sight deposits and, in exceptional cases, a sum determined by the Board.

Besides these operations, the Development Bank is authorised to make its organisation available to the State, local communities and institutions dependent upon them for the assessment of any project of interest to such a community, provided it has economic or financial implications, and for feasibility studies and the provision of accountancy services for operations which will have to be carried out with resources not belonging to the Bank, and which it will not undertake at its own risk, each of these operations giving rise, if necessary, to an appropriate convention<sup>1</sup>.

In particular it may:

- (i) receive as deposits and use, subject to conditions to be agreed in each case between the Development Bank and the public bodies concerned, all the savings and monetary resources of these bodies<sup>2</sup>;

<sup>1</sup> These agreements may involve setting up specialised committees, whose composition will be determined by the Government or by public bodies. In the latter case, however, the convention must provide for the presence among the members of the Committee of at least three directors of the Development Bank, one of whom will be appointed by the Bank as Chairman. The Managing Director of the Bank may also attend meetings of the committees in a consultative capacity.

<sup>2</sup> It may accept deposits from private members on condition that they are intended to facilitate or guarantee the concession of credits. Furthermore,



- (ii) receive and use on behalf of the Treasury the proceeds of the loans and grants made to it by national or foreign co-operation bodies, such as the CCCE;
- (iii) issue loans on behalf of the public authorities, on the home market or on foreign markets, and ensure the servicing of these loans with public funds ear-marked for this purpose;
- (iv) manage the State investments portfolio<sup>1</sup>.

The Board of the Development Bank consists of 12 members appointed by the shareholders. Every shareholder or group of shareholders is entitled to one seat on the Board for each complete twelfth of the total share capital included in its paid-up quota. Seats which cannot be directly allocated in this way must be distributed on the basis of the largest remainder. The Chairman is elected by a three-quarters majority of the directors.

The Board is provided with wide powers and it may also decide, by a three-quarters majority, to delegate to the permanent or technical committees the power to execute any of the above operations. These committees consist of the Chairman of the Board or a representative appointed by him and of three directors or their representatives<sup>2</sup>. The representatives must be appointed in such a way as to maintain the joint nature of the Committee,

we should note that the Development Bank may give its guarantee for operations which it is entitled to finance directly. In this connection, however, we should observe:

- (i) that the commitments undertaken by this institution must not exceed the values of its own resources;
- (ii) that no guarantee may cover an amount exceeding 80% of the corresponding loan.

<sup>1</sup> These participations may of course be on a majority basis, especially in the case of firms whose object is the construction and management of infrastructures.

<sup>2</sup> The representatives of the Chairman and of the directors must be appointed from among the other directors.

so that it includes two members of the group of Government directors from the Republic of Gabon and two members of the group of directors representing the financial institutions participating in the Development Bank.

Their decisions must be unanimous and their responsibilities are:

- (i) to grant loans of an amount less than the maximum falling within the Managing Director's competence, but which he wishes to submit to the Board<sup>1</sup>;
- (ii) to effect credit operations whose value does not exceed the maximum for which they have delegated powers<sup>2</sup>;
- (iii) to analyse the problems which are submitted to them for preliminary consideration by the Board.

#### 9. ORGANISATIONAL STRUCTURE OF THE DEVELOPMENT BANK

Lending activities are distributed among the various special sections which have been created within the Bank. This division has been established on the basis of the type of operations effected.

In this way the following sections have been set up<sup>3</sup>:

- (i) a real estate section, for the financing of public buildings;
- (ii) a forestry section, for credits which are intended to enable Gabonese families and small and medium-sized enterprises operating in the forestry section to obtain producer goods;

<sup>1</sup> This ceiling has been set for all short-, medium- and long-term credits at 2 million CFA francs, and at 1,500,000 CFA francs for the purchase of motor vehicles and consumer durables.

<sup>2</sup> This ceiling amounts to 20,000,000 CFA francs.

<sup>3</sup> The organisational structure set up by the bank may be classified, in accordance with the criteria proposed by Nyhart, as sector-oriented. On this point see J.D. Nyhart, *Towards Professionalism in Development Banking*, Cambridge, Massachusetts Institute of Technology, 1964, p. 2, 42.

- (iii) an artisanal section, for loans intended to promote the development of small and medium-sized Gabonese enterprises;
- (iv) an agricultural section, for credits to be granted to Gabonese farmers and to the industries involved in processing the products of the agricultural sector<sup>1</sup>;
- (v) an industrial section, to finance industrial enterprises by way of credit or participation;
- (vi) a commercial section, for credits intended to promote the activities of Gabonese merchants.

Each section has its own accounting system and a set allocation of financial resources<sup>2</sup> and, in each of them, decisions are taken by the following:

- (i) the Managing Director, to the extent of the powers delegated to him by the Board. When he deems it fit, he may consult the Executive Committee;
- (ii) the Executive Committee, on the basis of the powers entrusted to it by the Board;
- (iii) the Board, for operations whose amount exceeds the competence of the Executive Committee, and when it is consulted by that body;
- (iv) the appropriate specialised Committee, when financing operations are effected with resources which do not belong to the bank and which are not invested at its risk.

The executive committees are informed of all operations effected by their sections which fall within the competence of the Board and work out a draft resolution for every issue put before

<sup>1</sup> After 1964 the agricultural credit section of GDB confined its activities in favour of ONCA.

<sup>2</sup> To establish the results for the year obtained by individual sections, common costs are divided in proportion to the amount of the investments made by each individual section.

them on which the directors who are members of the permanent Committee then vote. These committees consist of:

- (i) the directors who are members of the permanent Committee;
- (ii) a variable number of members drawn from various bodies<sup>1</sup>.

#### 10. DETERMINATION OF THE CREDITS TO BE GRANTED BY THE DEVELOPMENT BANK AND THEIR FEATURES

In establishing the value of the loans to be granted and the terms of repayment, the decision-making bodies must bear in mind the following elements:

- (i) the purpose of the loan;
- (ii) the age of the operator who applies for the credit;
- (iii) his income;
- (iv) his experience and business references;
- (v) the guarantees.

<sup>1</sup> It would appear opportune to specify that while the Executive Committee of the real estate section consists only of those directors who make up the permanent Committee, the committees of other sections have also other representatives. The latter are appointed by various public bodies, as can readily be seen if one considers their members. Thus, for instance, the forestry section Committee includes, for operations financed with its own funds, four members of the specialist Committee who are not directors of the Gabonese Development Bank and a member appointed on the basis of his technical competence by the Minister for Waters and Forests while, for operations financed out of funds made available to it by the Ministry for Forests, the relative specialist Committee consists of persons appointed by the *Office des Bois* and of others who belong to the Bank's permanent Committee. Similarly, on the Committee of the section responsible for credit to small and medium-sized enterprises, one finds two representatives of the Chamber of Commerce, a technical education representative appointed by the Minister of Education and a representative of the Ministry of Labour. These, together with the bank staff, constitute a technical commission responsible for assessing the qualifications of applicants and the credit-worthiness of their application. Finally the Committee of the agricultural credit section includes two members appointed by the Development Bank, one of whom is a specialist in the supervision and inspection of rural



Generally speaking, the upper limit of the credit which may be granted is determined, for each category of loan, on the basis of certain parameters which establish a directly proportionate ratio between the present or future income of the operators seeking the use of credit lines at the Development Bank and the maximum amount involved. Thus, for instance, for real estate credits, the parameters laid down are 30 or 35 times the disposable part of the monthly salary depending on whether this salary is above or below 80,000 francs. Alternatively, as in the case of loans for the improvement of houses, for the furnishing of professional offices, for the purchase of a car or for the financing<sup>1</sup> of small and medium-sized industries, as well as agricultural finance, the permissible credit may be, respectively, a multiple or a fraction:

- (i) of the gross monthly salary or the disposable portion of it;
- (ii) of the average income over the past three years<sup>2</sup>;
- (iii) of the average value of the receipts expected from sales in the coming year or the coming two years of agricultural products, taking into account whether rich or poor land is involved.

co-operatives and communities, and a member appointed by the Minister of Agriculture on the basis of his technical competence, while the Executive Committee of the section responsible for industrial participations and credits includes four persons, respectively appointed by the Minister for the National Economy, the Minister of Finance, the Minister for Public Works and the Chamber of Commerce, on the basis of their specific technical competence, and the Executive Committee of the commercial section includes a representative of the Minister for the National Economy and a representative of the Chamber of Commerce.

<sup>1</sup> The total amount of the loans granted to small and medium-sized firms cannot exceed their net worth.

<sup>2</sup> This criterion may prove particularly restrictive for enterprises operating in developing countries and may in practice produce counter-productive results in that, as we have seen, the capacity of a firm to repay its debts at maturity depends essentially on its future earning capacity.

However, in certain cases, the maximum finance allowable may be calculated on the basis of other procedures. In operations effected for the account of public operators, as may for instance occur in the case of forestry credit, the specialist Committee may employ medium-term deposits, pledged with the bank pursuant to Law 67/61 of 16th December 1961 and Decree No. 29 of 19th January 1962, to an amount three times that of the guarantee fund created by the lending activity under consideration. On the other hand, where the loans to the operators in this sector are conceded with the resources of the Development Bank, the ceiling for loans of under 5,000,000 CFA francs amounts to 80% of the total cost of the investment and, for loans from 5 to 10 million, to 75% of that cost. Nevertheless, even with regard to the above-mentioned conditions, these loans may be conceded only if the risks can be made chargeable to a special guarantee fund or if the resources necessary for these loans can be found by discounting demobilisation securities whose issue has previously been authorised by the Central Bank and, in every case, the inclusive value of the loans which may be granted to one operator cannot exceed one tenth of the expected returns from the sale of the timber available through the exploitation of a forest area which has been systematically prospected.

Industrial loans may not exceed 30% of the value of the investments made by the applicant firm in the course of the previous or current twelve months.

Finally, a similar yardstick is applicable to the concession of credits for the purchase of equipment. These loans, in fact, may not exceed half the financial requirements of the investment for which the assistance of the bank is sought, unless the loans are for a sum less than 1,500,000 CFA francs.

On the other hand, the duration of loans is determined on the basis of various factors, including:

- (i) the amount of resources which the bank can use for a particular type of loan;
- (ii) the purpose of the credit;
- (iii) the income of the borrowers;
- (iv) the guarantees which they offer and their ability to repay.

For nearly all categories of loans, clearly defined time limits have been set in the articles of association of the Development Bank. Thus, for instance, for real estate finance a maximum limit of 10 years has been laid down; for loans conceded in order to meet the financial need involved in the purchase of equipment by small and medium-sized firms, these limits may not exceed the amortisation period and, in any case, may not exceed five years for medium-term credit and 10 years for long-term transactions. For the purchase of furniture, on the other hand, credit may not exceed twelve months, with an exception in the case of radio equipment sold by the Gabonese radio corporation for which repayment over a period of 20 months is allowed. This limit has also been set for the repayment of the so-called motor-vehicle loans.

For loans conceded to Gabonese merchants two limits are provided, depending on whether they are loans to finance the purchase of store and office furniture or for the acquisition of stock. In the former case, the repayment period may not exceed five years, in the latter six months. However in this second case, loans may be renewed twice, provided that the amount of these operations does not exceed the maximum laid down for such loans, and that the total period does not exceed 18 months.

Finally, for some categories of loans, as for industrial and forestry loans, no clearly defined limits have been set. For forestry loans, 30% of the returns obtained annually from the sale of

timber must be pledged with the Bank, while for industrial loans the duration of the credit is determined for each operation on the basis of:

- (i) the resources committed for the repayment of the loan;
- (ii) an estimate of the expected flow of revenues and outgoings of the firm which receives the credit made by the Executive Committee or by the Board.

The use of loans is usually subject to the borrower's co-operation in meeting the financial requirements arising from the implementation of his investment project.

This co-operation need not necessarily take the form of deposits at the Development Bank but may consist of investments already made as part of the project and already paid for.

It is fixed in a different way, though with criteria that are often similar, for each of the categories of financial aid granted by the Development Bank.

For loans granted by the real estate credit section a personal investment is required, to be determined in relation to the total cost of the building project in the following manner:

for investments up to 1 million CFA francs	0%
for investments from 1 million to 3 million	2%
for investments from 3 million to 5 million	5%
for investments from 5 million to 8 million	10%
for investments over 8 million CFA francs	20%

Where these loans are to be used for the construction of buildings for rent, the contribution required, when the credit obtained exceeds 5 million, amounts to one-third of the total cost.

For credit transactions intended to finance the purchase of equipment, the Bank usually requires a cash contribution equal to the difference between the total cost of the project and the loan granted.



In this case one may also take into account in determining the money contribution the investments already made as part of the project or other contributions in kind. In the latter case, the debtor must justify their use for the purposes of the project being financed, and the value of these contributions must be assessed by competent authorities of the Development Bank.

For loans which have been granted for the purpose of obtaining furniture for private housing or professional offices and for the purchase of consumer durables, the ceiling on financial aid amounts to 70% of the price of each item. Hence, on the basis of the criteria already noted, the debtor will have to find the remaining 30 per cent <sup>1</sup>.

For loans granted by the forestry credit section, a distinction should be made between cases where they are financed out of funds belonging to public bodies and those where the section's credit resources are called upon.

In the first cases, in fact, the specialist Committee may grant loans on special terms, without requiring any personal contributions, provided they are used by graduates of the National Institute of Waters and Forests of Gabon who are felling trees for the first time <sup>2</sup>, or by members of a company or of a *groupement* which may take the form of a collective or semi-collective body or of

<sup>1</sup> Where the loan is granted to a person with a salary of less than 50,000 francs a month, the borrower may be dispensed from making a personal contribution if the loan is intended for the purchase of building materials. See Article 72 of the Statute of the Gabonese Development Bank. We should further note that if these loans are intended for the purchase of wireless sets sold by Radio Gabon, the contribution required is reduced to 15% of the purchasing price.

<sup>2</sup> To have recourse to this form of financial aid, these individuals must have received the joint authorisation of the Ministry of Waters and Forests and of the director of the firm in which they passed their period of practical training after the award of their diploma.

a co-operative, when the firm or *groupement* is subject to public control and enjoys continuous technical assistance, considered as sufficient by the Minister of Waters and Forests and by the Minister for the National Economy.

On the other hand, for loans granted with the resources of the Bank, a personal contribution will be required of 20% or 25% depending on the respective amount of the loans conceded by the Development Bank. Half of this contribution may be met through certain investments in connection with the business activity to be financed or through the value of the felling licence issued to the operator applying for credit.

For loans conceded by the agricultural credit section, a money contribution, amounting to 5%, is always required. Because of the special risks involved in this particular lending activity, agricultural credits are underwritten by a guarantee fund provided out of endowments authorised by the Board and the proceeds of a compulsory levy on the personal contribution and amounting to 1% of the nominal value of the loans.

Finally, in the case of credits granted for the purchase of cars, a contribution will be required amounting to 25% of the price of the vehicle and of the insurance premium.

## 11. RATES OF INTEREST

At this point we should consider the structure of credit rates.

The interest rates applied to real estate loans increase together with the amount of finance granted, as follows <sup>1</sup>:

- 5.50% for credits up to 3 million CFA francs
- 7% for credits up to 5 million CFA francs
- 8% for credits of a larger amount.

<sup>1</sup> See Article 44 of the Statutes.

For credits to assist the construction of buildings to be let, the Bank requires rates of interest two points higher than those listed above for equal amounts of finance.

A slightly lower rates structure is applied to transactions concluded by the forestry credit section. For these loans, in fact, the following maximum rates may be asked<sup>1</sup>:

5.50% for loans under 2 million CFA francs

6.50% for loans between 2 and 5 million

7.50% for loans above 5 million.

Interests on loans made by the section responsible for credit to medium-sized and small firms are calculated on the basis of the following rates<sup>2</sup>:

5% for loans not exceeding 1 million

6% for loans not exceeding 2 million

7% for loans exceeding 2 million.

For credits granted by the agricultural credit section, different rates are required depending on the technical form of the loan, as may readily be seen from the provisions of Article 96. Pursuant to this article, in fact, the following rates must be applied:

3% for *Aménagements Ruraux* loans

4% for seasonal loans

4% for collective loans under 1 million

5% for individual loans under 1 million

5% for collective loans above 1 million

6% for individual loans above 2 million.

On loans to industrial enterprises, of a duration not exceeding 3 years, rates between 5% and 8% will be applied depending on the effects these loans are expected to have on the profitability

<sup>1</sup> See Article 82 of the Statutes.

<sup>2</sup> See Article 90 of the Statutes.

of the firm. For longer term loans an increase of 0.50% will be required for every year beyond the third.

The commercial section, on the other hand, requires various rates of interest for its investments, depending on whether they are loans intended to finance the purchase of equipment (shop and office furniture) or of stock. In the first case the rate applicable is 5.50% and in the second 6 per cent.

Finally, interest on loans for the purchase of motor vehicles is calculated on the basis of a rate of 7% per annum.

## 12. FACTORS ON WHICH THE GRANTING OF LOANS MAY BE DECIDED

We should observe that the concession of loans by the Development Bank may depend on the existence of certain guarantees or on the satisfaction of given conditions. In many cases, in fact, a minimum degree of business experience may be required depending on the amount of the loan. Thus, for instance, for real estate loans two years' experience is required for credits up to 2 million and five years for larger amounts.

However, these conditions will be mitigated when the borrower can provide additional guarantees, e.g. a mortgage on another building or a guarantee from solvent operators.

Age limits are also laid down. Thus, for instance, pursuant to Article 89, small entrepreneurs who wish to obtain financial assistance from the Development Bank must be under 45. In other cases, age may limit the duration of the repayment period.

Furthermore, great importance is attached to the existence of real or personal guarantees<sup>1</sup>.

<sup>1</sup> Pursuant to Article 92, exemptions may be allowed from the provisions for credit granted to new entrepreneurs, on condition that the risk can be



In certain circumstances, besides these guarantees, other conditions may be laid down, as in the case of loans made by the forestry section.

In fact, the Bank will require pursuant to Article 86:

- (i) a lien over material obtained with the proceeds of the last loan;
- (ii) signature of a request for transfer, in blank form, of all the licences and felling rights held by the borrower.

Finally we should mention that the funds are not in general placed at the borrower's disposal, the Bank preferring to make direct payments to his suppliers whenever possible.

However, even in cases where the borrower has to be given the monetary facilities relative to the use of the credit allowed him, payments will be made only through the intermediary or on the recommendation of a qualified expert, named by way of contract, for instance a specialist of one of the technical services of the Bank <sup>1</sup>.

The bank follows the progress of the work and checks that the funds are employed in conformity with the purpose of the credit, either through its own agents or through a representative.

Where it is not in a position to follow the progress of the work, for instance because of distance, it may require the production of invoices, equipment and supplies, and have the work inspected by an agent of its own choosing.

covered by a special guarantee fund, for loans with a repayment period not exceeding two years and for an inclusive value not more than twice the guarantee fund set up for loans to small and medium-sized entrepreneurs.

<sup>1</sup> It should be noted that, pursuant to the Board decision of 14th March 1966, credits which are not partly used within 6 months from the signature of the contracts will be revoked. Furthermore credits which have not been fully used after 18 months from the date of signature of the contracts will be reduced to the amount actually used. The Managing Director may concede partial exemptions from this rule in exceptional cases and given adequate reasons.

In many cases the bank imposes special obligations on the beneficiaries of its loans, such as:

not to borrow, without its previous consent, amounts in excess of one-fifth of the unpaid balance of commitments to the banks;

to accept the technical assistance provided by government departments, the Bank or its representatives.

Failure to observe these requirements makes the borrower liable to forfeit the enjoyment of the conditions.

### 13. INVESTMENTS OF THE DEVELOPMENT BANK

The loans granted by the Development Bank from 1960 to 1969 have been increasing, rising from 566 million CFA francs in 1960/1961 to 2,435 in 1968/1969. We should however observe that this tendency has shown considerable irregularity. In particular, in 1964/1965, 1965/1966 and 1968/1969 substantial increases occurred while in 1966/1967 and 1967/1968 there were steep decreases.

If we consider the variations which have occurred in the loans granted by the Bank under consideration in 1967/1968 and 1968/1969, we shall readily see that the sectors mainly involved in this expansion are: the local municipalities which have been granted loans to the amount of 1,062 million (an increase of about 779 million), the forestry sector with 317 million and an increase of 202 million, the agricultural sector with 160 million (+ 155) and the real estate sector with 512 million (+ 129). The average value of investments has also appreciably increased, rising from 1.6 million CFA francs to 4.1 million. This increase has involved the local municipalities, the forestry and agricultural sectors.

TABLE 33  
REFINANCING GRANTED BY THE GABONESE DEVELOPMENT BANK <sup>(1)</sup>, 1960 TO 1969  
(in million CFA francs)

I t e m s	Financial year		Financial year		Financial year		Financial year		Financial year		Financial year		Financial year	
	1960/ 1961	1961/ 1962	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969	1969 (second half-year)	1960/ 1961	1961/ 1962	1962/ 1963	1963/ 1964
Number of loans	972	882	1,020	983	860	730	640	653	592	257				
Financing granted	566	581	666	606	1,088	1,672	1,097	1,039	2,435	1,060				

<sup>(1)</sup> The data shown represent the volume of the loans granted after the establishment of the GDB, less those granted and cancelled during the same financial year, excepting the credits granted to the *marchés publics*, for which the bank contributes only in an exceptional way and in respect of some well established operations.

<sup>(2)</sup> A pre-financing for the issue of bonds for about 500 million francs was granted during the last months of the financial year 1968/1969. Hence, if we isolate the operation, the volume of financing granted by the bank during the above financial year would be reduced to 2,038 millions.

Source: Gabonese Development Bank, *Rapport d'activité pour l'exercice 1968/1969*, p. 2.

TABLE 34

COMPARATIVE DISTRIBUTION OF LOANS GRANTED BY THE GABONESE DEVELOPMENT BANK IN 1967/1968 AND 1968/1969  
(in thousand CFA francs)

Categories	Financial year 1967/1968		Financial year 1968/1969		Differences	
	Number	Total	Number	Total	Number	Total
Farming	1	5,000	3	159,500	+ 2	+ 154,500
Crafts	15	23,379	14	44,402	- 1	+ 21,023
Industry	3	167,000	4	255,000	+ 1	+ 88,000
Local authorities	3	283,362	8	1,062,340	+ 5	+ 778,978
Forests	20	114,647	9	316,509	- 11	+ 201,862
Buildings	242	382,919	161	511,612	- 81	+ 128,693
Trade	3	1,500	10	16,200	+ 7	+ 14,700
Minor equipment	308	20,015	307	19,668	- 1	- 347
Motor credit	59	41,073	76	49,861	+ 17	+ 8,788
Total	654	1,038,895	592	2,435,092	- 62	+ 1,396,197
<i>Marchés publics</i> <sup>(1)</sup>	2	16,200	4	103,603	+ 2	+ 87,403
Total	656	1,055,095	596	2,538,695	- 60	+ 1,483,600

(<sup>1</sup>) This category includes the advances granted to government creditors as suppliers in respect of orders commissioned to them.

Source: Gabonese Development Bank, *Rapport d'activité, op. cit.*, p. 4.

If, on the other hand, we consider all the loans granted by the Development Bank, from the time of its establishment, we shall find that the real estate sector is the one that has enjoyed the greatest share of the credit granted. It has in fact 28.20% of the total amount of the loans. Local municipalities follow at a distance, having obtained 15.37% of the total value of the loans, while the industrial sector has had 11.91%, the artisanal sector 8.42%, and the forestry sector 6.94 per cent.

This means that 70.84% of the total investments of the Bank are concentrated in the five sectors mentioned above.



Furthermore, if we disregard the loans granted to the *marchés publics*, a sector which<sup>1</sup> makes up 20.72% of all investments, the degree of concentration in the activities of the Development Bank becomes higher still, since 89.35% of the other credits which it has conceded are for the following sectors: real estate, local municipalities, industrial, artisanal and forestry.

As regards the number of transactions made with each sector, other considerations apply. In fact, if we except the real estate sector in which one finds — beside a higher level of investment — greater frequency as regards the operations carried out, one cannot identify in the other sectors such a correlation between the number of transactions and the size of the loans. Apart from the real estate sector, light industries, artisans and motor-vehicle credits, with 38.56%, 6.10% and 5.19%, show the highest relative frequencies.

<sup>1</sup> Exceptionally, and for clearly defined operations, the Development Bank concedes credits to the *marchés publics* sector but these commitments cannot be considered as part of the normal activities of this institution. Loans granted to this sector must have as their purpose the mobilisation of Treasury credits so as to facilitate the financing of contracts. For these loans the Gabonese Development Bank must observe the following conditions:

- (i) the total amount may not exceed 80% of the value of the contracts. This percentage may be raised to 90% by an unanimous decision of the Board;
- (ii) the rates of interest must be equal to those applied by the Central Bank for similar refinancing operations, plus 2.30%;
- (iii) there must be previous rediscounting agreements with the Central Bank, amounting to not less than 80% of the credit granted;
- (iv) the repayment period may not exceed three years;
- (v) guarantees consist in the pledging of contracts and any other inherent guarantees;
- (vi) the operation must be effected by a payment in current account up to the limit of the percentage allowed on the security which gives the right to payment.

See Article 20 of the Statutes.

TABLE 35

DISTRIBUTION OF LOANS BY THE GABONESE DEVELOPMENT BANK FROM ITS ESTABLISHMENT TO 1969  
(in thousand CFA francs)

Categories	From its establishment to 30th June 1964		Financial year 1964/1965		Financial year 1965/1966		Financial year 1966/1967	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Farming	152	107,926	1	99,079	1	66,450	2	101,461
Rural restructuring and improvements <sup>(1)</sup>	78	31,129	2	3,845	4	311	—	—
Crafts	406	508,080	68	132,674	50	261,438	56	163,687
Industry	3	136,000	1	30,500	4	872,500	4	143,330
Local municipalities	54	252,642	5	275,505	4	22,142	3	174,219
Forests	70	203,622	33	138,044	21	46,383	27	115,906
Buildings	3,243	1,924,336	272	315,494	243	329,451	270	335,591
Minor equipment	2,321	95,831	376	28,262	344	44,470	193	16,739
Trade	—	—	—	—	3	2,572	5	2,700
Motor credit	143	89,211	104	64,847	56	26,236	80	43,331
Total	6,470	3,348,777	860	1,088,250	730	1,671,953	640	1,096,964
Marchés publics	22	2,101,895	5	224,422	—	—6,436	2	352,000
Grand total	6,492	5,450,672	865	1,312,672	730	1,665,517	642	1,448,964
Percentages	65.04	40.46	8.67	9.74	7.32	12.36	6.43	10.76

Categories	Financial year 1967/1968		Financial year 1968/1969		Total at 30th June 1969		Percentages	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Farming	1	5,000	3	159,500	158	539,416	1.59	4.01
Rural restructuring and improvements <sup>(1)</sup>	—	—	—	—	84	35,285	0.84	0.26
Crafts	15	23,379	14	44,402	609	1,133,660	6.10	8.42
Industry	3	167,000	4	255,000	19	1,604,330	0.19	11.91
Local municipalities	3	283,362	8	1,062,340	77	2,070,210	0.77	15.37
Forests	20	114,647	9	316,509	180	935,111	1.80	6.94
Buildings	242	382,919	161	511,612	4,431	3,799,403	44.40	28.20
Minor equipment	308	20,015	307	19,668	3,849	224,985	38.56	1.67
Trade	3	1,500	10	16,200	21	22,972	0.21	0.17
Motor credit	59	41,073	76	49,861	518	314,559	5.19	2.33
Total	654	1,038,895	592	2,435,092	9,946	10,679,931	99.65	79.28
Marchés publics	2	16,200	4	103,603	35	2,791,684	0.35	20.72
Grand total	656	1,055,095	596	2,538,695	9,981	13,471,615	100	100
Percentages	6.57	7.83	5.97	18.85	100	100		

<sup>(1)</sup> These operations have been completely withdrawn. They were financed either with Treasury subventions or by GDB's own funds, providing that they were used to carry out work of public interest inside the country.

Source: GDB, *Rapport d'activité, op. cit.*, p. 5.

However, to analyse more effectively the behaviour of the Development Bank, it will be helpful to consider which operations were financed through credits granted by its individual sections in the course of last year falling within our consideration.

Loans made by the artisanal section were granted to the extent of 5,200 million CFA francs to the public sector and of 30,200 million to the private sector. The public sector used 3,100 million to buy military vehicles while, in the private sector, only 2,100 million went to small enterprises.

The industrial sector was granted 255 million CFA francs. The average amount of each of these operations was about 63.7 million. Hence, most probably, these credits were used by large firms. The local municipalities sector was granted 1,062 million, largely intended to meet the financial requirements of investments in infrastructures, such as dams, electric power stations, roads and public buildings<sup>1</sup>.

The forestry credit section made investments to the value of 317 million, the greater part of which was used for the purchase of tractors and lorries; those granted to the light industry sector were mainly used for the purchase of consumer durables. The loans granted for motor credit (50 million) were largely used for the purchase of private cars. It is thus clear that the investment activities of the Bank under consideration are not confined to operations which can make an immediate contribution to the economic development of the country, but also meet the financial requirements inherent in the construction of public works, in the establishment and functioning of enterprises having a tertiary activity and finally in the purchase of consumer durables.

<sup>1</sup> This sum of 1,062 million also includes a pre-financing of 500 million to the Treasury which is to be repaid out of the monetary returns from the placing of bonds.



Since the functions and policies of particular institutions must be suited to the requirements of each country, it is well that their respective statutes, besides allowing these institutions a wide field of activity, should place at their disposal a wide range of operational instruments — this in order to allow them to adopt their own policies quickly to the fluctuations and variations which occur in an economic system. It seems therefore that, in theory at least, one may assign the following functions to development banks:

- (i) provide medium- and long-term loans, or guarantee such loans if they are granted by other operators;
- (ii) grant short-term advances in the absence of other sources for such credits;
- (iii) grant short-term loans to companies of particular interest from a development standpoint, to whom a credit rationing process has been applied either because of the inadequate geographical distribution of the banking system, or because of the uncertainty inherent in the pursuit of their economic activities;
- (iv) mobilise family savings and direct them into productive channels;
- (v) raise loans abroad;
- (vi) acquire holdings through shares;
- (vii) identify the possibility of productive investment of a country, develop and promote these projects with loans to be granted within the limits of the resources available from its own capital and, where necessary, take on the functions of an entrepreneur;
- (viii) develop local capacities through adequate consultative and technical assistance services and vocational training courses;
- (ix) promote the development of a stock market;

- (x) perform, where appropriate, the typical functions of commercial banks such as, for instance, the acceptance of deposits<sup>1</sup>.

It seems that one cannot give a fully satisfactory answer to the problem of sectional specialisation in the activities of a development bank without considering the level of development of the economy, the structure and the behaviour of the banking system in which it has to operate. Hence, in some countries, in the first stages of the development process and with the very limited availability of qualified staff, it may be advisable to concentrate financial and human resources in a single institution operating in all sectors.

However, we should observe that the financing of the various sectors and in particular of the agricultural and industrial ones requires different abilities and management attitudes and poses complex administrative problems. Frequently, such an institution ends by concentrating heavily on the financial needs of a particular sector to the neglect of all others. These problems are even more marked where it is intended to finance small farms. These loans, as we have seen, involve a very burdensome activity, requiring from the institution which intends to pursue it the management of many branches and the provision of continuous technical assistance to these enterprises. Hence, this kind of lending activity is best carried on by appropriate special institutions.

A proof of this is given by the behaviour of some development banks, which carried on this activity as credit intermediaries for a long time, but preferred to abandon it to specialised institutions notwithstanding their long experience of it<sup>2</sup>.

<sup>1</sup> See H. Harlander and D. Matzger, *Development Banking in Africa*, Munich, Weltforum Verlag, 1971, p. 35.

<sup>2</sup> A typical example is provided by the Development Bank of Ethiopia.

Hence it is appropriate for the central monetary authorities to act on the structure of the banking system, so as to bring about a better distribution within this system and thus satisfy the financial needs of the economy as effectively as possible where the economic prerequisites exist by promoting savings and channelling them into the productive sectors.

In this context it would seem as inappropriate as ever for the Gabonese Development Bank to grant loans to the motoring sector, to the *marchés publics*, to public bodies, to *petit équipement* and to agriculture. In fact, besides being used at least to a considerable extent for the purchase of foreign consumer durables or for investments which will not yield a profit for a long time, these loans pose delicate problems of management. As we have seen, the management of a development bank requires from the managing director a very wide range of economic, financial, legal and technical knowledge which is very seldom found in a single individual, even in a more developed country.

Above all this deficiency, in a developing country, is compounded by the lack of professional training of the technical and managerial staff and by the wish to place the control of these credit institutions in the hands of African operators<sup>1</sup>. We can therefore see that the pursuit by a development bank of a very diversified lending activity, besides involving balance-of-payments

<sup>1</sup> We should observe that, in order to alleviate this deficiency, the development banks have begun to implement special programmes for professional training at all levels. The banks operating in the French-speaking African countries make use of the CEFEB (*Centre d'Etudes Financières, Economiques et Bancaires*) which organises training courses as part of the technical aid provided by the CCCE (*Caisse Centrale de Coopération Economique*). Furthermore, over the last few years, these banks and those operating in other African countries have made ever-increasing use of the specialist courses for banking staff, organised in Milan by the *Cassa di Risparmio delle Provincie Lombarde*.

problems, will raise others, no less difficult, on a managerial level. Hence, since it is necessary that the credit system of a country should develop in harmony with the various stages of economic development<sup>1</sup>, the Gabonese Development Bank must take on a higher degree of functional specialisation. In particular, bearing in mind what has been said about trends in current transactions in Gabon and the flows of imports and exports of goods and services which give rise to these transactions, it would seem appropriate for this bank to confine its own lending activity to financing small industrial enterprises<sup>2</sup>, leaving to other institutions the task of meeting the financial requirements of enterprises of another type, or those inherent in the construction of buildings or of public works<sup>3</sup>. Support for the small enterprises which

<sup>1</sup> Gambino states that "on their decision (innovations as regards institutional arrangements), taken with a far-sighted vision of future requirements, essentially depends the contribution that can be given to economic development by the credit system, and through it, by lending activity in its many forms". *Economia creditizia*, *op. cit.*, p. 368.

<sup>2</sup> In this connection we should observe that, "they (the smaller firms) in fact make a large contribution towards financing production by constant savings, which reduces the capital credit required from the market to that extent. We may add that in these enterprises, auto-financing reaches the highest relative limits". See G. Dell'Amore, *Le caratteristiche economiche delle imprese minori*, Milan, Giuffrè, 1969, p. 7, and G. Dell'Amore, *Politica bancaria e politica del risparmio nei Paesi africani*, Milan, Giuffrè, 1971, p. 7.

<sup>3</sup> It seems advisable, in the context we are considering, that the investments made by the Development Bank should also go to small forestry and commercial enterprises. The reasons that may justify the granting of credit to forestry enterprises seem evident enough in a country such as Gabon, whose foreign currency depends to a large extent on the export of timber, and particularly of okumé, for which Gabon enjoys a virtual monopoly. The development of these small enterprises, especially in the first and second forest regions of the country, would above all make it possible to retain within the country a larger share of its real resources and would also contribute to reducing the dependence of its economy on the decisions of foreign operators.

At the same time by financing commercial enterprises belonging to Gabonese citizens, it would be possible to alleviate the shortages which affect



produce for the home market<sup>1</sup> is particularly necessary for the economic system under consideration because these enterprises are the crucible in which the entrepreneurial capacities of local operators are being formed and improved; because these enterprises are, potentially at least, highly profitable; and finally because, by reducing the volume of imports, they would allow greater foreign exchange resources to be used for the purchase of equipment, a more rapid process of capital accumulation and, last but not least, greater autonomy *vis-à-vis* the rest of the world. It would also be useful to ensure for borrower enterprises certain technical assistance services<sup>2</sup>. This assistance however should be closely co-ordinated with the granting of financial aid: by using for instance the so-called controlled credit, it could be directed towards increasing productivity and rationalising the organisation of enterprises, co-ordinating their operations for the purchase of equipment and raw materials, and assisting them in marketing their products.

Furthermore, to ensure that the activities of this bank do not give rise to dissipation of funds by financing investments which do not promote overall development, it would be desirable for these institutions to direct research towards the solution of

the distributive sector and to achieve greater autonomy again in this field in the face of the outside world. The importance of pursuing such an aim in order to promote development will be evident if one considers the influence which this sector can have over the general level of prices and over the qualitative composition of national consumption.

<sup>1</sup> We should however note that, in so far as enterprises adopt backward linkages processes, we are considering a process of substitution of imports rather than a contraction of their volume, because of the heavier demand for equipment and intermediary goods which they make.

<sup>2</sup> There is at present operating in Gabon a public corporation PROMO-GABON whose object is to promote the creation of small and medium-sized firms, above all by providing technical and administrative assistance.

particular technical problems of management or towards establishing the development possibilities of certain productive sectors. However, where the lack of business capacity is a problem which cannot be solved through lending and technical assistance activities, it would be advisable to allow the creation of non-banking financial intermediaries of the development corporation type. These intermediaries should have, as their principal object, the taking up of holdings in enterprises which are already in operation and the study, creation and management of those institutions which they regard as useful for the purposes of economic development. Naturally, interventions by these intermediaries require the application of highly selective criteria, i.e. calculated to identify economically sound initiatives and thus avoid permitting these interventions to be considered as a means of rescuing enterprises which have an excessively uncertain future.

At this point it would be well to note that it takes a considerable time before the investments which are made can be reconverted into money. This process is closely linked to the flows of returns which are inherent in the financed activities and the management of the enterprises in which the above non-banking intermediary invests capital, both in the case the investments made by this institution can be repaid out of the actual proceeds of the activities of the small enterprises, or the institution's commitment can be taken over by other financiers or other investors. In an institution of this type, however, there is a considerable requirement for financial resources available with a lien on capital or for an indetermined period<sup>1</sup>. Hence it is necessary to programme its capital requirement at

<sup>1</sup> On this point see G. Dell'Amore, *Politica bancaria e politica del risparmio*, op. cit., p. 8.

the time of its establishment so as to avoid, after exhausting its original financial resources in a few operations, its becoming a holding incapable of extending its activities to other projects or other small firms, during the period of time which is necessary for the investments made to be reconverted into money<sup>1</sup>.

It would therefore be desirable for a development bank not to assume direct investments but to confine its activities to the granting of credit<sup>2</sup>.

After this brief analysis it is worth while considering the investment activities of the Gabonese Development Bank, with reference to its temporal distribution. As of 30th June 1969, the loans which it had granted since the time of its foundation included long-term transactions to the extent of 34.39%, medium-term ones for 29.26% and short-term ones for 36.35% of their value.

<sup>1</sup> On this point see H. Harlander and D. Mazger, *Development Banking in Africa*, *op. cit.*, p. 17.

<sup>2</sup> This type of banking structure has developed mainly in the former British possessions, while in the French-speaking territories one generally finds a far less developed specialisation of the financial activity we are considering. Thus, in many cases, the activity of the development banks, as in Gabon, include a variety of functions, among them that of financing the purchase of consumer durables. This type of behaviour has been defined by Engel as typical of a *Caisse Centrale*. This last definition is particularly apt for the Gabonese Development Bank, in view of its close links with the CCCE in France. To this effect one should bear in mind that in pursuance of article 3 of the Constitution of GDB, this Bank is responsible for the collection and use — on behalf of the Treasury — of the available money obtained, by way of credit or donation, from the CCCE. See Engel, *Development Bank Financing in Africa*, Africa, Vol. VII, 1966, No. 5 and Vol. VII, 1967, No. 1, Afrika-Verlag, Paffenhofent, Ilmcon Deutsche Afrika-Gesellschaft, Bonn. At this point we may observe once again that there does not exist an ideal type of development institution capable of meeting the needs of all the countries in this category. The most suitable form will depend on the size and stage of development of a particular economy, as well, of course, on the business and technical capacities of its inhabitants.

TABLE 36

LOANS GRANTED BY THE GABONESE DEVELOPMENT BANK FROM THE DATE OF ITS ESTABLISHMENT,  
CLASSIFIED ACCORDING TO THEIR DURATION  
(in thousand CFA francs)

Categories	Long-term		Medium-term		Short-term		Total		Percentage	
	Num- ber	Amount	Num- ber	Amount	Num- ber	Amount	Num- ber	Amount	Number	Amount
Farming	52	38,300	87	33,380	19	467,736	158	539,416	1.59	4.01
Rural restructuring and improvements	9	19,980	18	9,699	57	5,606	84	35,285	0.84	0.26
Crafts	6	3,040	353	658,221	250	472,339	609	1,133,660	6.10	8.42
Industry	5	1,110,000	12	319,330	2	175,000	19	1,604,330	0.19	11.91
Local municipalities	11	1,132,000	27	299,810	39	638,400	77	2,070,210	0.77	15.37
Forests	—	—	141	729,569	39	205,542	180	935,111	1.80	6.94
Buildings	2,644	2,329,759	1,653	1,437,535	134	32,109	4,431	3,799,403	44.40	28.20
Minor equipment	—	—	—	—	3,849	224,985	3,849	224,985	38.56	1.67
Trade	—	—	5	14,340	16	8,632	21	22,972	0.21	0.17
Motor credit	—	—	59	43,000	459	271,559	518	314,559	5.19	2.33
Marchés publics	—	—	3	397,000	32	2,394,684	35	2,791,684	0.35	20.72
Total	2,727	4,633,079	2,358	3,941,884	4,896	4,896,652	9,981	13,471,615	100	100
Percentages	27.32	34.39	23.63	29.26	49.05	36.35	100	100		

Source: GDB, *Rapport d'activité, op. cit.*, p. 6.



Long-term credits mainly involved the real estate sector (2,330 million CFA francs), local municipalities (1,632 million), and the industrial sector (1,110 million).

The medium-term investments made by this Bank were better distributed between the various sectors. Even in this case, however, the real estate sector, with 1,438 million CFA francs, obtained the largest volume of credits. However, the other sectors too, in particular the forestry and artisanal ones, obtained quite substantial loans. According to the data supplied by the Central Bank Risk Pool, during the period from 30th January 1965 to 30th June 1970, while medium-term loans increased by 116.17%, long-term ones were up by 184.22%. We should further observe that the relative importance of the medium- and long-term credits granted by the GDB while never amounting to less than 74.31% of the medium- and long-term credits granted by the credit system under consideration, has shown a tendency to decline. This shows the increasing participation of the deposit banks in the pursuit of the lending activities under discussion, particularly on the medium-term market.

As clearly appears from the figures in the previous table, the investments made by the Development Bank in the medium-term credit sector after rising from 67.79% in 1964/1965 to 73.94% in 1965/1966, steadily declined to a low of 40.65% in 1968/1969 and then rose to 49.79% in 1969/1970. This is an unquestionable proof of the present tendency within the deposit banks towards a process of functional despecialisation. Hence, it is highly probable that these credit institutions have modified their behaviour in such a way as to supply, through the intermediary process in which they are engaged, larger volumes of resources to meet the continuing financial needs of their customer firms.

TABLE 37

MEDIUM- AND LONG-TERM CREDIT, 1965 TO 1970  
(in million CFA francs)

I t e m s	30th June 1965	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Medium-term:						
Commercial banks	315	252	291	434	1,047	1,065
Development banks	663	715	806	781	717	1,056
Percentage of medium-term financing granted by the GDB	67.79	73.94	73.47	64.28	40.65	49.79
Total	978	967	1,097	1,215	1,764	2,121
Long-term:						
Development bank	900	995	1,443	2,059	2,275	2,558
Total	1,878	1,962	2,540	3,274	4,039	4,679
Percentage of medium and long-term financing granted by the GDB	83.23	87.16	88.54	86.74	74.08	77.24

Source: BCEAEC, *Rapports d'activité*.

Finally, we should pay special attention to the short-term credit activities carried on by the Development Bank. The investments made by this institution in the above-mentioned sector have assumed outstanding importance in the period under discussion, both as regards the number of operations and in terms of absolute value.

This behaviour however contrasts with what is considered to be more consistent with the activity of these institutions, which should operate mainly in the sector of medium- and long-term advances<sup>1</sup> and confine themselves to making it easier through the distribution of commercial credits for small and medium-sized enterprises to have access to short-term credit lines from commercial banks, or to conceding it directly where the enterprises cannot have access to ordinary credit<sup>2</sup>.

<sup>1</sup> To meet the financial requirements of borrower firms more effectively, it would be helpful to modify the technical structure of the procedure for amortizing the loans which are granted by allowing a pre-amortization period and by adopting the method of the increasing quotas of capital, so as to reduce to the minimum the delay between the beginning of credit repayment and the initial date of monetary reconversion of the investments made.

<sup>2</sup> It is highly probable that, given a banking system largely based on foreign credit institutions, the process of meeting the short-term element in the financial requirements of small firms and in particular those newly established is hampered by an inadequate volume of loans and excessive variability in the flow of credit, whether through the alternating ups and downs in the management of the enterprise, or through changes in the economic situation as a whole. Hence, even without taking into account the inadequate territorial distribution of the branches of deposit banks which, because of the lack of mobility in the credit requirements of the enterprises under consideration may limit their access to short-term credit, credit rationing processes may probably intervene to the detriment of small firms. It does not seem as though this insufficiency can be remedied by compelling commercial banks to adopt particular technical forms, such as term loans, since the introduction of fixed-term credit operations in a credit system with few possibilities of investment in liquid assets may seriously restrict the flexibility of the Central Bank's monetary

This behaviour seems even more inconsistent with the institutional goals of the Development Bank if one considers that a large part of the short-term advances which it has granted were used to finance the purchase of consumer durables which, given the limited responsiveness of local supply to variations in demand, has led to a greater volume of imports and, in the best hypothesis, to a dissipation of local savings and a smaller accumulation of capital.

Of the loans outstanding as of 30th June 1969, only 7.8% had given rise to difficulties in recovering repayment. Specifically, out of about 3,976 million CFA francs of loans, 215 million had been classified as bad debts and 95 had given rise to legal action<sup>1</sup>.

Nearly all of these, to the extent of 85.83% and 96.43% respectively, had been granted to the artisanal, forestry and construction sectors. We should however note that against an increase of 1.3% as at 30th June 1968 in doubtful or under litigation loans, there had been increases of 10% and 17% respectively in the guarantee fund and in the reserves.

policy and may in the last analysis increase the dependence of the banking system on foreign countries. It seems appropriate therefore, at least as long as the central monetary authorities have not been able to eliminate these disfunctions, that the development banks should intervene in this sector. Again in this connection it might be advisable, so far as this is consistent with the flexibility of monetary policy, for the Central Bank to resort to selective measures so as to divert part of the monetary resources of the deposit banks to the development banks. On this issue, it has been said that "the main drawbacks of the African commercial banks will be found in their limited geographical distribution in rural areas: they in fact are normally established in urban areas... and neglect the small centres on the periphery, where there is generally a lack of branches in a position to spread investments around the country". Giordano Dell'Amore, *Politica bancaria nei Paesi africani*, op. cit., p. 4.

<sup>1</sup> Furthermore, in 1968/1969, about 12.5 million CFA francs were written off by this Bank.



The investments of the Bank<sup>1</sup>, as of 30th June 1969 amounted to 81,878,120 CFA francs compared with 85,759,120 CFA francs in the preceding June. This decline was due to reimbursement of the participation assumed in FOLEY GABON, following the liquidation of that company, and the refund of part of the capital subscribed in UAMBD, after its capital reduction. Accordingly the existing holdings of the Gabonese Development Bank are as follows:

- (i) 400,000 CFA francs in the *Société d'Etudes Gabonaises*, whose capital is 4,000,000 CFA francs<sup>2</sup>;
- (ii) 10,000 CFA francs in the *Compagnie Cinématographique du Gabon*<sup>3</sup>;
- (iii) 25,000,000 CFA francs in the *Société Gabonaise d'Elevage*, with a capital of 100,000,000 CFA francs<sup>4</sup>;
- (iv) 15,000,000 CFA francs in the *Union Gabonaise de Banque*, whose capital is 300,000,000 CFA francs;
- (v) 6,233,120 CFA francs in the *Union des Banques de Développement*;
- (vi) 33,000,000 CFA francs in the *Société d'Energie et d'Eau du Gabon*, whose capital is 400,000,000 CFA francs;
- (vii) 250,000 CFA francs in *Gabonaise Immobilière*, whose capital is 125,000,000 CFA francs;

<sup>1</sup> As we have seen these activities are regulated by the provision of Article 3a of its Statutes and by Articles 13, 14, 15, 16 and 17 of its rules of procedure.

<sup>2</sup> The Bank's original investment was 100,000 CFA francs. After the SEG's decision to increase its capital by the incorporation of reserves, the amount of this participation was raised to 400,000 CFA francs.

<sup>3</sup> Due to the unsuccessful performance achieved by the CCG management, a depreciation fund was set up, equal to the whole amount of the investment.

<sup>4</sup> This investment was also made with depreciation funds amounting to 60% of the holding that had been subscribed.

- (viii) 25,000 CFA francs in *Cellulose du Gabon*, with a capital of 1,000,000 CFA francs;
- (ix) a 10,000 CFA francs share in SO.GA.CHIM., paid up to the extent of 50 per cent.

Finally, special attention should be paid to investments which can be liquidated at any time. These consist of cash and deposits with the Central Bank, Treasury, the *centres de chèques postaux* and domestic and foreign deposit banks. The amount of these investments stood at 505 million on 31st December 1968 and 948 million on 30th June 1969.

#### 14. RESOURCES OF THE DEVELOPMENT BANK

As regards the sources of this Bank's available funds, its own capital is of particular importance. This last, when the bank was set up, amounted to 400 million, subsequently increased to 1,000 million CFA francs and finally from April 1970 it was raised to 1,100 million.

The capital's greater or lesser proportion to the institution's managing needs heavily influences its possibilities to achieve its own aims. However, the determination of the minimum level necessary in order to ensure effective operations involves problems which are not easy to solve such as establishing the overall amount of capital which a country can use productively in a given period of time, or arriving at a reasonable estimate of the percentage which can be invested by the Development Bank<sup>1</sup>.

<sup>1</sup> This point is discussed at length by J. Adler, *Absorptive Capacity: the Concept and the Determinants*, Washington D.C., The Brookings Institution, 1965, and P. Perera, *Developments Finance - Institutions, Problems and Prospects*, Praeger Special Studies in International Economies and Development, New York, 1968, p. 52-59. According to Houk, the upper limit of "own capital" should be represented by the loans which the bank can concede over a period of two years. This criterion presupposes however that the banks or other

Nor is the concession of excessive loans on the Bank's own capital devoid of risk. In fact, an over-capitalisation will compel the Bank to invest a relatively large part of its own funds in short-term assets. This may expose it to pressures from public or private shareholders to encourage a larger volume of investment or to seek larger returns or to meet the financial requirements of activities which they approve. Furthermore, these pressures may induce the Development Bank to concede loans without having previously assessed through appropriate enquiries the possibility of these investments being reconverted into money and of contributing to the development of the economy<sup>1</sup>.

As regards the nature of the business itself, it seems that its public status, even though it exposes the Bank to greater political interference than if it were a private body, is the most appropriate solution since it makes it easier to co-ordinate deposit and investment policies with those adopted by the economic planning authorities<sup>2</sup>. At the same time, this solution makes it less important to obtain adequate returns on the funds obtained as capital and allows investments which will only bring a profit at

bodies have already identified the projects in which they wish to invest which, in many African countries, is an altogether unfounded hypothesis. This author identifies a minimum limit of own resources which a development bank must have as "the resources necessary to allow a bank sufficient earning capacity to recover its management costs and leave a reasonable surplus for distribution among its shareholders or for investment". J. T. D. Houk, *Financing Problems of Development Banking*, New York, Praeger, 1967, p. 48-50.

<sup>1</sup> The ratio between paid-up capital and authorised capital may be an indication of the extent to which absorptive capacity has been over-estimated. However, we should note that often this ratio is influenced by political factors more than by the lack of credit-worthy projects.

<sup>2</sup> See J. T. Dottonck, *Financing Problems*, *op. cit.*, p. 108; W. Diamond, *Development Banks*, Baltimore, Johns Hopkins Press, 1967, p. 12, and S. Boskey, *Problems and Practice of Development Banks*, Baltimore, Johns Hopkins Press, 1959, p. 6 ff.

a later date but are definitely helpful to the development of the economy<sup>1</sup>.

If the Treasury's resources are insufficient to acquire 51% of the shares, it can call on the International Financing Corporation which is authorised by its own statutes to assume temporary participations up to 25% of the share capital of the Development Bank. The intervention of this body, however, depends on an undertaking by the Government to place the shares which have been subscribed with private operators as soon as possible.

Furthermore, the resources of the banks under discussion may be reinforced by annual contributions from the State revenue as in the case where these institutions are authorised to collect certain duties. In other cases, the Treasury's assistance may be commensurate with the financial requirements of the Development Bank, which gives it considerable flexibility in its operations.

The necessary means may often be obtained through recourse to compulsory savings or to selective measures by the central monetary authorities<sup>2</sup>.

On certain occasions these banks have been able to obtain loans from international financial institutions or from consortia abroad<sup>3</sup>.

<sup>1</sup> See G. Dell'Amore, *Politica bancaria nei Paesi africani*, op. cit., p. 6. Thus, the criteria proposed by the World Bank, which involve preferring development banks whose capital is subscribed by private individuals and firms do not seem appropriate to the economic context in which these banks have to work. On this issue see once again H. Harlander and D. Mazger, *Development Banking in Africa*, op. cit., p. 23.

<sup>2</sup> On the other hand, recourse to a policy of occasional Treasury subsidies is inadvisable, because of the risks involved in this type of operation.

<sup>3</sup> See Giordano Dell'Amore, *Politica bancaria nei Paesi africani*, op. cit., p. 8.



Finally, governments may grant interest-free long-term loans to these institutions (25-30 years) with a pre-amortization period of 10-15 years. Furthermore, since they are considered as a special form of own funds by the World Bank, so long as their annual amount does not exceed 150% of the advances granted, with a risk lien to a given development institution, these loans substantially increase the borrowing capacity of the banks concerned. Thus, according to this institution, a development bank with a financial structure of the following type <sup>1</sup>:

own capital	100
debenture capital	150
	<hr/>
borrowing base	250
maximum amount of indebtedness allowed to be credit-eligible at the World Bank	750
	<hr/>

is considered eligible for loans <sup>2</sup>.

The World Bank should operate on the principle of granting credit only to those banks whose capital is entirely subscribed by private persons. However, since rigid application of this criterion would in practice exclude all African institutions from drawing on this source of funds, the World Bank has modified its behaviour and is now prepared to accept applications for loans from institutions, of which at least 51% of capital is subscribed by local operators and by the International Financing Corporation.

In some instances, in order to expand their own lending activities, development banks have had recourse to bilateral loans.

<sup>1</sup> We should however note that World Bank credits must be guaranteed by the Government of the country in which the borrower bank is operating.

<sup>2</sup> See H. Harlander and D. Mazger, *Development Banking in Africa*, *op. cit.*, p. 26.

When they involve the obligation of using the means thus obtained to import producer goods from given countries or enterprises, these loans are very costly and almost always represent financial aid to the exports of the countries which grant them<sup>1</sup>. Hence, besides reducing the freedom of action of these banks, they complicate their monetary management and reduce their contribution to the development process<sup>2</sup>.

Development banks may also tap other sources of finance and, in particular, resort to the issue of debenture loans on the home or on the foreign markets<sup>3</sup>.

We should thus note that recourse to debenture issues is of fundamental importance to the institutions under discussion. In fact, to fulfil their purposes they must concede credits mainly on a medium- or long-term basis to enterprises which have not been long established and therefore have not adequately demonstrated their own profitability and with it their ability to repay punctually the loans they have obtained.

The issue of these securities accordingly enables development banks to meet this need and therefore to mobilise, for capital accumulation purposes, a share of national savings. In this

<sup>1</sup> See OCDE, *Efforts et politique d'aide au développement - Examen*, 1966, Table 4, p. 168.

<sup>2</sup> See Giordano Dell'Amore, *Politica bancaria nei Paesi africani*, *op. cit.*, p. 8; O. Hirschman and R. M. Bind, *Foreign Aid - A Critique and a Proposal*, Essays in International Finance, International Finance Section, Department of Economics, Princeton University, Princeton, No. 69, July 1968; and H. Harlander and D. Mazger, *Development Banking in Africa*, *op. cit.*, p. 27.

<sup>3</sup> In this connection see the extensive literature and in particular P. Perera, *Development Financing Institutions*, *op. cit.*, p. 183-184; W. Diamond, *Development Finance Companies - Aspects of Policy and Operations*, Baltimore, The Johns Hopkins Press, 1968, p. 59, 61-66, 70-75, 80 and 84.

context, the monetary authorities themselves could, within certain limits, encourage the sale of these securities by having recourse to selective measures. Notwithstanding this, the financial requirements of a development bank cannot be fully satisfied through debentures issues unless one wishes to overload the security portfolio of the deposit banks and thus incur the dangers and limitations inherent in such a situation, without inducing households to invest part of their savings in these securities<sup>1</sup>.

For this purpose it might be particularly helpful if this Bank undertook to buy back its own shares at any time at a price above that at which they were sold, calculated in such a way as to increase with the lapse of time since the day of issue. Furthermore the sale of these securities could be encouraged by setting a redemption price above the nominal value (premium *en debors*). The amount of this premium should be proportioned to parameters taking into account the intensity of possible inflationary processes.

<sup>1</sup> If the behaviour of this institution were such as to make it assume the characteristics of a non-banking financial intermediary, the monetary authorities, in assessing the adequacy of the monetary basis, would have to take into account the creation of deposits made by this institution. This naturally in so far as such an intermediary invests its reserves (which are voluntary) in financial assets typical of deposit banks since, without reducing the monetary basis available to these banks, this would enable them not to reduce the amounts of these assets. See J. J. Gurley and Edward S. Shaw, "Financial Aspects of Economic Development", *American Economic Review*, 1955, p. 515-538; Don Patinkin, "Financial Intermediaries and Monetary Theory", *American Economic Review*, 1961, p. 95-116; Karl Brunner, "A Scheme for the Supply Theory Money", *International Economic Review*, Vol. 2, 1961, p. 79-109; N. Kaldor, "Speculation and Economic Stability", *Review of Economic Studies*, Vol. 7, 1939, p. 1-27; Tibor Scitovsky, *Money and the Balance of Payment*, *op. cit.*, p. 35, 46, 60-62; Nicholas Kaldor, "The New Monetarism", *Lloyd Bank Review*, No. 97, July 1970, p. 8; J. Tobin, *Commercial Banks as Creators of Money*, in D. Carson, *Banking and Monetary Studies*, Homewood, Illinois, R. D. Irwin, 1963, p. 408-419.

At the same time the central monetary authorities could guarantee the performance of this undertaking and assume various charges arising from possible increases in rates of medium- and long-term interests, so as to avoid capital losses to subscribers notwithstanding the limitations placed on their freedom of action by the concession of these guarantees. The assumption of these burdens by the Central Bank would be justified by the fact that it is only after the operators have been persuaded to include the securities, issued by the Development Bank and the Treasury, in their portfolios that measures can be taken to create a stock market<sup>1</sup>. Furthermore these securities would enable deposit banks to find on the domestic market suitable remunerative investments for part of their liquid reserves. In this way a spontaneous cycle of banking activity would be set in motion<sup>2</sup>.

The other source of finance available to development banks on the financial market is provided by the issue of securities on foreign or international markets. These securities will be proportionately easier to place, the smaller the debt of the country in which the bank operates<sup>3</sup> and easier still if they are placed and guaranteed by a bank consortium, especially if this is

<sup>1</sup> See Giordano Dell'Amore, *Il risparmio in una economia dinamica*, Milan, Giuffrè, 1969, p. 17.

<sup>2</sup> See W. T. Newlyn, *Money in an African Context*, *op. cit.*, p. 45, 46, 49, 52. In this connection it may be noted that, since the shortage of liquid financial liabilities gives rise to local under-employment of bank liquidities and of their transfer to foreign monetary markets, it follows that the relationship between local commitments and total assets is highly significant for the study of banking activities in the countries under discussion, since it indicates how far the banks have been able to invest their own funds locally.

<sup>3</sup> The degree of indebtedness of a country is measured by means of the ratio between the outgoings in connection with the service of its debts and all receipts of foreign currencies occurring over a certain period of time.



managed by foreign banks operating in the country directly or through their participation in local banks. However, we should note that while, on the one hand, borrowing abroad may for a brief period facilitate the development of an economy since it allows a more flexible policy in regard to the import of producer and consumer goods, when operators in that country do not succeed in converting a sufficient part of the national product into foreign currency, it may raise problems which are difficult to solve and may readily take on a pathological character<sup>1</sup> and gravely impair the foreign borrowing capacity of the economic systems under consideration.

In any case, even though these countries may attract huge volumes of international investment, they will not succeed, in the absence of a sufficient propensity to household saving, in increasing the capital accumulation: these flows can only facilitate the process<sup>2</sup>.

In fact, the accumulation process requires the availability of equipment which, because internal and foreign resources are not fully interchangeable and because of the lack of elasticity of

Hence, countries with fairly low values for this relationship may, without running into serious balance of payments difficulties, increase the level of their foreign indebtedness. Naturally this increase can be greater — given an equal capacity for repayment — in proportion to the country's technical absorptive capacity and to the propensity to save of the household. See Onorio Gobbato, "Il finanziamento degli investimenti fissi in economie arretrate", *Atti del secondo seminario internazionale dell'ISREM*, Rome, 1964, p. 26.

<sup>1</sup> See P. Lieftinck, *External Debt and Debt-Bearing Capacity of Developing Countries*, Essays in International Finance, International Finance Section, Department of Economics, Princeton University, Princeton, No. 51, March 1966, p. 8 ff.; D. Avramovic, *Economic Growth and External Debt*, Baltimore, The Johns Hopkins Press, 1966.

<sup>2</sup> See B. Balossa, "The Capital Needs of Developing Countries", *Kyklos*, 1964, No. 2, p. 197-205.

internal supply, almost invariably requires the availability of currency resources capable of lessening the difficulties that may arise in the process of converting savings into an increase in the productive capacity of the economy. It seems however that the expansion of the process of capital accumulation in a country is conditioned not only by the structural and functional characteristics of the economy and by its absorption capacity, but also by the amount of net savings, in real terms, at the disposal of a country's operators, and of the credit obtained from foreign operators and available for capital accumulation. Hence the volume of loans which can be conceded for investment purposes by the credit system, and the more so by a development bank, cannot exceed the value previously indicated, unless one is willing to set up dangerous inflationary processes.

At the same time, because of the peculiarities of the process by which producer goods investments are reconverted into money, the resources necessary to meet the medium-term financial requirements must be found from non-monetary sources of supply<sup>1</sup>.

Hence, in this way too, we have further confirmation of the importance of the fund collecting activities of a development bank, which to be really effective and efficient should lead to the creation of a financial market, through which the process of transferring savings from households and from the banking system to capable operators will be realised: they will take the investment decisions and accept the risks inherent in the pursuit of this activity<sup>2</sup>.

<sup>1</sup> This applies provided that the central monetary authorities are not seeking to modify the behaviour of the deposit banks by giving them the regular characteristics of mixed banks.

<sup>2</sup> It does not seem advisable for a bank of this type to seek to develop the financial market by selling the shares held in its own portfolio.

At this point, having considered the fund collection policy of the development banks, we should examine that of the Gabonese Development Bank. Even from this view point, we notice that the behaviour of this institution shows many shortcomings. In fact, even excluding the management of public funds<sup>1</sup>, nearly the whole of the resources which it administers comes from loans granted by the national Treasury, largely out of the money obtained from the Post Office Savings Bank, the *centres de chèques postaux* or the French *Caisse Centrale de Coopération Economique*. As at 30th June 1969, for instance, out of a total of 1,596 million CFA francs of resources available in the medium- and long-term fields, 1,450 million had been provided by the CCCE<sup>2</sup>. Even the deposits which it collected came, as we have seen, from the State or from public enterprises. As at 30th June 1969 these deposits amounted to about 1,500 million CFA

In fact to be attractive to private operators these securities should ensure high and constant returns. This would deprive the bank of useful income thereby causing a deterioration in its own economic position and, most probably, an increase in the rates of interest it requires. This increase, depending upon the degree of investments elasticity as regards the cost of loans could cause a smaller volume of investments, of returns and therefore of funds. This issue is discussed at length by W.T. Newlyn in *Finance for Development - A Study of sources of finance in Uganda with particular reference to credit creation*, Nairobi, East African Publishing House, 1968.

<sup>1</sup> On behalf of public bodies, this bank may undertake, in accordance with Article 3 of its own rules of procedure, the management of funds intended to carry out operations of general interest.

<sup>2</sup> In this connection we should note that the CCCE allows the GDB loans for clearly defined operations. In 1969, for instance, the CCCE conceded loans to this Bank, to an amount of 11,340,000 French francs. Out of these 3 million were to be granted to the *Office des PTT* for the extension of the Libreville telephone network, 1 million to the ASECNA for the construction of an airport at Port-Gentil, 800,000 to the *Société Industrielle des Textiles du Gabon*, and 6,540,000 to the municipalities of Port-Gentil and Libreville to carry out public works.

francs, of which 769,300 were medium-term time deposits<sup>1</sup>. However, except in the event of derogations granted by the Board, these sums must, in accordance with Article 10 of the rules of procedure, be held in liquid assets, or notes to be cashed at the Central Bank, or marketable securities or deposited with commercial banks<sup>2</sup>.

Hence the Gabonese Development Bank, while its management is officially autonomous and while it is established in the form of a joint-stock company, is merely a special section of the State administration, which cannot be included in the banking system even though it represents a far from negligible source of credit<sup>3</sup>.

<sup>1</sup> The financial structure of the Bank, as at 30th June 1969, therefore met the essential requirements of the World Bank notwithstanding that its liquidity situation was rather unsatisfactory. In fact, by comparison to an amount of short-term loans of 1,855 million CFA francs, the Bank could only use 955 million of short-term resources.

<sup>2</sup> The Gabonese Development Bank cannot accept deposits from private individuals unless these are intended to facilitate or guarantee particular lending operations as it happens, for instance, in the case of guarantee deposits or for real estate credit operations where the use of the loans which have been granted is subject to the preliminary setting up of a savings deposit on the part of the borrower. In this connection we should stress the great importance which this bank attaches to real or personal guarantees. This behaviour seems particularly inappropriate in a developing country such as Gabon, since it can cause serious difficulties for the small and medium-sized enterprises whose development this bank should seek to promote. At the same time, when it is necessary to call upon these guarantees, they very often prove inadequate. It would therefore be advisable and more consistent with the objectives of the bank to concede credits on the basis of the possibilities which individual enterprises have of reconverting into money the resources which they obtain by way of credit and invest in their own productive process. It therefore seems desirable that the bank should substantially reduce the amount of the guarantees it requires.

<sup>3</sup> These assertions are further confirmed when considering the behaviour of the GDB in relation to the Treasury. In fact the Bank has assumed — on behalf of the Treasury — the servicing of various securities that are part of a fiscal-nature system to promote investments (*bons et obligations*



This indeed is the most negative feature of the Bank under consideration. In fact, unless it ceases to behave as a typical deposit and lending bank it cannot promote the creation of a stock market through the distribution and sale of its own securities to private operators. It is therefore necessary for the rules of procedure of this Bank to be modified so as to allow these securities to be placed with private operators. Hence it would be advisable for these governing authorities to encourage the pursuit of this objective, for instance by requiring the Post Office Savings Bank to promote the distribution of these securities among savers, encouraging, if necessary, the conversion of their deposits for this purpose.

#### 15. CONCLUSIONS ON THE GABONESE DEVELOPMENT BANK

In the present state of development of the national economy, it seems desirable therefore that the Gabonese Development Bank should:

- (i) give up financing particular operations and, in particular, agricultural operations and those intended for the purchase of consumer durables or the construction of buildings or infrastructures;
- (ii) confine its own activity to the promotion and financing of small and medium-sized industrial and forestry enterprises, in particular those producing for the home market;
- (iii) provide, for borrower enterprises, the technical assistance which they require and follow, by appropriate supervision, the use which these enterprises make of the resources conceded to them;

*d'investissement, obligations du Chemin de fer Owendo-Belingha*) and the management of the *Société Nationale d'Investissement*. In this connection see Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, Milan, Giuffrè, 1969, p. 9.

- (iv) give greater weight, in its credit granting decisions, to the possibilities of reconversion into money of the investments which are made by the enterprises thus financed and attach less importance to the actual guarantees which they offer<sup>1</sup>;
- (v) promote the creation of a stock market by placing its own securities with local savers.

Finally it might be advantageous to set up a non-banking financial intermediary of the development corporation type. This body should have as its main object that of alleviating the drawbacks arising from the lack of entrepreneurial capacities in the population, through the study, creation and management of the enterprises which it considers useful for the purposes of economic development.

#### 16. ORIGIN OF THE *Caisse Nationale de Crédit Rural*

Until 1964 agricultural credit was the concern of the Gabonese Development Bank, as in the case of other categories of loans, for instance forestry, building, artisanal and industrial loans. However, by comparison with them, agricultural credit had two special features: farmers could not offer adequate guarantees and more staff was required to supervise the activities thus financed, because of the geographical scatter of the applicants. At the same time, a large part of the loans granted in this sector were made to particular bodies, such as the *sociétés de prévoyance* and were used by them to finance the export of agricultural products. Hence, when these bodies were replaced, pursuant to the Ordonnance of 2nd January 1962, by the *Société Gabonaise de Développement Rural*, there was a

<sup>1</sup> Naturally, other things being equal, these possibilities will increase the greater the ability and competence of the entrepreneur who takes the loan.

substantial drop in the volume of credits granted to the agricultural sector. It became evident, however, that it was necessary to set up a body which would have agricultural credit as its object and could alleviate the shortcomings mentioned above. To this end, by the Law of 28th December 1963, a specialised body was created, the *Fonds de Développement Rural* (FDR) which was placed under the authority of the *Société Gabonaise de Développement Rural* (SGDR)<sup>1</sup>.

To understand better the activities of these bodies, we should examine their structure and behaviour at this point.

The SGDR is a public enterprise with financial autonomy and legal status. It is, in the last analysis, an instrument of the Government for the active promotion of rural development. To this end, the SGDR is required to create, facilitate and co-ordinate all projects with a view to development, co-operation, mutual aid and agricultural and rural credit. To pursue this activity the *Société* enjoys the following sources of funds:

- loans and subsidies from the national Treasury;
- part of the receipts of the rural communities, obtained by collecting certain levies;
- loans;
- self-financing.

Beside this institution, however, there were other secondary bodies at work, such as the rural development divisions and the rural expansion centres. The first were public enterprises, with legal status and financial autonomy, which controlled the rural expansion centres operating in a particular district. In addition

<sup>1</sup> It should be borne in mind that the FDR took over the balance of the agricultural credit section of the GDB. The latter, after 1964, confined its activity in the agricultural sector to the ONCA only.

to promoting rural activity, they had to assist and supervise the rural expansion centres as regards co-operation and financial and commercial management <sup>1</sup>. In addition each of these divisions was required:

- to prepare, together with the Council of Rural Communities, programmes for agricultural improvement;
- to submit them to Government approval through the SGDR;
- to ensure their implementation if necessary;
- to supply the resources needed for the implementation of these programmes.

The rural expansion centres had been created at the initiative of the people of a given community and performed agricultural development activities.

The *Fonds de Développement Rural*, on the other hand, had the task of organising, facilitating, enlarging and guaranteeing the financing of agricultural activities <sup>2</sup>.

It was administered by a Board whose Chairman was the Minister of Agricultural or his deputy, and consisted of:

- one representative of the President of the Republic,
- one representative of the SGDR Board of Directors,
- one representative of the Minister of the National Economy,
- one representative of the Minister of Finance,
- one representative of the Minister of Agriculture,

<sup>1</sup> The territorial distribution of the SGDR, the only body which effected agricultural credit transactions on behalf of the FDR, was as follows:

head-office in Libreville;

12 rural development sectors which ensured approximately one sector for each administrative region of the country.

<sup>2</sup> This Fund was in fact also responsible for regulating the prices of exported agricultural products and, in particular, of cacao, coffee and groundnuts.



one representative of the Gabonese Development Bank (GDB),  
five representatives of farmers,  
one representative of the Economic and Social Council,  
three representatives of the National Assembly,  
one representative of the Chamber of Commerce and Agriculture,  
one plan commissioner or his deputy.

At regional level, commissions were set up in the first instance to study the problems to be submitted to the Board.

The Fund could draw on the following sources of finance:  
endowments from the budget of the Gabonese Treasury;  
the balance of the GDB's agricultural section;  
receipts from levies, fixed by laws, on exports of agricultural produce;  
part of the compensation paid to the national Treasury by the BCEAEC for its privilege of issuing money;  
income arising from its own resources;  
the deposits that might be made by farmers.

Loans could be granted to meet financial needs in connection with:

agricultural production operations, provided these loans were sufficiently guaranteed;  
operations for the preservation of agricultural products, provided these operations were effected either directly by the farmer who received the loan or by co-operatives, and were not undertaken for speculative purposes;  
the processing of agricultural products.

Furthermore, this Fund could grant advances to facilitate either the settlement of farmers around pilot farms or the extension of profitable crops.

The loans which it granted could be short-, medium- or long-term<sup>1</sup>. In particular, for medium- and long-term credits, a pre-financing period not exceeding five years, could be allowed.

The Managing Director of the SGDR decided whether or not to concede the loans<sup>2</sup>. However, in the case of medium- and long-term advances, he had to be advised by a committee on loans, consisting of persons selected from the members of the Board and who necessarily included the representatives of the Minister of Agriculture and of the Minister for the National Economy.

Maximum rates of interest were jointly agreed, on the recommendation of the Board, by the Ministers for Agriculture and for the National Economy<sup>3</sup>, whereas each year, the Board of Directors of the Fund fixed the ceiling on loans which could be granted on the basis of the ready money and of the resources on which it could draw<sup>4</sup>.

<sup>1</sup> Short-term loans must not exceed the period of one year. They were intended to finance the following operations:

- the purchase of seeds and grains or of inexpensive equipment;
- plantation work.

Medium-term loans had a maximum duration of three years and were granted for the purchase of agricultural equipment or for improvement of land or buildings.

Finally, long-term loans were repayable over a period of 15 years provided that the borrower was no more than 60 years old when repaying the last instalment. These loans were intended for:

- planting of permanent cultivation;
- the improvement or purchase of land or buildings;
- new buildings for agricultural purposes;
- the purchase of cattle.

<sup>2</sup> In this connection it may be worth noting that the resources of the Fund must be paid into a current account at the SGDR.

<sup>3</sup> For credits granted to co-operative or mutual aid type bodies advantageous rates of interest were provided.

<sup>4</sup> The beneficiaries of the loan had to sell their products through the SGDR.

Finally, the beneficiaries of these credits could use them by instalments according to the share of work done and actually verified by the Director of the Rural Development Sector, who was the local representative of the agricultural credit<sup>1</sup>.

This structure was overhauled by the Law of 22nd October 1965 which set up a *Caisse Nationale de Crédit Rural*<sup>2</sup>. This was a public body enjoying legal status and financial autonomy, whose object was to facilitate, organise and develop recourse to credit by those who drew their income from the rural environment. It was administered by a Board whose composition was similar to that of the FDR Board, with the following exceptions:

the representatives of the National Assembly were reduced from three to one;

it did not include the five representatives of the Farmers' Professional Association or the representative of the SGDR; there was a representative with consultative status of the GDB.

This Board met at least once every two months, examined applications for loans and decided, on the basis of the resources available, the amount of loans to be conceded<sup>3</sup>. The *Caisse* had the same supply sources of the SGDR. The organisation however was obliged to deposit its endowment funds with the national Treasury and all its other resources with the

<sup>1</sup> These representatives also assessed the working capacity and ability to repay of the prospective borrower. They passed on this application to the head office together with their report on the above-mentioned aspects.

<sup>2</sup> This law repealed all provisions which were inconsistent with it, and in particular Law 62/63 of 28th December 1963 and Decree No. 124 of 1st April 1964.

<sup>3</sup> All applications for loans had to be considered by the Board, which was the only body competent to decide whether or not the advance should be granted.

GDB, the only bank authorised to receive them. The credits which it conceded could not have a duration or a repayment period exceeding 10 and 25 years respectively, and their use was subject to making a deposit with the CNCR, the amount of which varied according to the duration and the size of the loan, while its cost was calculated on the basis of 4% of the annual overdraft<sup>1</sup>.

Finally, the GDB, once it had been notified that the advance had been agreed by the CNCR Board, was responsible for drawing up the contracts, registering the guarantee, keeping the dossiers and accounts and undertaking the procedures required by law in the event of failure to repay the loans. The GDB received remuneration every six months, for doing the work set out above, worked out on the basis of the advances conceded with its own funds by the CNCR, at an annual rate of 3.50%.

The structure and operations of the CNCR were modified by a Decree of 16th March 1970. Pursuant to this Decree, the structure of the *Caisse* was modified as follows:

- (i) the territorial framework while still established by the people locally responsible for agriculture, had to be based on data supplied by the persons responsible for rural credit in each region;
- (ii) the Board, now called *Conseil d'Administration*, was made up in the same way as had been established by the Law of 27th October 1965, except that it now includes one representative each of the Minister of Waters and Forestry, of the Minister of Rural Economy and Social Affairs and, of the Minister for Economic Affairs, Commerce, Industry and Development.

<sup>1</sup> Loans granted to co-operatives could not be higher than 10 times their paid-up capital.



Those who wish to obtain a loan from the CNCR must send their application to one of the following local agents:

- for agricultural finance: to the agent of the Agricultural Department;
- for stockrearing finance: to the agent of the Stockrearing Department;
- for fishing finance: to the agent of the Fishing Department.

This application will then be transmitted together with the technical advice of the responsible agent to the Director of the Agricultural Region. He in turn will pass on these documents, together with his own opinion, to the Director of Agricultural Services. He will then send these documents to the appropriate specialised sector and this sector, after a thorough technical examination, will send the whole file to the Director for Rural Credit. It falls to this official to decide, within a period not exceeding 15 days, whether or not to submit the loan application for consideration by the Technical Commission<sup>1</sup>. This Commission meets 15 days before the date fixed for the meeting of the Board<sup>2</sup> and, after having considered the documents, discards those applications which are unsatisfactory on technical grounds. It is thus for the Board, depending on the resources of the *Caisse*, to grant or refuse the loan.

However, it is required, in the process of allocating credits between the various operations, to adhere to the following order of priorities:

- (i) operations in connection with agricultural production, stockrearing and fishing;

<sup>1</sup> This Commission consists of the Director of Agricultural Services, the Director of Stockrearing and Fishing, representatives of the ONCA, the GDB and of the Rural Economy, and of the Director of the CNCR.

<sup>2</sup> The Board, in accordance with Article 5 of the Decree of 16th March 1970, holds its ordinary meetings four times a year.

- (ii) operations in connection with the processing of agricultural products by the producers;
- (iii) operations in connection with fishing-rearing ponds;
- (iv) operations in connection with the development of artisanal activities in the countryside<sup>1</sup>.

Credits may be granted for the short-, medium- or long-term. Short-term ones may have a duration of three to twelve months; medium-term credits from one to five years, and finally long-term credits from five to ten years. These loans may be conceded only to Gabonese citizens, and the Board is required, according to Article 18 of this Decree, to have regard to the following order of priorities:

- (a) young persons who, having received vocational training, are working in agricultural centres and have a ten-year working contract with the State;
- (b) producers' associations recognised by the Ministry of Agriculture and Stockrearing;
- (c) private individuals who have a well-managed activity in an area which is easily supervised and have been working for five years in the sector for which they request the loan;
- (d) officials and agents of the State or of the private sector who wish to engage in agriculture, fishing or stockrearing under the supervision of the technical services.

The amount of the loans is determined on the basis of:

- (i) the profitability of the operation;
- (ii) the value of the working capital;
- (iii) the resources of the *Caisse*.

<sup>1</sup> For these operations a rate of interest of 4% is asked, but for those in connection with housing improvements, the rate is 8 per cent.

In any case this amount may not exceed 50% of the investment for farmers and cattle rearers and ten times the paid-up capital for producers' associations<sup>1</sup>.

Moreover, private individuals who wish to obtain a loan are required to deposit a certain sum with the CNCR as an initial contribution<sup>2</sup>. If these private individuals are salaried employees, they are requested to make a payment amounting to 25% of the total investment, and must have at least a three years' seniority in their job. Lastly, they cannot be allowed any pre-financing period<sup>3</sup>.

#### 17. INVESTMENTS OF THE *Caisse Nationale de Crédit Rural*

The *Caisse Nationale de Crédit Rural* began its activities in July 1965, after the winding-up of the *Société Générale de Développement Rural* whose all assets and liabilities it took over. Unfortunately the activity of this institution has been dogged by an unsatisfactory organisation from the standpoint of administration and bookkeeping, making it very difficult to quantify its management. In fact the GDB, which had the task of managing the loans made by the CNCR and of keeping the books has never possessed the files of all the loans granted by the CNCR since part of the loans made by the SGDR never reached it. Moreover, even though the GDB sends

<sup>1</sup> The borrowers must start to use the credits granted to them within three months of being notified. Failing this the loan may be cancelled.

<sup>2</sup> If these operators do not have a regular income they may fulfil the above-mentioned requirement through work already done or by a contribution in kind. In that event however the value of these contributions will have to be assessed by the technical services.

<sup>3</sup> In all other cases the Board of the CNCR may, pursuant to Article 21 of this Decree, allow pre-financing periods.

the CNCR copies of the account books concerning the management of the loans, the *Caisse* does not systematically classify these documents, or the borrowers' files, so that its dossiers are never complete and up-to-date. Hence the *Caisse* has never been able to follow exactly how its new investments were developing, nor to make reliable forecasts regarding its own liquidity situation. Since these problems, which have long affected the internal management of the *Caisse*, are fairly easy to resolve it would be appropriate to deal with them as soon as possible. Having made this point we may consider the quantitative aspects of the management of this institution.

Up to 8th February 1967 this institution had conceded 182 loans for a total amount of 52,293,303 CFA francs. Of these 146 for an amount of 32,022,899 CFA francs had been granted by the SGDR. This amount represented short-term loans for 22,163,364 CFA francs, and medium- or long-term loans for 9,859,535 CFA francs<sup>1</sup>. Of these loans 79 were made in favour of the fishing sector, 69 assisted plantations or the purchase of equipment, 31 were for improvements to rural housing and 3 were for stockrearing. Thus, in this first period, a large part of the loans were granted to the fishing sector rather than to agriculture.

In 1967 the *Caisse* granted 22 loans of which 14 were short-term for an amount of 3,443,504 CFA francs, and 8 were medium- and long-term amounting to 12,720,000 CFA francs. In the following year, there was a suspension of all credit activities and the technical times necessary for the use of the credits that had been granted were extended.

<sup>1</sup> In 1966 the *Caisse* granted 14 loans, of which 2,132,180 CFA francs were given on a short-term basis and 1,500,000 were given for the medium- or long-term.



In 1969 the Institution resumed lending activities and granted 30 loans for a value of 15,835,300 CFA francs. Finally, in 1970, the *Caisse* granted 27 loans<sup>1</sup> for an amount of 18,505,000 CFA francs.

It is clear from the above facts and data that agricultural operators have not made intensive use of credit. In fact, even with credit facilities, a large part of the financial needs of Gabonese farmers have been met through self-financing. This was due partly to the farmers' lack of information about this kind of credit and partly to the low level of development in farming, production and marketing techniques, to the type of production directed towards consumption and the opportunity that the farmers had of obtaining the equipment they required fairly easily, by selling their unused foodcrops, thanks to the presence of the Government agencies responsible for the supply of fertilisers and insecticides<sup>2</sup>.

The Gabonese authorities felt that credit could perform an essential function in the transition from an almost entirely extensive type of subsistence farming to production for the market, since this required a change-over to more intensive methods of cultivation and the abandonment of traditional structures<sup>3</sup>.

To this end, an agricultural credit organisation, of which we have already discussed the origin and structural development,

<sup>1</sup> It is worth observing that of these 27 loans 24 were granted for fisheries.

<sup>2</sup> On this issue see the arguments put forward by Roberto Ruozzi in his unpublished work: *Rapport au Gouvernement du Gabon sur le crédit rural*, March 1971, p. 11. He considers that the lack of significant demand for credit may be proved by the almost complete absence of private financiers, who were active in much of the lending activity under consideration in developing countries.

<sup>3</sup> See Roberto Ruozzi, *Rapport au Gouvernement, op. cit.*, p. 11.

was set up. However after the first years the Government realised the inability of this organisation to pursue the objectives which it had set. In particular it became increasingly obvious that it was necessary to resort to new investment techniques and to adopt a different policy as regards territorial aspects too. In this context an effort was made to increase the use of controlled credit <sup>1</sup>, to which several objectives were assigned, *inter alia*:

- (i) improvement of cultivation programmes, so as to increase the production of consumer goods necessary to meet the food requirements of the country's population;
- (ii) making adequate amounts of credit available to farmers;
- (iii) conceding loans on the basis of the possibilities of reconverting into money the productive processes that were financed <sup>2</sup>;

<sup>1</sup> This was also recommended by a FAO expert. In this connection see Marc A. Holly, *Moyens et méthodes d'exécution pour atteindre les objectifs du plan - Troisième instrument d'exécution: le crédit rural et agricole*, Libreville, 1964.

<sup>2</sup> It would be even more advisable to allow a pre-financing period and a repayment period both of adequate length, so as to facilitate the amortisation process. In this connection we should note that investments ought not to have been made with regard only to the real and personal guarantees the borrower could offer, bearing in mind that the personal qualities of the applicant and the type of his financial requirements could be of greater significance. This because real and personal guarantees proved to be practically devoid of any efficacy, when the CNCR had to call on them, either because of the lack of a stock market or for the habit of not taking legal action against the persons (officials or employees) who had provided these guarantees in the event of a default. This point is discussed at length by Roberto Ruozzi in "Le casse di risparmio e il credito all'agricoltura", *Il Risparmio*, September 1971, p. 1559, and *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 25.

As regards personal guarantees, we should observe that the CNCR recently decided to use these more strictly and that, pursuant to Decree No. 453 PR/MIN-AGRI of 16th March 1970, it made the concession of new loans subject to a previous contribution by the borrowers, amounting to 25% of

- (iv) helping farmers in their choice of agricultural implements, seeds, fertilisers and so forth;
- (v) improving their farming techniques so as to increase productivity;
- (vi) encouraging and facilitating the development of production, purchase and trade co-operatives;
- (vii) improving the health conditions of the rural people<sup>1</sup>.

However the lack of specialised personnel for rural credit, and of satisfactory collaboration with the agents in the various agricultural regions has, at least up to now, hampered the organisation of adequate supervision. An attempt has been made to remedy this by having recourse to a new lending policy.

the credit granted. However, while on the one hand these decisions have improved the regularity of payments, on the other they have had a negative influence on demand and the use of the loan that were regularly granted, so much so that the Board recommended to the Minister of Agriculture on 31st October 1970 that he should ask the President of the Republic to reduce this percentage from 25% to 10%. At the same time also, the attempt to keep a check on the income of the borrowers, through the obligation imposed upon them to market their produce through ONCA and thus ensure the almost automatic reimbursement of the loans, has proved a failure because of the inefficient operation of this body.

<sup>1</sup> It is clear from what has been set out above that the CNCR has sought to modify its activities in such a way as to finance operations calculated to increase not only output but also productivity. To that end, this institution endeavoured in the first place to make effective assessments of the economic and social utility of the investment plans for which agricultural credit had been requested, and then to educate, advise and carefully supervise the implementation of these plans by the farmers. We should however observe that the success of this activity depends largely on the local agents since it is they who:

- (i) together with the applicant, draft the development plans for the farms;
- (ii) supervise their implementation;
- (iii) contribute to the reimbursement of the loans.

On this issue see Articles 12 and 13 of the Decree of 16th March 1970, Article 11 of the Decree of 27th October 1965 and the assertions of Roberto Ruozzi in *Il credito agrario*, *op. cit.*, p. 72, 73, 75.

Firstly, an effort has been made to reduce the political interference which in the past had a decisive effect on the allocation of loans. In many cases, in fact, loans were granted to individuals who used them for non-agricultural activities. Furthermore, even when these credits were used in the sector under discussion, political pressures led to an excessive territorial scattering of loans which made it exceptionally difficult to keep any track of their use. Because of these factors — lack of specialisation on the part of the staff and of the agents on the spot, and political pressures — there was a considerable increase in defaults by the borrowers. It is however true that a certain number of loans would not have been repaid in any event, as normally happens in all developing countries, especially when some of the borrowers regard agricultural credit as a Government grant rather than as money which has to be repaid<sup>1</sup>.

To obviate these deficiencies and get real experience on controlled credit, CNCR loans have been concentrated over the

<sup>1</sup> See *Rapport d'activité du crédit rural* for 1966, p. 8. It may seem that, even in the presence of many cases of default, the number of loans which have been the subject of lawsuits has never been high. The GDB on whom the initiation of reimbursement procedures is incumbent, pursuant to Article 11 of the Decree instituting the *Caisse*, has not proved very diligent in the execution of this task. This inertia is possibly explained by the fact that the GDB draws no profit whatever from initiating these procedures. In fact, even without taking into account the costs inherent in this activity, we should note that the financial risk remains chargeable to the CNCR and that the GDB therefore had no economic interest in starting these procedures, or in the punctual reimbursement of the loans conceded by the CNCR especially if we consider that the remuneration it receives for its activities in support of the CNCR is calculated at the rate of 3.50% per annum, on the amount of the advances conceded by the *Caisse*, even if these figures relate to loans which have never been reimbursed, provided that they appear on the balance sheet of that institution.

At the same time, on account of the work done for it by the GDB, the *Caisse* must bear very significant costs which substantially reduce its profit



past few months, in favour of *groupements de producteurs* (producers' associations). These *groupements* consist of 10-20 farmers who have undergone agricultural training in development centres<sup>1</sup>.

margins and make its operations almost uneconomic. In fact, its gross profit margin is less than 0.50% where the credit is punctually reimbursed.

Hence, it would undoubtedly be advisable for the *Caisse* to write off those loans which are clearly irretrievable and to perform on its own account the services undertaken on its behalf by the GDB. This issue is discussed at length by Roberto Ruozzi in *Rapport au Gouvernement du Gabon, op. cit.*, p. 18, 24, 26, and by J. Nyama, *Note de synthèse de crédit agricole*, Zurich, CICA, 1967.

<sup>1</sup> Pursuant to the Law of 6th July 1970 and to the implementing Decree 976 of 15th October 1970, three types of bodies were set up:

*groupements de producteurs;*  
*groupements à vocation coopérative;*  
*coopératives agricoles.*

*Groupements de producteurs* are associations without capital, wishing to undertake in common an operation within the rural environment, such as for instance the fight against plant diseases, marketing of their produce, plantation activities and so on. After a certain trial period they may become *groupements à vocation coopérative* and thus eligible for agricultural credit.

*Groupements à vocation coopérative* are associations with a variable capital, whose purpose is to prepare their associates for the management of a co-operative by organising productive and distributive processes in common. The associates, who must be at least seven in number, together with the agents of the agricultural and rural services, study the conditions of life of the future co-operative, as well as an investment and activities programme which must be implemented, by way of experiment, in a trial period whose duration may vary from one to three years. It is only after this period that they can apply for recognition as a co-operative.

*Coopératives agricoles* are the final stage of evolution envisaged by the provisions of the 1970 Law, and are true companies with a variable capital, whose duration cannot exceed 99 years. They are empowered to buy, process, preserve, transport, sell and in general perform all the operations which enable them to achieve their objectives.

We should observe however that these provisions only define the legal framework of the process under consideration. Other problems (see J.F. Adandé, *Le mouvement coopératif au Gabon*, Libreville, 13 April 1970, p. 3) and more specifically those connected with propaganda for the co-operative principle throughout the population, with co-ordination through the various centres which, especially at national level, deal with the structures into which

In this way the work of the local agents is vastly simplified, just because the production and marketing problems to be solved are substantially the same for all farmers<sup>1</sup>. Similarly the reimbursement of the credits conceded by the CNCR to the members of the *groupement* has been facilitated by the institution in every *groupement* of a *Caisse de rééquipement*. This *Caisse* is managed by the chairman of the association under consideration or by the Government agricultural agent. It bears the expenses necessary for the operation of the infrastructure and of the equipment, as well as the costs of preserving and marketing the products. Once these have been sold<sup>2</sup> the chairman or the local agent levy part of the cash that has been obtained. These levies depend on the one hand on these costs of cultivation

this process must be fitted and the training of the people concerned, have yet to be resolved. Hence the co-operative movement in Gabon, notwithstanding the efforts that have been made and the numerous *groupements de producteurs* or *groupements à vocation coopérative* which have been set up (in Gabon, two unsuccessful attempts have already been made, for the institution of co-operative societies, with the creation of *Sociétés Indigènes de Prévoyance* - SIP and of co-operative villages; in this connection see F.J. Adandé, *Le mouvement coopératif*, *op. cit.*, p. 4, 5) still remains at the embryo stage. If one considers that without solidly-based co-operatives one cannot have a sound agriculture, the need to promote the establishment of these enterprises becomes crystal clear. This issue is discussed at length by Roberto Ruozi in *Il credito agrario - Gli insegnamenti dell'esperienza statunitense*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1969, p. 44.

<sup>1</sup> Furthermore, every farmer is required to carry out plant health treatments on the orders of the local agent, to work effectively at managing the infrastructures of the *groupement*, and to keep simple accounts which will enable this agent to follow the productive activities of individual operators. On this point see Roberto Ruozi, *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 27, 28.

<sup>2</sup> The products should be marketed through the ONCA. However, because of its limited operational possibilities, due to the lack of available funds, marketing is often carried out by private firms. Hence, if the endowment fund of the institution under consideration cannot be increased, it might be advisable to wind up this body.

and amortisation and on the other on the repayments which the farmers have to make to the CNCR for the loans they have received. They must be registered in the accounts of the *Caisse* and in the associates' books. Furthermore, they may not take out products or equipment beyond the value of their credit with the *Caisse*<sup>1</sup>.

However it seems worthwhile recalling once again that the participation of the CNCR in these projects, while of fundamental importance, is only one of the instruments required for the promotion and development of the agricultural sector<sup>2</sup>. More specifically, it is an instrument which can make other services available to the farmers (vocational education, agricultural extension, marketing, co-operation and promotion of savings) and may help them to improve their situation and especially their monetary productivity<sup>3</sup> on condition that the use of these instruments form part of a co-ordinated vision of the problems which affect the productivity of agricultural enterprises.

<sup>1</sup> The land remains the property of the State for the first ten years of agricultural activity of each farmer, and in any event until the repayment of his debt to the CNCR. This is extensively discussed by Roberto Ruozi in *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 28-29.

<sup>2</sup> See Roberto Ruozi, "Le casse di risparmio e il credito all'agricoltura", *op. cit.*, p. 1561, 1564; *Il credito agrario*, *op. cit.*, p. 94; *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 299; Horace Balshaw, *Le crédit agricole dans les Pays économiquement sous-développés*, Rome, FAO, 1959; Guy Belloncle, *Le crédit agricole dans les Pays de l'Afrique d'expression française au sud du Sahara*, Rome, FAO, 1968; René Dumont, *Développement agricole africain*, Paris, PUF, 1965, p. 81, and Jean-Felix Adandé, *Le mouvement coopératif au Gabon*, *op. cit.*

<sup>3</sup> Different considerations apply if we assume that these loans have a negligible influence on agricultural development or on the improvement in the living conditions of the rural population. In that event, in fact, when the loan falls due, the situation of the operators under consideration has not improved in terms of productive capacity and income. However their situation would be worse if this lending activity did not exist at all.

Unfortunately, the situation in these various sectors in Gabon is even less satisfactory than that existing in rural credit. Even as regards agricultural knowledge the situation is not reassuring. The Minister of Agriculture employs in fact about one hundred agents, whose professional preparation is by no means satisfactory<sup>1</sup> and who have to perform their duties in the 9 regions and 35 districts into which Gabon is subdivided.

At the same time the situation in the marketing sector is definitely unsatisfactory. The improvement of this sector requires the initiation of a medium-term programme, which should involve<sup>2</sup>:

- (i) improvement of the road network;
- (ii) support for production prices;
- (iii) the establishment of a system of bounties and subsidies to encourage the farmers to increase their production and improve its quality;
- (iv) improvement of the distribution network.

Naturally the implementation of this programme will require vast sums of money. At any rate, it is essential since it will contribute to improve the profitability of agricultural enterprises in cash terms and, in the last analysis, to reduce the risks involved in the lending activity of the CNCR which will find in this improvement the most effective guarantee for the prompt reimbursement of the loans which it has granted. Finally, in the sector of savings promotion, the situation is again altogether unsatisfactory. Deposit banks have no branches

<sup>1</sup> See Roberto Ruozzi, *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 49.

<sup>2</sup> This issue is discussed at length by Roberto Ruozzi in his *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 43 and by S.L. Galpin in *Rapport au Gouvernement sur la commercialisation agricole*, Rome, FAO, 1969, p. 1.



in the rural areas of the country and the *Caisse d'Epargne Postale* has never inspired the farmers with too much confidence<sup>1</sup>. Hence these operators may hoard their own savings or invest them in producer goods. It would instead be far more appropriate, especially with regard to the development of co-operative enterprises, for the propensity to save of these operators to be increased further through the issue of short-term financial assets by the credit institutions operating within the country.

As regards the intervention of the State in the cost of credit<sup>2</sup>, given the existence of a financially weak agriculture which is relatively less profitable than other activities, we should observe that such contributions would be advisable in order to strengthen it and eliminate the above-mentioned causes of its relative inferiority. To this end, State intervention, through subsidised credit, should encourage an increase in the productivity of farms and should not be used for loans whose net proceeds are intended for non-productive investments. In any case, to avoid giving this credit the character of a social subsidy, which would turn

<sup>1</sup> See Roberto Ruozzi, *Rapport au Gouvernement du Gabon, op. cit.*, p. 44.

<sup>2</sup> The CNCR grants loans, pursuant to Article 13 of Decree No. 453 of 16th March 1970, at a rate of interest of 4%, to finance investment projects which are defined as productive, that is, to meet the financial requirements of:

- (i) operations in connection with agricultural production; stockrearing and equipment for river or inshore fisheries;
- (ii) operations in connection with the processing or preservation of agricultural products, provided they are undertaken by the producer enterprises;
- (iii) operations in connection with the establishment of fishrearing ponds;
- (iv) operations to promote artisanal activities in the countryside.

On the other hand, the rate of interest required for financing all other operations is 8%. If we bear in mind Articles V, VI and VII of the inter-bank agreement on rates applicable to short- and medium-term advances we can see that for these operations the rate required must not be less than 5% for short-term transactions, and 6.65% for medium-term advances not exceeding 25 million CFA francs and 6.5% for those above that figure.

it into an instrument for holding under-productive positions, it would be advisable not to prolong it beyond the period necessary to allow borrowing firms to pass over acceptable thresholds of productivity<sup>1</sup>.

To this end it would be advisable to adopt a particular technical form of financing, the so-called "budgeted loan" which is better suited than any other to the financial needs of the borrower, both as regards use and as regards reimbursement. In fact, the adoption of this method presupposes the study, by the lending institution and by its customers, of the way the latter's income and expenditure will progress, and, on the basis of these forecasts, the formulation of a programme for the expenditure and reimbursement of the credit, which will allow the farmer a great deal of flexibility and a considerable interest saving<sup>2</sup>.

#### 18. SOURCES OF FUNDS OF THE *Caisse Nationale de Crédit Rural*

One of the principal weaknesses of the institution under discussion is its inadequacy of available resources. In this connection we should observe that it does not have an endowment fund of its own and cannot issue securities. Hence, to finance its own commitments the *Caisse* may rely on the monetary returns from the refund of the loans previously granted and the payment of part of the compensation due to the national Treasury for concession of the privilege of issuing currency, enjoyed by the *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun*.

<sup>1</sup> On this issue see the detailed assertions of Roberto Ruozzi, *Il credito agrario*, *op. cit.*, p. 67, 68, 69, 87, 88, 92; Bank of Italy, *Relazione del governatore della Banca d'Italia*, 1967, p. 353; and Paul G. Goffin, *Achievements of the World Bank in Financing Agriculture in Developing Countries*, New York, CICA, 1969, p. 1 ff.

<sup>2</sup> See Roberto Ruozzi, *Il credito agrario*, *op. cit.*, p. 105.

As the refunds and the payments by the central monetary authorities are highly irregular, we shall readily understand, especially if we consider that the CNCR can have recourse neither to an asset management banking nor to a liabilities management banking policy, how critical its liquidity situation can be.

Following this brief introduction regarding the *Caisse* sources of supply, we should consider the quantitative aspects of its deposit-collecting activities, starting from 1967.

In that year the amount of reimbursements was far from satisfactory. In fact the *Caisse*, on 182 credit operations then in existence, with an average duration of 3 years and a total amount of 56,312,572 CFA francs, obtained repayments amounting to 9,190,503 francs, a monthly average of 750,000 CFA francs. This meant that the rate of repayment fell short of 17% of outstanding loans. At the same time even the returns from fiduciary circulation, which should have come in every quarter, arrived at very irregular intervals. They amounted to 22,805,108 CFA francs. Hence, in 1967, monetary income amounted to 32,045,611 CFA francs. However, we should bear in mind that the *Caisse* had to pay 4,811,000 CFA francs for running expenses and the commission due to the Gabonese Development Bank.

At the end of the year, credits conceded and not used amounted to 22,306,088 CFA francs, while funds in hand were only 11,877,664 CFA francs.

The Board of this institution, bearing in mind its liquidity situation and the rate of reimbursement, decided to suspend the granting of new loans for 1968. This should have made it possible:

- (i) to establish the position of the borrowers as regards their debts;
- (ii) to improve the liquidity of the *Caisse*.

At the end of 1968 the CNCR had received 10,839,532 CFA francs in repayments and 18,356,650 CFA francs from the BCEAEC, and its outgoings for operational costs and the commission payable to the GDB amounted to 5,310,000 CFA francs. At that date, credits granted but not used amounted to 13,876,000 and resources to 9,000,000 of which 5,000,000 had been obtained through an advance at 5% from the GDB.

In the course of the following year, the institution resumed its lending activity. In that year, receipts amounted to 40,597,000 CFA francs, of which 16,139,000 came through repayments and 24,458,000 from the BCEAEC, while expenses amounted to 7,201,027 CFA francs, of which 2,450,000 were for the compensation due to the GDB. As of 31st December, credits amounting to 14,654,000 CFA francs had yet to be used, out of a total of loans amounting to 77,672,000 CFA francs. Hence, at that date, the resources of the *Caisse* amounted to 14,824,000 CFA francs; 5,000,000 however had been obtained, by way of credit, from the GDB.

In 1970 the liquidity situation showed an appreciable improvement thanks to the new management criteria that had been adopted. In fact, monetary returns amounted to 58,742,000 CFA francs, of which 18,657,000 from the BCEAEC while outgoings were 6,631,000 CFA francs, of which 4,006,000 for operational expenditure. At the end of the year, commitments amounted to 71,865,000 CFA francs, credits yet to be used to 8,214,156 and resources to 39,725,000.

From this brief analysis it appears clear that the resources of the institution under discussion may be considered sufficient only if its commitments should not expand. In fact, if we bear in mind the duration of the loans that have been conceded, running



cost, payments due to the GDB, defaults and the rates of interest required by the CNCR it is clear that the rate of growth of its operations has to be very low, not to say altogether negligible, at least in the short and medium run<sup>1</sup>. Hence, the resources of this institution would be inadequate even if it confined itself exclusively to financing the pilot projects at present being carried out, where these projects showed adequate rates of expansion. And since the number of projects is bound to grow, it is clear that the CNCR resources will increasingly be inadequate<sup>2</sup>. The problem of expanding this institution's deposit activities is therefore becoming extremely urgent.

In these circumstances it is imperative that the Gabonese Government should realise that an increase in the CNCR resources is a matter of absolute necessity for the country's development. It would therefore be desirable to give the *Caisse* an adequate endowment fund. At the same time its Statute, and in particular Article 10, must be amended. This amendment should allow the institution to issue securities. Furthermore, in this connection, the State could help in the replacement of these assets, for instance by requiring credit institutions to subscribe them, or by underwriting the solvency of the *Caisse*. However, since it is likely that the deficits will be rather substantial for

<sup>1</sup> As the CNCR is required to undertake a subsidised credit activity on the account of the State and therefore to distribute contributions, it is clear that its operations cannot be economic. Hence, part of the receipts arising from the subsidies granted to it by the Treasury must be intended to finance its running expenses.

<sup>2</sup> In fact, under these circumstances, it is highly probable that the resources of the *Caisse de rééquipement de groupements* set up as part of these projects, would prove insufficient and that the CNCR would be required to support the activities of the farmers working on these projects with an increasing number of medium- and short-term loans.

some years to come, it might be advisable, in order to avoid this institution running into difficulties as regards liquidity which could even compromise its borrowing capacity, for the service of these loans to be charged to the development account. Moreover, the advantages to be gained from this promotional activity would amply justify the costs incurred. In fact, the issue of these securities, beside encouraging the creation and growth of a monetary and financial market, would contribute to reducing regional differences as regards savings, and the progressive impoverishment of agriculture. This because the monetary resources, obtained through the centralised issue of financial assets would be distributed by the *Caisse* on the basis of a co-ordinated vision of national requirements, among the different regions, thus making investment finance independent of local conditions as regards the availability of savings and the cost of loans<sup>1</sup>.

Furthermore, it is only through these issues that one can hope to retain a part of the farmer's savings as investments in agriculture. One would thus offer them the possibility of subscribing on advantageous terms the securities issued by the *Caisse* instead of entrusting their monetary surpluses to the post offices<sup>2</sup>.

However, since the placement of these securities with farmers is possible only through a widespread distribution of small branches

<sup>1</sup> See Giordano Dell'Amore, *La difesa finanziaria dell'agricoltura italiana*, Milan, Giuffrè, 1959.

<sup>2</sup> As regards them, while on the one hand they contribute towards meeting the growing financial needs of the public services through the collection of savings, on the other, bearing in mind that the savings collected through them are centralised at the Treasury, they are partly responsible for the impoverishment of the areas in which they collect their deposits and for the systematic transfers of resources from the agricultural sector to other sectors, following the Treasury's investment decisions. Indeed, the negative effect

in rural centres within immediate reach of the savers<sup>1</sup>, and through stability of rates, it is necessary to make substantial changes in the structure of the CNCR and persuade the central monetary authorities, at least so long as the *Caisse* is required to undertake an assisted credit activity, to take over the burden of maintaining the liquidity of these financial assets<sup>2</sup>. In particular, as regards modification of the CNCR structure, this could be effected by transforming the *Caisse de rééquipement* into local branches of that institution. Naturally the feasibility of the transformation would depend on the development and geographical distribution of the *groupements de producteurs* and, more generally, of the co-operative enterprises.

In turn the development of these bodies will largely depend on the financial resources of the CNCR, on the amount of the advances conceded to them, and on the productivity of the investments financed by the *Caisse*.

Hence this transformation process cannot be carried out in a short period of time. However, in so far as the CNCR's new

caused by these transfers of savings from the periphery to the centre of the system may be partially compensated by the financial flow of public expenditure moving in the opposite direction and by the sums locally spent by bodies and enterprises which are the beneficiaries of Treasury loans. See Paolo Mottura, *Controllo della concorrenza bancaria*, *op. cit.*, p. 1557-1558; Roberto Ruozi, *Il credito agrario*, *op. cit.*, p. 101-102; and Giordano Dell'Amore, *Politica bancaria nei Paesi africani*, *op. cit.*, p. 11.

<sup>1</sup> See Giordano Dell'Amore, *Politica bancaria nei Paesi africani*, *op. cit.*, p. 12.

<sup>2</sup> This would undoubtedly favour the rise of secondary markets. We should remember, however, that the assumption of this commitment would temporarily reduce the freedom of action of the monetary authorities and, other things being equal, would increase the possibility of obtaining funds on foreign and international markets. On this last point see Hang-Sheng Cheng, *International Bond Issues of the Less-Developed Countries, Diagnosis and Prescription*, Ames, The Iowa State University Press, 1969, p. 35-36.

investment policy proves a success, the structural evolution of this financing body will allow the collection of unused money surpluses through the issue of diversified financial assets not only from the farmers themselves, but also from the rest of the rural population, which at present has rather a limited range of choice. This will allow the investment in the agricultural sector of the rural population's savings and, other things being equal, will allow the self-generated development capacity of this sector and, in the last analysis, of the whole economy. Hence, in so far as the transformation of the CNCR into a real *Caisse Nationale d'Epargne et de Cr dit Rural* will promote the development of the economy, the Government will find it worthwhile encouraging the transfer of funds from the *Caisse d'Epargne Postale* and from the *centres de ch ques postaux* to this institution, since this transfer will contribute to improve the possibilities of meeting its own financial requirements in the medium term, through an increase in the money income of the population.

Similar considerations can be put forward as regards the national deposit banks. In fact it would be useful for them as well to acquire the financial assets issued by the *Caisse* for the advantages they can derive, in the medium term, as regards liquidity and the possibilities of enlarging their own size<sup>1</sup>.

<sup>1</sup> See Lyle E. Gramley, *Deposit Instability at Individual Banks*, *op. cit.*, p. 42-43, 50-51; "Commercial Bank Investment in Recession and Expansion", *Monthly Review of the Federal Reserve Bank of Kansas City*, Essays on Commercial Banking, *op. cit.*, p. 66, 74-75; D.R. Cowthorne, "Reserve Adjustments of City Banks", *Federal Reserve Bank of Kansas City*, Essays on Commercial Banking, *op. cit.*, p. 34-35; Arnold Dill, "Liability Management Banking - Its Growth and Import", *Monthly Review of the Federal Reserve Bank of Atlanta*, February 1971; "An Alternative Approach to Liquidity", Part III, *Monthly Review of the Federal Reserve Bank of Kansas City*, April 1970; "Reserve Adjustment Behaviour of Tenth District Banks", *Monthly Review of the Federal Reserve Bank of*



However, it may be worth recalling once again that these possibilities depend on the monetary resources of the *Caisse* in the short term and, in particular, on the adequacy of its endowment fund<sup>1</sup>.

Naturally, the increase in the resources and therefore in the activities of the CNCR will render it advisable its complete independence of the GDB and will require its staff to specialise and be trained in banking.

This process of transformation, however, would affect not only the structure but also the nature of the body under consideration. In fact, if we bear in mind that the CNCR is at present unable<sup>2</sup> to issue its own securities on the credit market and that it does not have an endowment fund, it follows that it cannot be recognised as a credit institution<sup>3</sup>. It is much more in the nature of a public body responsible for distributing subsidies on behalf of the Government.

Hence the changes to be made in the collecting process beside promoting the creation and mobilisation of savings for productive

*Kansas City*, May 1970; "An Alternative Approach to Liquidity", Part IV, *Monthly Review of the Federal Reserve Bank of Kansas City*, May 1970; "Modern Money Mechanisms - A Workbook on Deposits, Currency and Bank Reserves", *Monthly Review of the Federal Reserve Bank of Chicago*, September 1971.

<sup>1</sup> With this in mind, it might be advisable to make over to the CNCR, as an endowment fund, the assets of the *Fonds de développement rural*. The resources of this last body should come from the proceeds of levies, amounting to 0.50% of gross monthly salary or wages, on the income of all Gabonese workers. See Roberto Ruozzi, *Rapport au Gouvernement du Gabon*, *op. cit.*, p. 36.

<sup>2</sup> Its territorial distribution apart from the *Caisses de rééquipements* which, however, only involve a small part of the rural population, prevents its collecting deposits from the farmers. In any event the amount of these deposits is even now altogether negligible.

<sup>3</sup> This is extensively discussed by Giordano Dell'Amore in *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, *op. cit.*, p. 69.

purposes, would give the CNCR the characteristics of a complex type of credit institution, since the *Caisse* would be, at least in the medium term, a credit agency operating almost entirely outside the market, mainly conceding credit at very low rates, and at the same time providing technical, commercial, organisational, financial and administrative advice and assistance for farmers, whether working on their own or in associations<sup>1</sup>.

#### 19. CONCLUSIONS ON THE *Caisse Nationale de Crédit Rural*

In the preceding paragraph we stressed the importance of developing the agricultural sector for the expansion of the economy as a whole, without analysing the reasons for this. However, bearing in mind the importance of such evidence from the standpoint of monetary policy and the behaviour of the banking system, it would seem appropriate to analyse further such connection. As we have noted, the possibilities for expansion of those enterprises which produce for foreign markets are very limited<sup>2</sup>. These possibilities are even smaller when the enterprises established in a developing country are competing with foreign firms experiencing a period of crisis and working below their productive capacity.

This for instance is the case of the Gabonese saw-mills. In fact, the timber which they work competes on European markets with the products of European firms. These, which are only using part of their productive capacity, find it convenient to resort to price policies so as to maintain or expand their share of the

<sup>1</sup> See Roberto Ruozzi, *Il credito agrario*, op. cit., p. 69.

<sup>2</sup> See A. F. Ewing, *Industry in Africa*, London, Oxford University Press, 1968.

market<sup>1</sup>. Hence it does not seem appropriate for the public authorities of developing countries to promote the creation of enterprises whose object is the export of goods to stagnant or almost saturated markets<sup>2</sup>. Accordingly, in countries with a small home market, as is the case of that under discussion, the development possibilities of the industrial sector will depend to a large extent on those for agriculture. In fact, this agricultural development will promote demand for producer goods, for fertilisers, for insecticides and for consumer goods. However, if agriculture is not in a position to meet the increasing demand for consumer goods and raw materials from the industrial sector<sup>3</sup>, the volume of imports will increase rapidly and the balance of payments will finally show a deficit<sup>4</sup> with all the negative consequences this implies.

<sup>1</sup> This when their sales volume is not protected on social grounds by customs tariffs.

<sup>2</sup> Nicholas Kaldor, *Saggi sulla stabilità economica e lo sviluppo*, Turin, Einaudi, 1965, p. 251.

<sup>3</sup> It is worth noting that, if one assumes a decrease in the number of those involved in farming, and an unchanged propensity to consume on their part, the quantity of goods supplied by agriculture to the non-agricultural sector may decline if the behaviour of the farming operators is motivated more by a sense of self-sufficiency than by an interest in profits. In fact in these circumstances, following the decline in the number of workers in agriculture, there is a further reduction in the need for industrial products and in the quantity of goods which must be offered to foreign operators to meet this need. We may therefore assert that the development of the countries we are discussing largely depends on the possibility of influencing the mentality, the technical knowledge and the specialisation of the rural population. This issue is extensively discussed by Nicholas Kaldor in *Saggi sulla stabilità economica*, *op. cit.*, p. 261-262.

<sup>4</sup> If we bear in mind that demand for agricultural products varies little as a result of fluctuations in income, and that the demand for imported products in developing countries is quite rigid, it does not seem advisable for these last, in view of the considerable deterioration which may occur in their terms of trade, to encourage the production of goods intended for export.

Hence there is a considerable interdependence between the two sectors since agriculture, besides allowing a saving in foreign currency, offers industry consumer goods, raw materials, capital, labour and a market for its own products<sup>1</sup>. This will promote the expansion of the monetary returns of the non-agricultural sectors, the development of their demand and, in the last analysis, that of the entire economy. Hence the efforts of developing countries could usefully be concentrated, to a far greater extent than at present, on a solution to the problems of improving the situation of agricultural operators in terms of productive capacity and of income, as a condition of industrial development<sup>2</sup>.

In this context, the adoption of thoroughgoing measures, as regards co-operation, marketing of agricultural products, promotion of household savings and controlled credit, is essential to insure the development of the agricultural sector and of the entire economy.

## 20. THE POST OFFICE SAVINGS BANK OF GABON

The Law of 26th December 1964 which came into effect on 1st January 1965, created the Post Office Savings Bank of Gabon. This public institution was to collect deposits and invest them, together with its own resources, partly in long-term loans and partly in sight deposits.

Its local offices were to be operated by the Posts and Telecommunications Office. For this service the Bank was to hand over to the PTO a compensation to be jointly agreed.

<sup>1</sup> In so far as the supply of home-produced consumer goods succeeds in altering to their benefit the consumption habits of the urban population, the ability of a country to import equipment and semi-manufactured goods with a given volume of net savings will increase; so will its accumulative capacity, other things being equal.

<sup>2</sup> See Nicholas Kaldor, *Saggi sulla stabilità economica*, op. cit., p. 262.



The Bank is placed under the authority of the Minister for Posts and Telecommunications, who also acts as Chairman of its Board. The management of this institution is entrusted to the Director of the PTO. The Board consists of 10 members, that is to say:

- the Minister of Finance or his representative;
- the Minister for the National Economy or his representative;
- the Minister for the Interior or his representative;
- the Minister for Public Services or his representative;
- two deputies appointed by the National Assembly;
- a representative of the Chamber of Commerce;
- a representative of the staff;
- two persons appointed by the Chairman of the Board and selected on the basis of their competence.

The Board must meet at least once a year when convened by its Chairman, during the second quarter of the year, or in extraordinary session whenever the Chairman deems fit. Its decisions are valid when at least half of its members are present.

Decisions are taken by a simple majority, the Chairman having a casting vote. The Board annually determines the rate of interest on deposits for the following year and may ask the PTO to open or close local branches of the Bank.

The books are kept by an accountant who is appointed by the Minister for Posts on the Director's recommendation.

The Bank has its own budget. Its endowment fund<sup>1</sup> may be invested:

- in securities guaranteed by the State;
- in the construction or purchase of the buildings required for the activities of the Bank;

<sup>1</sup> This fund, as of 31st December 1969, amounted to 2,795,000 CFA francs. At the same date the reserves stood at 14,504,000 CFA francs.

in the acquisition of building sites or houses required for housing staff;

in shares issued by building societies or by credit institutions having as their object the granting of credits to facilitate the acquisition or construction of houses.

The Bank's deficits, after exhaustion of the reserves, are covered by subsidies chargeable to the national budget.

The other sources of funds consist in the collection of deposits<sup>1</sup>. Depositors are given a passbook. Interests are calculated starting from the first or sixteenth day of every month following that of payment and until the fortnight preceding the day of reimbursement. Interests are capitalised every year. The minimum deposit amounts to 100 CFA francs<sup>2</sup>. The sums which are deposited may not exceed 1,500,000 CFA francs. However, friendly societies, similar institutions and bodies involved in the construction of popular housing may, with the approval of the Board, make deposits without any limitation.

The sums which are deposited are refundable at sight, without limitation as to amount, at the branch which issued the passbook and at the other branches after authorisation by the accountant of the Savings Bank, either by post, without any limitation of amount, or by telegraph, for sums not exceeding however 25,000 CFA francs a day<sup>3</sup>. This arrangement has virtually abrogated the safeguard clause which enabled the Government, in the event of an emergency, to impose an interval

<sup>1</sup> Funds deposited with the Bank enjoy the guarantee of the State.

<sup>2</sup> There is an exception in the case of deposits by school-age children. In their case the minimum limit has been reduced to 10 CFA francs.

<sup>3</sup> Transfers between the Post Office Savings Bank belonging to the UAMP & T., the French *Caisse Nationale d'Epargne* and the Gabonese *Caisse d'Epargne Postale* are effected at no cost and without loss of interests for the holders of a deposit book.

of 15 days between withdrawals and to limit the amount that may be withdrawn to 2% of the maximum available amount.

No individual may hold two passbooks. Those who infringe this provision lose the accrued interest of their deposits during the period in which the passbooks coexisted. However, this penalty cannot exceed the interest for one year. Moreover, if the cumulative amount of the deposits does not exceed the legal maximum, the interest due on the passbook that was opened last is paid in full.

The Bank operates with 38 branches, 5 of which are located in Libreville. Its head office is also located in that city. The deposits it collects are subdivided into two categories — individual savings deposits and collective savings deposits. The first are made by private individuals and the second by companies and public bodies. The amount of deposits has shown a continuous increase, as may be seen from Tables 38 and 39, rising from 296 to 520 million in the period under consideration.

TABLE 38

NUMBER OF ACCOUNTS AND AMOUNT OF DEPOSITS WITH THE POST OFFICE SAVINGS BANK OF GABON, 1965 TO 1970  
(in million CFA francs)

Dates	Number of accounts	Amount of deposits <sup>(1)</sup>
31st December 1965	14,086	296
31st December 1966	16,269	335
31st December 1967	18,458	380
31st December 1968	20,943	414
31st December 1969	23,763	487
31st December 1970 <sup>(2)</sup>	...	520

<sup>(1)</sup> In addition to the accrued interests they include also the balance of the transfers.

<sup>(2)</sup> Estimate contained in the budget for the financial year 1971.

Source: Office des Postes et des Télécommunications, *Rapport sur les résultats de la Caisse d'Epargne*, 9th June 1970, p. 2.

TABLE 39

TRANSACTIONS OF THE POST OFFICE SAVINGS BANK OF GABON, 1965 TO 1969  
(in million CFA francs)

Years	Number of withdrawals			Amount of withdrawals			Number of deposits			Amount of deposits			Variation
	Partial		Total	Partial		Total	First deposits		Last deposits	Amount of first of last deposits		Total	
	In full			In full			deposits			deposits			
1965	12,180	112	12,292	111	2	113	1,544	7,722	9,266	83	151	234	+ 121
1966	14,696	101	14,797	135	3	138	2,282	11,920	14,204	24	145	169	+ 31
1967	17,795	137	17,932	172	2	174	2,326	12,762	15,088	24	185	209	+ 35
1968	17,509	91	17,600	184	3	187	2,576	12,675	15,251	25	182	207	+ 20
1969	18,487	124	18,611	203	5	208	2,944	14,138	17,082	34	232	266	+ 58

Source: OPT, *Rapport sur les résultats*, op. cit., p. 4.



This represents an increase of 75.68%<sup>1</sup>. The number of passbooks has also shown a rising trend, with an absolute increase of 9,677 units and a relative increase of 68.7 per cent.

In the period of time under consideration the ratio of time deposits and savings deposits within the banking system has undergone continual variations. These were at first highly irregular and subsequently, after 31st December 1967, consistently positive.

TABLE 40

SAVINGS BANK DEPOSITS/BANKS' TIME DEPOSITS RATIO, 1965 TO 1969

Items	31.12.1965	31.12.1966	31.12.1967	31.12.1968	31.12.1969
Percentage	55.43	57.66	44.65	48.71	61.26

However we should note that deposits have almost always represented apart from 1967 more than half of time deposits. This on the one hand shows the importance of the collecting activities of the Post Office Savings Bank and, on the other, points to the lack of a network of financial assets in which savers could invest their own monetary resources at given conditions of risk<sup>2</sup>.

<sup>1</sup> In this connection we should observe that the funds held by public bodies can be a serious obstacle to an effective management of liquidity if they are transferred from accounts with the Treasury to credit institutions or vice versa, or from one bank to another, without such a decision being taken in close collaboration with the central monetary authorities. In such a case, in fact, the transfers of these funds may compel the monetary authorities, especially when credit restrictions are in force, to increase the monetary basis of the system through re-financing policies or through the increase of upper limits on borrowing abroad. See Paolo Mottura, *Il controllo pubblico della concorrenza bancaria*, *op. cit.*, p. 31, note 40.

<sup>2</sup> In fact, we should bear in mind that through its activity as an intermediary the Post Office Savings Bank mobilises a share of monetary savings which would otherwise be largely hoarded, thus contributing, by making loans

As regards the relative distribution of the volume of deposits between individual and collective savings we should note that, if we except the deposits amounting to 100 million CFA francs, made by public bodies in 1965, the proportion of sums collected from private depositors has always been around 99 per cent.

Moreover, the importance of the intermediary and mobilisation activities carried on by the Bank as regards households may also be deducted from the data relating to the number of accounts respectively opened, in the period of time under consideration, by private individuals, firms and public bodies.

In fact, out of an absolute increase of 9,677 passbooks, as many as 9,667 were issued to private individuals. This shows beyond doubt the attraction capacity of the savings mobilisation

to the Government and to the public sector of the economy, towards meeting the financial needs of these operators. However, we should observe that, because of the investment decisions of these operators, the funds thus mobilised may be employed in regions other than those in which they are collected. This will lead to impoverishment of the areas in which these savings are collected and, at least for a brief period, to a negative influence on the mobilisation of savings. At the same time, if we remember that, in the period under consideration, Gabon has experienced a marked process of urbanisation and a relative increase in the size of the Bank's deposit receipts, we shall easily see not only the inadequacy of the territorial organisation of the banking system, which represents "an infrastructure that is essential in order to promote the development of any national community" (Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, op. cit., p. 645), but also the limited scope of the savings mobilisation and savings promotion activity carried on by the deposit banks which operate in the country under discussion. Hence, so long as the deficiencies which now characterise the structure and behaviour of the Gabonese banking system are not eliminated, the Post Office Savings Bank represents a financial channel which can do a useful job of capillary intermediation especially among savers who are established in rural areas, and among those whose incomes are below the national average. See Giordano Dell'Amore, *Il contributo del risparmio familiare al riscatto del mezzogiorno*, Milan, Giuffrè, 1969, p. 8-9 and 89-92; Arnaldo Mauri, *Le caratteristiche dinamiche del risparmio postale*, Milan, Giuffrè, 1968; and Giorgio Fuà, *Lo Stato e il risparmio privato*, Turin, Einaudi, 1961, p. 53 ff.

TABLE 41

DISTRIBUTION OF DEPOSITS AND WITHDRAWALS BETWEEN INDIVIDUAL AND COLLECTIVE SAVINGS  
AT THE POST OFFICE SAVINGS BANK OF GABON, 1965 TO 1969  
(in million CFA francs)

Years	Partial reimbursements						Subsequent deposits					
	Private individuals		Companies		Public institutions		Private individuals		Companies		Public institutions	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1965	1,541	22	2	1	1	60	7,707	110	6	0.06	9	40
1966	2,277	23	5	0.4	—	—	11,904	145	16	0.4	—	—
1967	2,324	24	2	0.008	—	—	12,745	168	16	6	1	10
1968	2,575	25	1	0.1	—	—	12,671	180	4	1.8	—	—
1969	2,943	34	1	0.1	—	—	14,135	217	1	0.1	2	15

Years	Partial reimbursements						Full reimbursements					
	Private individuals		Companies		Public institutions		Private individuals		Companies		Public institutions	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1965	12,168	111	14	0.2	—	—	111	2.4	1	0.02	—	—
1966	14,677	133	18	0.1	1	1.8	100	3.3	1	—	—	—
1967	17,782	167	12	1.1	1	3.3	137	2.2	—	—	—	—
1968	17,494	180	14	1.3	1	3.3	91	2.5	—	—	—	—
1969	18,475	189	9	0.7	2	13.3	123	5	1	0.03	—	—

Source: OPT, *Rapport sur les résultats*, op. cit., p. 5.

TABLE 42

PERCENTAGE DISTRIBUTION OF THE VOLUME OF DEPOSITS WITH THE POST OFFICE SAVINGS BANK OF GABON, ACCORDING TO THE CATEGORIES OF DEPOSITORS, 1964 TO 1969

Years	Private individuals	Companies	Public institutions
1964	98.20	1.80	—
1965	64.30	0.90	34.80
1966	67.85	1.40	30.75
1967	67.59	1.99	30.42
1968	69.44	0.11	30.45
1969	69.13	0.10	30.77

Source: OPT, *Rapport sur les résultats, op. cit.*, p. 2.

TABLE 43

NUMBER OF ACCOUNTS WITH THE POST OFFICE SAVINGS BANK OF GABON, ACCORDING TO THE CATEGORIES OF DEPOSITORS, 1965 TO 1969

Years	Private individuals	Companies	Public institutions	Total	Increase	
					Absolute	Percentage
1965	14,061	24	1	14,086	1,432	11.3
1966	16,238	30	1	16,269	2,183	15.4
1967	18,425	32	1	18,458	2,189	13.3
1968	20,909	33	1	20,943	2,485	13.4
1969	23,729	33	2	23,763	2,820	13.5

Source: OPT, *Rapport sur les résultats, op. cit.*, p. 6.

activity undertaken by this institution and the possibility that it may become with the expansion of the monetised sector of the economy, an important instrument of quantitative control and may reduce the importance of the banking system as an intermediary<sup>1</sup>.

<sup>1</sup> In point of fact, we should observe that this assertion requires a great deal of qualification. Thus, where the placement of the financial assets issued



In fact, if households remain equally inclined to save by investing their money in the financial assets issued by the post office savings banks, this will bring about a loss of monetary base for the banking system and, other things being equal, a contraction in the volume of its deposits and investments.

It seems in any event, in the present state of Gabon's development, that the Post Office Savings Bank perform very useful functions helping on the one hand to spread among the population the ownership of financial assets other than money, and to promote the development of the financial market, while on the other hand it helps to meet the financial needs of public operators. This fact may be confirmed by a study of the Bank's investments as at 31st December 1969.

by the Bank does not compete with that of securities by the banking system, there will be an activation of monetary basis which otherwise, in the absence of an adequate territorial articulation of the system under consideration, would have been hoarded. In such circumstances, which are incidentally widespread over many areas of Gabon, the activity carried on by the Post Office Savings Bank contributes to the mobilisation of savings and the monetisation of the economy. Moreover, this Bank also sets up, through its deposit-collecting activity, a process which could reduce the importance of the banking system as an intermediary; in the event of that system being too heavily conditioned by the interests of foreign operators, the activities of the Post Office Savings Bank could be the foundation on which one might build up an autonomous credit system. It seems therefore that, in so far as the Post Office Savings Bank contributes to solving the problem of regulating the circuit of financial flows, in its territorial and qualitative aspects, it may be called to perform functions of fundamental importance, especially if it should operate within a planned economy. In such circumstances, in fact, the monetary authorities could give it the task of meeting the financial needs of the different regional development plans. The problem thus involves the entire development policy which, for its successful implementation, requires the creation of a well-distributed and well-diversified structure of credit intermediaries and of adequate instruments to regulate the behaviour of these intermediaries, so as to be able to influence, according to the need of the development plan, the circuit and the qualitative characteristics of the financial flows which occur within any monetised economy.

TABLE 44

INVESTMENTS OF THE POST OFFICE SAVINGS BANK OF GABON AS AT  
31st DECEMBER 1969

Money with the collectors	24,000,000
Current account with the <i>Caisse des Dépôts et des Consignations</i> <sup>(1)</sup>	46,500,000
Current account with the GDB	41,700,000
Loans portfolio	368,200,000
Postal account	20,800,000
Premises and equipment	2,800,000
<b>Total CFA francs</b>	<b>504,000,000</b>
At the same date, the loans portfolio was composed as follows:	
— Posts and Telecommunications 5.50% - 6%	51,000,000
— Transequatorial Communications Agency	2,200,000
— GDB 5% - 4.40%	285,000,000
— City of Libreville	20,000,000
— National Treasury	10,000,000
<b>Total CFA francs</b>	<b>368,200,000</b>

<sup>(1)</sup> The Post Office Savings Bank of Gabon effected deposits with the CDC but also borrowed from the latter, sometimes to a higher proportion, so its net position is many times on the debit side. The same comments apply to its deposits with the *Centres de Chèques Postaux*.

Source: OPT, *Rapport sur les résultats, op. cit.*, p. 10-11.

What has been stated above, however, makes it clear that the structure and behaviour of this institution must be altered, so as to transform it into a real Savings Bank as soon as the pre-requisites of this transformation have been established in the country <sup>1</sup>.

<sup>1</sup> Institutions similar to the Post Office Savings Bank of Gabon are also operating in the other countries of the monetary area. The trend of the deposits collected by these institutions, in the period from 30th June 1964 to 30th June 1970, may be seen from Table 45.

TABLE 45

DEPOSITS WITH THE POST OFFICE SAVINGS BANKS OF THE ISSUING AREA, 1964 TO 1970  
(in million CFA francs)

I t e m s	Financial year 1964/1965		Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	June 1965	2,107	May	2,228	June 1967	2,190	June 1968	2,529	March	3,080	June 1970	3,429
Minimum values	December 1,630		June 1966	2,033	November 1,938		September 2,183		October	2,521	September 3,063	
Monthly average		1,799		2,118		2,057		2,324		2,746		3,229

Source: BCEAEC, *Rapports d'activité*.

## 21. THE FINANCING OF THE ECONOMY OF GABON

After having examined the structural and functional aspects of the credit system of Gabon, we think it advisable to re-examine synthetically the part it plays in financing the economy. For that purpose, let us consider the financing sources of that system.

TABLE 46

FINANCE SOURCES OF THE BANKING SYSTEM, 1965 TO 1970  
(in million CFA francs)

Sources	1965	1966	1967	1968	1969	1970
Deposits						
Government and Post Office	662	287	299	390	637	1,557
Private individuals - Companies	4,254	5,190	5,893	6,159	6,778	7,766
Total	4,916	5,477	6,192	6,549	7,415	9,393
Head offices and foreign correspondents						
<i>Caisse Centrale de Coopération Economique</i>	515	654	683	869	1,504	1,391
Debentures	942	1,477	1,384	—	—	—
Sundries	177	— 468	— 57	2,031	798	1,698
Total	1,634	1,663	2,010	2,900	2,302	3,089
BCEAEC						
Short-term	646	506	391	630	572	926
Medium-term	269	194	106	367	866	797
Total	915	700	497	997	1,438	1,723
Own capital	1,626	1,686	1,789	2,058	2,184	2,356

Source: BCEAEC, *Rapports d'activité*.



A sharp increase in the financial resources which was equivalent to 89.35% is immediately noticeable in the period under review. The chronological arrangement of the relative data show that the steepest rise occurred during the last financial year (+ 26.71%), and the highest relative amount was reached by deposits. They showed first a progressive increase from 65.85% of the total figure to 71.18% (30th June 1967) and later steadily decreased to 65.96 per cent.

Deposits by private individuals and companies were by far the most important item. However, their development may be better analysed by sub-dividing it in two sub-periods. During the first, from 30th August 1965 to 30th June 1968, the relative amount of the economic quantity examined showed a market increase and reached 94.04%. But in the second period it greatly decreased: as at 30th June 1970 it had in fact declined to a minimum value of 83.30 per cent.

The time series of the data concerning the indebtedness with foreign correspondents shows a continuous expansion. In fact, during a five-year period, there was an increase of 89.05%. The marked expansion which took place during 1968 (44.28%) and 1970 (34.19%) should be particularly emphasized, for its remarkable significance as regards monetary policy.

Finally re-financing was at first marked by a downward trend followed by a sharp increase. In the sub-period from 30th June 1965 to 30th June 1967, there was indeed a decrease from 915 to 497 million CFA francs. However, in the second sub-period there was a very substantial increase which, in relative values, was equivalent to 246.68%. As to this economic quantity, it is perhaps advisable to stress the remarkable increase which took place, during the last financial years, in medium-term credits.

Finally, private capital should also be considered. Its amount increased by 44.90%, with particularly high rates (15.04%) during the financial year 1967/1968. However, its expansion was lower than that of the fiduciary means. This is clearly shown by the progress of the ratio between fiduciary means and net worth. This ratio has steadily increased from 4.59 to 9.5 per cent.

After this quick examination of the collecting activity of the banking system, we shall consider that of investments and in particular their employment. In the period reviewed, they showed an increase of 99.31%. The loan/deposit ratio was marked by a very irregular course, even though it had an upward trend, as can be readily inferred from the following coefficients:

*Loans/Deposits*

1965	1966	1967	1968	1969	1970
1.52	1.32	1.31	1.75	1.56	1.59

It may be interesting to compare monetary resources with the value of the economic quantity under consideration, in order to arrive at a company liquidity ratio.

*Resources/Loans*

1965	1966	1967	1968	1969	1970
2.79	3.17	4.78	1.30	1.45	1.39

The series of data thus obtained shows a strong inverse correlation with the loans/deposits ratio.

From this it may be concluded that the different rates of expansion of deposits and loans were largely reflected in the free reserves of the system. Moreover, it seems possible to draw from the low liquidity ratios a further confirmation of how

dependent the banking system of Gabon is on re-financing by correspondents or foreign associates.

A large part of the increase in loans is ascribable to short-term investments. They had, in the period considered, an expansion of 28.71% and never represented less than 55.85% of total investments with a peak of 81.38%. Moreover, the great expansion of medium-term investments, which increased from 989 to 1,515 million CFA francs, should also be stressed<sup>1</sup>. It is particularly interesting to note that such increases took place mostly in the last three financial years. In that period, there was in fact an increase of 92.33% of the overall total.

It is worthwhile noting, for an assessment of the behaviour of the banking system and its contribution to the mobilisation and promotion of savings, the subdivision of investments according to sectors of activity.

Import companies predominantly benefited from the credits granted. However, although such loans increased in absolute values, the decreasing trend of their relative values should be borne in mind. In fact, from 30th June 1969 to 30th June 1970 they fell from 59.5% to 46.6%. The other category of companies enjoying substantial amounts of bank financing were export companies. The series of chronological data concerning this type of loans is by far lower than the previous one and shows a rather irregular development. In fact, it presents two distinct sub-periods. In the first, between 30th June 1965 and 30th June 1968 there was a marked expansion, which led to an increase of the relative weight of the credits granted to export companies from 4.9% to 13%. Subsequently, however, during

<sup>1</sup> The data shown refer to end-June values. In this respect see Table 13 of *Rapport d'activité* of BCEAEC.

TABLE 47

DISTRIBUTION OF SHORT-TERM CREDIT DECLARED TO THE CENTRAL BANK RISK POOL, ACCORDING TO TYPE OF ACTIVITY, 1965 TO 1970  
(in million CFA francs)

Items	30th June 1965		30th June 1966		30th June 1967		30th June 1968		30th June 1969		30th June 1970	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Import companies	2,274	53.2	2,965	59.5	2,951	59.8	3,999	45.6	3,472	49.4	4,525	46.6
Export companies	257	4.9	256	5.1	315	6.4	970	13.0	455	6.5	918	9.4
Farming and forestry	320	6.1	232	4.7	248	5.0	320	4.3	294	4.2	205	2.1
Public works	1,329	25.5	791	15.9	686	13.9	1,120	15.0	1,196	17.0	1,397	14.4
Transport	253	4.8	295	5.9	343	7.0	425	5.7	546	6.5	566	5.8
Industry	206	3.9	440	8.8	348	7.1	606	8.1	500	7.1	729	7.5
Mining	85	1.6	—	—	—	—	395	5.3	448	6.4	1,075	11.1
Sundries	10	0.0	4	0.1	39	0.8	221	3.0	210	2.9	300	3.1
Total	5,225	100	4,983	100	4,930	100	7,456	100	7,031	100	9,715	100

Source: BCEAEC, *Rapports d'activité*.



the financial year 1968/1969 there was a sudden recession which was followed by a great expansion in the financial year that ensued.

If the whole financing granted to these types of companies is considered, it is easy to realize the importance of the credit operations carried out in their favour by the banking system. In fact, the credit granted to them was never lower, in the various financial years, than 55.9% of the total investments created by the system here discussed.

Therefore, it is perhaps relevant to note how their position of branches of foreign banks financing the trade flow of the country in which they are situated has only slightly changed. The more so since change is most likely due to the fact that in the data compiled by the Central Bank Risk Pool are included investments made by the Gabonese Development Bank which has a different behaviour from that of the commercial banks. From this, it can be inferred that the supply of funds is predominantly founded on temporary cash surpluses of the companies. Moreover, a confirmation of this behaviour can be inferred from the unusually low level — for a country which is extremely dependent on abroad as Gabon — of free liquidity reserves.

Naturally, within reasonable limits, some interesting conclusions can be drawn from the foregoing. First of all that the country has not available a structure of credit agents engaged in promoting and mobilising household savings. In the second place, it should be noted that the circulation of financial flows which we have been examining may cause a serious disturbance of production methods in the country, since the objects pursued are related to development needs — in terms of revenue or size — of foreign associates.

TABLE 48

FINANCING OF THE ECONOMY BY THE BANKING SYSTEM, 1965 TO 1970  
(in million CFA francs)

Items	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Short-term credit:										
Maximum values	April	6,136	November	6,543	June 1968	8,207	May	8,159	July	10,206
Minimum values	June 1966	5,135	August	5,448	October	5,698	July	6,652	April	7,931
Average values		5,688		5,858		6,511		7,321		8,892
Medium-term credit:										
Maximum values	November	1,039	March	1,103	June 1968	1,215	June 1969	1,776	April	2,121
Minimum values	June 1966	938	July	933	July	1,075	August	1,188	August	1,547
Average values		989		1,016		1,141		1,515		1,804

I t e m s	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Long-term credit:										
Maximum values	June 1966	1,065	June 1967	1,443	June 1968	2,059	June 1969	2,275	June 1970	2,552
Minimum values	July	844	July	1,147	July	1,443	July	1,987	November	2,238
Average values		905		1,203		1,809		2,091		2,413
Total:										
Maximum values	April	8,097	December	8,655	June 1968	11,481	June 1969	11,533	June 1970	14,846
Minimum values	June 1966	7,318	August	7,578	July	8,350	February	10,710	September	11,592
Average values		7,582		8,077		9,461		10,927		13,109

Source: BCEAEC, *Rapports d'activité*.

These considerations are further confirmed by the amount of the investments made in favour of foreign entrepreneurs. In fact the credit allocated to these operators is indeed far higher than 70%. Finally, if the public sector is also taken into consideration, domestic companies are found to have been allocated only quite negligible amounts of credit which were, during the last three financial years, almost certainly less than 10% of the total.

As regards medium- and long-term investments, the same comments can be made. In fact, although credit allocations to large companies have decreased in percentage, they have still received on average allocations amounting to not less than 64.38% during the period under consideration.

TABLE 49

PERCENTAGE DISTRIBUTION OF MEDIUM- AND LONG-TERM FINANCING, ACCORDING TO ACTIVITY AND SIZE, 1965 TO 1970

Items	30th June 1965	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Agricultural and forestry companies	3.54	3.44	3.44	5.14	4.36	4.67
Large companies	69.50	63.44	66.27	65.32	66.20	64.38
Small companies	11.20	10.18	9.50	11.11	12.30	16.53

Source: BCEAEC, *Rapports d'activité*.

It should also be pointed out that the increase which took place in the last three financial years as regards medium-term credit is most likely due to the credit operations of the Gabonese Development Bank.



Another conclusion can rightly be drawn from the foregoing in connection with the creation of monetary base. In fact, other things being equal, the type of banks discussed will allow the creation of a larger volume of money, inasmuch as the collection of household savings instituted by the post office savings banks is widely diffused<sup>1</sup>.

The purchasing of *bons d'équipement* by the banking system also deserve particular attention.

The data covering this type of investment show a continued expansion equivalent to 121.23%. However, it should be noted that the consistence of such investments has always been less than 8.57% of deposits.

After this short analysis of intermediary credit transactions carried on by the banking system, it is considered as advisable to examine the financing granted to the economy by the Treasury. With regard to this, it should be noted first of all that the quantitative importance of this financing was clearly less than the financing effected by the banking system, which never represented — in the various financial years apart from the first one — more than 14.40% of the overall financing granted to the economy, and that its relative importance has steadily diminished.

Finally, we think that the timing of the whole financing granted to the economy by the banking system and by the Treasury should also be looked into.

In the period under review, there was a marked increase in such financing, which climbed from 8,857 million to 14,621 million CFA francs. This expansion was equivalent to 65.08% and was particularly marked during the last three financial years.

<sup>1</sup> As is known, as far as this happens, one could say that public expenditure is partly self-financed.

TABLE 50

FINANCING OF THE ECONOMY BY THE BANKING SYSTEM AND THE TREASURY, 1965 TO 1970  
(in million CFA francs)

Items	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	April	9,239	November	9,940	June 1968	13,057	July	12,994	June 1970	16,542
Minimum values	June 1966	8,535	July	8,772	July	9,644	April	11,646	September	13,001
Monthly average		8,857		9,321		10,899		12,261		14,621

Source: BCEAEC, *Rapports d'activité*.

At the end of this short analysis it seems, therefore, possible to underline serious structural and functional shortcomings in the credit system, particularly in the banking sector. The latter is greatly dependent on foreign countries as regards the formulation of collection and investment policies. This accounted for a low activity in the promotion and mobilisation of households savings and for methods of credit rationing which are detrimental to domestic entrepreneurs. This behaviour is all the more serious as it entails a substantial loss of foreign currency, which represents a factor of strategic importance for the promotion and mobilisation of savings and for the formation of a class of small local entrepreneurs.





## CONCLUSIONS

The analysis carried out in this essay shows that the five countries involved — Cameroon, Congo, Chad, Central African Republic and Gabon — present a series of common characteristics, that is:

little diversification and pronounced seasonal nature of their economy;

remarkable absence of enterprising ability among the local populations;

largely insufficient infrastructure and shortage of power supplies.

It has also been shown that the economy of the countries discussed is not sufficiently integrated and that their methods of production are very peculiar. Therefore, a single monetary policy could not be applied to those countries, and the demand for a greater autonomy is recommended by the various monetary boards <sup>1</sup>.

Furthermore, it is possible to single out, within the economy of each country, some particular circumstances which are very important for their development. In Gabon, these circumstances

<sup>1</sup> In this connection, see Rattan J. Batia, "Factors Influencing Money Supply in BCEAO Countries", *International Monetary Fund Staff Papers*, July 1971, p. 396.

are considered to be the following:

- the existence of some industrial or mining areas;
- the urbanization of rural populations;
- the lack of a large domestic market;
- an agriculture which produces for consumption;
- the absence of an infrastructure of roads, railways, ports, health services, etc.;
- a credit system which is largely dependent on foreign countries;
- the absence of a stock market and of an adequate volume of financial operations;
- the lack of enterprising ability;
- the insufficient promotion and mobilisation of savings from households and companies.

It is obvious that the problems which the monetary authorities of Gabon must solve to promote development are numerous and not easy to tackle in the immediate future.

Therefore, even considering the difficulties such authorities are faced with, it would be advisable to draw up at once accurate development plans, to facilitate a closer co-operation between the Treasury and the Central Bank, as this is essential for the rational use of the resources the country has available.

The Treasury, in particular, being in a position to forecast with greater accuracy the result of its decisions on items of expenditure, can avoid an excessive indebtedness *vis-à-vis* the Central Bank. A high level of indebtedness in fact would be extremely dangerous in a country like Gabon, where the Treasury is characterized by a remarkable rigidity as regards

monetary outflows<sup>1</sup> and by a strong variability of inflows<sup>2</sup> in which the import content per expense unit is particularly high<sup>3</sup>.

On the other hand, it is not always possible to resort to foreign capital markets to finance these investments, whereas direct financing in foreign currency may involve rather high costs. Therefore, if the monetary authorities want to prevent the development of dangerous inflationary processes, they must draw up any development plans according to the foreign currency available.

However, it seems that, in this particular context, the human problem is the most difficult to solve and mainly the formation of local managers and entrepreneurs. As this object can only be achieved with the existence of a large domestic market, it will be necessary to promote the creation of a class of farmers intent to the production for that market, rather than for self-consumption or foreign markets. That phenomenon, by reducing the migration towards the industrial centres of the country would, in addition, mitigate the adverse effects in terms of import of consumer goods and draining of foreign currency connected thereto. However, this problem cannot be solved without granting to the said operators adequate technical and financial assistance. However,

<sup>1</sup> In fact, most of the monetary outgoings of the budget of the Treasury of Gabon are for the payment of salaries to civil servants.

<sup>2</sup> As is known, most of the fiscal revenue of the Treasury depend on the proceeds of the taxes on the value of imports and exports. Since the volume of these commercial transactions is dependent on the decision of international companies, the Treasury of Gabon may have to face a lack of liquidity as a result of simple variations in the stocks of a company.

<sup>3</sup> In fact, most public investments must be effected in infrastructures. As is known, the latter will start to show their influence on the gross national product, with considerable delays, and for this reason the demand for foreign currency will be particularly high for any monetary unit invested.

the latter in particular cannot be applied without extensive changes in the structure of the credit system.

It would be particularly advisable to convert the post office savings banks into actual savings banks. In fact, that conversion would allow, at least because of a more extensive territorial coverage, a better financing of farms and a more intense activity of promotion and mobilisation of household savings. However, as this object cannot be immediately pursued, it would be advisable to improve the operation of the *Caisse Nationale de Crédit Rural*, by adopting better methods of management and perfecting their investment policy, while endowing them with a higher credit capacity. This could be achieved by issuing on the domestic credit market bonds with stability of value guaranteed by the central monetary authorities. Wherever the establishment of savings banks is possible, the functions of high-rank central institution could be assigned to the *Caisse Nationale de Crédit Rural*.

These comments also apply to the Gabonese Development Bank, which should itself be endowed with a higher credit capacity. In particular, in the formulation of its credit policy, the financing of small local companies should be considered a priority.

Finally, it would be convenient to intervene in the sector of commercial banks. As is known, their capital has been mostly subscribed by foreign banks, which in fact manage to control their activities in the way they find more suitable in order to achieve their own objective.

This dependence on foreign operators results into a credit activity which is predominantly carried on to the benefit of big international companies. This is extremely damaging to the interests of the country in which they operate, since they may



favour inflationary processes and lead to the exhaustion of the actual resources of the economy by not promoting domestic savings.

It is therefore necessary for the monetary authorities to have available a series of instruments enabling them to act on the financial flows to which they apply, so as to make them consonant with the interests of the country.

For that purpose, it is essential to set limits to current accounts between banks and to foreign indebtedness. Moreover, it would be advisable to fix limits for re-discounting and set more stringent rules, as regards time, on re-financing demands. However, it should be pointed out that the object of the autonomy of the banking system presupposes — if it is to succeed — the institution of reserve financial assets with a rather high degree of liquidity.

Finally, as regards the structure of interest rates, it is useful to remember that until the economy achieves a certain independence from foreign operators, it will not differ significantly from that existing on foreign credit markets, specifically the French one; otherwise, there will arise, *vis-à-vis* international companies, a too high level of indebtedness of the economy and a remarkable outflow of capital towards foreign countries.

The great dependence of the economic and credit system of Gabon on foreign countries may therefore affect its development and may, in real terms, exhaust the resources of the country.

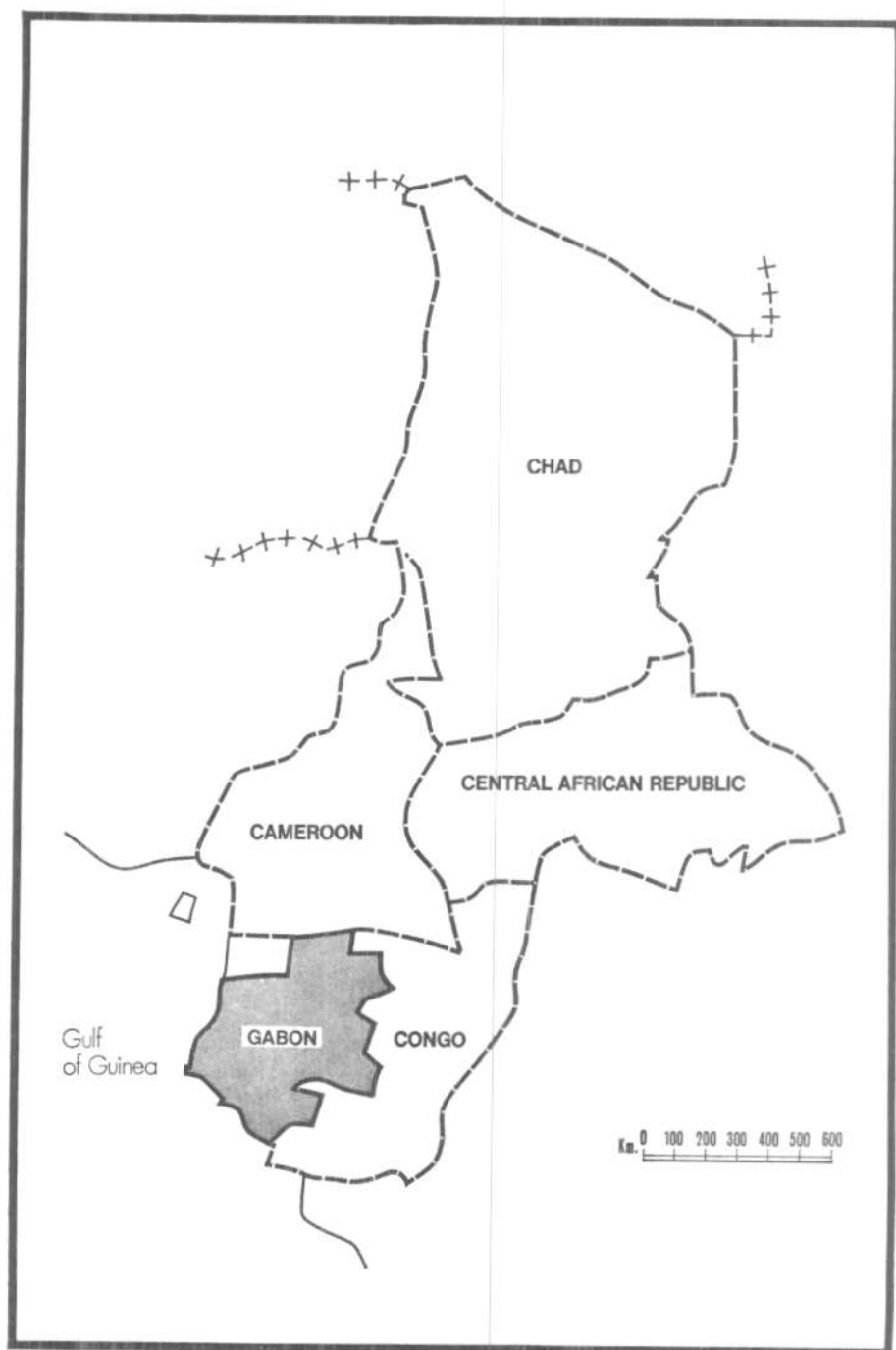
It is considered therefore that the authorities of Gabon should, for the purposes of development, aim at achieving two fundamental objects: promotion of savings and training of executive staff.





REPUBLIC OF GABON AND  
COUNTRIES OF THE UDEAC









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