

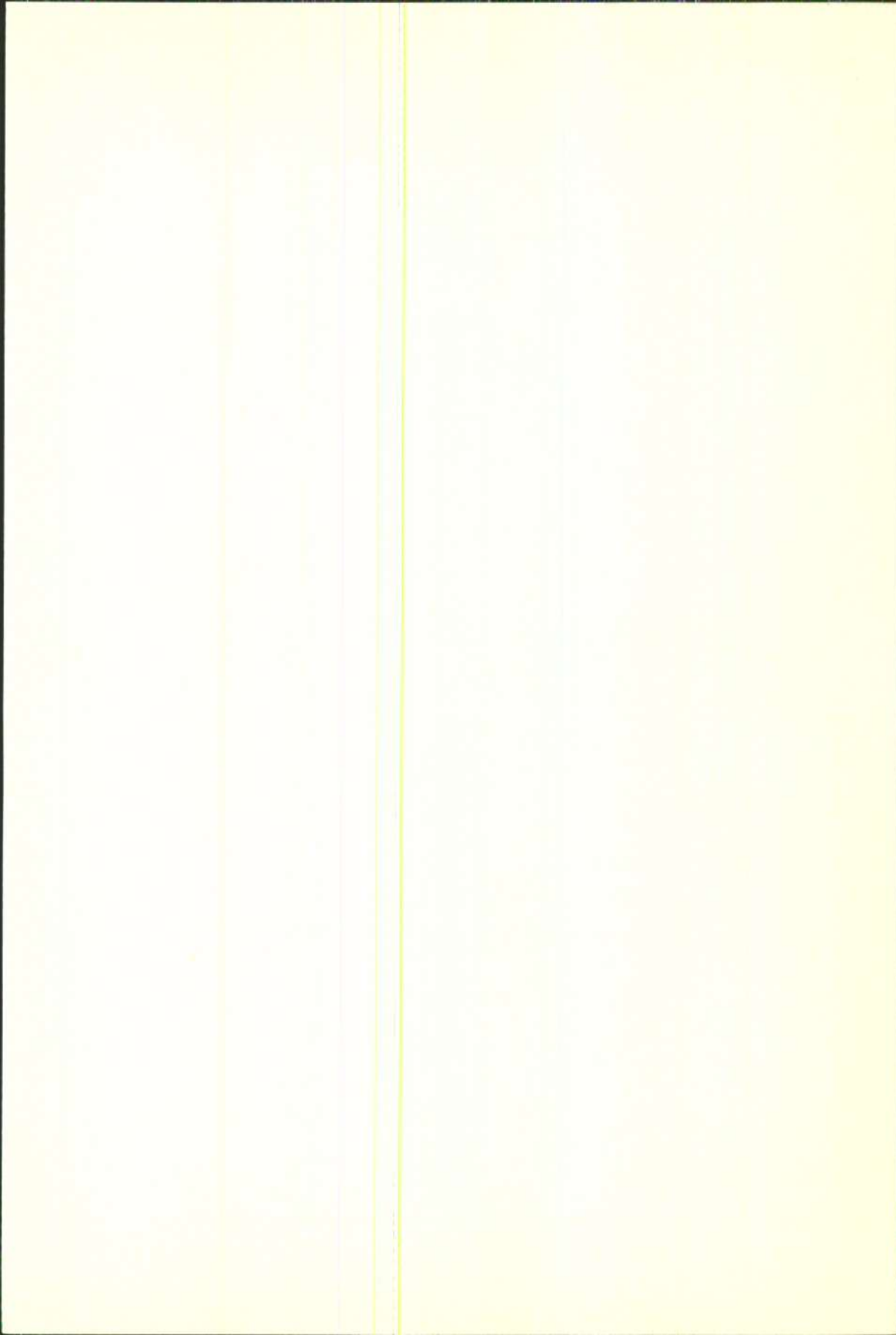
THE CREDIT MARKETS OF AFRICA
A series of monographs under
the general editorship of
Professor Giordano Dell'Amore

Sergio Bortolani

CENTRAL BANKING IN AFRICA



cassa di risparmio delle provincie lombarde — milan



THE CREDIT MARKETS OF AFRICA

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Professor Giordano Dell'Amore

SERIES OF MONOGRAPHS ON THE CREDIT MARKETS OF AFRICA:

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SERGIO BORTOLANI

CENTRAL BANKING
IN AFRICA

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FOREWORD

In the second half of the sixties a group of university lectures led by Professor Giordano Dell'Amore began to take a number of practical steps to help African countries in their financial and banking development.

An annual training course in the economics of banking for intermediate and executive staff from independent African countries (excluding the South African Republic and Rhodesia) was initiated at Milan, and several study and research teams went out to Africa in order to gain more knowledge of the continent's banking systems.

These activities were progressively expanded in collaboration with the Cassa di Risparmio delle Provincie Lombarde and the International Savings Banks Institute. An important conference on the mobilization of savings in African countries was held in Milan in September 1971, and arrangements were made to furnish technical assistance to newly founded savings banks in Africa, as well as to such others as were undergoing reorganization. Lately, the inauguration at Milan of the Centre for Financial Aid to African Countries (FINAFRICA), an institute unique in Europe, has opened up new ways of scientific and technical co-operation between Italy and Africa.

As a lecturer in the Training Course and as one of those more than once sent to Africa for study purposes, I was deeply involved

in the African programme from the outset, and soon became passionately interested in the problems of developing economies. My interest was kindled by the good luck of being able to see things for myself: this had the charm of novelty at first, and then proved its scientific worth. The intellectual and human enrichment I gained from Africa in those years defies measurement, and I am fortunate in being able to look forward to more.

It became clear to me that, so far as the credit market is concerned, the key role in developing economies is played by the central bank, whose broad functions far exceed those of any central bank in industrial countries. But what these central banks do, and how they do it, is largely conditioned by a host of relations with the rest of the world, for developing countries have very open economies, most often to their detriment.

In this volume I shall seek to analyse and compare the monetary aspects of certain typical economic situations in Africa, such as they emerged after the changeover from a colonial past to independence. With the help of personal contacts and of a detailed questionnaire circulated some time ago, I tried to answer the following questions. How do African central banks operate in practice? What problems do they have in common, and what others stem from their different past? What are conditions like at present and how are they expected to change? In foreign relations, to what extent is economic colonialism apparent in current monetary systems? What can be done to accelerate development in overall terms?

I have done my best to avoid reference to specific countries, not because I believe that all are in the same position and have the same problems, but because I thought it useful to consider groups of states where monetary conditions have much in common.

I have read what I could find in Italy (to tell the truth, mostly works by foreign authors) and what I was able to assemble in African countries personally visited by myself or my colleagues. But references are almost exclusively to literature specifically germane to my subject and useful for further study. Needless to say, such statistics as I reproduce are sadly deficient, but most of them do come from reliable sources, especially the great international organizations.

I owe many debts of gratitude, the greatest of all to my teacher, Professor Giordano Dell'Amore, our guide in this as in all other African ventures so far undertaken by the group of academics I have mentioned. Next, I express my thanks to the governors and executives of those central banks in Africa where I was able to conduct research personally, to wit, the *Banque Centrale des Etats de l'Afrique de l'Ouest*, the *Banque des Etats de l'Afrique Centrale*, the Bank of Ghana, the Central Bank of Nigeria, the Central Bank of Kenya, the Bank of Sudan, the Bank of Tanzania, and the Bank of Zambia. I am grateful, too, to other central banks which kindly replied to my questionnaire.

Finally, I am much indebted to those of my colleagues at the School of Business Economics at the University Luigi Bocconi who visited other African countries and supplied me with direct information about Algeria, the Central African Republic, Ethiopia, Ivory Coast, Lesotho, Malawi, Mali, Mauritius, Morocco, Somalia, Tunisia, Upper Volta and Zaire.

SERGIO BORTOLANI



INTRODUCTION

Economic dualism and dependence on abroad are two of the most outstanding characteristics of the conditions in which African central banks operate.

Dualism, the coexistence of a backward and a modern sector, conditions the overall development of the economic system, and forces upon central banks a number of policies and measures designed to diminish the scope of the traditional sector. The spread of money, the creation of an adequate network of financial intermediaries, the mobilization of local savings — these are the measure of the broader range of tasks incumbent upon central banks in developing countries, in comparison with those elsewhere.

To rely more and more on self-generated, internal resources for financing development is the hard path, but also the only path towards progressing from political to economic and monetary independence. It is my conviction that Africa must make every effort to achieve this aim, and that the key role will fall to central banks.

Today as in the past, African countries still depend largely on aid from the world's industrial nations. Nor can this dependence be expected to cease in the near future. It would not be wholly detrimental if it took some other form than it actually does at present, when it threatens to overburden the young African economies. Be that as it may, for the time being developing

countries are dependent on abroad for the capital and technology which they do not possess.

"External" development finance reaches developing countries via the export markets for primary commodities, via aid in various forms from individual donor countries and international organizations, via private foreign investment mostly on the part of multinational companies, and via the monetary systems which connect Africa with the rest of the world.

There is legitimate hope that international relations will improve in the medium run; this hope rests on a new awareness throughout the world of the problems of developing countries and on proposals for linking international liquidity creation with development finance. And Africa itself, on the continental scale or on the sub-regional scale, will surely have scope for a policy of integration and unity, which will enable all member states to talk to the rest of the world from a position of less obvious weakness than now.

This will eventually be the setting for the great productive effort which Africa must make. It will mean not isolation nor refusal to collaborate in any shape or form, but going beyond the nationalism so common in Africa and joining together in larger communities with a view to balanced development.

THE COUNTRIES OF AFRICA IN THE 1970s

It will be useful to begin with some background information on present-day Africa's physical and political map, population, history and economy. Of course, there is room here only for the briefest of sketches; fuller treatment will be found elsewhere¹.

¹ E.g. Y. Lacoste, *Geografia del sottosviluppo*, Verona 1968; P. Jalée, *Le Tiers monde en chiffres*, Paris 1971; Andrew M. Kamarck, *The Economics of*

The physical and political map of Africa. The African continent covers some 30 million square km, about one quarter of the world's land area. Its population of some 350 million, on the other hand, represents only one tenth of the world's total. Hence population density is low: only 12 inhabitants per km², compared with a world average of 26. Mainland Africa has a maximum width of 7,500 km, and a maximum length, from North to South, of more than 8,000 km. Straddling the equator, as it does, some three quarters of its area lies in the torrid zone, 17 per cent in the northern and 8 per cent in the southern temperate zone. Most of the continent's main elevations are situated along its outer edge, much to the benefit of the hydrographic system, which otherwise is disfavoured by the climate. Vast areas suffer from scarce rainfall and strong evaporation. Africa has some of the world's largest river basins (the Zaire, Nile, Niger, Volta and Zambesi) and largest lakes (Victoria, Tanganyika, Nyasa, Chad and Rudolf). Africa has the hottest climate of any continent of the world, given that it has the largest area of land lying between the two tropics.

Africa's political map is fractured (see map 1). It has at present 43 independent states (see Table 1), of which two, South Africa and Rhodesia¹, are under white racist government. Rhodesia is independent only by its own Unilateral Declaration of

African Development, New York 1971; Sir Alec Cairncross, *Factors in Economic Development*, London 1962; The Pearson Report, *Partners in Development*, New York 1969; United Nations Economic Commission for Africa, *A Survey of Economic Conditions in Africa*, 1969; IBRD, *Trends in Developing Countries*, 1973; Jan Tinbergen, *La deuxième décennie du développement, 1971-1980*, 1971; E.H. Whetham and J.I. Currie, *The Economics of African Countries*, Cambridge University Press, 1969.

¹ These are not considered in this volume, though on occasion mentioned incidentally.

Independence of 11 November 1965, but officially still a British dependency. Many other territories are still in some way or another subject to colonial rule by a European power; they include Angola, Mozambique, Guinea Bissau¹, the Cape Verde Islands, the Sao Tomé and Príncipe Islands (all under Portuguese rule), Spanish Sahara (Spain); the French territory of the Afars and Issas, the Comoro Archipelago, and La Réunion (France); the Seychelles and S. Elena (Great Britain). South West Africa (Namibia) has been annexed by the Republic of South Africa.

The bulk of the African states obtained their independence recently, around 1960 (see map 2 and Table 2). The outstanding exceptions are Liberia, independent since 1847, which more than a century ago became the new home of many thousands of descendants of Negro slaves in America; Egypt, independent since 1922; and Ethiopia, a country independent since time immemorial, but freed from temporary Italian rule in 1945.

Their colonial past is still reflected in the administrative structure of the new African states. There is more centralization and more profound French cultural penetration in the French-speaking countries, compared with the pragmatism of the formerly British ones. But since independence, attempts have been made everywhere gradually to loosen the ties with the former colonial power and to establish relations with a wide range of other countries, especially in Africa. Nationalism has in many cases found expression in military governments come to power after a

¹ On 24 September 1973 the African Party for the Independence of Guinea and the Cape Verde Islands unilaterally proclaimed the independence of the territories under its control. The new government has been recognized by more than 80 nations, mostly of the Third World, but not, of course, by Portugal. The overthrow of the dictatorship in Portugal in April 1974 is now opening the way to independence throughout Portuguese Africa.

THE POLITICAL MAP OF AFRICA 1974



TABLE 1

THE INDEPENDENT COUNTRIES OF AFRICA, 1970/71: AREA, POPULATION, LANGUAGE AND CAPITAL

Country	Area sq. km	Population			Official language	Capital
		total	per sq km	rate of increase per cent (1961-70)		
Algeria	2,381,741	13,349,000	6	3.0	Arab	Algiers
Botswana	600,372	5,278,000	19	2.2	English	Gaborone
Burundi	27,834	3,475,000	126	2.0	French, Kirundi	Bujumbura
Cameroon	474,000	5,736,000	12	2.2	French, English	Yaoundé
Central African Republic	617,000	1,459,000	2.6	2.5	French	Bangui
Chad	1,284,000	3,510,000	3	1.6	French	N'djamena
Congo	342,000	1,000,000	3	2.0	French	Brazzaville
Dahomey	112,622	2,640,000	23	2.9	French	Porto-Novo
Egypt	1,001,449	32,501,000	32	2.5	Arab	Cairo
Equatorial Guinea	28,051	282,000	10	1.8	Spanish, English	Santa Isabel
Ethiopia	1,221,900	24,769,000	20	2.1	Amharic	Addis Ababa
Gabon	267,667	485,000	2	1.0	French	Libreville
Gambia	11,295	350,000	32	2.1	English	Banjul
Ghana	238,537	8,600,000	36	2.7	English	Accra
Guinea	245,857	3,890,000	16	2.7	French	Conakry
Ivory Coast	322,463	4,195,000	13	2.3	French	Abidjan
Kenya	582,644	10,506,000	17	2.9	Swahili, English	Nairobi
Lesotho	30,444	890,000	29	2.0	English	Maseru
Liberia	111,369	1,150,000	10	1.9	English	Monrovia

Libya	1,759,540	1,869,000	1	3.7	Arab	Tripoli
Madagascar	587,041	6,600,000	11	2.5	Malagasy, French	Tananarive
Malawi	119,310	4,389,000	37	2.4	English	Zomba
Mali	1,204,000	4,881,000	4	2.1	French	Bamako
Mauritania	1,030,700	1,140,000	1.5	1.9	Arab, French	Nouakchott
Mauritius	1,865	823,000	402	2.7	English	Port Louis
Morocco	447,000	15,050,000	34	2.9	Arab	Rabat
Niger	1,267,000	3,909,000	3	3.0	French	Niamey
Nigeria	923,768	64,560,000	70	2.6	English	Lagos
Rhodesia	389,361	5,100,000	13	3.2	English	Salisbury
Rwanda	26,338	3,500,000	133	3.1	Kinyarwanda, Fr.	Kigali
Senegal	196,192	3,780,000	19	2.5	French	Dakar
Sierra Leone	71,740	2,512,000	35	1.5	English	Freetown
Somalia	637,661	2,730,000	4	2.9	Arab, Ital., Engl.	Mogadiscio
South Africa	1,221,037	19,618,000	16	2.4	English	Pretoria
Sudan	2,505,813	15,186,000	6	2.8	Arab	Khartoum
Swaziland	17,375	410,000	24	3.0	English	Mbabane
Tanzania	939,701	12,926,000	14	2.5	Swahili, English	Dar es Salaam *
Togo	56,000	1,815,000	32	2.6	French	Lomé
Tunisia	164,150	5,027,000	31	2.8	Arab	Tunis
Uganda	236,036	9,500,000	40	3.0	English	Kampala
Upper Volta	274,200	5,278,000	19	2.2	French	Ouagadougou
Zaire	2,345,409	17,100,000	7	2.2	French	Kinshasa
Zambia	752,614	4,208,000	6	3.0	English	Lusaka
Africa (approx.)				12	2.4	

* To be transferred to Dodoma.

Source: United Nations, *Statistical Yearbook*.

THE POLITICAL MAP OF COLONIAL AFRICA, WITH DATES OF INDEPENDENCE

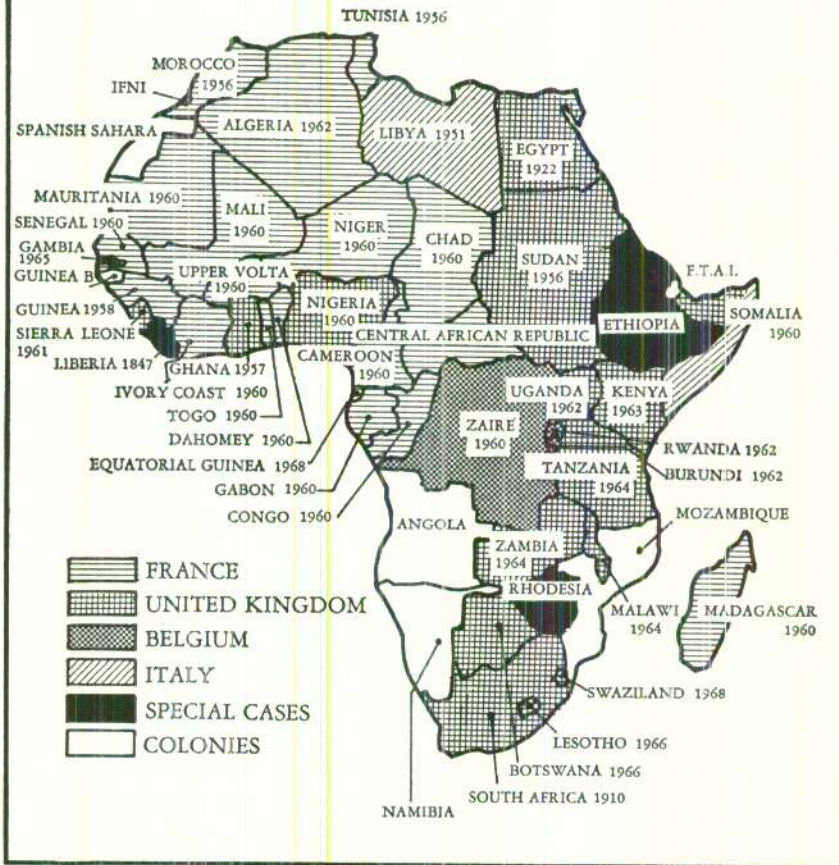


TABLE 2

THE INDEPENDENT COUNTRIES OF AFRICA: INDEPENDENCE DATE AND LAST COLONIAL POWER

Country	Date of independence	Last colonial power
Algeria	3 July 1962	France
Botswana	30 Sept. 1966	United Kingdom
Burundi	1 July 1962	Belgium
Cameroon	1 Jan. 1960	France - UK
Central African Republic	13 Aug. 1960	France
Chad	11 Aug. 1960	France
Congo	15 Aug. 1960	France
Dahomey	1 Aug. 1960	France
Egypt	1922	United Kingdom
Equatorial Guinea	12 Oct. 1968	Spain
Ethiopia	1945	—
Gabon	17 Aug. 1960	France
Gambia	18 Feb. 1965	United Kingdom
Ghana	6 March 1957	United Kingdom
Guinea	2 Oct. 1958	France
Ivory Coast	7 Aug. 1960	France
Kenya	12 Dec. 1963	United Kingdom
Lesotho	4 Oct. 1966	United Kingdom
Liberia	26 July 1847	—
Libya	24 Dec. 1951	Italy
Madagascar	26 June 1960	France
Malawi	6 July 1964	United Kingdom
Mali	22 Sept. 1960	France
Mauritania	28 Nov. 1960	France
Mauritius	12 March 1968	United Kingdom
Morocco	28 March 1956	France - Spain
Niger	3 Aug. 1960	France
Nigeria	1 Oct. 1960	United Kingdom
Rhodesia	11 Nov. 1965	United Kingdom
Rwanda	1 July 1962	Belgium
Senegal	11 Sept. 1960	France
Sierra Leone	27 April 1961	United Kingdom
Somalia	1 July 1960	Italy-UK-France
South Africa	1910	United Kingdom
Sudan	1 Jan. 1956	UK - Egypt
Swaziland	6 Sept. 1968	United Kingdom

Country	Date of independence	Last colonial power
Tanzania	25 April 1964	United Kingdom
Togo	27 April 1960	France
Tunisia	20 March 1956	France
Uganda	9 Oct. 1962	United Kingdom
Upper Volta	5 Aug. 1960	France
Zaire	30 June 1960	Belgium
Zambia	24 Oct. 1964	United Kingdom

more or less bloody coup d'état or civil war (to name only the most recent cases, Biafra and Burundi). In the Portuguese colonies, in Namibia, and also in South Africa and Rhodesia, there have for many years been freedom movements, fighting to conquer what the other African peoples have already obtained. The territories not yet in African hands are large, mostly in the south of the continent, the outstanding example of course being the powerful Republic of South Africa.

The political ideology of the new governments varies; we find liberalism in the Ivory Coast and in Liberia, nationalism of one kind or another in very many states, "self-reliance" in Ghana and some others, socialism in Nyerere's Tanzania, Sékou Touré's Guinea and Boumedienne's Algeria, and finally the policy of "dialogue" (with South Africa) in Malawi¹. But though colonialism has been

¹ Cf. the Pearson Report (*op. cit.*, p. 264): "African governments span the entire spectrum of non-Communist policy toward ownership of enterprises. One group, which includes such countries as Guinea, the U.A.R., Mali, and Tanzania, believes the government must directly control key sectors of production; another, including Liberia, Ivory Coast, Kenya, and Nigeria, puts greater faith in the role of the private sector. But the first group does not favor liquidating private ownership, nor do governments of the second group hesitate to play an increasingly leading role in commodity production. There is a range of countries between these groups which have attempted to promote a more balanced blend between the private and public sectors."

rooted out in most of Africa, it has been followed by neo-colonialism, the alliance of local upper and middle classes with foreign capitalist interests — the latest means of bending the economic fortunes of a dominated country to the interests of a dominant one. The best political solution for Africa would surely be African unity, an aim often and loudly proclaimed but at the moment not being approached with noticeable vigour or speed. More progress is being made with groupings of more limited size, especially as regards economic, commercial and financial co-operation.

Population. The three most significant demographic indicators are size, density and rate of growth. In 1970, Africa had a total population of roughly 344 million, out of a world total of some 3,635 million. United Nations figures (*World Population Conference*, Vol. II, p. 21) give the following picture of the world's population in 1970 (millions):

World	3,635
Europe	462
USSR	243
USA and Canada	228
Asia	2,056
Africa	344
Latin America	283
Oceania	19

The distribution of the African population is very uneven. Most countries have a very small population, either because they themselves are small or because large tracts are uninhabitable. Only three countries have more than 20 million people (Nigeria, much

the largest, with more than 60 million, Egypt and Ethiopia), a few have between 10 and 20 million (Zaire, Sudan, Morocco, Algeria, Tanzania and Kenya), and twenty-nine have less than 5 million (and of these, 13 less than 2 million). Africa's extreme political fragmentation prevents the bulk of its nations, barring one or two exceptions, from making their voice heard to much effect in world affairs. Much the same can be said with reference to international economic and financial relations.

Average population density in Africa is 12 inhabitants per square kilometre, a figure just a little higher than that for Latin America, but far lower than in Asia, to speak only of developing regions. Only a few small nations have a really high population density (Mauritius, Rwanda and Burundi); the most common range is between 15 and 40, and in fifteen countries the figure is well below the average (mostly in the northern and southern deserts, and where the rain forest is impenetrable).

Now, population density as such is a rather meaningless figure, unless it is confronted with the country's physical resources, the degree of its economic development and the level of its technology. A lot of people seem to think that in scarcely populated regions rapid population growth is in the national interest or at least creates no problems, because there is plenty of land available¹.

¹ As an example of a very widespread view we quote an article published in October 1971 in the *Daily Times* of Lagos over the signature K. Tsaro-Wiwa and entitled *Don't mind the pill-pedlars: we need more babies here*: "Far from attempting to reduce the number of children being born, what Nigeria as well as Africa needs is a tremendous increase in her population" — because, the writer argues, Africa is one of the least populous continents, with a lot of unused resources, and because, if the black population were larger, it could lead a more effective fight against the racists and colonial powers. This is perhaps an unusually extreme way of putting it, but many Africans would agree that their continent is underpopulated.

But to take virgin land into cultivation requires huge capital investment, and Africa certainly is not rich in capital. Even apart from that, surely Africa should consider herself fortunate in not, at present, suffering from overpopulation like so many other parts of the world.

As regards, finally, the rate of population increase, the UN figures (same source as above, p. 22) for the years 1960-1970 are as follows (per cent):

World	1.9
Europe	0.9
USSR	1.4
USA and Canada	1.4
Asia	2.5
Africa	2.4
Latin America	2.9
Oceania	2.0

The developing world, generally speaking, has a higher rate of population growth than the more advanced countries, but Africa comes third after Asia and Latin America. In the long run this high rate may prove detrimental¹. This is why more and more governments, with varying degrees of conviction, are coming round to the view that there is something to say for family planning².

¹ Cf. Andrew M. Kamarck, *op. cit.*, p. 27: "What will count now is the rate of population growth, the rate of growth of gross national product, and the interrelations between these. In this regard, the acceleration in the rate of population growth that is now unquestionably occurring over most of Africa is a strong negative factor." UN estimates for the year 2000, calculated from the 1960-1970 figures, give Africa a total population of 800 million, out of a world total of 7,000 million.

² See IBRD, *Population Planning*, 1972, p. 83.

ASPECTS OF ECONOMIC UNDERDEVELOPMENT IN AFRICA

In a brief review of the most relevant and indicative aspects of economic underdevelopment in Africa, some figures and comments are presented below on national income, main economic sectors, factor endowment and other essential aspects, like dualism and foreign dependence¹.

National income. Among the many definitions of underdevelopment², the most commonly accepted one uses income per head of the population as indicator. A country with low *per caput* income is regarded as underdeveloped. But apart from the fact that this index neglects income distribution, along with a host of other relevant factors, it is not so easy to say what is meant by "low" in this connection. A UN group of experts some years ago frankly admitted the difficulty: "We have had some difficulty in interpreting the term 'underdeveloped countries'. We use it to mean countries in which *per capita* real income is low when compared with the *per capita* real incomes of the United States of America, Canada, Australasia and Western Europe. In this sense, an adequate synonym would be 'poor countries'³.

¹ The literature on the theory and facts of underdevelopment is enormous. Full and systematic bibliographical references will be found in the final part of a recent collection of essays edited by B. Jossa, *Economia del sottosviluppo*, Bologna 1973, p. 411-430.

² See, e.g., Vittorio Marrama, *Saggio sullo sviluppo economico dei paesi arretrati*, Turin 1967, and Y. Lacoste, *op. cit.*, p. 177-185.

³ UN, *Measures for the Economic Development of Under-developed Countries*, New York 1951, p. 3. Similarly, we read in the Pearson Report, *op. cit.*, p. 23: "There is no firm line ... between developed and developing countries. There are some borderline cases of countries which are not readily classified. International statistics are often at variance on this point. But most of the countries in Asia, Africa, and Latin America are separated from the developed countries by a wide

The figures below illustrate Africa's position in comparison with the rest of the world. Charts 1 and 2 demonstrate the relative position of the world's continents and major economic groupings in terms of their total and *per caput* GNP and income growth. The whole of the underdeveloped countries, which comprise two thirds of the world's population, account for only some 10 per cent of world GNP; nor has the decade of the sixties, for which the UN target was annual average growth of 5 per cent, done much to alter the proportions. The whole of Africa, excluding the Republic of South Africa, has no more than about two thirds of Italy's GNP.

In terms of the growth of gross domestic product at constant prices, overall and per head of the population during the years 1950-1967, the Pearson Report (p. 358) gives the following figures (per cent per year):

	GDP	Population	GDP per head
Developing countries	4.8	2.3	2.4
Africa	4.0	2.3	1.7
Industrialized countries	4.3	1.2	3.1

Africa made least progress among all the underdeveloped regions. And all the poor countries together not only lag behind as regards absolute income figures per head (in 1966, these were 112 dollars in Africa, 141 in Asia, 300 in Latin America, 1,400 in Europe and 3,000 in North America), but the growth rate is slower and so the gap widens¹.

gulf whether one considers income per head, social conditions, demographic characteristics, or the structure of production." The report adds that countries with *per caput* incomes of less than \$ 500 per year fall unambiguously in the category of less developed.

¹ For a discussion of the "Widening gap" see P.T. Bauer, "Il crescente distacco", *Moneta e Credito*, December 1971. Among the reasons for slow growth in some countries, apart from the consequence of natural disasters or other uncontrollable factors, the Pearson Report (*op. cit.*, p. 29) lists "lack of commitment

As regards individual African countries, figures for total and *per caput* GNP and the latter's growth rate are given in Table 3. Subject to the usual reservations about the reliability of such figures, and allowing for the underestimate generally implicit in such monetary statistics, the fact remains that the figures are extremely low: less than 100 dollars per head in one third of the African states, and less than 200 dollars in 14 more. Libya alone, thanks to its oil, stands out with a spectacular 1,450 dollars per head, but even there income distribution is notoriously uneven. The countries that "count" in terms of total GNP are few, and are led by Nigeria, Egypt, Algeria, Morocco and Libya¹.

According to Kamarck² the average pattern of resource utilization is as follows:

Gross domestic product	100
Imports	28
Total disposable resources	128
Private consumption	71
Public consumption	15
Gross domestic capital formation	16
Exports	26
Use of resources	128

Main economic sectors. In most African countries, agriculture occupies first place in income formation, and employs a large

to economic development, limited capacity for economic management, and unwillingness to face the political and social implications of basic structural change."

¹ For more detail, see UN Economic Commission for Africa, *op. cit.*, p. v-xiv and 1-17.

² *Op. cit.*, p. 21.

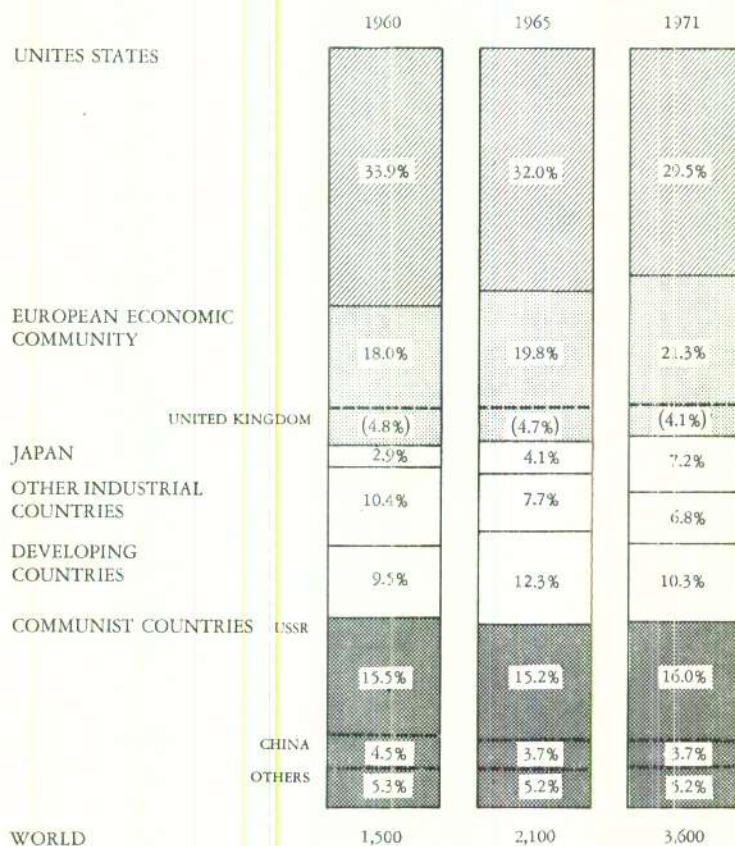
proportion of the population. Typical subsistence farming with traditional means coexists with big plantations producing cash crops mostly for export, such as cocoa, coffee, groundnuts, cotton, oilseeds, tobacco, sugar, rubber, sisal, tea, bananas, and also tropical hardwoods. Animal husbandry is important in some regions, and the source of inter-country trade. In some cases the use of rational production methods and government support for farming in the context of a policy of self-reliance have been successful in reducing food imports. While on the morrow of independence many African countries launched ambitious industrialization programmes, they are now, ten years or more later, redirecting their efforts towards the exploitation of natural resources and the diversification of agricultural production. In these efforts, they can count on technical and financial aid from abroad, especially from international organizations.

Though agriculture is still the basic economic activity in all African countries, some of them have mineral resources which are the mainstay of their exports and thus the chief source of foreign exchange earnings. Oil, iron ore, copper, zinc, aluminium, uranium, diamonds, tin, manganese and platinum are found in individual countries, for which these deposits are the chief source of wealth and the main channel of their relations with the rest of the world. The problems connected with the export of primary commodities, both agricultural and mining products, and the bearing these exports have on central bank activity will be discussed in more detail in the last chapter of this book.

Industry is in many countries regarded as the key factor for accelerated economic development. Most of them chose this road at the outset, and launched courageous, if sometimes misguided, industrialization programmes in the hope of import substitution

CHART 1

DISTRIBUTION OF WORLD GNP, 1960, 1965 AND 1971
(BILLION US DOLLARS AT CURRENT PRICES)*

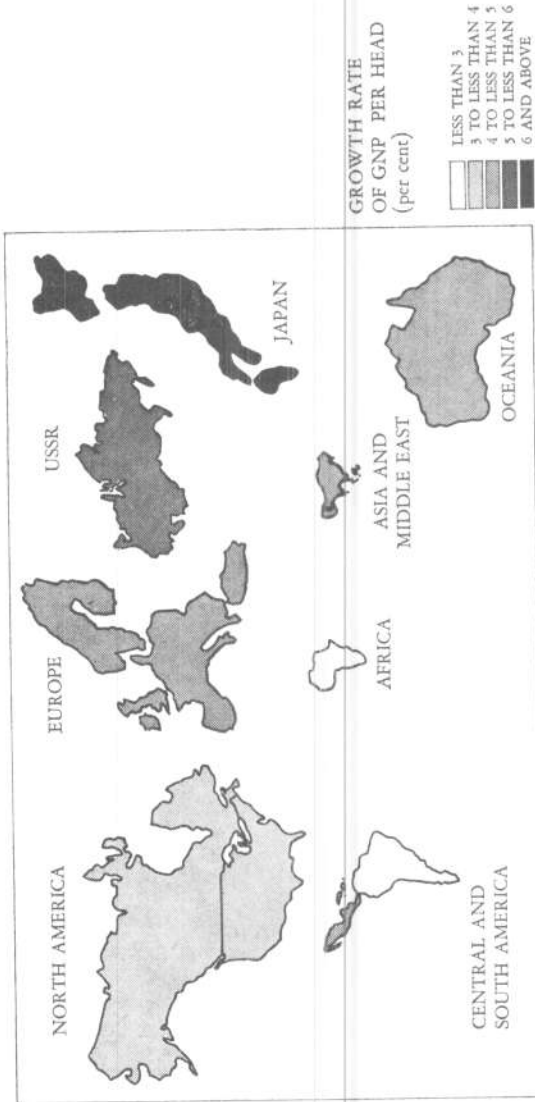


*The value of world GNP is calculated on the basis of the Smithsonian parities fixed on 18 December 1971.

SOURCE: UNITED STATES, FIRST ANNUAL INTERNATIONAL ECONOMIC REPORT TO CONGRESS, Washington D.C., March 1972.

CHART 2

GNP PER HEAD AND ITS GROWTH
(SIZE OF REGIONAL AREAS IN PROPORTION TO THEIR GNP PER HEAD IN 1970)



SOURCE: IBRD, Trends in Developing Countries, Washington D.C., 1973, Chart 1.4.

TABLE 3

AFRICAN COUNTRIES: GNP AT MARKET PRICES, GNP PER HEAD, AND GROWTH RATES, 1971
(rounded figures)

Country	GNP at market prices (1971)		GNP per head average annual rate of growth (per cent)	
	total (million \$)	per head \$	1960-71	1965-71
Nigeria	7,840	140	2.1	2.7
Egypt	7,540	220	1.6	0.2
Ethiopia	1,990	80	2.7	1.2
South Africa ¹	18,360	810	2.8	2.2
Zaire ⁴	1,750	90	2.9	3.6
Sudan ^{2 4}	1,900	120	—	— 0.9
Morocco	4,040	260	1.1	2.5
Algeria ³	5,260	360	3.5	4.8
Tanzania	1,470	110	3.1	3.3
Kenya	1,850	160	3.5	4.3
Uganda	1,340	130	2.1	1.6
Ghana	2,250	250	—	— 2.1
Madagascar	1,020	140	0.6	2.5
Cameroon	1,160	200	4.0	3.7
Rhodesia	1,730	320	1.1	2.6
Upper Volta	390	70	0.9	1.7
Tunisia	1,670	320	2.8	3.6
Ivory Coast	1,730	330	4.6	4.4
Mali	370	70	1.4	1.0
Malawi	410	90	2.5	2.3
Zambia	1,620	380	3.2	1.0
Niger	400	100	— 2.5	— 4.4
Guinea	380	90	0.1	0.3
Senegal	1,020	250	— 0.4	— 1.2
Rwanda ⁴	230	60	— 0.8	2.2
Chad	310	80	0.6	2.2
Burundi ⁴	220	60	1.1	0.5
Somalia ⁴	210	70	— 0.9	0.8
Dahomey	280	100	0.8	1.8
Sierra Leone	540	200	3.9	4.7
Libya	2,930	1,450	17.6	8.1

Country	GNP at market prices (1971)		GNP per head average annual rate of growth (per cent)	
	total (million \$)	per head \$	1960-71	1965-71
Togo	300	150	4.6	2.5
Central African Republic	240	150	0.4	1.6
Liberia	330	210	2.5	3.8
Mauritania	200	170	5.7	2.1
Congo	300	270	0.9	1.4
Lesotho ¹	100	100	—	0.5
Mauritius	230	280	— 0.4	— 0.7
Botswana ¹	100	160	3.2	4.9
Gabon	340	700	5.2	7.7
Swaziland ¹	80	190	4.7	0.9
Gambia	50	140	3.6	2.1
Equatorial Guinea	60	210	2.7	— 1.8

¹ Including Namibia.

² Growth rate of GNP per head: 1966-1971.

³ Growth rate of GNP per head (last column): 1963-1970.

⁴ The figures for GNP per head and its rates of growth are estimates.

Source: IBRD, *Atlas* 1973, p. 6.

and eventually also of exporting manufactures¹. There will be occasion later to discuss industry in connection with foreign economic relations, especially international loans and, even more so, direct foreign investment.

The tertiary sector, finally, generally suffers from elephantiasis, from parasitical growth of the public administration, matched only by its inefficiency. But this is a problem by no means alien to even the most mature economies.

¹ For details of the degree of industrialization achieved in developing countries, and for a discussion of obstacles to be expected in the seventies and of possible strategies to be adopted, see IBRD, *Industry: Sector Working Paper*, April 1972.

Factor endowment. Africa certainly is not short of the factor of production land, but what is often lacking is the means to make land fertile and productive, e.g. irrigation, modern farming methods, fertilizers. Like other economic activities in Africa, agriculture is short of capital. Domestic capital formation is slow, mainly because of low incomes and neglect of savings promotion, and foreign capital is never sufficient and in any case has a lot of strings attached to it, of which more will be said later.

Africa has an abundant supply of the factor of production labour, or at any rate untrained labour, which, as such, earns wages which constantly (both in the colonial era and since independence) tend towards the subsistence level¹. But Africa is extremely short of entrepreneurship, so much so that its lack constitutes perhaps a greater obstacle to growth than the shortage of capital. But then, of course, entrepreneurship cannot spring up all at once after centuries of colonial domination.

Everywhere, Africanization and the development of local managerial capacity are accorded high priority in national development plans, but many large firms are still under the control of expatriates. Local enterprise is almost wholly public, with the state setting up various agencies or corporations for specific purposes². Fiscal and credit incentives are used to promote the creation of local small and medium-sized private firms, and this is indeed done even in countries aspiring to socialism.

¹ See Hla Myint's admirable pages on cheap labour policy, in his *The Economics of Developing Countries* (London 1969, p. 53-68) and W. Arthur Lewis's classic article "Economic Development with Unlimited Supplies of Labour" (*The Manchester School*, May 1954).

² Some countries — like Ghana with its GIHOC (Ghana Industrial Holding Corporation) — have a state holding company rather like Italy's IRI (*Istituto per*

Dualism. The coexistence of a backward and a modern sector is one of the chief characteristics of underdevelopment, in Africa as elsewhere. But what distinguishes Africa in this respect from Asia, is the cause of this dualism, namely, deficiency of demand¹. The so-called traditional sector is traditional from the social, economic, financial and technological point of view; it is the home ground of subsistence economy and of the notorious "vicious circle of poverty"². The modern sector, by contrast, is dynamic and open to foreign markets, uses technologically more advanced and more efficient production methods, and gravitates towards urban conglomerations. As Furtado puts it: "The degree of underdevelopment is measured by the share of the backward sector in global income formation. Development depends on the relative intensity of accumulation in the advanced sector, on the direction of technological progress and on the increase in the population of working age in the economy as a whole"³.

Foreign dependence. Foreign dependence and modern sector are two closely connected terms, and this is, unfortunately, tantamount to saying that the development potential of African countries still largely depends on decisions taken far away and in foreign interests, which only rarely coincide with those of the local economy. Growing trade and financial integration in the world

la Ricostruzione Industriale, or Industrial Reconstruction Institute), which holds equity in subsidiary companies and takes care of their management.

More will be said about the scale of state intervention in the economy later, in connection with attitudes to foreign investment.

¹ See H. Myint, *ibid.*, p. 49.

² See Ragnar Nurkse's brilliant definition in his *Problems of Capital Formation in Underdeveloped Countries*, Oxford University Press, 1967, p. 4-5.

³ Celso Furtado, *Teorie dello sviluppo economico*, Bari 1972, p. 221-2.

since the last war would surely make it reprehensible for African countries to close themselves off even against harmful currents, but if these countries are to remain open to the world, then, patiently but not too slowly, their international relations will have to be recast, and, above all, more cohesion will be needed among African nations. How this can be done technically, has been studied carefully and solutions are at hand. What is not at hand, for the time being, is the required political understanding between industrial countries and the Third World.

Chapter I.

HISTORY OF CENTRAL BANKING IN AFRICA

Upon acceding to political independence, nearly all African countries at once set up a central bank, as an expression of national sovereignty and, what is more important, as a crucial means of economic and financial reorganization.

That developing countries need a central bank is now, especially after the experience of the sixties, widely taken for granted, though not so very long ago this was open to question¹. Although

¹ R.S. Sayers, in the first of his 1956 Cairo lectures ("Are Central Banks Universally Necessary?") on "Central Banking in Underdeveloped Countries" (in: R.S. Sayers, *Central Banking after Bagehot*, OUP 1957) puts the question very lucidly in these terms (p. 108-9): "The need for central banks in the major financial centres of the world is now generally accepted, but whether a central bank should be established in every independent political unit is very much open to question. Many bankers, central bankers among them, say 'No', but the politicians of countries at present without central banks are inclined to insist that their countries ought to have such institutions, and that their absence leaves their countries unreasonably subject to foreign influence. This conflict of view is a quite recent development: in the nineteen - twenties the leading central bankers of the world favoured the establishment of more central banks in order to protect the value of money from the short - sighted behaviour of the politicians. In the nineteen-fifties, by contrast, the bankers fear that the politicians would use central banks to the detriment of monetary stability, while the politicians suspect that without a central bank a country's interest may be sacrificed to the interests of foreign bankers." Much the same considerations led to the establishment of central banks in Latin America after the first world war. See,

African central banks are new creations, the colonial past of their respective countries has left its mark on their genesis. It will be useful, therefore, to summarize different patterns of development in different groups of African countries, up to the establishment of their own central banks. The present structure and functions of these central banks will be discussed in the following chapters, ending up, in Chapter Seven, with the foreign relations both of countries whose currency is autonomous and of those which belong to a monetary zone.

Taking the situation immediately preceding independence as a basis, the discussion below covers, respectively, groups of countries formerly under French, British, Belgian, Spanish, Italian and Portuguese rule, plus a few special cases.

1.1 TERRITORIES FORMERLY UNDER FRENCH RULE

The territories formerly under French rule comprise eighteen now sovereign states, namely, Morocco, Algeria, Tunisia, Mauritania, Senegal, Upper Volta, Mali, Niger, Guinea, Ivory Coast, Togo, Dahomey, the Central African Republic, Chad, Congo, Cameroon, Gabon and Madagascar. All these were part of the franc zone in colonial days¹.

e.g., F.M. Tamagna (*La banca centrale nell'America Latina*, Milan 1966, p. 58): "Contrary to the gradual evolution of central banks in Europe, their appearance in Latin America is generally a sign of a determined effort to get rid of the controlling influence of foreign banks on local currencies, and also to shed the colonial influences which dominate the economy."

¹ For a detailed and exhaustive analysis of the pre-independence franc zone see François Bloch-Lainé, *La Zone franc*, Paris 1956 (p. 18-86). At that time, the franc zone was made up of four categories of territories:

(a) metropolitan France;

This highly concentrated monetary system — which to some extent still survives today in somewhat altered form (see Chapter Seven below) — demanded adherence to certain common rules, in line with the general, strong French penetration in all administrative affairs. There were two basic patterns, one for relations with countries in the franc zone, and one for those outside it. In the first case, there was a fixed exchange rate of the satellite currencies to the French franc as the key currency, and unconditional convertibility of all franc zone currencies against each other. This complete transferability was made to work thanks to strict French control over colonial issuing banks and via a mechanism of French Treasury accounts for compensating such imbalances as might occur¹. As regards relations with countries outside the franc zone, the system involved unified exchange control and control of foreign trade, and the centralized management of reserves in currencies other than French francs. Reserve management and redistribution was incumbent upon the French *Fonds de stabilisation des changes*, which was thus ultimately responsible for each member country's relations with the rest of the world. The territories belonging to the zone had no autonomy, and there was no decentralization of

- (b) Algeria and the departments of Martinique, Guadeloupe, La Réunion and French Guiana, under the authority of the Ministry of the Interior;
- (c) the so-called Overseas Territories, comprising French possessions in Africa (Togo and Cameroon), in Asia and elsewhere, under the authority of the Ministry of Overseas Territories;
- (d) Tunisia and Morocco, each with its own status under a special agreement.

At the same time, the franc zone had eight issuing banks: the *Banque de France*, the *Banque d'Algérie*, the *Banque d'Etat du Maroc*, the *Institut d'Emission de l'AOF - Togo*, the *Institut d'Emission de l'AEF - Cameroon*, the *Banque de Madagascar*, the *Caisse Centrale de la France d'outremer*, and the *Banque de l'Indochine*.

¹ See Bloch-Lainé, *ibid.*, the chapter on convertibility in the franc zone.

decision-making. This was, of course, perfectly in line with the philosophy of colonialism at the time¹.

But to return to Africa, the genesis of today's central banks was not the same in all formerly French territories².

In Africa south of the Sahara, the note-issuing privilege for the geographical area of French West Africa (*Afrique Occidentale Française* - AOF) was granted in 1901 to the *Banque du Sénégal*; a few years later this privilege was extended to French Equatorial Africa (*Afrique Equatoriale Française* - AEF), and in 1919 to the French mandate of Cameroon. Issuing rights for French Equatorial Africa and Cameroon passed in 1942 to the *Caisse centrale de la France Libre*, which had been set up by the free French government in London, was renamed in 1944 *Caisse centrale de la France d'outremer*, and, after the African states concerned had gained their independence, changed its name once more to *Caisse centrale de coopération économique*. Under this last name this institution discharged its monetary functions until 1955, when it was replaced by the newly founded *Institut d'émission de l'AEF et du Cameroun*, which in 1960, in the wake of independence, became the *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun* (BCEAEC), a multinational bank of issue for the five countries of Chad, the Central African Republic, Congo, Gabon and Cameroon. In November 1972, after a change in its statute, the bank changed its name to *Banque des Etats de l'Afrique Centrale* (BEAC).

Similar developments took place in West Africa, where the *Banque de l'Afrique Occidentale* was replaced, in 1955, by the

¹ The present centralized structure of the franc zone has far less justification, as will be argued in Chapter Seven below.

² For more detail, see the chapter on the history of issuing banks in the French territories of black Africa in Gaston Leduc, *Les institutions monétaires africaines: pays francophones*, Paris 1965, p. 2-39.

Institut d'émission de l'AOF et du Togo, which was set up by the French government. After independence, on 12 May 1962, the six states of Dahomey, Ivory Coast, Mauritania, Niger, Senegal and Upper Volta founded the West African Monetary Union (*Union Monétaire Ouest-Africaine* - UMOA) — joined in November 1963 also by Togo — and the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO).

The twelve countries of these two monetary unions all use the same currency, the CFA franc, or the franc of the *Communauté Financière Africaine*¹.

The two remaining states of French West Africa followed a different path. Guinea went its own political way from the outset, more or less isolating itself and leaning, if anything, towards Chinese ideologies. Accordingly, it left the franc zone and set up its own central bank, which issues the non-convertible Guinea franc. Mali did at first sign the UMOA treaty, but then did not ratify it because of differences with other members, and adopted its own currency, the Mali franc. This, too, was non-convertible and created a lot of financial troubles for Mali, until by a special convention with France it was made convertible and freely transferable within the franc zone.

In the rest of the franc zone in Africa, developments similar to those which led to the establishment of the BCEAEC and the BCEAO took place in Madagascar. The French franc was the currency of Madagascar until 1925, when the *Banque de Madagascar* was granted the issuing privilege. This was replaced in 1950 by the *Banque de Madagascar et des Comores*, an institute partly in public and partly in private hands, which in turn, on the morrow

¹ On the reasons which led Mauritania to withdraw from the franc zone in November 1972, and Madagascar to do the same in May 1973, see Chapter Seven below, where the vicissitudes on the franc zone in recent years are discussed.

of independence, was taken over by the *Institut d'Emission Malgache*. This Institute began its activities on 1 January 1964. By virtue of an agreement with France, the Malagasy franc was a franc zone currency, until the country decided in May 1973 to make itself completely independent and withdrew (see Chapter Seven below).

The three countries of the Maghreb have a rather more complex monetary history, all of them having been somewhat reluctant to fall in with successive French plans. Morocco, which became independent in 1956, had since 1907 had an issuing bank called *Banque d'Etat du Maroc*, registered in Tangier but with administrative headquarters in Paris. It was an international bank operating not only in French Morocco, but also in the Spanish parts and the international zone of Tangier, and whose origins go back to the Algeciras Conference. It was founded and managed by various financial groups, headed by the *Banque de Paris et des Pays Bas*¹.

It had the issuing privilege, but as a counterpart the obligation to back its notes with a reserve of not less than one third of the circulation. Towards the end of the nineteen thirties, France gradually acquired a controlling interest of 53 per cent of the capital. Eventually, the bank's notes became non-convertible and were replaced by a new currency unit, the Moroccan franc, and the French franc ceased to be legal tender in the Protectorate. However, in order to safeguard automatic parity and avoid

¹ On the history of Morocco's central bank, see Mustaphe Doghmi, *Le rôle de la Banque du Maroc dans le système monétaire et bancaire*, Casablanca 1967, p. 13-82; V. Nesci, *Caratteristiche strutturali e funzionali del sistema bancario del Marocco* (duplicated), 1973; Lorenzo Frediani, Foreword to S.K. Basu, *La banca centrale nei paesi in via di sviluppo*, Milan 1971, p. xxiv-xxxi; G. Carfora, "L'organizzazione creditizia nei paesi afro-asiatici", *Bancaria*, 1961, No. 7, p. 766-7.

exchange rate fluctuations deriving from the balance of payments, the French Treasury opened one of its "operations accounts"¹, a current account to be drawn on for French or Moroccan francs if these were not to be had on the market, to cover either country's temporary deficit. In the case in point, Morocco was the deficit country, and the French Treasury's credit lines in effect became export loans, much to the detriment of the Moroccan economy.

The *Banque d'Etat* did more than just issue notes and coin; it was also a busy commercial bank, and as such rendered useful services to foreign (mostly French) companies resident in Morocco.

After Morocco became independent in 1956, its financial ties with France slackened and eventually broke, when in 1958 Morocco decided not to follow the French franc into its devaluation on 28 December. Six months later France unilaterally decided to close the operations account of Morocco's *Banque d'Etat*, and in October 1959 a monetary reform ended with the introduction of a new currency, the dirham, which to all intents and purposes was independent of the French franc. In the same year negotiations with the *Banque d'Etat* were brought to their conclusion, and that bank, together with its issuing privilege, was taken over by Morocco's new central bank, the *Banque du Maroc*.

The circumstances which led to the creation of independent central banks in the other two Maghreb countries, Algeria and Tunisia, had much in common with those described for Morocco².

¹ To be discussed at greater length in Chapter Seven.

² For Algeria, see Bruno Rossignoli, *The Banking System of Algeria*, Milan 1973, p. 37-55; for Tunisia, Paolo Mottura, *The Banking System of Tunisia, 1956-1970*, Milan 1972, p. 17-23 and 41-55, and Robert Bistolfi, *Structure économique et indépendance monétaire. L'expérience monétaire de la Tunisie et ses enseignements*, Paris 1967, p. 107-160. For both countries, as also for Morocco: G. Dell'Amore, ed., *Banking Systems in Africa*, Milan, Cassa di Risparmio delle Provincie Lombarde, The Credit Markets of Africa No. 1, 1971.

The first Algerian bank to have the issuing privilege, which previously belonged to the Bank of France, was the *Banque de l'Algérie*, set up at Algiers on 4 August 1851. Its issuing privilege was initially granted for twenty years, subsequently renewed on several occasions, and on 7 May 1904 extended to the Regency of Tunisia, whereupon the bank changed its name to *Banque de l'Algérie et de la Tunisie*. The bank nationalization measures of May 1946 gave the issuing bank the additional function of acting as the bankers' banker, and endowed it with powers of credit control. At the same time, the distribution of the bank's equity was changed, France taking half the shares and the remaining half being divided between Algeria (two thirds) and Tunisia (one third). On 19 September 1958 the bank lost its issuing privilege in Tunisia, when that country set up its own central bank. Having reverted to its former name *Banque de l'Algérie*, it carried on until 31 December 1962, when, proclaiming its independence, Algeria set up a central bank of its own under the name of *Banque Centrale d'Algérie*. The country's new currency, the dinar, had no connection with the French franc ¹.

Tunisia, on the other hand, which proclaimed its independence in 1956, continued to apply the franc zone rules for another two years thereafter, under the terms of its 1955 Convention with France. This Convention, as Mottura puts it, essentially "aimed at perpetuating and consolidating the situation of French predominance as it was during the Protectorate" ².

¹ During the colonial period Algeria, like all other French territories, had been subject to the monetary rules of the franc zone.

² Paolo Mottura, *ibid.*, p. 21. It is worth recalling the salient rules on monetary relations contained in this Convention, since they epitomize the principles of the franc zone at the time (*ibid.*, p. 19-20):

(a) the issuing bank was to be the *Banque de l'Algérie et de la Tunisie* (BAT);

It soon proved to be at variance with the new, independent policy of the Tunisian government, which therefore, like Morocco, gradually disengaged from the franc zone. The *Banque Centrale de la Tunisie* was set up on 19 September 1958, and soon afterwards Tunisia, like Morocco, kept the parity of the dinar unaltered against other currencies instead of allowing it to devalue with the French franc on 28 December 1958; on 13 January 1959, strict controls were introduced on financial transfers to the countries of the franc zone. Eventually, on 5 September 1959, a new agreement with France gave Tunisia more independence in the management of its own foreign exchange reserves.

To sum up, France created in its territories a highly centralized and strictly regulated monetary system, as well as colonial issuing institutes of much less limited scope than the British currency boards (to be discussed presently), but nevertheless controlled from above with a view to safeguarding the interests of the franc zone and of France more especially. The end result is set out in Table 4.

- (b) the Tunisian franc and the French franc were to be linked by a fixed rate of exchange;
- (c) the movement of funds between France and Tunisia was to be free;
- (d) the monetary authorities of the franc zone were to retain control over the money issue in Tunisia, even if subsequently a Tunisian issuing bank were to be set up;
- (e) credit control in Tunisia was to be incumbent upon the BAT;
- (f) the highest authority in matters of monetary policy throughout the whole franc zone was the *Comité Monétaire de la Zone Franc*, but a Tunisian representative was henceforth to sit on it;
- (g) Tunisia was to adhere strictly to the current exchange control regulations of France, with supervisory powers vested in the *Office des Changes de la Zone Franc*;
- (h) the management of Tunisia's currency reserves was to be entrusted to the *Fonds de Stabilisation des Changes de la Zone Franc*.

TABLE 4
MONETARY STATUS OF THE FORMER FRENCH TERRITORIES IN AFRICA

Country	Central Bank	Foundation year	Currency	Present monetary status
Dahomey	BCEAO (<i>Banque Centrale des Etats de l'Afrique Occidentale</i>)	1962	CFA franc	Members of the franc zone strictly speaking (withdrawal of Mauritania in November 1972 and of Madagascar in May 1973)
Ivory Coast				
Mauritania				
Niger				
Senegal				
Togo	BEAC (<i>Banque des Etats de l'Afrique Centrale</i>)	1960	CFA franc	
Upper Volta				
Central African Republic				
Chad				
Congo				
Gabon	<i>Institut d'Emission Malgache</i>	1964	Malagasy franc	
Cameroon				
Madagascar	<i>Banque Centrale du Mali</i>	1962	Mali franc	Negotiations under way for re-entry into the UMOA and the franc zone
Mali				Independent
Guinea	<i>Banque Centrale de la République de Guinée</i>	1960	Guinea franc	Independent, but special conventions with France
Morocco	<i>Banque du Maroc</i>	1959	Dirham	
Algeria	<i>Banque Centrale d'Algérie</i>	1963	Dinar	
Tunisia	<i>Banque Centrale de Tunisie</i>	1958	Dinar	

1.2 TERRITORIES FORMERLY BELONGING TO THE STERLING AREA ¹

The British Empire was much less homogeneous than the French, and this was reflected in its monetary arrangements. Within it there were (as there still are in the Commonwealth) colonies strictly speaking, to be distinguished from other territories, some of them politically independent but all linked to the United Kingdom by strong cultural, economic and financial ties.

The Commonwealth and the sterling area are by no means the same thing ². While nearly all the members of the Commonwealth belong to the sterling area (though Canada, for example, gravitates towards the dollar), it is perfectly possible to belong to the latter only, but not to the Commonwealth (e.g. South Africa since 1961, following objections by other African members).

It will be useful, therefore, to outline the characteristics of the sterling area, and then to group African countries (under their present name) according to their position in it and, hence, their monetary background.

Former colonial territories	Gambia	Tanzania	Formerly in Currency Board areas
	Sierra Leone	Malawi	
	Ghana	Zambia	
	Nigeria	Rhodesia	
	Kenya	Mauritius	
	Uganda		

¹ Some of them still belong to the sterling area. See Chapter VII.

² The Commonwealth is in fact not at all easy to define. As G. Scimone puts it (*Profili economici dei paesi del Commonwealth*, Milan, 1966, p. 3), it is "a free association of sovereign states, with equal rights and duties, leaving aside their political and economic influence, linked together by ties of various nature and the end result of a slow and progressive transformation begun a century or more ago."

Territories linked with the sterling area	South Africa (Lesotho Botswana Swaziland)	} Now forming the rand area, a sub-division of the sterling area
	Libya Egypt Sudan	
		} Part of the sterling area at various times and in various measure

While in practice the sterling area did not perhaps differ so very much from the well-defined franc zone, it was built on entirely different principles in that it was a typical product of British empiricism¹. Its informal beginnings go back to the first half of the nineteenth century, when British trade flourished at the four corners of the earth. Sterling, the currency of this trade, gradually became the most widely used means of exchange and measure of value. While this was a natural enough process in the wake of the expansion of British power, there was also a deliberate element in it, in so far as the British government wanted as uniform as possible a monetary system and established an automatic link between sterling and local currencies under its control.

The sterling area had its origin in political and economic connections, and then gained strength through financial ones. Its members covered their financial requirements on the London market, the undisputed financial centre for all of them, and on the other hand banking services throughout the empire were predominantly

¹ The literature on the sterling area is voluminous. See e.g., Philip W. Bell, *The Sterling Area in the Postwar World: Internal Mechanism and Cohesion, 1946-1952*, OUP, 1956; M. Polk, *Sterling: Its Meaning in World Finance*, New York 1956; Paul Barea, "The Sterling Area", in: R.S. Sayers, ed., *Banking in the British Commonwealth*, OUP, 1952, p. 461-475; H.A. Shannon, "Evolution of the Colonial Sterling Exchange Standard", and "The Modern Colonial Sterling Exchange Standard", *IMF Staff Papers*, April 1951 and April 1952.

in the hands of British banks, which naturally enough helped to spread the use of their own currency¹.

The sterling area — or, as it was then called, the sterling bloc — did not really become recognizable as such until Britain left the gold standard in 1931, and the other members of the sterling group had to decide whether to follow suit or to fix new parities for their currencies (most of them, incidentally, did the former). But even then, and right up to the second world war, the sterling area was undefined — a heterogeneous group of territories (including colonies and dependencies as well as independent states) which, at their own more or less free discretion and with varying degrees of enthusiasm, followed three practices: they maintained a fixed exchange rate of their currencies to sterling; they kept their balances in sterling; and they adhered to a common policy of exchange control².

The outbreak of the war in 1939 represented a turning point for the sterling area and its internal equilibrium. The introduction of exchange control made it necessary, for the first time, to define

¹ This all happened without any special legislation or regulations. As Paul Bureau, *op. cit.*, p. 464, explains: "It is in the light of all these considerations that an explanation will be found of the gradual emergence over the second half of the nineteenth and the first two decades of the twentieth centuries of a group of countries which came to use sterling both as a basis of their trade and the anchor for their currencies. It was never a perceptible grouping because it was merged in the wider system of the international gold standard, the working of which was so largely dominated from London."

² To quote Bureau again (*ibid.*, p. 465): "There was within this group no formality, no recognition of set rules and regulations, no commitment to take advice from London and certainly no pretensions on the part of London to rule the affairs of the other members except in so far as the various Colonial territories and dependencies had their monetary policies formulated for them in the appropriate government departments. The countries in question could leave or enter the system without consultation with London." Nothing could testify more clearly to the basic difference of principle between the sterling area and the franc zone.

just what countries belonged to the area. They were, initially, the United Kingdom itself, all the dominions except Canada, and all colonies, dependencies and mandates except Hong Kong, and in addition Egypt, the Anglo-Egyptian Sudan and Iraq¹. But the most important change, from the point of view of Britain itself and its power and role as the world's banker, was the transition from an era when Britain financed the whole sterling area to one when, on the contrary, its members accumulated huge sums in London, which became known as the "sterling balances". This, together with the new political climate which led to the decline and dissolution of the British Empire and hence weakened the stability and trustworthiness of its currency, is the key to an understanding of the sterling area's more recent fortunes².

The colonies were most tightly attached to the sterling area³

¹ Later the list changed on several occasions, with countries joining or leaving. Since the Exchange Control Act of 1947 the sterling area is officially called "scheduled territories", but in common usage the term has stuck.

² See Chapter Seven below. Without anticipating what will be said there, we can certainly agree with Kamarck (*op. cit.*, p. 89), when he says: "there has been a progressive loosening of ties in the sterling area."

³ With reference to the postwar period, W.T. Newlyn explains: "The colonies are a special group within the wider sterling area of which they form part. Not only is their rate of exchange normally fixed to sterling, but it cannot be altered at their own discretion; not only is their currency normally backed by sterling but it must be so backed by their basic currency law; not only do the banks normally hold sterling balances, but this is the only way in which they could operate profitably; not only does the sterling exchange control 'ring fence' embrace both the colonies and the United Kingdom, but the administration thereof is under the ultimate supervision of the United Kingdom Treasury; furthermore, the United Kingdom Government represents the colonies at the International Monetary Fund, where it has a common quota with the colonies. For all these reasons the colonies can be described as belonging to an 'inner circle' of the sterling area whose relations with London are more intimate and more rigid than those of the 'outer circle'." (W.T. Newlyn, "The Colonial Empire", in: R.S. Sayers, ed., *Banking in the British Commonwealth*, OUP, 1952, p. 456).

and also subject to the most direct control, via the currency boards¹. British possessions in Africa, apart from Mauritius and a few minor dependencies, were divided into three groups: in the west, Gambia, Sierra Leone, the Gold Coast (now Ghana) and Nigeria belonged to the monetary system of the West African Currency Board; in the east, the East African Currency Board was responsible for the monetary affairs of Kenya, Uganda, Tanganyika and Zanzibar (the two latter now combined in Tanzania), and in Central Africa, Southern Rhodesia (the present Rhodesia) and Nyasaland (Malawi) fell within the competence of the Southern Rhodesian Currency Board, later (in 1954) renamed Central African Currency Board.

These three currency boards were set up, respectively, in 1913, 1919 and 1938. Barring minor differences, they all worked in the same way, which may be described as automatic and passive, since all they did was to exchange sterling against the currencies they issued, and *vice versa*, at a fixed rate of exchange (plus a small commission). Hence changes in the volume of notes in circulation, their creation and destruction, was entirely governed by balance-of-payments changes; for the rest, the currency boards had little in common with a modern central bank, since they had no power to

¹ Among the voluminous specialized literature on the British currency boards, the following are useful references: W.T. Newlyn and D.C. Rowan, *Money and Banking in British Colonial Africa*, OUP, 1954, p. 25-71; W.F. Crick, ed., *Commonwealth Banking Systems*, OUP, 1965, p. 335-342 and 357-407; D.C. Rowan, "Le banche centrali nel Commonwealth britannico", *Moneta e Credito*, 1953, No. 3, p. 283-299; Arnaldo Mauri, "La genesi della banca centrale nel Kenia, in Tanzania e in Uganda", *Il Risparmio*, January 1970, p. 32-65; Joachim W. Kratz, "The East African Currency Board", *IMF Staff Papers*, July 1966, p. 229-255; R.A. Sowelem, *Towards Financial Independence in a Developing Economy: An Analysis of the Monetary Experience of the Federation of Rhodesia and Nyasaland, 1952-63*, London 1967, p. 24-50; Lorenzo Frediani, *op. cit.*, p. xvi-xxiv; S.K. Basu, *La banca centrale nei paesi in via di sviluppo*, Milan 1971, p. 61-78.

grant credit in their territories. Their primary purpose was to guarantee convertibility between their local currencies and the British one, within what was called the sterling exchange standard¹. Sterling receipts, against which they issued a corresponding amount of local currency, had to be invested in public securities of any part of the British dominions or in other specified and approved securities. This requirement has rightly been criticized as meaning, in effect, an export of capital in the form of credits to the United Kingdom; and it was for this reason that after the second world war some flexibility was introduced into the system by relaxing the rules of sterling coverage and allowing the currency boards to issue a certain proportion of currency against local government securities. Furthermore, the rigidity of the issuing mechanism, while forestalling inflation, also held back economic development in the territories concerned, since it took no account whatever of their monetary needs. It is true that bank money was not subject to the same limitations, but in the first place its use was not at all common, and secondly most of the local banks were branches of London banks and as such primarily interested in short-term credits to foreign companies².

Before the territories concerned became independent and proceeded to set up their own central banks, they had obtained certain concessions from Britain in the sense that the currency boards were given wider functions and empowered to concern themselves to some extent with local problems. The first new

¹ As Newlyn explains: "Under this system the local currency operates exactly as if it were, in fact, United Kingdom notes and coin, and it will be convenient to speak of this process of issuing local currency against deposits of sterling as 'importing currency', and of the reverse process as 'exporting currency'; these operations being precisely equivalent to a physical migration of sterling." (W.T. Newlyn, "The Colonial Empire", *op. cit.*, p. 423).

² See Hla Myint, *op. cit.*, p. 78.

central bank to be founded was that of Ghana, in 1957, and the last that of Gambia, in 1971. With the creation of separate monetary institutions the ten countries previously belonging to any of the currency board systems clearly meant to affirm the end of their colonial dependence. But unlike the majority of the former French territories south of the Sahara, nearly all of which are now members of a new franc zone, the British territories concerned did not become part of any unified currency area — leaving aside the somewhat tenuous links between the three countries of former British East Africa (Kenya, Tanzania and Uganda)¹.

In this, it is easy to detect once more the divergent philosophies of the European colonial powers. France, true to its traditions, did its best to perpetuate as much cohesion as possible between itself and its former colonies, institutionally as otherwise²; the United Kingdom, by contrast, withdrew almost entirely so far as administration is concerned, resting content with the informal survival of commercial and financial relations and allowing even monetary ties to relax. As will be seen, the recent sterling crises have added yet more uncertainty to the definition of the sterling area.

Mauritius can look back on much the same monetary history. A British colony since 1810, the island became an independent member of the Commonwealth on 12 March 1968. It has a singularly well-developed banking system; its currency was the Indian rupee until 1934, at which time it was replaced by a new rupee with a fixed sterling parity and issued in accordance with

¹ See Chapter VII below.

² So much so that, to give only one example, commercial and, more generally speaking, economic penetration by other industrial countries encounters far more obstacles in the French-speaking countries than in the English-speaking countries of Africa.

the same standards as governed currency board issues¹. The independent Bank of Mauritius opened its doors for business on 1 July 1967.

Turning now from former British possessions to other African countries which at various times and in some manner formed part of the sterling area, mention must be made first of the Republic of South Africa. It is true that its monetary affairs are only of marginal interest for the purposes of this study, but its central bank does, after all, act as issuing bank for the three countries of Lesotho, Botswana and Swaziland. Needless to say, South Africa has the continent's most developed financial and banking system; it is also the first Commonwealth country not only in Africa, but anywhere in the world (except the United Kingdom itself) to have set up a central bank of its own. Sterling was the currency there since 1825 and several commercial banks had the right to issue it against 100 per cent gold cover; independence came in 1910, and ten years later the then Union of South Africa promulgated the South African Currency and Banking Act, by which it established a central bank named South African Reserve Bank². This followed to some extent the American model; it began issuing the first South African pounds in 1922, and thereafter kept their value equal to that of British pounds. In 1961 South Africa adopted a new currency, the rand; it still belongs to the sterling area, but no longer to the Commonwealth.

At the other end of the African continent, in the far north-east, Libya, Egypt and the Sudan were at some time or other somehow connected with the sterling area.

¹ See W.F. Crick, *op. cit.*, p. 500-1.

² See A.C.L. Day, "The South African Reserve Bank", in: R.S. Sayers, ed., *Banking in the British Commonwealth*, *op. cit.*, p. 372-400.

In Libya¹, the official currency was the Italian lira in the days of Italian domination in the thirties. From 1943 until the accession to independence in December 1951, the country was divided into three, Tripolitania and Cyrenaica being ruled by the British, and the Fezzan by the French. Each had a different currency² until, following a study by two IMF experts³ and a series of meetings between Libyan, Italian, French and British representatives, monetary unification was achieved in March 1952 with the adoption of a new currency, the Libyan pound, equal in value to the British pound. Libya thus had an independent currency, and it was neither part of the Commonwealth nor had any special ties with the United Kingdom; yet it officially joined the sterling area. A few years later it established a central bank, the National Bank of Libya, to replace the Currency Commission which until then had issued the new currency. In 1963 this bank changed its name to Bank of Libya and was reorganized with a view to the complete separation of issuing bank and commercial bank functions.

Neighbouring Egypt has a less tortuous monetary history. It started in 1898 with the foundation at Cairo of the National Bank of Egypt, a commercial bank with the exclusive right of issuing the

¹ *Bank of Libya: A Brief History of its First Decade 1956-1966*, Tripoli 1967, p. 10-20, and G. Dell'Amore ed., *Banking Systems in Africa, op. cit.*, p. 113-115.

² The monetary situation was nothing short of chaotic, as described in *Bank of Libya (ibid., p. 10)*: "While in Cyrenaica the Italian lira was replaced by the Egyptian pound, in Tripolitania the British Military Administration issued a special currency, the so-called Military Authority pound, and later replaced it by the Military Authority lira in place of the Italian currency. In the Fezzan the French Military Authority used the old Algerian franc which was issued by the old *Banque d'Algérie*. Barclays Bank was authorized to be the bank of issue for the Egyptian pound in Cyrenaica and for the British Military currency in Tripolitania."

³ G.A. Blowers and A.N. McLeod, "Currency Unification in Libya", *IMF Staff Papers*, November 1952.

local currency. Egypt remained in the sterling area until 1947, and until then all issues had to be covered to the extent of at least 50 per cent by gold or sterling¹. Later, between 1948 and 1951, a number of proposals for monetary reform were put forward, which eventually led to the Central Bank Act of 1951. This act formally attributed to the National Bank of Egypt the powers of a central bank. Further reforms led in 1961 to the nationalization of the banking system, and to the division of the above-named bank into two, the Central Bank of Egypt and the National Bank of Egypt, which henceforth was purely a commercial bank.

In the Sudan, finally, an Anglo-Egyptian Condominium until its independence in 1956, monetary matters were until then linked to those of Egypt. In the interim period preceding the creation of the country's own central bank, the Bank of Sudan, in 1959, a Currency Board issued the new Sudanese pound, covered half by irredeemable Treasury bonds and half by sterling. Issues were made through the Khartoum branch of the National Bank of Egypt, which, together with the Currency Board, was taken over by the Bank of Sudan as soon as the latter was set up.

To recapitulate, as for the former French territories, the present monetary status of African territories formerly belonging to the sterling area is set out in Table 5.

So much for the former French and British possessions in Africa. It remains to discuss some smaller groups and separate countries, which either were ruled by other European colonial

¹ See, for general background, G. Kardouche, *The U.A.R. in Development*, New York 1966, p. 22-24 and 43-45, and José C. Sanchiz, "Money and Banking in the United Arab Republic", *IMF Staff Papers*, July 1965, p. 314-316. For Egypt's withdrawal from the sterling area, see E. Bianchi, "L'uscita dell'Egitto dal blocco della sterlina e sue ripercussioni nel campo economico egiziano", *Economia Internazionale*, May 1948, p. 506-550.

TABLE 5

MONETARY STATUS OF AFRICAN TERRITORIES FORMERLY BELONGING TO THE STERLING AREA

Country	Central Bank	Foundation year	Currency	Present monetary status ¹
Gambia	Central Bank of the Gambia	1971	Dalasi	Sterling area
Sierra Leone	Bank of Sierra Leone	1964	Leone	Sterling area
Ghana	Bank of Ghana	1957	Cedi	Sterling area
Nigeria	Central Bank of Nigeria	1958	Naira	Sterling area
Kenya	Central Bank of Kenya	1966	Shilling	Sterling area
Tanzania	Bank of Tanzania	1966	Shilling	Sterling area
Uganda	Bank of Uganda	1966	Shilling	Sterling area
Malawi	Reserve Bank of Malawi	1964	Kwacha	Sterling area
Zambia	Bank of Zambia	1964	Kwacha	Sterling area
Rhodesia	Reserve Bank of Rhodesia	1964	Rhodesian dollar	Independent
Mauritius	Bank of Mauritius	1967	Rupee	Sterling area
South Africa	South African Reserve Bank	1920	Rand	Rand area
Lesotho	—	—	Rand	Rand area
Botswana	—	—	Rand	Rand area
Swaziland	—	—	Rand	Rand area
Libya	Bank of Libya	1956	Dinar	Independent
Egypt	Central Bank of Egypt	1961	Egyptian pound	Independent
Sudan	Bank of Sudan	1959	Sudanese pound	Independent

¹ Situation prior to the floating of sterling (June 1972).

powers, or by none, like Liberia and Ethiopia. Alongside the former possessions of Belgium (Zaire, Rwanda and Burundi), Spain (Equatorial Guinea) and Italy (Somalia), we shall briefly mention also Portuguese Africa now on the threshold of independence.

1.3 FORMER BELGIAN TERRITORIES

Of the two former Belgian territories in Africa, one — the Belgian Congo, later independent Congo Kinshasa and more recently

renamed Zaire — was enormously larger and more important than the other — Ruanda-Urundi, subsequently split up into the two independent states of Rwanda and Burundi.

The original *Banque du Congo Belge*, a private bank, was deprived of the issuing privilege in 1952, when Belgium set up a monetary union of its two African territories, and vested the exclusive right of currency issue with the *Banque Centrale du Congo Belge et du Ruanda Urundi*. In colonial days, monetary relations between Belgium and its African possessions were nothing like as closely regulated as the franc zone, but shared something of the more flexible and undefined character of the sterling area, but without the latter's currency boards¹. The Congolese franc, it is true, had a fixed exchange rate with the Belgian franc, but the territories had financial autonomy to the extent of separate reserve management and independent exchange control. The central bank could well have acted as the banker's banker, and the only reason why it did not do so was that the local banks always had plenty of liquidity.

After the Congo became independent the common issuing bank of the monetary union was split into two, the *Banque Nationale du Congo* and the *Banque d'émission du Ruanda et du Burundi*; in its turn, the latter was divided upon the dissolution of the monetary union between the remaining two states on 18 May 1964, since when Rwanda has had the *Banque Nationale du Ruanda*, and Burundi the *Banque du Royaume du Burundi*, subsequently renamed *Banque de la République du Burundi*, in line with the change in the country's political status.

¹ See Fernand Bézy, *Problèmes structurels de l'économie congolaise*, Louvain 1957, p. 42-46.

In Zaire, then still called Congo Kinshasa, a monetary reform in February 1967 led to the replacement of the Belgian franc by a new, independent and non-convertible currency unit, the zaire. A strange interlude occurred during the dramatic upheavals and fighting in the early sixties, when the secessionist province of Katanga set up a short-lived central bank of its own, the *Banque Nationale du Katanga*; this closed its doors again in February 1963, upon political re-unification¹.

1.4 FORMER SPANISH TERRITORIES

Spain never had much of a foothold in Africa. Apart from the present dependency of Spanish Sahara and other small enclaves along the northern coast of Morocco, all of which use the peseta as a currency, there was only one territory which has since become independent, namely Equatorial Guinea. A sovereign state since 11 October 1968, Equatorial Guinea is quite small, and consists of the mainland area of Rio Muni and the island of Fernando Po, together with three small groups of islands. Spanish money was in circulation until 1969, when the newly-founded *Banco Central de la República de Guinea Ecuatorial* began issuing the Guinea peseta². With a view to providing initial coverage for the new currency, the Spanish Government undertook to guarantee full convertibility for the Bank of Spain pesetas withdrawn from circulation, at par with the Guinea peseta. The latter's exchange rate with other currencies, on the other hand, is established on the Madrid exchange market.

¹ See IMF, *Surveys of African Economies*, Vol. IV, Washington D.C. 1971, p. 15.

² See BCEAO, "Les Institutions monétaires de la République de Guinée Equatoriale", *Note d'information et statistiques*, July 1971, p. 1-3.

1.5 FORMER ITALIAN TERRITORIES

Libya, for decades an Italian colony, started to gravitate towards the sterling area at the end of the second world war, and stayed in it for a good many years¹. In Ethiopia, Italian domination was so short-lived as to leave no traces. Only Somalia maintained contacts with Italy until the day of its independence, on 1 July 1960. Present-day Somalia is the result of the union of the former British Somaliland Protectorate, whose currency was the Indian rupee until the second world war and which later used the East African Currency Board's shilling, and of Italian Somalia, where the British occupation authorities in 1941 replaced the Bank of Italy's lire notes by the same East African shillings. Unlike the British, the French and the Belgians, who in their overseas possessions used local currencies, even though these were closely tied to the metropolitan ones, the Spaniards and Italians introduced their own national currencies into their colonies. But the difference was one of form only; in all cases the crucial fact remained that money was issued and withdrawn solely in counterpart of changes in the balance of payments of the territories concerned.

During ten years of Italian trusteeship administration prior to independence, from 1950 to 1960, the ground was prepared for bequeathing to the new state a well organized monetary system, independent both of Italy and of Great Britain. The local currency, the somalo, was issued by the *Cassa per la Circolazione Monetaria in Somalia*, a mere issuing institute without any of the attributes of a modern central bank. However, its functions were gradually broadened so as to pave the way for the creation, on 1 July 1960,

¹ Consequently, it seemed right to include it in section 1.2 above, with other sterling area territories, rather than here.

of Somalia's own central bank, the *Banca Nazionale Somala*¹. With a view to monetary unification, the Somali shilling was introduced in 1961, to replace the somalo of the south and the East African shilling of former British Somaliland.

1.6 PORTUGUESE AND FORMER PORTUGUESE TERRITORIES

Portuguese Africa is at present, in the late autumn of 1974, on the threshold of independence, but all that can be said of its monetary affairs still belongs to the colonial era². Between them, Angola, Mozambique, Guinea Bissau, the Cape Verde Island, Sao Tomé and Príncipe have some 13 million inhabitants. As overseas provinces of Portugal, all these territories use the Portuguese currency, the escudo, which is issued for Angola by the *Banco de Angola* and for the other provinces by the *Banco Nacional Ultramarino*. Curiously enough, however, exchange control in practice keeps the position of each province quite distinct from the others.

Exchange control works through four organs:

(a) the *Junta Provincial de Câmbio*, which authorizes and co-ordinates all official foreign exchange transactions;

(b) the *Fundo Cambial*, which pools all the provinces' foreign exchange assets, and consists of

(i) a reserve fund of provincial escudo balances deposited with the Portuguese central Bank, and

¹ For more detail, see A. Graziosi, "La banca centrale della Somalia", *Il Risparmio*, November 1967, p. 1996-98, and M. Buonomo, "Lo scellino somalo: una moneta stabile", *Bancaria*, April 1965, p. 428-33.

² See D. Abshire and M. Samuels, eds., *Portuguese Africa*, London 1969, p. 230-33.

- (ii) working balances in foreign exchange kept by commercial banks in the provinces, subject to a ceiling fixed by the *Junta*;

(c) the *Fundo de Compensação*, which is managed by the Portuguese central bank and acts as a monthly clearing house for inter-provincial payments, which are credited and debited in escudos to the escudo reserve fund;

(d) the *Fundo monetário da Zona do Escudo*, whose responsibility it is to stabilize the exchange position of each province with the others and with Portugal. It can be drawn on by provinces in deficit once a month for balancing their position in the reserve fund.

The important point to remember is the difference between escudo transactions, which go through the reserve fund and the clearing fund, and foreign exchange transactions settled by means of the commercial banks' working balances. Given that the overall trade balance of the territories, especially of Angola, with the rest of the world (excluding Portugal) is regularly in surplus, the system implies that they always have net foreign exchange assets; these accrue to the foreign exchange working balances up to the maximum permissible, and the rest goes to the reserve fund — which means in effect that foreign exchange is sold to Portugal against a credit balance in escudos¹. The result is that, while foreign companies in Portuguese Africa quickly get foreign exchange

¹ Whatever happens, in Portuguese Africa as elsewhere in the past, colonial monetary systems always work to the benefit of the colonial power, via the transfer of foreign exchange surpluses and their centralized management at home.

There is not much point, at this stage, in discussing why colonial possessions had such big trade surpluses; as will be seen in Chapter Seven, on relations with the rest of the world, this was due to certain structural trends in world trade and, in many cases, is no longer so today.

for repatriating their profits¹, importers from Portugal and all others who have escudo payments to make abroad, most often do not get the *Junta's* authorization for two or three months, or more, depending on the state of the reserve fund.

1.7 COUNTRIES WITHOUT A COLONIAL PAST

Two of the African states have no colonial past; they are Ethiopia and Liberia. Ethiopia's first issuing bank was the Bank of Abyssinia², set up in 1905 as a private company controlled by foreign interests. The accession of Haile Selassie to the throne in 1930 brought to this country, which had enjoyed political independence since time immemorial but also had been subject to foreign economic hegemony, a new period of national self-assertion. In the monetary field, this found expression in the establishment, in 1931, of the Bank of Ethiopia, a bank of issue whose capital was almost entirely provided by the state. But it was short-lived, for it came to an end with the Italian conquest in 1936 and the introduction, alongside some local money commodities, of the bank notes of the Bank of Italy³. But the Italian rule was short-lived, too, and under the subsequent British military administration, from 1941 to 1943, Ethiopia became part of the area of the East African Currency Board. There followed, in 1943, the foundation of the State Bank of Ethiopia with two separate departments, one acting

¹ This has greatly encouraged foreign investment in Portuguese Africa.

² An excellent and well-documented account of Ethiopia's monetary history will be found in Arnaldo Mauri, *Il mercato del credito in Etiopia*, Milan 1967.

³ Mauri (*op. cit.*, p. 131-248) describes monetary affairs during the Italian occupation in great detail, with special reference to the differences between Eritrea, which was under Italian rule for more than half a century, and Ethiopia, where it lasted only from 1936 to 1941.

as issuing and the other as commercial bank. Further specialization led, in 1963, to the division of the bank into two separate new ones, of which the National Bank of Ethiopia has since been the country's central bank.

Liberia's monetary history, finally, is unique¹. The country proclaimed its independence as long ago as 1847, at a time when freed negro slaves from America came to settle. This no doubt explains why the American dollar was always used as the local money, first by informal usage and, since 1943, as the official national currency. It was only when Liberia applied for membership in the International Monetary Fund that it was felt the country should have a currency of its own; accordingly, the Liberian dollar, equal in value to the US dollar, was adopted as a new currency, but in fact none were ever printed². In these circumstances, there appeared to be no need for a central bank; the commercial Bank of Monrovia handles the government's cash transactions, acts as its agent in obtaining supplies of US money and runs the local clearing house.

The monetary status of African countries with neither a French colonial nor a sterling area past is summarized in Table 6.

This brief survey of the genesis of central banks in Africa may usefully be concluded by a few statements which summarize the position, as follows.

(1) The dominant influences were those of British and French colonialism, both because of the mere size of the territories

¹ See Moeen A. Qureshi, Yoshio Mizoe and Francis d'A. Collings, "The Liberian Economy", *IMF Staff Papers*, July 1964, and R. Woheel, "Il sistema bancario liberiano", *Notiziario del centro per il credito agrario nei paesi in via di sviluppo*, Milan, Cassa di Risparmio delle Province Lombarde, July 1973.

² The Liberian Treasury does, however, mint coins of 1, 2, 5, 10, 25 and 50 cents, which circulate alongside American coins.

TABLE 6

MONETARY STATUS OF AFRICAN COUNTRIES WITH NEITHER A FRENCH COLONIAL NOR A STERLING AREA PAST

Country	Central Bank	Foundation year	Currency	Present monetary status
Zaire	<i>Banque du Zaïre</i>	1961	Zaire	Independent
Rwanda	<i>Banque Nationale du Ruanda</i>	1964	Rwanda franc	Independent
Burundi	<i>Banque de la République du Burundi</i>	1966	Burundi franc	Independent
Equatorial Guinea	<i>Banco Central de la República de Guinea Ecuatorial</i>	1969	Guinea peseta	Peseta area
Somalia	<i>Banca Nazionale Somala</i>	1960	Somali shilling	Independent
Ethiopia	National Bank of Ethiopia	1964	Ethiopian dollar	Independent
Liberia	—	—	US dollar	Dollar area

concerned and because of the sophistication of the monetary systems implanted in them, profoundly different as they were.

(2) However different their technical mechanism, all colonial monetary systems ultimately worked to the benefit of the colonial power. This explains why most African states, as soon as they obtained political independence, abolished the old systems and set up central banks of their own, at the same time introducing national currencies.

(3) Among the very few exceptions, Liberia felt that the general use of the American dollar made an issuing bank redundant¹, and in the three rand area countries Lesotho, Botswana and Swaziland, the lack of an independent central bank is indeed the most glaring symptom of their continuing economic domination

¹ Though recently it has seemed to be changing its mind and there are plans to set up a central bank after all.

by South Africa. There are separatist tendencies, too, in the compact franc zone, where some countries feel that the advantages of a common currency issue by multinational banks may well be outweighed by irksomely strict controls.

(4) While all other African countries have opted for more or less full monetary independence, their new central banks are modelled on those of their respective former colonial rulers, barring certain variants introduced most often on the advice of IMF experts.

(5) In foreign relations, the ex-colonial powers no longer occupy the monopoly position they had in the past; the ties have slackened (more in the English- than in the French-speaking countries) in the course of the natural process of growing diversification of commercial and financial flows. It is reasonable to expect that in the near, or at any rate not very distant, future nearly all African states will attach themselves to the two great monetary zones of the European Economic Community and the dollar, not to speak of growing relations with the East beyond the iron curtain.