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THE PROMOTION OF THRIFT AND SAVINGS BANKS
IN DEVELOPING COUNTRIES
WITH PARTICULAR REFERENCE TO AFRICA (*)

1. INTRODUCTION

All "Third World" countries are making considerable efforts to improve their economic and social conditions. Attempts are being made to achieve high and steady rates of economic growth, by act-

(*) This paper originates from direct work and research experiences in Africa. I preferred however to choose a more extensive title since most considerations which appear in it are valid for a number of developing countries in other continents as well.

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Finally, I wish to thank the Management of the International Savings Banks Institute for giving me the opportunity to be one of the four official speakers, next to such renowned scholars and bankers as professor Giordano Dell'Amore, Mr. Alfred S. Mills and Mr. Ludwig Poullain, at the 9th Savings Banks World Congress (Rome, May 1969).

ing in such a way as to improve, as far as possible, the living conditions of the lower income brackets and to attenuate the more striking inequalities in income distribution. To achieve these objectives, however, it is necessary to make the appropriate investments. Great attention should therefore be given to capital formation in the developing economies.

Capital formation can be implemented through foreign or domestic sources, but it is well known that, after an initial period, the larger share has to be provided by the developing country itself. Historical evidence shows that even the development of countries like the Soviet Union and the United States, which benefited at an early stage from substantial foreign capital inflow, has been mainly based on domestic capital formation. Foreign investments do of course affect economic development more than their mere share in capital formation shows because entrepreneurial experience and modern technologies are imported from abroad at the same time. However, foreign loans have to be repaid with an interest, and debt servicing creates furthermore a problem in the balance of payments. Three main interconnected processes — saving, finance and investment — generate capital formation. Saving may be defined as abstention from consumption of available resources (in this negative definition saving is equal to what is not consumed). Investment means directing non-consumed resources to production or the purchase of capital goods. Finance is the link connecting these two activities.

We are used to hearing from national accountants that domestic savings equal domestic investments. But this is just a working definition based on an *ex post* situation. If not financed from abroad, an "investment" certainly has to find its domestic "saving", but savings do not always find their way to investment. The majority of public and private business savings are automatically invested, but the same is not true of savings that originate from individuals or rather from the smallest economic units, i.e. the households.

These savings are normally called personal savings, but it would be more appropriate to call them "household savings".

All savings really originate from households: in fact, government and business savings are made possible only through forced indirect savings in the households by means of taxation, inflation, lower salaries and dividends or higher prices for goods and services. But we are interested in direct household savings of both the contractual and voluntary type, because, although they are underestimated by statisticians, they do account for the greatest share of total domestic savings in most of the developing countries and are very stable in time, whereas public and business savings fluctuate sharply and may sometimes even be negative.

Savings from the household sector are, however, only to a small extent automatically invested within individual household units, e.g. farmer's labour devoted to land improvement. The rest meets difficulties in finding its way to investment. The problem of mobilization of savings deals mainly with the process of channelling household savings into investments, mostly made by business firms and governments.

The use of money tends to expand the volume of household savings and widens the range of outlets for savings. Mobilization is helped, but does not follow automatically. The hoarding of non-perishable consumer goods, which is the way most savings are made in non-monetary economies, continues. But national and foreign coins and capital goods are also hoarded. There is a large variety of reasons behind hoarding or specific forms of hoarding. For instance, (a) gold, silver, jewellery and cattle may be hoarded for personal prestige; (b) gold, silver and valuable objects are collected which may be pawned to obtain ready cash (search for liquidity); (c) the lack of investment opportunities leads to construction material being purchased and hoarded; (d) lack of confidence in the national currency leads to the hoarding of goods and foreign currency.

Hoarding does not help domestic investment and sometimes entails capital being exported illegally. It does not necessarily involve any decrease in domestic resources but a drain of foreign exchange reserves may prevent foreign real resources for capital formation being imported. Hoarding national bank notes does not necessarily keep resources idle, but it is nevertheless harmful to economic development because it may affect monetary stability; also, notes may be heavily covered by gold and foreign exchange reserves held at the issuing bank.

If not followed by effective mobilization, thrift is fruitless. Any improvement in the savings mobilization mechanism not only makes it possible to exploit savings that would be formed anyhow, but also tends to increase the flow of savings in both the short and long run. The short-term effect is due to an increase in the propensity to save, originated by better outlets for placing the money saved; in the long run higher and more productive investments are made possible by an improved mobilization mechanism and will yield higher income and expand saving capacity. An effective system for mobilizing savings does in fact contribute to better allocation of the resources available for investment.

One should emphasize that no savings promotion policy can be divorced from a policy to mobilize savings. This is an extremely important point that should not be neglected by governments, if these efforts are not to be made in vain.

Until now, no satisfactory results have been achieved in collecting voluntary household savings in developing countries. The general opinion is that this is due to the low level of incomes in these countries. Some people, influenced by comparative statistical figures on *per capita* income published by the United Nations, have difficulty in believing that anything can be saved at all.

Yet it is not difficult to detect the fallacies of these comparisons. The average yearly income of an individual in some deve-

loping countries could not keep anyone alive for a month in most of the industrialized countries of Europe and North America.

There are many reasons for the underestimation of incomes in the developing countries. Above all, the contribution made by a subsistence economy is systematically underestimated. A second reason for these distortions arises from exchange rates. Even when they are not artificially fixed and manipulated by governments, exchange rates are influenced only by goods which are traded internationally. Even climatic conditions, which are generally much more mild in developing countries than in most developed countries, have a considerable effect on the minimum consumption level sufficient to allow survival in satisfactory conditions of health, but these conditions are not taken into account.

It may therefore be assumed that the differences in living standards between the inhabitants of developed and underdeveloped countries are somewhat exaggerated. It may thus be considered that the real range is less than one third of that reflected in official statistics.

Man's capacity to adapt his habits and experience also allow the peoples of developing countries to resist reasonably in living conditions which, even in similar climatic environments, would be unbearable for those spoiled by the comforts of the affluent society. The minimum level of income above which savings can be made is therefore lower than elsewhere.

If we require an example of the living conditions in many countries in central Africa, we can see that a mixed economy allows savings to be formed even in low income-earning families living around towns. Small farming, carried out mainly by women, directly provides food for the family's needs and in some cases, where crops and foodstuffs are sold, it also provides a small cash income for shopping and taxes. If the men are able to earn a salary, in these conditions most of their earnings could theoretically be put aside.

Consumption also competes for the use of the monetary surplus that represents a basis for saving. High pressure of consumption is felt in urban areas. Advertising by various media and demonstration effects from tourists, foreign residents and the local upper class push up the purchase of consumer goods, mainly produced abroad. The celebration of traditional ceremonies causes extravagant consumption in rural areas.

The basis of savings formation therefore exists, but savings must actually be made and the money saved must also be mobilized. The economy's monetary area is expanding in these countries; it is a favourable preliminary stage but is not sufficient in itself. What is required is an active policy for encouraging thrift, although this comes into conflict with factors that tend to prevent savings.

2. THE FINANCIAL SYSTEM

One of the main weapons for promoting saving and its mobilization is "finance". Finance, as an instrument, has long been neglected by most African governments, which have mainly concentrated on foreign loans and various forms of forced savings. It is only today that the real importance of voluntary family savings is beginning to be appreciated.

As a result, attempts are being made to provide an adequate financial infrastructure in order to mobilize savings, i.e. a financial system comprising intermediaries of various types, connected by many different relationships, at the top of which is the central bank. One of the functions of a financial system is to collect financial savings formed within the household sector and channel them into economic units which will take care of the investment.

As a consequence of the splitting of the borrowing-lending process, each financial intermediary normally receives credit or sells financial assets to households or other financial institutions; it also buys financial assets from or gives credit to other financial insti-

tutions, the government, business firms or households. However, each type of financial institution has its own particular structural and functional patterns. Financial processes performed by financial institutions are able to modify the economic nature of credit. All financial intermediaries operate on the credit market.

We may identify certain common characteristics in the credit markets in developing countries, even if the countries differ considerably in their traditions, historical backgrounds and political regimes. A common feature is a dualistic structure, that is the co-existence of modern and archaic forms of credit. Consequently, the credit market is divided into two different sectors with few links between them.

In extreme cases, if there is no "osmosis" between the two sectors, the result is two distinct markets. They nevertheless negotiate the same commodity — credit — but have different categories of intermediaries, different operating techniques and, in particular, they apply different interest rates.

Financial institutions operate in the first sector, which is called the organized or the institutional market and has connections with the international market: conditions in the organized market are virtually no different from those in developed countries. Only large and medium-scale businesses may apply to this sector for loans, while the others are in many cases excluded and have to seek credit in the unorganized market, where conditions are much more burdensome. The result is that a small privileged sector obtains loans at interest rates even lower than those applied in the United States or Europe, while the others are forced to pay ten times as much.

Inefficient and privileged conditions are also commonly found in the collection of savings, even if there is not always a clear market division. The holders of high balance deposits can obtain considerably better terms than those offered to small savers. In certain cases, the financial intermediaries actually refuse or are reluctant to collect modest amounts of savings. But even when small savings are

accepted, they feed the supply of loans on the organized market from which the small savers are excluded when they need credit.

All these difficulties keep financial intermediation processes in a backward state and, if they are to be gradually eliminated, the structure of the financial system must be transformed: this should be done by bringing in suitable innovations. These may take the form of organizational or functional changes in existing financial institutions or the establishment of new institutions. In effect, experience in developed economies shows that the introduction of certain types of financial intermediaries or new activities carried out by those which already exist, has a favourable impact on the links between the various sectors of the financial market.

It is now commonly accepted by economists that a backward financial system is in itself an obstacle to economic development, whereas there is no doubt that an efficient financial system does much to help economic development, not only by providing an incentive for the individual to save and improving mobilization of the domestic savings collected, but also by attracting capital from abroad on favourable terms and conveying it towards domestic investments. Any financial system therefore has to keep pace with economic growth.

In balanced growth conditions, the size of the financial system increases and the rate of growth of the total financial assets is higher than the rate of growth of the real assets. But it is not only a matter of quantitative trends: expansion is accompanied by evolution in the financial structure. However, this transformation process does not come about spontaneously: the steps to achieve it must be taken by the public authorities. Thus there may be resistance to financial development which slows down economic development. The industrialized countries are certainly not immune to this kind of situation, but this occurs more frequently in developing countries.

Government action is even more useful if it is not only confined to reorganizing the financial system to suit economic con-

ditions, but also uses structural innovations as a means of accelerating economic growth.

However, not all innovations in the direction of mature financial structures are useful and advisable. The introduction of sophisticated institutions typical of industrialized countries may not always be appropriate because this may lead the financial system to an excessively high degree of specialization. The same is true of branch offices: there should be more of them, but not too many should be concentrated in restricted areas. Oversupply or an unbalanced structure in the financial system may be just as harmful to economic development as undersupply, because it may lead to a waste of resources and an excessively high cost of the financial intermediation service.

Financial innovations have to be carefully appraised before being introduced into backward economic systems. Innovations have to be adapted to the needs of each country. As well as economic, social and demographic conditions, the traditions and customs of each country may require specific measures in this field. Patterns for suitable financial innovations can be found in the historical experience of advanced countries or in the recent experience of other developing countries. The preliminary examination of any innovation must consider at the same time the financial system from which the model is to be taken, and the financial system into which it has to be transplanted. We have mentioned this point since we have had the opportunity to note that the understandable yearning for the modernization of the banking and financial systems has sometimes induced the central authorities to take hurried decisions in this field, without adequate feasibility studies beforehand. Fragmentary or extempore innovations, or too much faith in formal changes as such, are just as harmful as passive or wavering attitudes taken by governments towards financial systems. Comparative financial morphology can be most useful in suggesting suitable therapies.

3. SAVING IN AFRICA

The structure of African financial systems and capital markets¹ is generally somewhat inadequate. The commercial banks of the colonial era have been inherited and they are still operated with the procedures used during that period. In investment operations, the short-term tradition prevails; a considerable proportion of potential customers is rejected because there are rigid standards in granting credit. Great attention is given to financing the export-import trade. In collecting their funds, these commercial banks behave in much the same way as the European and American commercial banks operating in the nineteenth century. Their main business is done with current accounts and time deposits with high balances, and they are reluctant to accept small savings deposits (this no longer happens in the United States and Europe) which are considered as excessively burdensome because of the considerable turnover and small average balance involved.

It is curious to note that this behaviour is not confined to expatriate banks: African commercial banks, whether private or government-owned, follow the same pattern. In some cases, such as the Ghana Commercial Bank, which is wholly owned by the Ghanaian government, the initial stage was indeed characterized by a new loan policy; yet, after some unfortunate experiences, there was a precipitate withdrawal to traditional banking principles as practised by expatriate banks.

Post office savings banks collect small savings in many African countries: they are not independent financial intermediaries, but extensions of the postal administrations. These are also colonial inheritances which have not been adapted to current needs. Interest

¹ All references and conclusions contained in this paragraph reflect the situation of financial and banking systems in independent African countries at the end of 1968.

rates paid on savings accounts are low ($2\frac{1}{2}\%$ in Ghana, Kenya, Nigeria, Tanzania and Uganda, $3\frac{3}{4}\%$ in Zambia, $3\frac{1}{2}\%$ in Cameroon and Senegal, $3\frac{1}{4}\%$ in Ivory Coast); service is often inefficient, and so far no satisfactory attempts have been made to encourage thrift. Savings collected are still partially invested abroad (this is incredible in countries that need capital), even though the phenomenon is rapidly dying away. In this case, too, it is an inheritance of the colonial era. That period was in fact characterized by substantial capital outflows towards the European countries through the intermediation of commercial and post office savings banks, currency boards, and insurance companies. Nowadays this kind of policy is obviously anachronistic. The Treasury in its turn sometimes uses the savings collected to face current expenditures or, as in Cameroon, they are transferred to the commercial banks.

The most common innovations are central banks and development banks. Central banks were set up by almost all African countries on gaining independence. Some French-speaking countries are exceptions to this trend: their issues are made through international financial institutions (e.g. *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun* and *Banque Centrale des Etats de l'Afrique de l'Ouest*). Central banks have often been set up for prestige reasons, but they are undoubtedly adapting themselves to their important tasks.

It is more difficult to express a clear opinion on development banks, since they have features that vary from country to country. They were created mainly to direct funds from the budget or international organizations, foreign governments and banks towards domestic investments in industry or in some cases agriculture. In most cases, efforts to encourage thrift and collect savings deposits have either been negligible or non-existent.

Still within the household savings collecting sector, mention should be made of some organizations that have developed from the relics of colonial institutions: on gaining independence, attempts

were made to adapt these organizations to the needs of the financial system. Three of them came into existence after the liquidation of the *Caisse d'Epargne du Congo Belge et du Ruanda-Urundi* in Zaire, Rwanda and Burundi respectively.

It is certainly not easy to express any judgement on the Congolese Savings Bank (now *Caisse Générale d'Epargne du Zaïre*), considering the recent monetary difficulties and political events in that country. However, the savings banks of Rwanda and Burundi have overcome their initial difficulties and are beginning to contribute to the mobilization of savings with the help of the *Caisse Générale d'Epargne et de Retraite de Belgique*. The *Caisse d'Epargne du Burundi* is particularly efficient in collecting savings, while the *Caisse d'Epargne du Rwanda* has an outstanding investment record: it directs almost one-third of its funds towards building, commercial, agricultural, industrial and consumer loans and divides its operations into short-, medium- and long-term. The balance is invested in Treasury bonds or deposited with the central bank.

Mention should also be made of the Swaziland Credit and Savings Bank (now Swaziland Development and Savings Bank), which succeeded the South African Post Office Savings Bank in the collection of savings deposits: it invests a considerable proportion of its funds in the agricultural sector and a smaller amount in housing.

Finally, the *Caisse Nationale d'Epargne et de Prévoyance* in Algeria has recently extended its field of operations by adding private loans for housing and consumption to its investments in public securities.

One should also mention the Uganda Commercial Bank (formerly Uganda Credit and Savings Bank), but since this institution took on the functions of a state commercial bank to compete with the expatriate banks, it has undergone an involutionary process. Today, the Uganda Commercial Bank is paradoxically tending to

assume the characteristics of the foreign organization which it was originally intended to counteract.

4. THE ROLE OF SAVINGS BANKS

If one considers the unsatisfactory situation as regards household savings mobilization in many African countries compared with past European and North American experience, it seems that savings banks would be a most useful and certainly not a premature innovation within the financial system. In effect, the role of savings banks fits midway between the two extremes of the credit market, i.e. the commercial and development banks on the one hand, and the moneylenders and other traditional sources of credit on the other.

Since their inception at the end of the eighteenth century, savings banks have had the merit of encouraging thrift among the poorer classes in Europe and the United States, when in many ways the economic and social conditions of these countries did not greatly differ from the present-day situation in many developing countries. Subsequently, in connection with the gradual evolution of financial markets, other types of financial organizations were set up to collect savings deposits and even the commercial banks operating in developed financial systems compete with the other financial institutions to obtain savings deposits.

Savings banks are, however, still the only organizations whose principal objective is to encourage and collect household savings. No other financial institution can compete with them in experience and in the variety of procedures and devices they use to achieve this end. The purpose of other financial organizations is to grant specific forms of loans or loans oriented towards particular economic sectors; they may gather the necessary funds in the form of savings deposits, but this is not their principal aim.

This means that savings bank patterns are not the same everywhere. The greatest differences lie in the composition of investments made with the collected funds and therefore in the organizational structure of the banks. Since they are non profit-making institutions, they follow an investment policy which provides the savers with adequate remuneration in secure conditions and at the same time contributes to improving the community's economic and social conditions.

This flexibility in placing collected savings enables savings banks to fit in with all types of financial systems, since they can operate in loan-demand sectors that are neglected by the other financial intermediaries. This operational flexibility also allows savings banks to alter the structure of their investments over a period of time according to the varying needs of the economy. This is particularly important in developing countries, where there is often a sporadic lack of funds in certain sectors; here a selective credit policy is a most useful instrument for economic planning.

Unlike savings banks, other financial institutions, which are restricted to a single type of business, tend to be more rigid. For instance, it would be virtually impossible to induce building societies to give up their housing loans and concentrate on agricultural financing.

In the developed countries too, there has been in the past some evolution in savings bank investments, but this transformation has not occurred everywhere, since excessively restrictive legislation in some countries has impeded such changes. This explains why in some countries, savings banks are merely institutions for "collecting" savings. In such cases, they often act as government agencies and savings deposits form a special category of the public debt.

In other countries, however, savings banks, either as local or nation-wide institutions, mainly lend money to small and medium-size businesses and households. Loans extended to individuals are mainly concentrated on encouraging home ownership. Agricultural

loans are also frequently granted where savings banks have established a branch network to collect rural savings.

Once the principle is accepted that the financial system of every developing country should include one or more savings banks, there remains the question of which savings bank pattern is to be adopted, bearing in mind the considerable experience of the many organizations of this type currently operating all over the world.

For a variety of reasons which cannot be gone into for lack of space, (reasons which are, however, quite evident if we consider the experience of some African countries) one must exclude the post office savings banks. In saying this, the intention is not to deny the usefulness of the capillary method of collecting savings by a wide network of post offices. However, we feel that this existing infrastructure may equally be used even if a completely autonomous savings bank already exists. Although a savings bank may have its own branches, it should still be able to use the postal administration services in places where it does not operate directly. Examples of such an arrangement can be seen in the savings banks of Algeria, Burundi, Zaire, Rwanda and Swaziland. One may therefore recommend that the African post office savings banks be changed into independent savings and credit banks.

It is thus essential for the savings banks to grant loans directly, and earmark part of their funds for that purpose. A total transfer of funds to the Treasury or other public authorities would re-route savings to ends that are not in all cases investments and not always useful for economic development. This practice is in itself an obstacle to savings.

Savers may actually be motivated to accumulate savings and deposit them with a bank not only because it is a "safe" place and in so doing they receive a "reward" in the form of interest. An effective incentive may also be the belief that, in case of need, not only may the funds be withdrawn, but a larger amount of money may be made available in the form of a loan.

In this respect, it should be borne in mind that in Africa, as in all other Third World continents, productive activities tend to be carried on by small unincorporated businesses (services, craft-work, small farming). Thus, a market-oriented productive activity and a consumer activity exist side by side within the same economic unit. The accumulation of savings and the need for loans alternate in time and it would be appropriate for the same financial institution to carry out both functions.

The nature of collected funds also allows the savings banks to grant medium-and long-term loans. The total volume of them cannot of course exceed prudential limits. In this way, even in the absence of a stock exchange (an organization not always possible and which in any case has a rather limited sphere of influence), it would be possible to harmonize the need for loanable funds which stimulate investments with the savers' liquidity requirements.

Medium- and long-term loans would be of particular help to agriculture and housing. Inadequate agricultural lending is a common evil in many African countries. Commercial banks specialize in seasonal crop financing, whereas development banks prefer medium- and long-term credit transactions involving large plantation projects. The result is that a large part of the agricultural sector's needs remains unsatisfied.

Agricultural credit naturally runs up against serious problems involving operational risks, particularly in long-term financing, to which one has to add the lack of clear titles to land. Even the creation of adequate organizations raises problems. The fact is that agricultural credit also requires technical assistance and follow-up. Savings banks should operate with a proper network of rural branches and they should also work closely with co-operative organizations. Where there are no financial institutions in which marketing co-operatives can deposit their funds and from which they can receive loans in times of need, the savings banks could fill the gap.

Where there are thrift co-operatives and credit unions, a nationwide savings bank could function as a central bank for the co-operative system. It should be borne in mind that there are traditional financial institutions in almost all African countries, which are referred to as indigenous savings associations: revolving credit associations are characterized by a more advanced tendency to handle intermediary business, while other organizations resemble friendly societies.

Whether rural or urban, all these societies operate outside the organized market, almost invariably without any government recognition or control. Within each country as a whole, they handle considerable amounts of funds, which could be deposited with the savings banks, if the societies could somehow rotate around them, so as to extend capillary collection of household savings.

As regards housing credit, it should be made clear that this refers only to urban housing, since rural dwellings in many countries are likely to remain much as they are for some years, the only innovation being a corrugated iron roof. In urban areas, however, housing credit is of paramount importance, considering the population flow towards the cities (the urban population in many countries is increasing at more than double the national rate) and the economic and social implications involved.

Home ownership provides perhaps the strongest incentive for domestic savings in urban areas; but this, of course, must be complemented by medium- and long-term lending by financial institutions. Commercial banks are usually not interested in this section of the loan market. Savings banks and certain specialized financial institutions could therefore fill the gap by providing banking facilities and mortgage loans.

Savings schemes could be set up for the purchase of dwellings whereby savers could accumulate a certain sum of money over a given period, spread out over small deposits: they would then have

the right to a medium- or long-term mortgage loan for an amount proportionate to the sum accumulated. Savings would be accumulated both before and after the house had been bought; the final stage would take the form of contractual savings, the rate of physical depreciation on a building being less than the rate of repayment.

Finally, there is the problem of choosing between nation-wide and local savings banks. We feel that a nation-wide system is preferable in the majority of African countries since it guarantees a sounder basis and more efficient management and operational standards. In the more developed countries, however, local savings banks are of course possible, since they can achieve an adequate size.

5. GOVERNMENT SUPPORT

Government support is needed if new savings banks are to be set up or existing ones transformed. Government action in this direction should take the form of assigning seed capital from budget funds and, if possible, by providing depositors with a guarantee. The guarantee could be total or up to a given maximum for each deposit account, so that only small savers would be fully covered against the risk of losses.

The savings bank should be independent and should keep the depositors' names and individual account balances secret. In many instances, as a matter of fact, African savers abstain from depositing their funds, lest other people get to know the amounts of their credit. Distrust towards their relatives is no smaller than that towards their government. Capital deposited and interest accrued should also be exempt from taxation. Members of the government should preferably be excluded from the Board of Directors so as to ensure that the savings banks' management be kept free from political interference, and to gain the depositor's confidence. A provision of this type is included in the statute of the Savings Bank of Rwanda.

When a credit and savings bank has been set up, the government should co-operate in a campaign to promote thrift, with a particular appeal to youth; it is not always easy to make a radical change in adult habits and behaviour. In most African countries, moreover, young people account for about half the total population and are more vulnerable to consumer incentives originating from developed countries: such tendencies should be controlled as far as possible. The main effort should be made in schools.

The younger generation in developing countries is as a rule quite sensitive to national ideals and action taken in this direction would certainly bring in results. High consumption should be looked at disapprovingly as representing a foreign way of life. The tendency to consume could, in effect, be counteracted by pointing out the ideals of national pride. Of course, ways and means of this kind must be used cautiously since they might create political difficulties and even stimulate certain forms of public consumption which are perhaps more wasteful than any kind of private consumption.

However, no savings campaign will be effective if monetary stability is not ensured: savings and monetary stability are interconnected. Stability in the purchasing power of money and external stability both have a favourable influence on the formation of savings and their mobilization. Monetary instability has an adverse effect on voluntary household savings: there is an increase in hoarding in kind and sometimes in foreign currency. Sometimes, as is shown by the experience in Zaire, the negative effect on savings is felt some time after the advent of inflation.

On the other hand, it is common knowledge that the promotion of thrift may be an effective indirect measure for limiting excessively rapid growth in consumption; savings can restore monetary stability and re-equilibrate the balance of payments.

Interest rates are an important factor that should not be overlooked. African governments usually adopt a policy of low interest

rates which affect only the organized credit market. This means that the savers earn a very modest reward, whereas the borrowers receive medium- and long-term credit on even more favourable terms than in Europe. Nowadays, most small savers are not eligible for loans; this causes an economic advantage in favour of high income brackets.

Housing credit, in particular, is normally granted at 7%-8% for amounts that are more than 50% of the building value; the net yield of a rent is usually 15%-25%. The result is a policy which favours building speculation thereby leading to an increase in the concentration of wealth. High rents do not apply only to luxury housing for foreigners, since the highest yields are often from popular dwellings.

African countries are in many cases rich in natural resources and labour, albeit unskilled: on the other hand there is a desperate lack of capital. It is therefore not advisable to keep interest rates below the equivalent or somewhat higher level in developed countries. It has also been said that it is not so much the low cost of capital as a large supply of it which favours economic growth. In the case of domestic savings, the balance-of-payments problem does not even arise. One should not expect any powerful effect for the increase of savings, but this might be a way of preventing capital leaving the country to some extent. However, effective results could only be achieved by taking other measures relating, above all, to the people of expatriate origin living in the country. Any increase in interest rates in favour of small savers should be primarily dictated by social reasons.

Any increase in interest rates would certainly not damage small savers aspiring to house ownership, since the rates of interest received would, to a certain degree, offset those paid. In addition, higher rates on loans might allow some form of credit insurance.

It the countries in which savings banks are introduced from scratch are still at a backward stage of development, they should benefit from some forms of government subsidy, in addition to the guarantee for depositors already mentioned. One form of support might be the free use of post offices for collecting savings deposits. Another type of assistance could be given in the form of government subsidies to savers. Interest paid by the savings bank would thus be complemented by state contributions in the form of increases in the rate of interest, or premiums in money or kind.

Thrift education and the promotion of savings are long-term objectives of economic policy, and government intervention in this field is fully justified. State subsidies would also be necessary if the savings bank were asked to set up rural branch networks (fixed, periodic and mobile branches), since the commercial banks operate mainly in the cities. The charges involved should not be fully borne by the savings banks, as these branches would provide a useful infrastructure for the economic take-off.

Finally, government contribution could allow special credit (for instance agricultural credit) to be extended at particularly favourable rates of interest.

Government aid could also be provided in many other ways: for instance, by having funds belonging to the marketing boards, social security funds and civil service pension funds deposited in the savings bank. The savings bank could also be empowered to act as fiscal agent in areas where the central bank is not represented. Importers' advance deposits could also be transferred to the savings bank on request.

Especially in the event of a liquidity squeeze, help from the central bank is also essential for savings banks. An example of fruitful co-operation between the central bank and the national savings bank is to be found in the Republic of Rwanda where the *Banque Nationale* controls and assists the Savings Bank.

6. ACTION BY ESTABLISHED SAVINGS BANKS ON AN INTERNATIONAL FRONT

Having described the important functions that a savings and credit bank can perform in a developing country, we may now consider the role of well-established savings banks in setting up new institutions of a similar nature. The first step is to use both direct contacts and international organizations to make the governments of developing countries aware of the usefulness of savings and credit banks in mobilizing domestic savings of the household sector.

At the request of the government concerned, a preliminary survey may be made on the structure of the country's financial system and economic framework. The pre-requisites for setting up a savings bank in each country should be examined, as should the organisational and operational basis on which such an institution is to run. A report containing specific recommendations to set up a savings bank should then be submitted to the authorities involved. A similar survey would moreover be necessary if proposals are to be submitted as to the transformation and the re-organization of the existing savings banks.

Once the project is accepted, its implementation will require assistance in the form of:

- a) participation in seed capital;
- b) experts being sent to the country to set up the basic organization of the new savings bank;
- c) training of local personnel: the senior and intermediate staff could be trained abroad and junior staff on the spot.

When the savings bank has been set up, local and overseas training can be of considerable use. Managerial assistance is required and experts could be sent from time to time to solve specific problems, while personnel training would be on a continuous basis.

Medium- and long-term loans might also be granted by savings banks of developed countries.

Before examining the various forms of assistance, we shall have a look at the ways in which the savings banks of the more industrialized countries can provide aid. If it were possible to choose between multilateral and bilateral arrangements, the former would no doubt be preferable, since the developing countries are always more reluctant to accept recommendations and aid from a single country; moreover, a multilateral scheme would also make it easier to gain the support of international organizations.

At present, however, the International Savings Banks Institute, which could be instrumental in arranging multilateral schemes, is not in a position to give such an assistance. It would be necessary to set up a special department within the Institute to provide aid of this kind, manned by staff having the appropriate skills. If possible a Fund for the Development of Savings Banking should be accumulated through periodic member contribution, or an international central financial agency for savings banks could be set up. However, a considerable period of time would be required to get this new organization off the ground.

On the other hand, individual savings banks or national associations are already in a position to start this action immediately. They could in some cases provide assistance within the framework of existing inter-governmental aid projects and thus be eligible for state grants. It would be a serious error to neglect this possibility of immediate assistance in the interim period before an appropriate international institutional framework can be formed.

Action in favour of developing countries, and of African nations in particular which are among the poorest as regards financial structures, has to be undertaken with no delay. The time, indeed, for a number of circumstances, is quite favourable. A few years' loss would perhaps be most prejudicial to any chance of establishing and consolidating savings banks in the Third World.

There is, however, an intermediate solution whereby the International Savings Banks Institute would be given the function of co-ordinating bilateral arrangements. In other words, it would be sufficient to set up a co-ordination office within the Institute itself. This office would keep in touch with the governments of developing countries and with various international organizations in order to direct request for assistance to individual savings banks and national associations which are prepared to give their help.

Let us now try to outline the various forms of aid on the basis of this solution. The contribution of seed capital is necessary only when the underdeveloped country is not itself in a position to contribute it. In such circumstances, it is sometimes possible to obtain funds from other sources. An example that comes to mind is the Swaziland Credit and Savings Bank, which received capital contributions from the British government under the Colonial Development and Welfare Act and from the United States Agency for International Development. A partial contribution is however often requested by the authorities in developing countries because of the foreign exchange implications of the project.

It is always necessary to send experts to the country concerned, first to make an accurate preliminary assessment of the savings situation and financial system, and then to work out a general plan for setting up the new savings bank. When operations start, managerial assistance is needed during the take-off period.

Expert assistance can also be useful to existing savings banks in developing countries, particularly in transforming institutions which merely collect money into savings and credit banks.

Staff selection and training are of primary importance, since success depends on the bank's reliability, which in turn depends essentially on the honesty and ability of the entire personnel from senior management right down to clerical staff. Foreign experts may train the local staff on the spot, while the senior managers could well receive extensive training abroad. Special training programmes

might take the form of sandwich courses which combine instruction with practical experience in a savings bank itself. In this respect, I should like to mention the course organized in Milan along these lines by the Cassa di Risparmio delle Provincie Lombarde. At present, the Milan course is open to employees from all African banks and financial institutions, since savings banking is still being publicized. In the future, however, the course will be available only to savings bank employees from all developing countries.

Savings banks in industrialized countries could, together with their central institutions, grant medium- and long-term loans to savings banks operating in developing countries. The funds could be collected by debenture issues secured by a State guarantee. These operations should enable the housing finance sector to be expanded.

A recent United Nations report ("Finance for Housing and Community Facilities in Developing Countries") has shown that the housing sector in Africa, Latin America and Asia should be financed, to the extent of 20%, from outside sources with an annual inflow of 1,000-1,400 millions of US dollars. The need for foreign funds in this area is justified not only by the lack of domestic savings, but also by the fact that house building inevitably leads to an increase in imports of construction materials. Since savings banks in developing countries could play a prominent role in financing housing and community facilities, it would be most useful for them to be able to obtain medium- and long-term loans from abroad.

Savings banks which extend credit could be protected from the risks connected with vicissitudes in individual banks or individual countries by international guarantees: this could be achieved by setting up an international organization to spread the risks involved.

In this respect, mention should be made of a plan recently prepared by UN Centre for Housing, Building and Planning, following a resolution passed by the Economic and Social Council of

the United Nations.¹ This plan makes provision for an international financial institution working within the United Nations system: it would operate independently like the World Bank and its affiliates, the International Finance Corporation and the International Development Association. Governments of the industrialized and developing countries and other national and international institutions would contribute to the new organization's capital by underwriting its shares. This new body would be called the International Housing Finance Corporation.

The International Housing Finance Corporation would issue bonds and debentures in US dollars to private financial institutions and use the funds collected to grant medium- and long-term loans up to a maximum of 20 years; these loans would be extended to institutions financing housing and community facilities in the developing countries.

When this project has been put into effect, subject of course to the consent of the World Bank, savings banks in developed countries could undertake to purchase shares, bonds and debentures issued by the International Housing Finance Corporation on condition that this body grants loans to existing savings banks in developing countries and assist in establishing savings banks in those countries which do not have them. In this way, savings banks would

¹ The programme has undergone further changes in the following years. By a resolution of December 15, 1972, the United Nations General Assembly accepted the proposal made by the UN Environment Programme for the establishment of a new international financial agency (it is still to be decided whether this will be a "fund" or a "bank") within the UN jurisdiction, whose aim is to offer technical and financial assistance to developing countries in the field of residential housing.

By the same resolution of December 15, 1972, the General Assembly entrusted the Secretary-General with the drawing up of a feasibility study. The UN Environment Programme was charged with the task. In 1974, the Governing Council of UNEP suggested to the General Assembly that an International Habitat and Human Settlements Foundation be created.

indirectly finance sister institutions in developing countries. It would also be advisable to appoint a savings bank representative to the IHFC Board of Directors, or anyway to its Advisory Council.

7. CONCLUSIONS

In conclusion, we may state that the developing countries must be given assistance in building up the financial infrastructures required to mobilize domestic savings. Savings banks are in a prominent position in the list of financial institutions which have been invited to contribute to this common effort, due to their structural and functional characteristics and to the considerable experience they have acquired in encouraging thrift and gathering household savings.

They are in a position to answer the appeal and give their assistance to an extent that will vary according to the means at their disposal. The purpose of this mission of international solidarity is to improve the economic and social conditions of people living in developing countries. If the savings banks choose to neglect this responsibility, they will be trampling on the very moral principles on which they themselves are based. On the other hand, if they meet the challenge they will have constructive and inspiring work ahead for many decades to come.

