

Chapter II.

STRUCTURAL ASPECTS OF AFRICAN CENTRAL BANKS

Africa now has thirty central banks (or 28, omitting those of Rhodesia and South Africa, which will not be discussed), of which two are multinational — the BCEAO and the BEAC, serving, respectively, the West African and the Central African monetary union. While their predecessors, the issuing institutes and currency boards, varied considerably as a result of the different philosophy of the colonial power, the present central banks have much in common as regards both their structure and functions. This chapter deals with the organization of central banks, the purposes and functions assigned to them, and the institutional context in which they operate.

2.1 LEGAL STATUS, CAPITAL, ORGANIZATION

In all cases, the basic conditions of central banking in our times¹ have been met. These are:

- (a) public control of the note issue;
- (b) concentration of issuing activities in one single institute;
- (c) public ownership.

¹ See Giordano Dell'Amore, *Le funzioni delle banche centrali*, Milan 1968, p. 6-20.

All African central banks are public corporations, whose capital is entirely state-owned but which have financial autonomy and their own juridical personality¹. This is a solemn affirmation of the government's supreme authority, just like elsewhere, in the world's more advanced nations.

Each central bank is headed by a Governor, or President, and by a Board of Directors, responsible for monetary and credit policy². At the executive level, there is a General Manager (or sometimes a Director General, or Deputy Governor), and the managers of the bank's separate departments. African authorities are very much aware of the problems of internal organization³ and of those of staff training, at managerial and other levels⁴.

¹ Apart from the statutes of individual central banks, see G. Dell'Amore, ed., *Banking Systems in Africa*, op. cit., passim, and S.K. Basu, *La banca centrale nei paesi in via di sviluppo*, op. cit., p. 79-89.

² "The composition of the Board of Directors is particularly significant in determining the extent to which the central bank can be, in a formal sense, independent of the government and hence able to resist inflationary pressures arising in the government sector." (C.V. Brown, "Effective Monetary Control in Developing Countries: The African Experience", *The Bankers' Magazine*, September 1968, p. 153). On central bank relations with the state, see section 5.1 below.

³ R. Kroc ("Management Strategy of a Central Bank in a Developing Country", IBRD-IMF *Finance and Development*, June 1972, p. 42-47) dwells at some length on the means of enhancing the efficiency of management in a central bank in a developing country. A manager, he suggests, should look for the following qualities in his collaborators: intelligence, intellectual curiosity, moral integrity, ability to communicate, decision, team spirit, and ability to teach, organize, guide and control. However, it is no doubt easier to list these suggestions than to put them into practice.

⁴ Paolo Mottura ("Personnel Training for African Banks: Principles and Organization", in: *The Mobilization of Savings in African Countries*, Milan, International Savings Bank Institute and Cassa di Risparmio delle Provincie Lombarde, 1972, p. 181-196) points out that the management of African banks in general (i.e. not only central banks) still suffers from the haste with which European personnel had to be replaced, as inevitably had to be done "since the continued presence of European bankers representing their respective parent banks

The two central banks which diverge from the general pattern are those which serve the French-speaking countries belonging to the West and Central (formerly Equatorial) African monetary unions.

The *Banque Centrale des Etats de l'Afrique Occidentale* (BCEAO) was established at the same time as the West African Monetary Union (*Union Monétaire Ouest Africaine* - UMOA)¹ by a treaty signed on 12 May 1962 by seven countries: Dahomey, Ivory Coast, Mali, Mauritania, Niger, Senegal and Upper Volta. Subsequently Mali declined to ratify the treaty and soon afterwards set up an independent central bank of its own. On the other hand, Togo joined the Union a year after its formation.

The union is governed by a Council, on which each participant state is represented by one member of ministerial rank, and which meets at least once a year to watch over compliance with the

would probably have retarded the adjustment of the banking system to the financial requirements of local development" (p. 186). He goes on to discuss alternative means of improving staff training: in-service training and instruction either at home or with a bank abroad. For different staff recruitment principles in various African countries, see also Erin E. Jucker-Fleetwood, "La politica monetaria e finanziaria di alcuni nuovi paesi africani", *Bancaria*, June 1961, p. 624-25.

Generally speaking, central banks have better trained personnel than other credit institutes, for a number of reasons, as A.F.W. Plumptre explains: "Central banks in all countries maintain a relatively high standard of performance; they have a good tradition. Older central banks lend officers to younger ones, and take officers from the young banks into their own operations for training purposes. From its inception, the International Monetary Fund has helped central banks in developing countries. It has assisted in the establishment of not a few, it has operated for many years a training programme for central bank officers, and in 1964, following the establishment of many new central banks in Africa, it set up a specialized Central Banking Service." ("The Role of Central Banks in Developing Countries", Reserve Bank of India, *Banking and Development*, 1970, p. 148).

¹ See BCEAO, *Union Monétaire Ouest Africaine*, Paris, June 1969, and Sergio Bortolani, *The Banking System of Niger*, Milan 1971, p. 26-30.

provisions of the treaty¹. One of them lays down that any state may withdraw, subject to 180 days' notice to the other member governments.

Under Article 4, all participant states undertake to comply with the provisions governing the money issue, the pooling of reserves and the free circulation of money tokens within the Union, though with respect to the latter exceptional restrictions may be introduced on condition that, in the council's view, they do not work to the detriment of other members. Special interest attaches to the rules designed to harmonize monetary and banking legislation. The seven member states agreed to introduce uniform regulations on counterfeit notes, on exchange control and the general system of exchange transactions, on the exercise of the banking profession and on the system of credit control and distribution.

The BCEAO, as the Monetary Union's central bank, has the legal status of an "international public institution", and, as such, enjoys in all member states the privileges and immunities normally extended to international financial organizations. Its capital of 2,800 million CFA francs is held in equal parts by all member states² and was originally provided by France in the form of a transfer from the old to the new issuing bank.

The highest authority of the Bank is the Board of Directors, of whose members two thirds are appointed by the participating states, each having a right to two Board members, and the remaining third by the French government. This arrangement sets the West

¹ The revisions of November 1973 will be discussed in Chapter Seven, in connection with the general reshaping of the franc zone in recent years.

² Although, in monetary terms, they are of unequal importance, with rather wide divergences. Of the Union's total fiduciary issue, almost half circulates in the Ivory Coast, while at the other extreme Dahomey and Niger each account for little more than 5 per cent of it.

African Central Bank apart from most other central banks. On the one hand, every decision which any one government wishes to take is subject to the most careful scrutiny on the part of the other members, and on the other hand, a foreign government has a voice in the Bank's management and, in more subtle but for all that no less effective ways, thus still exercises the control it used to in colonial days. For these two reasons it may be said that in the states of the Union the central bank, while closely collaborating with the respective governments in matters of monetary and credit policy, is not "subject" to any of them as often happens in other systems, especially when there is a difference of opinion between the central bank and the government.

In addition to the Board of Directors, which every two years elects the President of the Bank from among its own members, the Bank is managed by National Monetary Commissions and by a General Manager. Each of the National Monetary Commissions has five members, generally distinguished personalities from the economic and financial world, who meet at the Central Bank's branch headquarters in their own country and are responsible for decisions of current local interest. The General Manager's functions, among others, include that of appointing the branch managers, in agreement with the government concerned.

For the time being, the Bank has its central head office in Paris, but eventually this is to be established in one of the Union's member states, by their unanimous decision¹. In each member state there is a branch of the Central Bank and several agencies.

In Central Africa, five countries (Cameroon, the Central African Republic, Chad, Congo and Gabon) of former French

¹ In November 1974 it was decided that the Bank is to have its seat in Senegal.

Equatorial Africa are members of the Central African Customs and Economic Union (*Union Douanière et Economique de l'Afrique Centrale* - UDEAC) and share a joint central bank, the *Banque des Etats de l'Afrique Centrale* (BEAC)¹. This has so many features in common with the BCEAO described above that it will be best, here, to discuss merely the main points of difference. The BEAC was set up in 1960, but, unlike the BCEAO, not by a treaty of monetary union; rather, it rests on the provisions of co-operation agreements between France and the five countries concerned. The Bank has its seat in Paris, its capital is 250 million CFA francs, and, as in West Africa, National Monetary Commissions are responsible for questions of local interest. The chief difference, perhaps, is the composition of the Board of Directors. This had originally 16 members, but in 1965/66 their number was raised to 26, of whom 14 are French and 12 Africans — four from Cameroon and two each from the other four members². In the course of a determined effort of Africanization now under way, local personnel are being given increasing management responsibilities.

In English-speaking East Africa, the central banks of Kenya, Uganda and Tanzania co-operate under the terms of the Treaty for East African Co-operation. This is a rather loose system, involving harmonization of exchange control regulations, free convertibility

¹ See Lorenzo Frediani, *The Banking System of Gabon and the Central Bank of Equatorial Africa and Cameroon*, *The Credit Markets of Africa* No. 6, Milan 1974, p. 69-74.

² Frediani (*ibid.*, p. 73) rightly points out that their overwhelming numbers give the French Board members more complete control over monetary policies here than is — at least formally — the case in West Africa.

The statutes of the BEAC were revised in November 1972, like those of the BCEAO a year later, and will be discussed in Chapter VII.

among the three currencies at par and without any exchange commission, reciprocal credits in specified circumstances, and periodic meetings of the central bank governors¹. However, the recent political changes in Uganda and border disputes with Tanzania have caused much disruption in the Community as a whole, and the future of monetary integration is in doubt.

Finally, mention must be made of the Association of African Central Banks², which was founded at Accra on 13 August 1968 and comprises all the central banks of independent Africa, plus the Liberian Treasury. Its purposes are set out in Article two of the Articles of Association as follows:

(a) to promote co-operation in the monetary, banking and financial sphere in the African region;

(b) to assist in the formulation of guidelines along which agreements among African countries in the monetary and financial fields shall proceed;

(c) to help strengthen all efforts aimed at bringing about and maintaining monetary and financial stability in the African region;

(d) to examine the effectiveness of international economic and financial institutions in which African countries have an interest and suggest ways of possible improvement.

In furtherance of these broad aims, the Association arranges periodic meetings of central bank governors, promotes an exchange of ideas and information, facilitates the collection of data and statistics, undertakes research of joint interest, organizes seminars

¹ See IMF, *Surveys of African Economies*, Vol. II, Washington D.C. 1969, p. 27 and 43-44, and Clara Caselli, *The Banking System of Tanzania*, The Credit Markets of Africa No. 10, Milan 1975, p. 69.

² See Association of African Central Banks, *Articles of Association*, 1968.

and refresher courses, and furnishes technical assistance. All this, at least, the Association is supposed to do, but in these initial years of its existence it has not actually done very much of it. Nevertheless, it is encouraging that African central banks, which for the time being have rather closer links with the credit markets of their former colonial rulers than with each other, should have felt they needed such an association. Certainly the latter provides a natural forum for discussing matters likely to come up at the annual meetings of the International Monetary Fund, where, it will be recalled, sub-regional groups of African countries are represented jointly, so that common lines of action and voting intentions have to be agreed in advance.

2.2 STATUTORY AND INSTITUTIONAL PURPOSES ¹

Central bank statutes usually follow one of two main patterns: either they outline the bank's activities in broad terms, on the model of the Bank of England, or they specify them in detail ². In Africa, the second method is the universal rule. The dangers mentioned

¹ For the theoretical basis of this section, see Giordano Dell'Amore, *Le funzioni delle banche centrali*, *op. cit.*, p. 31-43.

² S.N. Sen (*Central Banking in Underdeveloped Money Markets*, Calcutta 1961, p. 9-10), comments: "Both methods have their advantages as well as dangers. The British method is suited only to a country whose people are in the habit of following traditions and precedents. It is not suitable to a new, inexperienced country. If everything is to be laid down in statutes, care should be taken to see that the law suits the country." And later (p. 272-73) he warns against the dangers of such a situation: "The authorities of the bank might be tempted to seek guidance more from the language of the statute than from their common sense, judgment and experience. This practice may also introduce some rigidity of thought and action in the operations of the central bank."

For details of the scope and functions of African central banks, see G. Dell'Amore, ed., *Banking Systems in Africa*, *op. cit.*, *passim*, and S.K. Basu, *op. cit.*, p. 91-106.

in the footnote seemed somewhat remote in the early years of African central banks, given their generously broad statutes and the help often provided in their drafting by IMF experts or by central banks in advanced countries.

The aims of central banks are variously expressed in their statutes, but in all cases their institutional purposes are those of every modern central bank, namely,

- (a) to safeguard monetary stability;
- (b) to promote economic development;
- (c) to mitigate cyclical fluctuations;
- (d) to achieve maximum employment of the labour force.

Unlike mature economies, where the main concern is to keep at bay the opposite evils of inflation and unemployment¹, the countries of Africa and of the Third World generally give priority to the aim of promoting economic development, because this alone can hasten the take-off into self-sustained growth and thus constitutes the pre-condition for the achievement of all other purposes of central banking. On this point all authors agree, though with varying emphasis².

¹ Opposite but not necessarily mutually exclusive, as many developed countries suffering from stagflation are now finding.

² Among many, we quote the following: Arnaldo Mauri, *Il mercato del credito nei paesi sottosviluppati*, Milan 1966, p. 36-37, who highlights the connection between maximization of the economic growth rate and selective credit controls; Edward Nevin, *Capital Funds in Underdeveloped Countries: The Role of Financial Institutions*, London 1963, p. 24, who points to the importance of encouraging long-term development in base industries; J.M. Letiche, *The Role of Monetary Institutions in the Economic Conditions and Objectives of African Economic Development*, Montreal 1971 (duplicated), p. 31, who dwells on the need for central banks to help economic diversification; A. Kral, "The Role of a Central Bank in a Developing Economy", Reserve Bank of India, *Banking and Development*, 1970, p. 157-160; C.D. Deshmukh, "Politica monetaria ed altri

Much has been said and written about the functions which ought to be assigned to central banks in developing economies, especially with reference to the traditional pattern of central banking in more advanced countries. Compared with the classical model, the statutes of African central banks rightly insist less on their role as lenders of last resort and controllers of credit¹, but they do not in all cases lay sufficient stress on the new important functions by which ultimately the usefulness and validity of central banking in developing countries must be judged. By way of example, the list below contains both traditional and new functions².

A central bank should:

- (a) provide the market with an adequate supply of money;
- (b) pool the country's foreign exchange reserves;
- (c) collaborate with the Treasury in the latter's financial policy;
- (d) supervise the banking system;
- (e) promote and mobilize domestic savings;
- (f) maintain equilibrium in the balance of payments and stability of exchange rates;
- (g) encourage the development of an efficient money and capital market;
- (h) encourage balanced growth of investment in different sectors of the economy;
- (i) diminish inter-regional social imbalances in the country;

strumenti di intervento in una economia in via di sviluppo", *Bancaria*, April 1966, p. 425-27; and J.B. Zulu, *Central Banking and its Role in the National Economy*, Lusaka, Bank of Zambia, 1970, p. 19-22.

¹ As representative of many others, see R.S. Sayers, *Central Banking in Underdeveloped Countries*, *op. cit.*

² See Giordano Dell'Amore, *op. cit.*, p. 37-38.

- (j) adapt the credit system to the economy's needs¹;
- (k) create and maintain a propitious climate for balanced growth².

What it all amounts to is that African central banks, operating, as they do, in a still rather backward economic and financial setting, must regard themselves as one of the mainsprings of economic development; this involves direct action in an initial phase (see section 2.3), and concomitant indirect action designed to create and strengthen a credit infrastructure (see section 2.4).

2.3 CENTRAL BANKS AS COMMERCIAL BANKERS

A central bank is called "pure" when it deals only with other banks, and "mixed" when it entertains direct relations also with the public, i.e. firms in production or tertiary activities. The latter practice has been completely abandoned in developed countries, but can still be found in the central banks of some developing ones. It is characteristic of a phase of transition through which some African central banks have been, or are, passing to fill the gaps which they know exist in the local credit market³.

¹ As Lorenzo Frediani points out (Foreword to S.K. Basu, *op. cit.*, p. xxxiv) this can be done by loosening the ties which link the branches or subsidiaries of foreign banks to their parent houses. While this must be done as an absolute priority, it need not involve the extreme measure of nationalization, which is apt to discourage foreign investment.

With reference to nationalization, P.L. Kamuzora ("Central Banking", in: National Bank of Commerce, *Bank Magazine*, Dar es Salaam 1970, p. 18) takes the view that the traditional functions of the Bank of Tanzania were actually reduced by the socialization of the banking system in February 1967.

² For Graeme S. Dorrance ("The Role of Central Banking in the Less Developed Countries", IBRD-IMF *Finance and Development*, December 1969) this is indeed the primary responsibility of a central bank.

³ As Christopher Egbede Enuenwosu, amongfi others, has pointed out ("Rôles et politique des banques centrales africaines dans le développement", in: Association des Banques Centrales Africaines, *Séminaire de Tunis*, 20 novembre -

Once these teething troubles are overcome, it is better for central banks to withdraw from commercial banking and to leave the field to others specialized in this type of business¹.

Among many others, the case of the central bank in Equatorial Guinea may serve as a good example. This is a young central bank, set up only in 1969. The country is small and before independence was served by two Spanish banks. On their appraisal of effective needs for banking services, the monetary authorities decided that one single bank would be enough and set up a central bank to act not only as issuing bank but also as deposit bank and development bank². This is perhaps the most outspoken example of mixed banking, but its end is foreshadowed in the transitional provisions of the law, which say that the legal and economic separation of monetary and banking functions is to take place when, in the government's judgment, the complexity and volume of operations make it necessary. At that stage two banks are to be set up, the Central Bank of the Republic of Equatorial Guinea, and the National Deposit and Development Bank. This, surely, is a

4 décembre 1972, p. 21), the reason why an African central bank may engage in ordinary banking business is that the behaviour of existing non-indigenous commercial banks did not always seem to serve national economic aims. He discusses the experience of mixed banks in Libya, Somalia and Mali until not long ago.

¹ See R.S. Sayers, *ibid.*, p. 118. That a central bank should lead the way in the development of commercial banking is certainly defensible, but perhaps Arcucci goes too far when he states flatly, and without mentioning any time limits, that "the direct exercise of commercial banking business by the central bank is indispensable." (Francesco Arcucci, *Banche commerciali e banche centrali nel finanziamento dello sviluppo*, Paper contributed to a Round Table on the Role of Commercial banks in Development Financing, Parma, May 1973, duplicated).

² See BCEAO, "Les Institutions monétaires de la République de Guinée Equatoriale", *op. cit.*, p. 4-11. The provision mentioned in the text is contained in Article 2 of the decree-law by which the central bank was established.

shining example of a mature approach and of lessons well learnt from the previous experience of other central banks in Africa.

2.4 THE STRUCTURE OF THE CREDIT MARKET

One of the important functions which African central banks have discharged since their inception and in most countries still fulfil, is to help endow the economic system with the credit institutions it needs.

In the great variety of situations to be found at present in Africa, it is an interesting exercise to classify credit systems according to their "degree of maturity", as Mauri suggests¹. He distinguishes three stages of development, each characterized by specific features added to those of the preceding stage. In the first, most primitive stage, efforts are made to spread the use of money and to hem in the area of subsistence economy and barter trade. In addition, a country needs "at least two credit and financial institutions with complementary functions: an issuing bank, discharging also the typical functions of commercial banks, of which there are none as yet, and a development bank, which for the time being takes the place of the non-existing capital market and makes up for the lack of entrepreneurial ventures."

Mauri's second stage is characterized by the existence of a central bank in the true sense of the word, with all the attributes assigned to it by modern theory; the emergence of commercial banks in public and private ownership; the specialization of the development bank in industrial finance; and the establishment of a special bank for agricultural credit. Some of the conditions for

¹ Arnaldo Mauri, *Il mercato del credito nei paesi sottosviluppati*, op. cit., p. 81-96. To some extent similar stages of monetary development are described by W.T. Newlyn, *Money in an African Context*, OUP, 1967, p. 1-16.

the emergence of an organized stock market are met at this stage, and it is up to the central bank to differentiate government securities and educate the public to invest in them.

At the third and final stage, the banking system fills remaining gaps and extends its geographical coverage. Specialization increases with the appearance of new credit institutes concerned with medium-term and mortgage credit, and other forms of sectoral finance. On the stock market, government securities are now flanked by company bonds and shares. Some pilot projects sponsored by the development bank can be transferred to private hands.

Looking at African conditions in the light of these distinctions, and due allowance made for a measure of subjective judgment, it seems legitimate to generalize as follows. Most countries are beyond the first phase, at least as regards the creation of the basic credit institutes, though much remains to be done in the matter of diminishing dualism on credit markets and spreading the use of money. Backward, "non-organized" credit markets still flourish in rural and remote areas, where credit in kind, moneylenders and usury rates due to imbalance between credit demand and supply are the rule.

Many of the African banking systems are at present in what Mauri calls the second stage. Alongside an issuing bank acting as a central bank in the broader sense, there is a more or less varied range of other financial intermediaries: commercial banks, development banks, specialized credit institutes. The adequacy of the credit system must of course be judged in relation to the degree of development of the economic system as a whole, and to the size, population and geographical position of the country, for it is only in the light of existing differences in this respect that unequal African credit markets can legitimately be assigned to the

second hypothetical stage of development. Barring occasional serious gaps in the functional range and deficient network coverage, it is surely right to say that the foundations of an independent credit system have been laid everywhere in Africa today, and that, at least structurally speaking, credit markets as they are cannot be regarded as an obstacle to economic development¹. This is tantamount to saying that the pace of development is faster in credit markets than elsewhere in the economy², often thanks to such factors as a banking tradition, the better organization and standardization of work, and the particular concern of public authorities. At this stage, therefore, the central bank, having hived off its department, or departments, dealing directly with the public, and having handed its ordinary banking business over to independent public institutes, should concentrate on consolidating the existing credit system and making it fit to work as it should in the overall context of the economy's needs.

Some countries — Morocco, Nigeria³, Tunisia, Ivory Coast, Egypt, Kenya, Mauritius and maybe one or two others — definitely

¹ This, for example, is the conclusion at which I arrived in my analysis of the banking system of Niger, a country handicapped by its unpropitious geographical situation and poor resource endowment, and hence certainly not to be counted among the most advanced in Africa: "Niger can count for its future economic development on a credit system which, far from holding it back, will be in a position to assist and promote it. In other words, banks and financial intermediaries will grow in number and will increasingly develop their services in response to changing demand, and thereby give the process of growth the support it must have and guarantee its future." (Sergio Bortolani, *The Banking System of Niger*, *op. cit.*, p. 26).

² See S. Ghosh, "Monetary Control in an Underdeveloped Economy", *Economia Internazionale*, November 1960, p. 605.

³ Much has been written about Nigeria's banking system. We quote, by way of representative example, C.V. Brown, *The Nigerian Banking System*, London 1966.

qualify for Mauri's third stage of development, given the number and size of banks and their degree of specialization. Most of these countries, too, already have a securities market big enough to have made it advisable to establish stock exchanges, even though these for the time being handle only a fairly modest volume of transactions ¹.

There is a wide range of different situations in Africa, too, from another point of view, namely, the attitude of the monetary authorities to control the bank capital, as part of the government's economic policy. At one extreme there is Liberia with an "open door" policy favouring the massive presence of foreign capital; at the other, complete nationalization of the banking system, as in Algeria, Libya, Egypt, Sudan, Guinea and Tanzania.

In these latter cases, full formal supervision certainly obliges the former foreign banks to invest their deposits locally, but efficiency is often stifled by red tape ². Compromise would surely be better, and compromise of some sort is in fact what most African countries have chosen. Some foreign banks, mostly commercial ones, have been allowed to survive, but they are fitted into the local banking system and controlled either under apposite legislation or, if this is not thought to be effective enough, by the public acquisition of part of the equity; on the other hand, new national credit institutes have been set up, sometimes commercial

¹ See Chapter Six below.

² With reference to Algeria, Bruno Rossignoli (*The Banking System of Algeria, op. cit.*, p. 36) writes: "In effect ... the banking system and the central bank are agents of the public administration, and consequently credit control is essentially of the administrative and selective type, and designed to make sure that bank credit accords with the planners' choices." The same can be said of the other countries which have nationalized their banking system. See, e.g., National Bank of Commerce (Tanzania), *NBC's Role in Tanzania's Socialist Construction*, Dar es Salaam 1971, p. 37).

banks but more often providing longer-term finance, making room, at a later stage, for the entry of private local capital.

From the point of view of geographical coverage, the universal drawback of having inherited a colonial banking network is undue concentration, indeed in some cases proliferation, of branches in the capital and other major towns, to the almost total neglect of rural areas. Post-independence national banks have made a start on extending their network to areas where business cannot, for the time being, be expected to be profitable, but much remains to be done. It can certainly not be said as yet that banking services and, what is more important, credit have been made accessible to all the individuals and firms whose activities deserve financial support. Only by persevering encouragement and incentives can governments hope gradually to diminish monetary dualism, to the benefit of the most backward sector¹.

Turning now to the types of financial institutes currently operating in Africa, pride of place belongs to commercial banks². In colonial days, they were overseas branches of some big bank

¹ In Professor Dell'Amore's view, "the greatest shortcoming of African commercial banks is their limited territorial coverage in rural areas." ("Banking Policy and Savings Policy in African Countries", in: *The Mobilization of Savings in African Countries*, *op. cit.*, p. 4). See also R.K. Talwar, "Problems of Expansion of Banking in Rural Areas", Reserve Bank of India, *Banking and Development*, 1970, p. 49-60.

² There is a wealth of literature on the subject. Some of it deals with the structure and functions of commercial banks in developing countries generally or in Africa as a whole, and there are also more specialized works on individual countries or on more or less homogeneous groups — like the English-speaking, the French-speaking, or the Maghreb countries. Some of the latter type have already been cited in Chapter One; among the most useful works of broader scope, reference may be made to Erin E. Jucker-Fleetwood, *Money and Finance in Africa*, London 1964, p. 128-140; Edward Nevin, *Capital Funds in Underdeveloped Countries*, *op. cit.*, p. 45-71; W.T. Newlyn, *Money in an African*

in the home country, and did much to drain away resources — one of the most harmful aspects of colonial exploitation¹. Nowadays, foreign deposit banks are as a rule incorporated locally and are no longer branches, but “associates” of their parent banks. They have African shareholders now (generally the central bank itself, or some other public corporation) and are subject to local discipline, but it is hard to tell just how much difference this has made. Now as in the past, these commercial banks largely concentrate on financing foreign trade and such other completely riskless lending as they can do at remunerative rates. This is true as a general rule of French no less than of British banks, and also of those whose capital is wholly or partly in the hands of financial groups in other European countries, in the United States or in India.

Among French commercial banks, there is one outstanding exception, the *Banque Internationale pour l'Afrique Occidentale* (BIAO). It outranks all other French banks in West Africa, in terms both of its rather extensive branch network and of the volume of business it actually transacts in and with French-speaking Africa: about 75 per cent of its total business falls under this heading, compared with only 1 to 2 per cent in the case of other French

Context, op. cit., p. 41-55; G.I. Williamson, *The Role and Practices of Commercial Banks and Other Institutions in Financing Development*, Cairo 1965, p. 1-24; Arnaldo Mauri, *Il mercato del credito nei paesi sottosviluppati, op. cit.*, p. 53-61.

¹ In the words of Nevin (*op. cit.*, p. 49-51), “The broad result of all these features of colonial banking — the integration of all branches of the bank into a single unit administered from head office, the concentration of credit on expatriate primary-producing or trading enterprises, the application of conventions and standards exported from the home country — was at least until quite recent years an inadequate rate of expansion of credit for new development in most dependent territories. ... Many colonies were therefore at one stage in the position of credit-exporting areas as a result of the peculiar organization and attitude of the commercial banking system.”

banks. There is yet another aspect, which has to do with the ownership of its capital, under which the BIAO¹ differs from its rivals, the three great nationalized banks *Société Générale*, *Banque Nationale de Paris* and *Crédit Lyonnais*. After the former French colonies became independent in 1960, these banks' branches were incorporated under local law, with a sizeable, and often majority, holding assumed by the government concerned and other foreign financial groups taking out small stakes. The BIAO alone, by contrast, retained its organization as a unitary concern under centralized management, working through its own extensive branch network.

In English-speaking Africa, two banks of long colonial tradition still operate in all those countries whose banking system has not been nationalized. They are Barclays Bank and the Standard Bank. Both are now subject to local law in all cases, and everywhere are among the leading banks in any one individual country. Their shortcomings are the same as in the past: undue concentration of branches in towns, and discrimination against Africans in lending policy². However, things do seem to be improving slowly; the banks are beginning to pay more attention to local enterprise, and are bound to do so even more in the future, as African governments gain enough authority to apply compulsion without fear of ill effects on international economic relations.

¹ The BIAO is a French *société anonyme*, 49 per cent of whose capital has since 1965 been in the hands of the First National City Bank of New York.

² W. Petch (*Economic Development and Modern West Africa*, London 1968, p. 86-87) defends the two banks, arguing, first, that they have recently expanded their branch network, and, secondly, that the small volume of their development credits (to agriculture and housing, in particular) is due to the chaotic state of land law in many African countries, which precludes real security.

The same reasons which led African countries to establish central banks of their own, caused many of them to set up also a large national commercial bank to handle all banking business on behalf of the state, public agencies and corporations, and a large part of the public too. The main idea is to fill the gaps left by foreign banks¹. The only major exception to the general practice of setting up a new national commercial bank is Nigeria, which since colonial days has had an indigenous banking system, the development of which was fostered by the Federation's regional governments². These so-called indigenous banks had a troubled history — in the immediate postwar years some twenty of them went bankrupt — but nevertheless they stand out as rare examples of African enterprise in banking.

African banking systems are among the most highly concentrated in the world³. This obviously has much to do with their present stage of development, but given their structure, which involves such large-scale public participation, it is hard to foresee any great increase in the number of banks for the near future. What is more likely to happen is that the existing commercial banks

¹ For Zambia, a country whose banking system is notoriously dominated by expatriate banks, see J.B. Zulu and N.A. Mujumdar, *The Case for a National Commercial Bank*, Lusaka, Bank of Zambia, 1970, p. 23-25.

² See C.V. Brown, *The Nigerian Banking System*, *op. cit.*, p. 54-76, and, for a discussion in more general terms, G.O. Nwankwo, "Traditional Banking in Developing Countries", *The Bankers' Magazine*, February 1973.

³ This is true even of one of the most open banking systems in Africa: "Although there are at present 14 commercial banks operating in Nigeria, the Nigerian banking industry is a highly concentrated oligopoly. The domination of the industry by a few large banks, while not precluding inter-bank competition, has greatly affected its nature and extent." (O. Teriba, "The 1967-69 Banking Amendments in Nigeria. An Appraisal of Financial Adaptation in an Underdeveloped War Economy", *The Nigerian Journal of Economic and Social Studies*, March 1969, p. 60.

will expand their business in absolute terms, but will lose ground in relative terms to other financial intermediaries, as specialization proceeds and there are more medium- and long-term credit institutes.

First and foremost among the latter are, even now, the development banks¹ created by governments with a view to accelerating economic growth by means of credits to priority sectors. Everywhere, these development banks are an expression of the economic independence which African states have been trying to build up ever since they attained their political sovereignty. Typically, they should concentrate on financing industrial firms, especially of small and medium size, as well as the construction of infrastructures by the public sector (in which case part of the money is sometimes supplied by international financial organizations) and projects in fields where credit supply is deficient. A crucial feature of their activities is technical assistance to their borrowers, with a view to upgrading local entrepreneurship. Admirable as these purposes are, the results achieved have sometimes proved disappointing, because development banks simply did not have enough money for the ambitious tasks assigned to them or, more

¹ Among the more recent contributions to the abundant literature on the structure and functions of development banks, reference is made to the following: R. Badouin, *Les Banques de développement en Afrique*, Paris 1964; J.M. Spiro, *Les Banques de développement et le crédit aux petits producteurs en Afrique noire et en Amérique du Sud*, Geneva 1966; J.T. D. Houk, *Financing and Problems of Development Banking*, New York 1967; Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, Milan 1969, p. 202-216; Marco Onado, "Le banche di sviluppo dei paesi africani: aspetti istituzionali", in: *Scritti in onore di Giordano Dell'Amore*, Vol. III, Milan 1969, p. 1567-1617; K. Holbik, "Development Banks: A Catalyst for Economic Progress", *Rivista Internazionale di Scienze Economiche e Commerciali*, November 1969, p. 1053-1073; H. Harlander and D. Mezger, *Development Banking in Africa*, Munich 1971, p. 390; Vittorio Barattieri, *Le banche di sviluppo nei paesi emergenti*, Milan 1972, p. 85.

often, because they deviated from their original purpose of providing development finance and lent short-term to make up the borrowing firms' cash flow. This happens especially in countries which have no national commercial bank. Subject to these mistakes being avoided or set right, development banks will without doubt in the future occupy a key position in African credit markets.

As regards non-bank financial intermediaries, finally, the situation varies so much from one African country to another that it would be misleading to generalize. Just a few statements may be hazarded. Specialized agricultural credit institutes are few in number and poor in resources. Now that farming is again moving to the forefront in government priority scales, better results may perhaps be expected from attempts made so far, often under the guidance of the Food and Agriculture Organization of the United Nations (FAO), to set up a network of efficient agricultural co-operatives and to use them for distributing farm credits. Leaving the mobilization of domestic savings to be discussed separately in Chapter Six, it remains to look at financial intermediaries specializing on housing credit, consumer credit, hire purchase for motor cars, and other minor types. Barring a few exceptions, these all operate on a small scale and on the margin of the credit market, of which they represent only a small fraction; but they can be expected to gain ground as the economic system matures and the financial system becomes more specialized.

In conclusion, it may be useful to summarize the position of central banking in Africa at present as follows:

(a) Africa's modern central banks, all founded on the morrow of independence, have much in common so far as formal characteristics are concerned — except for the two multinational central banks in French-speaking West and Central Africa;

(b) they are endowed with wide powers by their statutes, but these do not convey a true picture of the banks' effective operational scope; nor, on the other hand, are they likely to prove rigidly restrictive in the future, when the banks concerned should be in a position to discharge more fully the functions assigned to them;

(c) they have copied the basic structure of old-established central banks in mature economies, but differ from them in giving far higher priority to the aim of speeding up development;

(d) one of their primary tasks is to strengthen existing financial institutions and to create new ones where this is thought to be expedient.

