

MARIO MASINI

## THE BANKING SYSTEM AND SAVINGS POLICY IN DEVELOPING COUNTRIES (\*)

In trying to assess what the banking system can do in developing countries to stimulate household savings and to put them to productive use, we must first be clear about what we mean by household savings and survey the means by which attempts are made to promote them in line with the priorities of development policy. Only then can we form a reasoned judgment about the situation of any given country and about the urgency of public intervention.

### 1. HOUSEHOLD SAVINGS IN THE CONTEXT OF DEVELOPMENT POLICY

The most common objection to savings promotion by banks in developing countries is that average incomes per head are very low. But apart from the fact that the level of *per capita* incomes, as given by available statistics, often is not as great an obstacle to savings as is thought,<sup>1</sup> it is a singularly inappropriate indicator in developing countries, though it may be a good one in economically advanced ones. Reference to average income per head suggests the

---

(\*) Reprinted by permission of the publisher from *Il Risparmio*, Anno XVIII, n. 9, 1970, pp. 1673-1706 (original title "*Il contributo del sistema bancario alla politica del risparmio nei Paesi in via di sviluppo*").

notion of margins of disposable income as a source of financial savings. But in real terms savings are ultimately the net increment in a nation's stock of capital goods; it follows that the whole problem of the introduction of financial assets and more particularly of financial investment of savings at the level of elementary units can be considered only in connection with the social will and the technical capacity to alter the structure of consumption, and with it of the production system, in the direction of progress. In practice the diffusion of financial assets and the structure of the production system are interdependent, but unlike economically advanced countries, developing countries certainly are also short of the previously mentioned social will and technical capacity.<sup>2</sup>

In fact it is not so much the level of incomes which impedes the formation of savings that can be used for development but the form of incomes and, more generally, the way in which the structure of production in underdeveloped countries is reflected in the economic processes, also at the household level.

When we talk of household saving in developing countries, we have to think of economic sectors which thrive at the margin of or outside the economically advanced ones.<sup>3</sup> In these sectors labor specialization is all but unknown, technology is primitive, monetary trade is limited, social cohesion maximizes security of livelihood. Under such circumstances there is not much psychological inducement towards capital accumulation. Furthermore, technical opportunities for accumulation are limited, both from the point of view of saving behavior and for what concerns — often in the same context — investment in physical capital.<sup>4</sup> It is important, therefore, to create economic structures which would turn saving into a functional behavior also within family units. Such innovations would make available for development both new savings and existing savings for which so far no more productive use can be found.<sup>5</sup>

What is needed in order to make household saving a functional part of capital accumulation, is a policy designed specifically to

encourage the evolution of the traditional sectors of backward economic conditions necessary for investment and, on the other, the transformation of existing savings into savings which are transferable to such investment.

Such policies need to be based upon more searching studies of the economic relationships characteristic of any country's less developed regions than economists alone can provide without the help of other disciplines.<sup>6</sup> Where such studies have been undertaken, they have shown that economic behaviour is just one element in an essentially unitary cultural complex, so that little can be achieved by intervention in isolated sectors.<sup>7</sup> They have also demonstrated the crucial importance of the processes of transition from a subsistence economy to a market economy, from a barter to a money economy, and of those by which a wage-earning labour force comes into existence. Evolution in traditional societies is handicapped not so much by their capacity to change, which is often strong, but rather by lack of impulses adapted to their understanding and thus capable of calling forth a positive reaction from them.<sup>8</sup>

A policy to promote household saving involves, in practice, such things as the establishment of appropriate institutions and a functional reorganization of the banking system, and this may seem only a small part of the overall policies by which a developing country must try to meet its own needs. However, our analysis of the problem has drawn attention to much broader aspects of the development process; household saving is seen to be most important precisely in the conditions of developing countries, and its promotion by such means as are mentioned above assumes then particular value.

This qualitatively so important problem does not lack equally significant quantitative aspects. In most cases household savings make a massive contribution to total capital accumulation,<sup>9</sup> even though only a small proportion is transferable or in any case employed in productive activities in line with development targets.<sup>10</sup>



This implies that neglect of household saving, in the sense in which the term is used in this paper, means neglect, too, of the economic behaviour patterns which are typical of any given underdeveloped country and indicative of its population's most urgent needs. Household saving is a matter of the highest relevance to policies regarding economic and social inequalities as well as to the choice of sectors where economic growth is to be stimulated.

In developing countries the economic dualism common to all economic systems<sup>11</sup> is much more marked because of the pattern of economic enterprise dictated by anxiety to close the gap which separates them from more advanced countries, by such urgent problems as the supply of capital goods or competitive exports and by foreign investment.

The marked economic dualism of developing countries may have a factual and functional foundation in their relations with the world at large, but so far as these countries themselves are concerned it assumes significance to the extent that it can stimulate quicker progress in the most backward sectors. If it fails to do that, economic dualism brings benefit only to a small fraction of the population and, moreover, can generate only the sort of growth that cannot be sustained for long, because it is not accompanied by matching advances in education, institutions and economic structures.

Even in the case of inevitable dualism in an economy, policies specifically concerned with the backward sectors are needed precisely in order to initiate their transformation and to create the cultural, institutional, technological and other conditions for a ready response to impulses emanating from the modern sector.<sup>12</sup>

It follows that a policy to promote and mobilize household savings in a developing economy has the closest affinities, and indeed virtually coincides with overall development strategy involving all economic policy choices. What support, then, can be expected from the banking system? Clearly, its contribution is no more than com-



plementary, and as such can be fully effective only if it follows (and perhaps stimulates) a whole series of broader choices; but, subject to this reservation, the banks can render an important service by widening the range and quickening the pace of development, especially in the long run.

## 2. THE FUNCTION OF BANKS IN THE MOBILIZATION OF HOUSEHOLD SAVINGS

The existence of modern economic institutions is a condition favourable to economic growth, but their significance as a development factor depends on the extent to which they in fact draw into an advanced context those very economic activities for which a development problem is perceived.<sup>13</sup> One of the ways in which banks in developing countries can prove themselves to be an efficient institution is precisely the promotion and mobilization of household savings.

As financial intermediaries, banks perform, often simultaneously, a whole set of complementary functions. In logical order, the first point to stress is that banks need appropriate policies not only for attracting deposits, but for their investment. In macro-economic terms it is productive investment that qualifies the results of saving at the level of elementary units and transforms savings into a contribution to the nation's real capital accumulation, and for this reason productive investment must be guided by knowledge of the development needs of the environment which generates the household savings deposited with banks. If banks possess and act upon such knowledge, they can play a vital role both in stimulating the propensity to save and in creating the conditions for a positive response to such impulses (note the connection with what has been said earlier about the form of incomes and the structure of the production system as obstacles to the formation of savings that can be used for development).

From the logical point of view, appropriate investment activity (flanked by a set of more comprehensive economic and social policy measures) must be seen as a stage preceding the supply of deposit funds and indeed necessary to it, in so far as investment plays the dominant part in shaping an economic environment in which it is possible not only to save, but to save in such forms as allow of productive use.

Since modern economic activities require a large volume of funds raised on the credit market, it is clearly of the highest importance that savings should be transferable.<sup>14</sup> Savings policy must be concerned with raising not so much the total volume of savings, but the proportion of transferable and then productively invested savings generated mainly by the transformation of the economy's more backward sectors. This is the wider significance of the mobilization of household savings in developing countries.

With reference to the financial activities of banks, it is rightly asserted that:<sup>15</sup> "Whereas the increase in productivity in the economy determines the potential rate of growth in saving, the existence of an appropriate and adequate financial network determines the actual flow of such funds." This implies also appropriate banking policies concerning depositors. The structure and functions of banks need to be so fashioned<sup>16</sup> as to offer savers the most convenient conditions as regards ease of access to banking services, security and ready withdrawal of deposits, interest paid on deposits, and technically well organized accessory services.<sup>17</sup>

Their acceptance of deposits puts the banks in a good position to discharge the very necessary educational function of awakening social conscience to the role of saving in the nation's economic development. Banks should also try to provide more information about the institutionalized financial uses of financial savings and about the supply of credit on the organized market.

As regards lending by banks devoted to the promotion and mobilization of household savings, one specially suitable category

of borrowers is that of small enterprises in farming, industry, crafts and trade. In developing countries, where the small family business is the typical form of enterprise in large sectors of the economy, it is also the source of the bulk of household savings, so that the economic area of the origin of deposits and of the destination of loans should often coincide. The transformation and modernization of small firms in developing countries requires functionally appropriate banking, alongside comprehensive action in the field of technical and administrative training and research on suitable development strategies for various sectors.<sup>18</sup> Financial support is complementary, but important.<sup>19</sup>

If, furthermore, a bank lends to members of the same economic and social group to which the savers belong, it thereby creates a constructive image of banking as an institution, and so helps to develop more advanced economic behaviour patterns by making people directly aware of the role of saving in economic development. Experience shows that small family enterprises are more willing than most to save and more responsive to incentives to do so. To the extent that bank lending helps families to undertake a productive project, it tends to alter the pattern of income use in the direction away from consumption and hoarding and towards strengthening the enterprise.<sup>20</sup>

Finally, the autonomous processes of credit expansion confer flexibility upon the economic system and sometimes give it a useful impulse by making it possible to step up investment quickly; but to a great extent these processes can take place only if, on the one hand, banks are capable of discharging monetary functions, and on the other, the economic environment is such that people understand and eagerly take advantage of the credit instruments upon which these monetary functions rest.<sup>21</sup> From this point of view, too, everything that is done, which improves also the efficiency of banks, to encourage the emergence of small modern enterprises, helps the mobilization of savings.



So far as savings policy in developing countries is concerned, then, banks can be assigned the following functions: to draw into the credit system such household savings as already exist in suitable form (which is done by attracting and accepting deposits), to help transform the conditions of household saving, to finance production, and to give impulse to the emergence and functioning of mechanisms capable of enhancing the efficiency of the economic system (all of which is done by bank lending). Clearly the lending policies of banks are of eminent importance and are closely complementary to their deposit policies.

3. THE PRESENT SITUATION: WHAT BANKS DO TO MOBILIZE HOUSEHOLD SAVINGS IN DEVELOPING COUNTRIES

Having outlined what can be expected of the banking system of developing countries in the context of their savings policy, we must ask what has been the institutional response to this challenge. How well adapted are the banks in fact to the mobilization of household savings? The situation differs, of course, from one country to another, but a few common features may be picked out, especially with reference to those countries which have most recently become independent.

The two factors that have done most to fashion the organized credit systems of developing countries are foreign relations and public intervention. In a broader context, the fact that these systems operate in an underdeveloped economy causes the credit market to be far more dualistic than it is in economically advanced countries.<sup>22</sup>

The first of these factors has to do with the effects of colonialism as one of the historical, or indeed present, causes of the structure of many underdeveloped economies. Economically speaking, the colonies were just part of a system centred on the metropolitan economy; they were a source of minerals and agricultural commodities, as well as of labour. The problem of how the subject

territories could and should function independently simply did not arise, and the evolution of indigenous elements was conceived and allowed exclusively in terms of the rational of the system as a whole. The distinction between the metropolitan and the colonial territories was one of geography and race. Economic activities located in the colonies found in the mother country all the supporting services they needed, more especially a capital market and a banking system, of which no more was required than a geographical extension and purely formal adjustment of its activities.<sup>23</sup> Functional complementarity found expression in the concentration of capital supply on metropolitan markets, and in a high degree of specialization in the production of dependent territories. The consequent distorting effect on colonial economies was further reinforced by the rigid limitation of commercial bank lending to profitable export finance, and by the systematic drainage of local savings via the investment abroad of reserves and even of temporarily liquid funds, which led to capital shortage for local projects for diversifying the colonial economy.<sup>24</sup>

In such an historical and economic setting there is clearly no point in trying to look for the banking system's development functions in the sense outlined earlier. But even political independence was never followed at once by radical changes in the structure of production, and the survival of certain types of economic relationships perpetuated their complementary institutions. With reference to commercial banks it may be said that these former typical exponents of the colonial institutional order became the chief architects of present credit systems, thanks both to their sheer quantitative predominance and to their influence upon the general approach to credit problems in developing countries. Originally, it must be remembered, the rational of commercial banking in the colonies rested upon the existence of an outside capital market on which long-term funds could be raised, and upon a supply of outside managerial capacity for the efficient organization of production by bor-

rowing firms. This explains why banks applied such strict standards to their loans and why they refused to lend for the medium and long term, but these conditions obviously have very little relevance to the present-day realities of economic development. If commercial banks discharge no other function than to provide a mechanism of payment, they have little to contribute to development strategy.<sup>25</sup>

On the other hand commercial banks are the repositories of the bulk of deposits in developing countries.<sup>26</sup> The reasons for this include their sound reputation of financial integrity, their sometimes extensive branch network, their expert staff, their multiple and close connections with the business world, the capital market and often with foreign sources of loan capital, and sophisticated techniques for handling various types of deposits.<sup>27</sup>

However, a large part of commercial bank deposits comes from modern sectors, which means that banks take advantage of favourable but rather circumscribed development episodes. The banks pay much less attention to small savers, especially in areas distant from the major industrial and commercial centres. They take in money on current accounts as well as on time deposits, provided a high balance is maintained, but small deposits are considered too costly because of frequent movements around a low average balance per account.<sup>28</sup> Nor so the banks do much to expand their geographical coverage, for fear that new branches may initially earn little or no profits.<sup>29</sup> Interest paid on deposits is not attractive either, especially in the absence of the ancillary services and credit relations available to large depositors.

Even if banks become more active in taking in deposits, which they often do once potential saving reaches a sufficiently attractive level without their having done anything to stimulate it, this is not very helpful unless at the same time they reshape their own structure and functions, for the result may then merely be a systematic drainage of capital from the regions and economic sectors which most need it.



It is certainly possible, then, for commercial banks to do a lot more for development and in particular for the mobilization of household savings, especially once it is recognized that credit functions must no longer follow principles suitable only for dealing with a modern economy. The range of borrowers needs to be widened in terms of size of firm and economic sectors, which means a change in the overall conditions of eligibility for loans, and more medium- and long-term credit needs to be extended — but none of these things can be done unless the banks reorganize themselves, especially as regards the number and competence of their personnel and the adoption of new deposit techniques.<sup>30</sup> Public intervention will often be required to enable banks to take on new types of risks. Similarly, the domestic employment of temporarily liquid resources via investment in public or private bonds can be promoted by more far-ranging government action designed to organize a securities market.<sup>31</sup>

Private banks and foreign banks are not the only sinners. Where governments have nationalized commercial banks, or taken them under public control or have set up new ones, all the best intentions of making them more responsive to the national interest have hardly ever led to any significant departure from the credit policies and principles we have had occasion to criticize.<sup>32</sup> The contradiction between ends and means has often been overcome by the establishment of preferential circuits, in essence a method of pre-selection of credit applicants.<sup>33</sup>

This behaviour of the public authorities for the sake of keeping capital costs low at least for certain projects, as well as the coherence of the foreign commercial banks with a system of economic relationships unconnected with the basic problems of economic development, are the chief reasons why interest rates are kept below the level dictated by real capital needs and by the effective conditions of capital supply in developing countries.<sup>34</sup> Capital supply at current rates of interest is available only to traditionally creditworthy borrowers and to such activities as fall within the limited choices of the

government departments responsible for the economy's management.<sup>35</sup> It is a delusion to hope to obtain capital on the same conditions for projects in sectors where development involves more difficulties and hardships. All this naturally is an obstacle both to saving, and to savings promotion by the banking system. The banks' investment policy itself precludes faster expansion, and one of the conditions which might attract savings to the institutions (interest payment on deposits) is powerless in the face of all the practical and psychological obstacles.

Another element of public intervention in the credit markets of developing countries is the establishment of development banks. These are directly concerned with quickening the pace of economic development and growth.<sup>36</sup> But apart from indirect effects, they do little for the promotion and mobilization of household savings. Given that development banks mostly operate with public funds or foreign capital, they have neither any incentive for trying to attract deposits of their own, nor ample freedom of choice as regards their investments.<sup>37</sup> In any event, sound management is difficult enough for development banks, at least in the early stages, seeing that they have to initiate large-scale projects in an extremely backward economic setting; and this has led them to apply even more rigid standards to loan applications and to finance only big firms and major projects.<sup>38</sup> In the extreme case, development banks may altogether lose the character of credit intermediaries, especially as regards their access to domestic capital supply and their preferential lending. However, their activities may be a necessary condition for effective mobilization of household savings by other categories of banks.

Yet a third element of public intervention in the credit market, and one that is specifically concerned with people typically having no access to banks, is the widespread system of post office savings banks. Their business is handled by post offices, and thanks to the dense network of these, post office savings banks often offer the only facilities for small savers dispersed in outlying areas to make

any deposits at all. Since there are so many branches, the total supply of funds accruing to them may be quite considerable, and up to a point fairly stable. Unfortunately, post office savings banks lack other important conditions for efficient mobilization of household savings: their deposit techniques are not sufficiently diversified, they cannot pay attractive interest rates on deposits, and they cannot lend directly to local borrowers.<sup>39</sup> Were it not for their geographical coverage, which certainly helps to tap the savings of otherwise neglected sectors, the post office savings banks could be classed with the other institutions forming part of preferential circuits, for their funds are usually channelled to the Treasury (which may even use them for current expenditure), to an intermediary institution which in turn redistributes them among other public agencies, or to commercial banks.<sup>40</sup>

The same applies, *a fortiori*, to such other savings banks as do not have an independent investment policy, even though they are not connected with the postal administration.<sup>41</sup>

On the other hand, the value of penetrating the less advanced sectors of developing economies by means of other types of savings banks, saving and loan associations, credit co-operatives, building societies or agricultural credit institutes is often underestimated or belittled, without taking account of the attendant difficulties and of the kind of results to be expected. Certainly the latter are less conspicuous than those that can be achieved in areas where development involves less drastic changes. In the light of what has been said earlier, however, it is obvious that whatever little one may think of the present status of such credit institutions in no way detracts from the functions which could rightly be assigned to them.<sup>42</sup>

There are many reasons to explain the present unsatisfactory situation of institutions of this kind. The system as such is often made up of units established one alongside the other without any overall strategy, so that their resources are wastefully dispersed



and their impact is diminished.<sup>43</sup> Nor have they been properly integrated with the banking system as a whole, which might have helped to make them more efficient.

Individually speaking, these institutions are not always organized on lines appropriate to their cultural environment.<sup>44</sup>

Because credit institutions do not pay enough attention to the characteristics of the economic and social environment in which they have to operate, they are not readily accepted by local communities and their business is precarious; state help could create the preconditions for an efficient handling of credit functions, but often all it achieves is to multiply bureaucracy.<sup>45</sup>

As regards unofficial credit, money-lenders usually do not take in other people's money to finance their loans, but in most developing countries there are private associations which in effect mobilize their members' savings, albeit in a setting of traditional economic relationships. Rotating credit associations, for example, far from losing ground, enjoy vigorous growth and are a genuine expression of the reactions of a traditional society to economic impulses from modern sectors; their greatest significance lies in easing social and cultural change in response to economic problems and processes.<sup>46</sup> They have given proof of their own adaptability by financing modern activities as well. As a manifestation of spontaneous and constructive adaptation of traditional patterns, rotating credit associations have something to teach such official institutions as may be set up for the explicit purpose of dealing with economically backward communities deeply rooted in indigenous culture.<sup>47</sup>

All in all, we must conclude that the banking system at present contributes little to the mobilization of household savings in developing countries. The whole problem of household saving, at least in the terms here outlined, often receives scant attention, since it is not associated with any prospect of spectacular and immediate results, requires dense coverage and involves structural adaptation.

There is a yawning gap between the organized and the non-

organized credit market, and this can best be bridged by broadening the qualitative range and adapting the functions of existing institutions. This is much more important than their formal transformation and promises to make them play a much bigger part in development and thus to reshape the development process as such.

Qualitatively speaking, then, the banks' institutional purposes and their activities need to be adapted to the mobilization and utilization of savings. But there are also quantitative aspects, as regards both network distribution and co-ordination among institutes operating in any one sector. From this latter point of view, close co-operation among the various types of institutions concerned with the mobilization of savings would surely enhance the efficiency of them all and avoid duplications, and at the same time increase the usefulness of each specialized type of action.

Given the far-reaching economic and social implications of savings policy, and the importance of preventing the perpetuation of a dualistic credit market, savings institutions should aim at integration and fruitful co-operation with the banking system as a whole, thereby enriching it with their knowledge of real development needs.

#### 4. INTEREST RATES

While effective mobilization of household savings in developing countries certainly requires deliberate government support backed by a set of appropriate measures, it also demands more independent vitality on the part of the credit institutions. The system of credit distribution through preferential circuits needs to be at least partially dismantled, for it fails to draw into the development process precisely those sectors that most stand in want of it, and the institutions meant to serve them need to be integrated with the banking system as a whole. One of the means of achieving these two purposes is a modification of the interest rate structure.

In developing countries, the wide range of risks deriving from the very nature of the ongoing growth process is often not reflected in a correspondingly broad spectrum of interest rates; on the contrary, we find polarization at the two extremes.<sup>48</sup> On the organized credit market, loan conditions are similar to those common in economically advanced countries and interest rates barely higher; outside the organized market, loans for any kind of purpose can be obtained often without security at all, but at exorbitant rates.<sup>49</sup>

At the same time, preferential circuits are totally inaccessible for any kind of operation which does not conform with the whole set of rules governing access to the organized market. We have already seen that this curtails capital supply to large sectors of underdeveloped economies.

Official institutions charge low rates and shun chancy investments; but in a developing country it would be more to the point to lend to a group of borrowers who, while risky, are prepared to pay a high enough interest rate to cover any possible loss through default.<sup>50</sup>

The problem is a general one. Development involves new economic activities more risky than traditional or already established modern ones, and this new dynamic process sets the conditions at which the nation's savers are prepared to finance real capital accumulation. Many developing countries suffer not so much from an overall imbalance between capital demand and supply, as from restricted availability of capital due to the low level of interest rates. If interest rates were raised, there would be room for a larger volume of investment and hence of capital accumulation, or in any case for a different distribution of capital accumulation.<sup>51</sup> And since the pace of development is set by capital accumulation, the problem clearly is how to increase the latter — within certain limits even regardless of the cost involved.<sup>52</sup>

The above argument is not invalidated by the fact that developing countries often have not enough technical and economic



capacity to employ disposable funds in productive investment. It is this very deficiency which makes the development process so hazardous. What counts is that many entrepreneurs should be willing to try their hand at something new, and that they should be offered an opportunity to do so provided they are prepared to pay the proper cost.<sup>53</sup>

Of course, if banks adopt a more flexible policy with regard to the credit applications they accept and the interest rate they charge, they must never go so far as to endanger the safety of their deposits; but subject to this reservation, such a policy can do much for successful promotion of household saving. By financing a different and wider range of investment, banks can raise the potential formation of savings, and there is an advantage, too, in not channeling savers' funds to the preferential circuits which only in some cases, and then indirectly, enable people to perceive the benefits of forgone consumption.

High loan rates furthermore make it possible to pay adequate interest to depositors. Whether and to what extent this affects the willingness of people to deposit their savings with an institution is a matter on which opinions differ. In many developing countries the general view is that, so long as people have fairly easy access to institutions where they can deposit their money, safety is the main incentive for doing so, followed by ease of withdrawal. Interest earnings count much less (except for those in the higher income brackets), and often indeed less than the chance of obtaining a credit or some tax relief. There are cases to substantiate this view, but then the reason may have been that interest rates were low anyway or were raised only a little. The opposite view, that higher rates should be paid on deposits, does not lack advocates.<sup>54</sup>

Even in an underdeveloped economy, after all, the rate of interest is only one of several conditions relevant for a depositor, and its relative weight in the whole set of direct and indirect advantages offered by institutions is bound to vary. To discover what

determines these variations, it may be interesting to look at the actual conditions surrounding the processes of income production, saving and investment.<sup>55</sup>

In a backward economy, where the product of innumerable small family enterprises reaches the market in individually small quantities, investment automatically follows saving, and the two processes cannot be distinguished with reference to the income portions set aside for precautionary or prestige reasons, or indeed instinctively. With such a production pattern it is not possible to mobilize funds beyond those that are hoarded, and these presumably often fall short of the total savings generated by the family enterprise. Now, the incentive to reinvest savings in one's own enterprise derives from the returns that can be earned by the typical production processes of a backward economy, and the only condition required for hoarding to fulfil its purposes, is safe preservation of the capital set aside (the amount of which likewise depends upon the same factors which influence the reinvestment share of total saving). In these conditions the rate of interest on deposits does nothing to determine the total volume of saving, but has some power to attract hoarded funds to credit institutions; these funds are most responsive to safety, ease of access to an institution, and ready withdrawal.

The rate of interest can become one of the effective determinants of the propensity to save (and to deposit) only if the structure of the production system changes. The introduction of production methods making more use of capital goods, product specialization, increased employment of non-family labour, the growth of markets and of the money economy all have their effect also on the nature of saving. Direct reinvestment opportunities may often prove ill adapted to the new scale of economic activity and cease to count for the propensity to save. It is at this stage of economic development that education for saving becomes important, together with

the whole set of methods by which savings are channelled to the banking system. This is the right stage in which to introduce the concept of financial investment of income withheld from consumption.

In a transition period, however, when there is still scope for some reinvestment in the family enterprise, the rate of interest becomes relevant for people's propensity to save and for their willingness to deposit their money with a credit institution. Indeed, adequate remuneration of deposits may even speed up the transformation of the production system and thus cumulatively enhance its own effectiveness.<sup>56</sup> In a still rather backward economy investment returns play a major part in determining the use of income withheld from consumption, given that both the processes of saving and of traditional investment are more or less automatic and the advantages to be derived therefrom are normally plain to see. These advantages may be quite considerable, in that they are often obtained in a setting of economic processes which, while primitive, are perfectly adapted to environmental conditions; in any event, they cannot easily be compared with any degree of accuracy with those obtainable from financial investment of savings, since people lack the economic understanding to compare disparate elements. The interest paid on deposits must be quite high, therefore, if its advantages are to be plain enough to act as an incentive.<sup>57</sup>

Poor returns may sometimes be offset by the opportunity of obtaining credit on favourable terms. This makes it easier for people to appreciate the advantages to be derived from dealing with a credit institution, and fosters a gradual transition from traditional to more modern patterns of business management. More generally, credit provided for members of the same community in which deposits originate, or perhaps for projects of joint utility, is an incentive to save which can add much to the attractiveness of the other conditions offered to depositors.

In the still rather primitive setting considered so far, then,



investment returns certainly are important for the propensity to save, in so far as they serve as an indicator of the capacity of one form of investment to fulfil the functions of security or production which savings are assigned in the family enterprise. But once these functions can no longer be fulfilled within each separate economic unit this indicator is replaced by another, namely, visible proof that they are efficiently discharged by credit institutions. It follows that more importance comes to be attached to conditions other than mere investment returns, such as safety in providing for future needs, ready availability in case funds are needed to meet emergency expenditure, saving schemes with a fixed target, or combined saving-and-loan schemes designed to improve the saver's real income or to help him achieve some specific purpose (purchase of a house, education of his children, etc.). If different forms of investing his savings offer a saver equal results with reference to the above purposes, investment returns clearly are the element which governs his preference for one or the other of the various possibilities, while they have only a minor influence on the propensity to save, which ultimately determines the total volume of saving.<sup>58</sup>

## FOOT-NOTES

<sup>1</sup> See Arnaldo Mauri, "Les Caisses d'épargne et les pays en voie de développement", Paper read at the 17th International Course for Savings Banks Managers, held in Santiago, Amsterdam, International Savings Banks Institute, 1967, p. 3 f.

The fact that services produced by the tertiary sector represent only a small fraction of national income illustrates merely one aspect of the narrow range of consumption in backward countries. Dynamically speaking, there will indeed be strong pressure for increasing consumption, but on the other hand its initially low level leaves a wide margin for saving. The point is to achieve a certain income growth together with controlled expansion of consumption. To this end it is not good enough to consider saving as a residual; what is needed is a policy to stimulate saving by making families actively want to do so, not to speak of the broader purposes to be discussed later in the text.

<sup>2</sup> From the dynamic point of view, too, the problem of saving is different in the two types of countries. In advanced countries, the decision to alter the distribution of the real product as between consumer goods for the home market and capital goods, in the sense of increasing the share of the former, can be taken and made effective just because of the large volume of savings previously accumulated, and hence because of the existing structure of the production system. Leaving foreign savings aside, the margin of possible change is the narrower, the lower is the degree of economic development, for then there are nowadays only two alternatives: economic stagnation, which precludes even the growth of consumption, or a change in the production system by means of an increase in real savings.

<sup>3</sup> Of course, there are major differences in the situation of developing countries, but that described in the text is typical. The needs of the most backward sectors should inform the interpretation and solution of the whole set of problems.

<sup>4</sup> The family enterprise remains the typical production unit in subsistence economies and is very common in developing countries. "The income capacity of [family] enterprises is intimately connected not only with the personal abilities of the members of the family, but also with their spirit of sacrifice. Therefore, business costs and earnings cannot be separated from household consumption patterns in these enterprises the capital comes most often from the family's ploughing back the savings so painfully accumulated." (Giordano Dell'Amore, *Economia del risparmio familiare*, Milan, Giuffrè, 1963, p. 98). In this light it is legitimate to treat as one both saving by households and saving by family enterprises, especially in developing countries.

<sup>5</sup> Typically, in developing countries, there exists a large volume of savings which should be usable for purposes of development, but is in fact lost to it through, e.g., capital flight, conspicuous consumption as a status symbol, too much investment

in land, and hoarding. All these are, at least to some extent, due to the reasons indicated in the text.

Much the same can be said of the existence of unutilized production capacity in the traditional sectors of an underdeveloped economy.

<sup>6</sup> On the need for such studies, Basil S. Yamey has some interesting comments: "Perhaps the most important explanation of the self-imposed isolation of the economists in their work in the study of underdeveloped economies has been their tendency to concentrate on aspects of economic organization and on sectors of activity where it might seem that little is to be learnt from the work of anthropologists. The heavy concentration of interest on problems of external trade, public finance and industrialization may serve as examples of this tendency... Thus, for example, there has been much concern with the export marketing of crops and the control of their prices. But by contrast it has been rare for economists to probe very far into the organization of the production of the crops and the earliest stages of their marketing and related activities ... One may go further and suggest that this has been harmful to their work even in their chosen fields, because the indigenous and non-indigenous sectors are not rigidly separated but interpenetrate each other ..." (Basil S. Yamey, "The Study of Peasant Economic Systems: Some Concluding Comments and Questions", in: Raymond Firth and Basil S. Yamey, eds., *Capital, Saving and Credit in Peasant Societies*, London, Allen & Unwin, and Chicago, Aldine, 1964, p. 377, 378).

<sup>7</sup> See Clifford Geertz, "The Rotating Credit Association: A 'Middle Rung' in Development", *Economic Development and Cultural Change*, Vol. X, No. 3, April 1962, p. 241-42: "The reason why a saving income ratio of a particular country living above the subsistence level is what it is, rather than larger or smaller than it is, is dependent, as Henry Bruton has pointed out, on 'the general pattern of mores and the social structure which govern all aspects of social behaviour'. Consequently it is evident that an effort to change the ratio demands an attempt to change the general pattern of mores and social structure." Similar comments can be found in Richard D. Lambert and Bert F. Hoselitz, *Le Rôle de l'épargne et de la richesse en Asie du Sud et en Occident*, Paris, UNESCO, 1963, *passim*, and Firth and Yamey, *op. cit.*, *passim*.

<sup>8</sup> Moreover, impulses emanating from the modern sectors of the economy are often not devised specifically for the development of traditional sectors and therefore call forth irrelevant or counterproductive responses. The introduction of the use of money, for example, makes it easier to save in so far as it allows of greater accumulation, but often, especially at first, integration with modern economic activity was so scant that money incomes served exclusively as a means of payment for goods other than traditional ones.

As Giovanni Arrighi (*Sviluppo economico e sovrastrutture in Africa*, Turin, Einaudi, 1969, p. 237) observes: "The social structure of traditional economies, while



maximizing security, encourages the adoption of a somewhat limited time horizon in the distribution of the produced surplus among consumption, unproductive saving and productive saving. In other words, peasants still largely using pre-capitalistic production methods are likely to have a strong preference for immediate consumption and often for unproductive hoarding which by maintaining or strengthening social cohesion, safeguards the particular type of security inherent in the traditional system. Most probably this preference will only be reinforced by the peasants' encounter with the sophisticated consumption patterns of industrial systems."

The absence of institutions guaranteeing social security comparable to that offered by the traditional environment makes people think of the modern environment solely in terms of consumption possibilities, and strengthens their ties with the traditional environment.

<sup>9</sup> For statistics of the volume of household savings and deposits in developing countries, see, e.g. United Nations, *World Economic Survey 1965*, New York, United Nations, 1966, and Nicolas G. Krul, "Sviluppo, congiuntura economica e formazione del risparmio dal 1965 al 1968", *Il Risparmio*, May 1969. Note also the following interesting, and perhaps surprising, observation by Balbir S. Sahni (*Saving and Economic Development*, Calcutta, Scientific Book Agency, 1967, p. 112): "... some of the findings of the study would favour a greater emphasis on voluntary saving. This is true more so in view of the fact that 70 to 80% of the saving in India are attributed to the household sector and the major increase was recorded in this sector."

<sup>10</sup> This is the reason for the widespread scepticism with which economists regard the contribution made by spontaneous household saving to capital accumulation in developing countries. It is also the reason why government intervention tends to favour more public saving. But, quite apart from the technical and environmental factors which have made the results of efforts in this direction rather disappointing (see United Nations, *op. cit.*, Vol. I, p. 21, Tables 1-5), there is always one valid objection against them, as expressed, e.g., by Clifford Geertz (*op. cit.*, p. 241): "Neither large-scale international capital transfers nor improvements in the terms of trade can, in themselves, bring about domestic capital accumulation in the absence of effective efforts to raise the level of domestic saving. In part, such saving can be realized by means of taxation programs, the compulsory sale of government securities, economies in government expenditure, and other fiscal measures; but in the long run these financial mechanisms will not in themselves bring about the one change which is essential if development is to have a firm basis ... a change in the propensity to save on the part of individual members of the population. Unless the basic savings habits of the people of a country can be altered, the prospects for sustained economic growth are dim indeed."

<sup>11</sup> Charles P. Kindleberger defines a dual economy as "an economy with different marginal efficiencies of identical factors in different parts of the economy"

(*Economic Development*, Second edition, New York, McGraw Hill, 1965, p. 258). See also Albert O. Hirschman, *The Strategy of Economic Development*, New Haven, Yale University Press, 1958, p. 125 f. One aspect of dualistic economies is the type of firms to be found there, which, as will be seen presently, is important from the point of view of the mobilization of household savings. See, for instance, Eugene Staley and Richard Morse, *Modern Small Industry for Developing Countries*, New York and London, McGraw Hill, 1965, p. 1 and 22: "... at the beginning of industrialization, and for considerable part of the transition period from premodern to modern economy, earlier forms of small industry predominate. These are non-factory forms, cottage industry and artisan work. An important aspect of the problem facing development planners is how to guide the transition from traditional to modern small industry." ... "Modern industry is thus, in its first manifestations, not a gradual evolution from the prevailing traditional industry but a sudden jump to quite new methods, an importation. Thus, large factories develop ahead of small factories." Hirschman suggests a new approach to the problem of economic dualism, to be seen not as a negative residual of the development effort, but as "an attempt by the economy of an underdeveloped country to make the best of its resources during a transitional phase". (*op. cit.*, p. 132).

<sup>12</sup> Arrighi (*op. cit.*, p. 237-38) defines the problems involved in the promotion of productivity rise in African farming as follows: "(a) to create incentives for the exploitation of potential, now unused, productive capacity in the shape of land or working time, (b) to increase the productive uses of the surplus produced in the traditional sector, so as to generate a continuous rise in the productivity of labour. The first problem concerns the relationship between the modern and the traditional sector, that is, the type of surplus absorption in the modern sector most likely to maximize the incentives to raise productivity in the traditional sector. The second problem has to do with the type of organization of production and institutions in the traditional sector that is most likely to call forth the desired response to the impulses transmitted from the modern sector." The author says that because nearly all the traditional economies of Africa still have a certain margin of unutilized capacity, the first problem is much the more important; but here it will be argued that the solution of the second problem is a condition for the efficacy of the incentives with which the first problem is concerned.

<sup>13</sup> While this may seem a glimpse of the obvious, the history and present state of many institutions in developing countries are often full of contradictions; as an example, we may quote Walter T. Newlyn (*Money in an African Context*, Nairobi, OUP 1967, p. 2): "... modern financial institutions were introduced into African economies while they were still, basically, at a stage of barter...". The point will be taken up later; here it is enough just to mention why such situations came about: the imposition of external economic systems upon the national economies of developing countries, and the discontinuity of government intervention to stimulate economic growth.

<sup>14</sup> Note the following comments by Antonin Basch (*Financing Economic Development*, New York, MacMillan, 1964, p. 4 and 5): "An overall estimate of resources expected to be available for investment must be supplemented by an indication of the sources of saving. Only then can one project the use of gross capital formation for investment in various fields... When an expanding volume of transferred savings becomes available to private and public borrowers, investment flexibility is established." On the typical forms of the use of household savings in India, and on their scant transferability, see Balbir S. Sahni, *op. cit.*, p. 73-75.

<sup>15</sup> *ibid.*, p. 72.

<sup>16</sup> For detailed discussion of savings banks with particular reference to their special capability to promote household saving in developing countries, see Arnaldo Mauri, "The Promotion of Thrift and Savings Banks in Developing Countries", in: *Ninth International Savings Banks Congress, Rome, 6-8 May 1969*, Geneva, International Savings Banks Institute, 1969 (published in this same volume).

<sup>17</sup> One very useful service rendered by banks is the diffusion of instruments of payment used both in the exchange of goods and services and in financial transactions. Such instruments are needed for the indirect financing of investment and increase the total volume of lending, but they also increase disposable savings. As Chintaman D. Deshmuk ("Politica monetaria ed altri strumenti di intervento in una economia in via di sviluppo", *Bancaria*, April 1966, p. 428) rightly points out, the very variety of financial instruments and assets, and their differentiation by degree of risk and rate of interest, induces a higher volume of saving. The possession of such financial assets furthermore helps to minimize, if not to eliminate, income uncertainties, so that income recipients can save more despite the low level of their personal income.

<sup>18</sup> For the quantitative extent of small industry in developing countries see Staley and Morse, *op. cit.*, p. 8; for the functional characteristics which warrant special study, and for classification thereof, see *ibid.*, p. 2 f. The authors also state firmly: "Major types of development measures for small industry begin with the management triad of industrial counseling services, training for entrepreneurs-managers and supervisory personnel, and industrial research services." (*ibid.*, p. 25).

<sup>19</sup> The conditions for the formation of an entrepreneurial class are not equally propitious at every level. There are cases where the entrepreneur may create or discover new markets, and others where the very chance of finding new entrepreneurs depends upon the possibilities of organizing new markets. These two observations suggest that it may be easier and more fruitful to aim initially at a large number of small entrepreneurs. This is in any case the only category of entrepreneurs likely to emerge at all at the level of what is virtually self-education, but if there are enough of them, they constitute a market of numerous buyers and sellers and as such can call forth new ventures and offer opportunities of mutual complementarity.



<sup>20</sup> On the strong propensity to save of people directly engaged in some productive activity, see E.H. Whetham and J.I. Currie, *The Economics of African Countries*, CUP 1969, p. 177, and Margaret Katzin "The Role of the Small Entrepreneur", in: Melville J. Herskovits and Mitchell Harwitz, eds., *Economic Transition in Africa*, London, Routledge & Kegan Paul, and Evanston (Ill.), Northwestern University Press, 1964, p. 179-198).

Basil S. Yamey (*op. cit.*, p. 381) distinguishes a "demonstration effect" and an "aspiration effect", which latter concept certainly seems applicable to the small entrepreneurs of developing countries. See also Raymond Firth, "Capital, Saving and Credit in Peasant Societies: A Viewpoint from Economic Anthropology", in: Raymond Firth and Basil S. Yamey, eds., *op. cit.*, p. 26.

<sup>21</sup> Banking channels must also be able to retain the funds deriving from loans by non-bank intermediaries. This is a necessary condition for the full effectiveness of non-bank credit expansion in a system where deposit banks have already exhausted their own credit potential (on the expansion effect, see Walter T. Newlyn, *op. cit.*, p. 14-15). Even where non-bank financial intermediaries are well integrated with the banking system, this condition is not easily met precisely in those environments which stand most in need of development.

<sup>22</sup> On the concept of dualism in the credit market, together with a study of credit markets in developing countries, see Arnaldo Mauri, *Il mercato del credito nei paesi sottosviluppati*, Milan, Giuffrè, 1966, p. 16, 18, 19.

<sup>23</sup> The only demands of the overall economic system on its internal financial relationships were a perfectly stable exchange rate between the metropolitan and the colonial currency, and safety of the banks operating in the colonies. See Thomas Balogh, *The Economic Impact of Monetary and Commercial Institutions of a European Origin in Africa*, Cairo, National Bank of Egypt, 1964, p. 11.

<sup>24</sup> On the export of savings from colonies, see Balogh, *ibid.*, p. 12.

There are many other aspects of interaction between financial and structural dependence: on foreign exchange policy and the stunted powers and functions of central banks, see Balogh, *ibid.*, p. 23, 31; on the impact of monopoly in the supply and distribution of international means of payment on the trade flows of dependent countries, see Diallo Maka, "Structure monétaire, commerciale et bancaire des pays d'Afrique tropicale", *L'Actualité économique*, 1969, No. 4, p. 714 f.; on triangular trade, *ibid.*, p. 776; on the advantages and disadvantages deriving from the existence of very large areas of trade and free capital circulation, *ibid.*, p. 717, 725-27.

The problem of financial independence as a condition of balanced economic growth was one that concerned also the immigrant population of colonial settlers, but there is no room for doubt as to who the beneficiaries of development were to be in this case. With reference to Rhodesia, this argument is discussed by R.A. Sowelem in *Towards Financial Independence in a Developing Economy: An Analysis*

of the Monetary Experience of the Federation of Rhodesia and Nyasaland, 1952-63, London, Allen & Unwin, 1967.

<sup>25</sup> For a somewhat traditional account of the functions assigned to commercial banks in developing countries, see G.I. Williamson, *The Role and Practices of Commercial Banks and Other Institutions in Financing Development*, Cairo, National Bank of Egypt, 1965, p. 8-12, 24. Critical observations will be found in Diallo Maka, *op. cit.*, p. 720 f., and also in a study by the Research Department of the National Bank of Egypt (*Economic Bulletin*, Vol. XVII, No. 3, 1964), entitled "A Comparative Study of Banking Systems. III. The Developing Countries". An interesting example is the following: in the countries belonging to the West African Monetary Union (Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo and Upper Volta) 66.4 per cent of all credits granted by credit institutions (and the Treasury) in 1967 came from commercial banks, and of all non-Treasury credits outstanding 79.9 per cent were for the short term, 10.9 per cent for the medium term, and only 9.2 per cent for the long term (Banque Centrale des Etats de l'Afrique de l'Ouest, *Rapport d'activité* 1967, Paris, 1968, p. 64).

<sup>26</sup> United Nations, *op. cit.*, p. 35,36; Nicolas G. Krul, "Sviluppo, congiuntura economica e formazione del risparmio dal 1965 al 1968", *op. cit.*, p. 79 f.; Franco Simeone, "La raccolta del risparmio ed il suo investimento nell'industria nei Paesi in via di sviluppo", *Rivista di Politica Economica*, December 1968, p. 1768-69.

<sup>27</sup> United Nations, *ibid.*, p. 35.

<sup>28</sup> See Arnaldo Mauri, "The Promotion of Thrift and Savings Banks in Developing Countries", *op. cit.*, par. 32. The same situation prevails even where the share of savings deposits is high in the absence of a capital market or stock exchange (see Pierre Roques, "Le Rôle des banques dans le développement en Afrique", *Nations Nouvelles*, June 1967, p. 14).

<sup>29</sup> United Nations, *op. cit.*, p. 29.

<sup>30</sup> "Commercial banks are a substantially underutilized potential source of industrial short-term and medium-term finance in most industrializing economies ... Normal incentives typically pull commercial bank resources toward forms of lending that have higher turnover or deposit generation. To stimulate bank lending to industry, particularly to small firms, other incentives and aids are necessary, such as favorable rediscount policies and collateral requirements, and training of industrial loan appraisal officers" (Staley and Morse, *op. cit.*, p. 371). See also Robert W. Davenport, *Financing the Small Manufacturer in Developing Countries*, New York and London, McGraw Hill, 1967 (with reference to commercial banks, Chapter 7; for examples of specific cases, p. 56 and 293-94).

<sup>31</sup> For the beneficial effects of the introduction of public securities in stemming the seasonal outflow of funds from commercial banks, see Research Department of



the National Bank of Egypt, *op. cit.*, p. 293, 298. On the organization and functions of a capital market in developing countries, see Edward Nevin, *Capital Funds in Underdeveloped Countries: The Role of Financial Institutions*, London, Macmillan, 1963, p. 95 f.

<sup>32</sup> Sometimes it was decided to broaden the range of credit facilities in terms, say, of maturities, destination of loans, or eligibility, but the banks were not reorganized with a view to taking on new types of risk. The new bankers forgot that their predecessors were able to work with traditional structures precisely because they limited themselves to specific lending operations and thus kept within an economic setting which suited them. The failure of such ill-conceived experiments invariably causes bankers to re-introduce strictly traditional management principles.

<sup>33</sup> The existence of preferential circuits in bank lending may cause resources to be diverted under pressure from special interests, or even to non-economic purposes. Here is a warning by Nicolas G. Krul ("Mais ils préfèrent encore l'usurier", *Le Journal des Caisses d'Epargne*, December 1969, p. 783): "En revanche — et le marché inorganisé prouve bien que cela est possible — il conviendrait d'éviter la tentation des taux bas, les circuits privilégiés entraînant manifestement un gaspillage des capitaux rares dû à ce que la concurrence se place sur le terrain de la recherche des avantages particuliers et non sur celui de la productivité."

<sup>34</sup> It is often said that one of the major "benefits" of the presence of foreign banks is precisely that they keep interest rates down by forming a bridge between the credit markets of developing and of advanced countries; see, e.g., U Tun Wai, "Interest Rates in the Organized Money Markets of Underdeveloped Countries", *IMF Staff Papers*, Vol. V, No. 2, August 1956, or Edward Nevin, *op. cit.*, p. 46. But the characteristics of these financial relations, especially as regards interest rates, are rational only in the setting of advanced countries; in developing ones, low rates are charged only within the preferential circuits, leaving excluded all those enterprises and activities which, because of the radical change development might represent for them involve risks, maturities and sometimes returns in sharp contrast with the conditions in which official credit institutes operate.

<sup>35</sup> The contrast with the position of businessmen forced to turn to the non-organized credit market is most glaring where the relative abundance of capital supply on the organized market makes it possible, say, to lend at 6-7 per cent for real estate speculation commonly yielding something like 25 per cent annually (See Arnaldo Mauri, "The Promotion of Thrift", *op. cit.*, par. 71).

<sup>36</sup> For a discussion of development banking, see Giordano Dell'Amore, *Economia delle aziende di credito*, Vol. II, *I sistemi bancari*, Milan, Giuffrè, 1969, p. 202 f., and Marco Onado, "Le banche di sviluppo nei paesi africani: Aspetti istituzionali", in: *Scritti in onore di Giordano Dell'Amore*, Vol. III, Milan, Giuffrè, 1969, p. 1567 f.



<sup>37</sup> In connection with deposit policy, see Arnaldo Mauri, *ibid.*, par. 36; Antonin Basch, *op. cit.*, p. 319; United Nations, *op. cit.*, p. 34. On investment policy, see Giordano Dell'Amore, *ibid.*, p. 211, and Norman L. Hicks, *The Role of Credit in Ghana's Economic Development*, Accra, USAID Mission to Ghana, 1968, p. 10.

<sup>38</sup> See Staley and Morse, *op. cit.*, p. 371.

<sup>39</sup> See Arnaldo Mauri, *ibid.*, par. 34.

<sup>40</sup> How unrational the preferential circuits may be is illustrated by the following example, from the Ivory Coast. Post office savings are redistributed through a chain of intermediaries at the following rates of interest (figures supplied by the POSB in 1969): the depositor is paid 3.35 per cent by the post office savings bank, the latter gets 4.40 per cent from the *Caisse Autonome d'Amortissement* (an apex institute), which in turn lends at 5.50 per cent to the *Crédit de la Côte d'Ivoire*; the final beneficiary of a housing loan from the *Crédit* has to pay between 5.5 and 7 per cent annually. The 4.40 per cent which the post office savings bank gets leaves it with a loss (covered by the Ministry of Posts and Telecommunications), so that it cannot afford to offer savers a higher rate. On the other hand, the low rate charged to final borrowers, while it gives a boost to housing and is an incentive for other businessmen perhaps more sensitive to interest rates than post office depositors, also works to the advantage of speculators, who earn investment returns of no less than 25-30 per cent annually.

Suitably reorganized, savings banks using the post office network could clearly become an important factor in the mobilization of household savings in developing countries. A proposal to this effect is outlined by Arnaldo Mauri, *ibid.*, par. 51.

<sup>41</sup> Mauri, *ibid.*, par. 48. Decentralization of investment by savings banks, on the other hand, enables them the better to assess and meet local capital needs, makes people more aware of the collective benefits to be achieved by forgoing consumption, and enhances the management's sense of responsibility — all of which helps to create the kind of mentality essential for economic development (see Giordano Dell'Amore, "Sistemi", *op. cit.*, p. 289-91).

<sup>42</sup> By way of corroboration of this view, we may quote Gunnar Myrdal (*An International Economy*, London, Routledge & Kegan Paul, and New York, Harper, 1956, p. 360, footnote 32): "The building up of a variety of institutions, serving the purpose of promoting individual savings, and organizing them and making them fruitful to the saver and to the community, should be given a high priority in every development plan. To be effective, the institutions have to be adapted to different individual needs and possibilities and must fit into the community patterns: they must aim at encouraging planned and 'goal-directed' savings. Even if, at least in the

beginning, the financial results would not constitute more than a trickle of new capital disposal, the effects in rationalizing attitudes and mobilizing ambitions might be crucially important."

<sup>43</sup> See Mauri, "The promotion of thrift", *op. cit.*, par. 30.

<sup>44</sup> With reference to India, M.L. Dantwala ("Institutional Credit in Subsistence Agriculture", *International Journal of Agrarian Affairs*, December 1966, p. 58, Note 1) reports the following remarks by an expert on Indian credit problems: "Institutionalized co-operation presupposes a certain progressiveness, self-reliance and organized mutual action on the part of members. Where the process of development has to be initiated in advance of development of these qualities among the people concerned, some more direct and simplified modes of reaching the individual farmers have to be followed. This is as true of credit as of other essential developmental services. Arrangements cannot be fully institutionalized. They tend to lean in initial stages more on external action than on internal initiative and responsibility. The results are not as satisfactory as they would be in developed stages. In developing agrarian communities there is the inescapable problem of starting from a pre-institutionalized stage, and leading them on to a developed and institutionalized stage. No one type of action can serve all such needs, but a state-supported semi-autonomous organization ensuring such immediate results as are judged to be practicable, and providing a built-in arrangement for eventual transformation into a fully functional organization, would appear to be the most promising course to follow." For selection criteria with respect to the establishment of different types of institutions, see *ibid.*, p. 59.

<sup>45</sup> Dantwala (*ibid.*, p. 61) describes how the weakness of institutional credit and the prospering of money-lenders are part of the very nature of subsistence agriculture: "As is well known, numerous farming units in India have a labour surplus. Under the circumstances, a major part of borrowing for household expenditure is unrelated to production requirements. To expect the credit agency to meet the 'full' requirements of the borrower would be tantamount to making it responsible for sustaining unemployment. However, if what is suggested is that the credit agency should meet the full requirements only for 'production' purposes, it will not be able to satisfy the 'total' requirements of borrowing of those farmers whose household expenditure is not covered by legitimate return to the input of family labour into farming... The transition from money-lender credit to institutional credit has, therefore, to be a process simultaneous with the transformation of subsistence agriculture into commercial agriculture. Attempts to pre-date either cannot succeed." It follows that credit facilities need to be accompanied by structural change. A similar argument is put forward by H.B. Shivamaggi, "Provision of Credit for Small Cultivators: Reconsideration of the Problem", *Indian Journal of Agricultural Economics*, July-September 1963.

<sup>46</sup> Clifford Geertz (*op. cit.*) defines a rotating credit association as "... a device by means of which traditionalistic forms of social relationship are mobilized so as to fulfil non-traditionalistic economic functions ... an 'intermediate' institution growing up within a peasant social structure, to harmonize agrarian economic patterns with commercial ones, to act as a bridge between peasant and trader attitudes toward money and its uses." (p. 242). "It ... mobilizes familiar motivations and applies them to unfamiliar purposes, while serving at the same time to reconstruct these motivations on a more flexible basis. The *arisan*, *ko*, *hui*, *dashi* or *esusu* is essentially, then, an educational mechanism in terms of which peasants learn to be traders, not merely in the narrow occupational sense, but in the broad cultural sense; an institution which acts to change their whole value framework from one emphasizing particularistic, diffuse, affective ties between individuals, to one emphasizing — *within economic contexts* — universalistic, affectively neutral, and achieved ties between them" (p. 260). For an appreciation of the work of rotating credit associations in Nigeria, alongside modern credit institutions, see M.O. Ijere, "Credit Development in Nigerian Agriculture", *Nigerian Journal of Economic and Social Studies*, July 1963, p. 219. For an extensive bibliography on the subject, as well as for a discussion of the situation in Ethiopia, see Arnaldo Mauri, *Il mercato del credito in Etiopia*, Milan, Giuffrè, 1967, p. 337 f.

<sup>47</sup> Clifford Geertz (*op. cit.*, p. 242) says that while the establishment of Western-type institutions was not altogether inefficacious, they have on the whole proved disappointing, "... because the impersonality, complexity, and foreignness of the mode of operation of such 'capitalist' institutions tends to make traditionalist peasants, small traders, and civil servants suspicious of them... What seems to be needed, particularly in the early stages, is an institution which can combine local popular appeal with the sort of savings effects a developing economy demands; an institution which can act as an educational mechanism for a people moving from a static economy to a dynamic one, at the same time as it operates to bring about the restriction of increased consumption such a transformation implies."

<sup>48</sup> "In a logical credit structure, there should be a range of interest rates that will cover the range of risk present in the economy. This is particularly necessary in the less developed world where the risks of doing business are greater than in the developed world. However, it appears that often it is the developed countries which have a more sophisticated range of credit institutions capable of offering loans along the whole spectrum of interest rates roughly from 6 to 30 per cent." (Norman L. Hicks, *op. cit.*, p. 4).

<sup>49</sup> With reference to the usury rates common on the non-organized market, Nicolas G. Krul ("Mais ils préfèrent toujours l'usurier", *op. cit.*, p. 778) observes: "La raison de l'insuccès des légistes à faire coïncider le fait et le droit tient au caractère très particulier de la formation des taux sur le marché inorganisé, laquelle



n'est qu'en partie l'expression d'une concurrence imparfaite, ou, si l'on veut, d'un monopole discriminatoire." The author argues that while on the side of credit demand the determining factor is the opportunity cost, or the marginal efficiency, of a loan for the borrower, there are four factors on the supply side which determine the average and marginal cost of the loan: monopoly profit, the opportunity cost of the money lent, the cost of loan administration and the cost of the risk involved. With reference to opportunity cost, he says (*ibid.*, p. 779-80): "Le marché monétaire-financier organisé (qui existe quand-même partout) n'y reflète qu'imparfaitement le rapport entre les prix présents et les prix futurs, c'est-à-dire l'élément d'anticipation. Etant dominé par le capital commercial, ce marché est incapable d'imposer son arbitrage à un marché rigide de biens de loin plus important et sur lequel toute variation de l'offre ou de la demande provoque immédiatement des fluctuations extrêmement fortes." The money-lenders, who operate with limited capital funds, discount all that in the face of the risk of loss deriving from their having already committed their funds.

<sup>50</sup> Again Norman L. Hicks may be quoted (*op. cit.*, p. 9): "In general bankers seem to feel that an unknown borrower could not be trusted, regardless of how high the interest rate might be set. The concept of investing in a group of borrowers willing to accept a 15 to 20 percent interest rate and having a 10 percent default rate as a profitable enterprise for the bank was not accepted by the bankers interviewed."

<sup>51</sup> Low interest rates not only lead to concentration of bank loans in "safe" sectors (which often have little relevance for development), but induce these to favour projects with a high capital/output ratio, which really are out of place in an economic environment where capital is the scarcest factor and labour the most plentiful.

<sup>52</sup> However, the problem of capital costs looms large with respect to foreign loans, because of the burden of interest on the balance of payments. On the other hand, high interest rates help to attract more foreign capital.

<sup>53</sup> As Franco A. Grassini points out ("Alcune osservazioni in tema di gestione dell'impresa industriale nei Paesi sottosviluppati", *Il Risparmio*, July 1964, p. 1142), there certainly is some credit demand that is left unsatisfied by official supply, and ready to pay interest at rates a good deal higher than on the organized market. See also Norman L. Hicks, *op. cit.*, p. 17, and Nicolas G. Krul, "Mais ils préfèrent encore l'usurier", *op. cit.*, p. 783.

Basil S. Yamey (*op. cit.*, p. 384) suggests that the study of how borrowers adapt to contact with credit institutions "... should also throw much needed light on the real burden (as distinct from the apparent burden as indicated by the contract terms) of private loans. The fact — if it is such — that some borrowers prefer to borrow on

apparently more onerous terms from private lenders would suggest that the real terms as seen by the borrowers in question were lighter for the private loans (though it may of course reflect no more than fear of contacts with authority)."

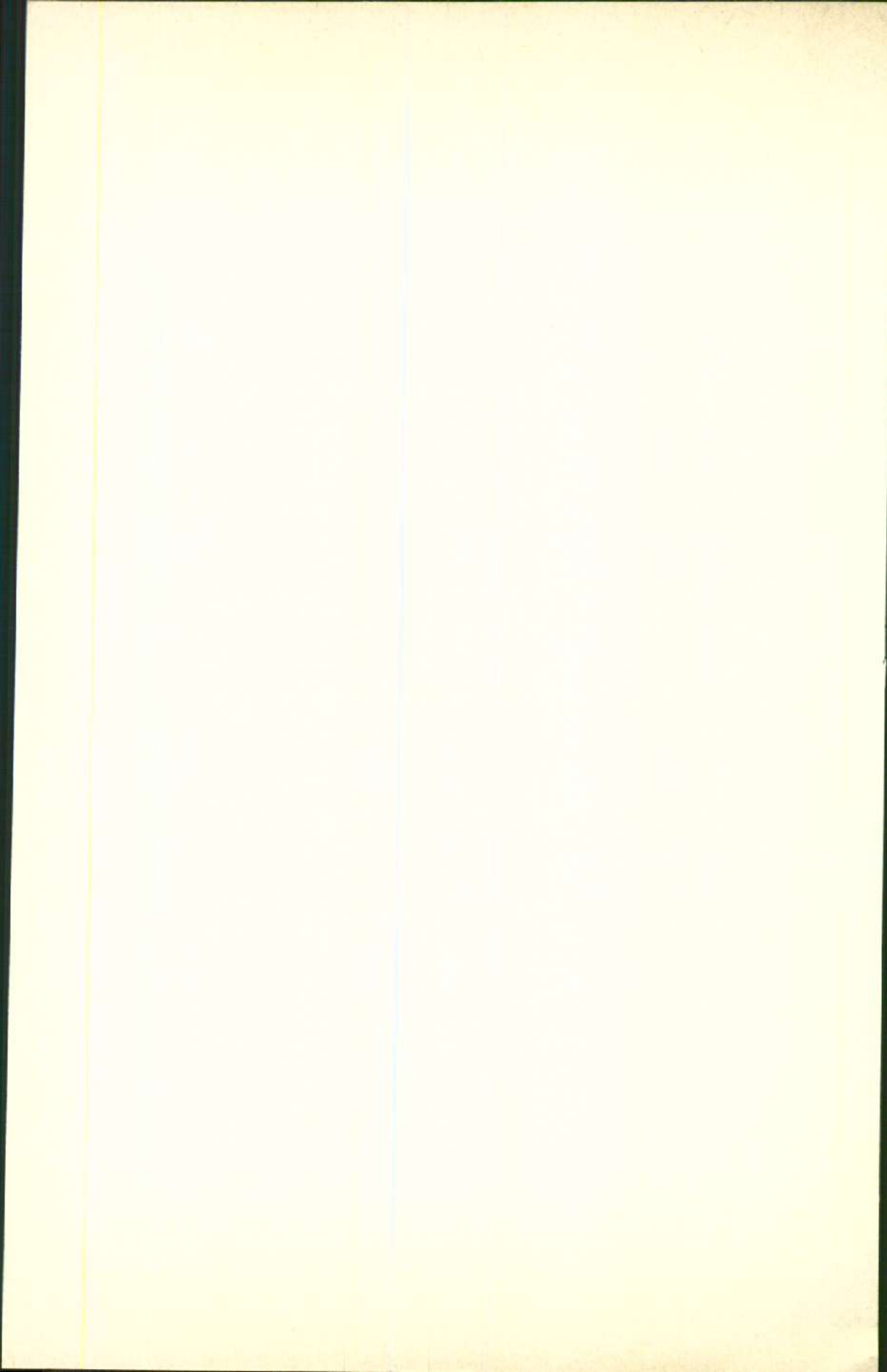
<sup>54</sup> See E.g. Antonin Basch, *op. cit.*, p. 185; Nicolas G. Krul, "Sviluppo, congiuntura economica e formazione del risparmio", *op. cit.*, p. 789 (and other authors cited by Krul) and Arnaldo Mauri, "Les Caisses d'épargne et les pays en voie de développement", *op. cit.*, p. 12.

<sup>55</sup> The following considerations rest on the assumption of constant purchasing power of money, especially in cases where the degree of economic understanding enables people to realize the adverse effects of monetary depreciation on existing savings.

<sup>56</sup> In this process, increased credit supply plays its part, too, for it gives those producers who are best placed to adopt more modern methods a chance to supplement the resources they have saved with borrowed capital. Credit policy clearly has important effects on the social structure of developing societies.

<sup>57</sup> A nominal interest rate of, say, 3 or 4 per cent annually on a low average balance is not much of an incentive, especially in comparison with the returns of direct reinvestment, albeit in a setting of traditional economic relations and satisfactions.

<sup>58</sup> It may be of interest here to report the results of a survey of motives for saving and of preferred methods of saving in India (National Council of Applied Economic Research, *Urban Household Saving Survey*, 1961), as quoted by Balbir S. Sahni, *op. cit.*, p. 76: "Analysis of the ratings of these motives revealed that the strongest motive for saving is the desire to make provision for emergencies. The second most important motive is saving for old age and the third for children's education. Each of these three can be considered as an important motive which might prompt households to save, as much more than 50 per cent of the households mentioned each of them either spontaneously or rated them as very important... The survey also revealed that nearly 31 per cent of urban households preferred to invest their saving in business, 22 per cent in housing and other real property, including agricultural land, 13 per cent in bank deposits, 8 per cent in small savings ... and less than 2 per cent each in gold, payments to life insurance and provident funds ... Furthermore, profitability seemed to be far the most important motive determining saving preferences. Safety is another significant consideration for most people and liquidity ranks third. The chief motive for investing in business, farmland and securities appeared to be profit, while safety is the major reason for keeping savings in the form of bank deposits, contractual payments and real property."





## PAOLO MOTTURA

### SAVINGS MOBILIZATION IN DEVELOPING AFRICAN COUNTRIES (\*)

#### 1. PERFORMANCE OF THE FIRST AFRICAN DEVELOPMENT DECADE AND PERSPECTIVE<sup>1</sup>

The aggregate national accounts figures published in the ECA *Survey of Economic Conditions in Africa, 1970* show that the

---

(\*) This paper on savings mobilization was prepared in the Secretariat of the United Nations Economic Commission for Africa, Addis Ababa (Ethiopia), during the months of November and December 1972. The mission that made this effort possible was the result of a request submitted by UNECA to the International Savings Banks Institute (ISBI), Geneva, and it was financed and accomplished — on behalf of ISBI — by the Cassa di Risparmio delle Provincie Lombarde (CARIPLO), Milan. The paper has been drafted after several extensive and very helpful interviews and consultations with the experts of the Commission Secretariat and the first draft was successively revised by the author in 1973 in CARIPLO Headquarters, on the ground of the suggestions, comments and criticism kindly supplied by UNECA, ISBI and CARIPLO experts. The views expressed in the draft of the paper are not necessarily those of the Secretariat of the Commission or of the persons interviewed, and the author wishes to take full responsibility for his work. The author wishes to show his gratitude to the ECA Executive Secretary, Mr. R.K.A. Gardiner, and to the ISBI and CARIPLO Chairman, Prof. G. Dell'Amore, for all their assistance. The author would also like to warmly thank ECA personnel, whose co-operation has been most helpful, particularly the staff of the Housing, Building and Physical Planning Section, who made his task easier through their help and constant support.

<sup>1</sup> All figures quoted in this paragraph are taken from UN Economic Commission for Africa, *Survey of Economic Conditions in Africa, 1970*, Part I, pages 21-32 and Tables A2-A7, unless otherwise specified.

planned and expected 5 per cent average annual growth rate of Gross Domestic Product was not achieved in the period 1960-1969. The actual rate of growth attained by developing Africa in the first decade was 4.4 per cent.<sup>1</sup> While it would be difficult to give the reasons for such development performance, it is nonetheless useful to point out GP dynamics on a sub-regional basis. North Africa and East Africa GDP increased respectively at an annual average rate of 5.2 and 5.0 per cent. On the contrary West Africa and Central Africa growth lagged behind, with a rate respectively of 3.2 and 3.0 per cent. It should also be noted that the momentum of North-West Africa's growth decreased during the second half of the period 1960-1969, while Central-East Africa rated an increasing trend. The comparative analysis of these few aggregate statistics reveals wide sub-regional discrepancies in economic development and a wide variability of development performance over time. Even if no definite judgement can be made on the basis of such limited statistical knowledge, it is clear that a considerable gap, both quantitative and qualitative, exists between past performance and the achievement of the stable 6 per cent target (average annual growth rate of GDP) fixed by the UN Second Development Decade. This statement should be accepted only generally because within each sub-region a great and sometimes contradictory variety of growth performances can be observed. Thus, although the actual development outlook for a few countries is positive, the overall picture cannot be viewed optimistically. Under present conditions, the 6 per cent growth target is unrealistic for developing Africa as a whole, and even the achievement of a stable 5 per cent rate would imply great efforts in many countries. The overall situation, seen from the view point of GDP growth per head, does not look any better, owing to the high

---

<sup>1</sup> All growth rates are computed at constant prices.

average annual growth of population (around 2.6 per cent in 1965-1970).<sup>1</sup>

This tentative conclusion is further supported by an analysis of the sources and uses of real resources. The aggregate figures show that during the first decade a larger share of resources was provided by GDP (internal source), while the share of external resources (imports less exports) in total available resources decreased and in the end (1969) became negative. However this improvement in the trade balance concerns only a minority of countries and it is important to note that the majority still acts as a net importer of resources from outside.

The actual allocation (on a percentage basis) of available resources to different uses has not been altogether satisfactory. Government consumption has gradually increased its share from 12.8 (1960) to 15.7 per cent (1969), but with slowing momentum, and private consumption has roughly counter-balanced this trend by absorbing less resources, 65.8 per cent in 1969 with respect to 74.2 per cent in 1960. The role played by the trade balance in using a small share of resources has already been noted. Thus Gross Domestic Capital Formation could not increase significantly in comparison to other uses of resources: in fact in 1960 it accounted for 16.5 per cent of available net resources, and for 16.8 per cent in 1969. This partially explains the poor growth performance of developing Africa, since according to the First Development Decade forecasts the achievement of a 6 per cent average annual growth rate would have called for larger investment expenditures and GDCF should have attained a relative share of 20 per cent of total net resources.

---

<sup>1</sup> The GDP figures for 1970 do not show a better picture. According to the UNECA *Survey of Economic Conditions in Africa, 1971*, Part I, page 1, development performance was the following: all developing Africa 4.2, North Africa 4.7, West Africa 3.9, Central Africa 6.0 (this high rate is greatly biased by the outstanding performance of Zaire: 12.4 per cent), and East Africa 3.4 (this figure is largely influenced by the performance of Zambia, which recorded a decrease in GDP).



Owing to the lack of analytical information about the functional composition of GDCF, there is room for doubt as to the optimal allocation of the resources earmarked for investment. It is likely that resources have not been invested in the most productive way (sectors) and that investment productivity itself has been hindered by the various structural deficiencies and bottlenecks of the socio-economic systems. It must also be pointed out that economic productivity should not be taken as an absolute measure of performance wherever social needs and social development are concerned, as is the case in African countries. It is only fair to assume that, under present conditions and for a not too short time to come, the marginal efficiency of investment capital cannot be improved by simply reallocating investment resources or by straightening out any internal bottlenecks. Therefore, in order to achieve a higher average annual growth rate of GDP, a larger relative share of available resources ought to be channelled into GDCF.<sup>1</sup>

Commenting on this particular point the UNECA *Survey of Economic Conditions in Africa*, 1970 (p. 31) states that "... the only immediate means of bridging this gap is by more external aid being made available. Over the longer term African countries should be able to pay for an increasing share of their capital formation from

---

<sup>1</sup> In the text it is assumed that there exists a positive correlation between the growth rate of GDCF and GDP, even if the capital output ratio (which provides the conceptual link between the two quantities) is considered a moot point. It is proper to recall that in the UNECA, *Survey of Economic Conditions in Africa*, 1968, on pages 76-77 it is shown that the growth rate of the GDP (in African countries for which data were available) was not correlated with the growth rate of the GDCF or with investment performance. The discussion of this point, however important, does not come under the main objectives of this paper. Therefore the last statement preceding this note should be taken as a necessary hypothesis, the consistency of which should be tested in the long run and under proper conditions. Anyway, the whole matter would be better left in the hands of such economists as P.N. Rosenstein-Rodan (ed.), *Capital formation and economic development*, London, 1965, and R. Nurkse, *Problems of capital formation in underdeveloped countries*, Oxford, 1966.

domestic resources but here the information on domestic savings is particularly incomplete". This statement obviously opens up the problem of African development financing, by suggesting that a higher growth rate (and relative share) of resources allocated to GDCF cannot be achieved via a redistribution of existing domestic resources, but necessarily calls for higher growth rates of available net resources. This is tantamount to saying that a higher external/domestic resources ratio is needed, owing to the unavailability of the latter, for more rapid GDCF growth. In conclusion, for development's sake, investment will have to rely more — at least in a short-medium term perspective — on external resources, even if this implies increasing foreign debt.

## 2. FINANCING AFRICAN DEVELOPMENT: THE FIRST DECADE PERFORMANCE

### *Foreword*

It is quite difficult, if not impossible, to outline the financial means used to mobilize and channel physical resources towards Gross Domestic Capital Formation. This is due to an actual deficiency of financial statistics for developing African countries, so that at present there is insufficient heterogeneous and uncertain data on which to ground a reliable quantitative analysis of the financial performance of African economies. Owing to the lack of an aggregate financial accounting system in most of these countries, it is nearly impossible to assess how financial flows are generated directed, allocated and finally used within the economy at sectoral level. In fact, existing knowledge is usually confined to those financial flows generated and intermediated by the public administration (included the central bank), the banking system (which for our purpose includes all sorts of institutional financial intermediaries), and the foreign sector. At this point it might seem simple to obtain,

on a residual basis, the aggregate financial account of enterprises and households together. While the impossibility of establishing separate accounts for these two remaining sectors is no doubt a great loss and inconvenience to economic and financial analysis, nonetheless this systematic approach, although oversimplified, could disclose a remarkable amount of useful information, particularly for the control and planning purposes of central governments. This approach might be (and in some cases is) adopted in a number of African countries, but it often produces financial statistics which cannot, because of their heterogeneity, be further aggregated to form a reliable super-national picture. In fact, there is not the necessary uniformity of definition of sectors and of accounting criteria and procedures used, even assuming that accounting techniques and practices were reliable. For instance, there is uncertainty as to the extent of the public administration, whether or not it includes, besides central government, local government, public enterprises and other parastatal bodies.<sup>1</sup> The same applies to the banking system and to the foreign sector. This is a serious handicap as far as the purpose of this paper is concerned. In fact, a complete set of "flow of funds" accounts (or, which practically amounts to the same concept, an analytical knowledge of the financial assets and liabilities pertaining to the different sectors) would certainly be a valid contribution to the solution of the problem at hand, that is how, when, where, in what amount, by which techniques and at what cost could financial resources be mobilized in order to achieve an optimal GDCF ratio and

---

<sup>1</sup> For the purposes of this paper the definition of public administration includes only central and local government. Because of such restrictive definition, the terms "public finance" and "public savings" frequently used in the following pages in no case refer to the finance and savings of public enterprises. It has been judged that the inclusion of the public enterprise sector into public administration might lead to misunderstandings and that the definition of various sources of savings should be based on a strictly functional basis, unbiased by any legal aspect affecting the source itself of savings.



mix. Without this frame of reference it would be difficult to attain the same result, since the only alternative way would consist in following a trial and error approach, supported by random estimations. But obviously this approach cannot be relied upon to give satisfactory results.<sup>1</sup>

### *Public administration finance and savings*

Government revenue and receipts.

By reviewing those few aggregate figures available on financial performance of developing African countries, one would remark that during the past decade much reliance has been made upon public finance, fiscal policy and external aid in channelling resources towards GDCF.

The statistics provided by the UNECA *Survey* of 1970 (pages 136-143) reveal that government ordinary or current revenue increased in 1960-1969 by an overall rate of 8.4 per cent per year (this data is only for 24 countries). In the second half of the last decade (1965-1969) in comparison with the first half (1960-1964) the annual average growth rate of direct taxes increased from 8.3 to 9.4 per cent, that of indirect taxes has decreased from 7.3 to 3.6 per cent and that of "other domestic revenues" (including petroleum revenue, copper mining royalties and copper export taxes) increased from 11.5 to 16.0 per cent, while grants have made an altogether negligible contribution to government ordinary revenue. These com-

---

<sup>1</sup> As to the opportunity and possibility of establishing a statistical programme for improving financial statistics in developing countries, some interesting suggestions have been made by R.W. Goldsmith in his presentation *The Mobilization of Domestic Resources for Economic Growth through the Financial System* (pages 25-36) delivered at the Round Table held on the same topic in Lima, May 11-12, 1971 and published in Inter-American Development Bank, *The Mobilization of Internal Financial Resources in Latin America*.

bin trends have obviously influenced the actual distribution of ordinary revenue by source. In 1968, according to calculations referring to 39 countries, the relative proportions of the different sources were the following ones: direct taxes 19.4 per cent; indirect taxes 49.1 per cent, other domestic revenue 30.0 per cent and grants 1.5 per cent. As can be easily seen, African countries still rely mostly on indirect taxation. This statement is further supported by the fact that the bulk of "other domestic revenues" is, so to say, the privilege of a limited number of countries (such as Algeria, Angola, Egypt, Libya, Mozambique, Zambia). While the reasons for this heavy reliance on indirect taxes are easily explained and can be understood (low level of the large majority of personal incomes, operating costs of direct taxation machinery, bad tax administration, political pressure exercised by higher income groups), it is nonetheless obvious that fiscal policy should be directed towards establishing a more balanced (and fair) government revenue structure through implementing more efficient direct taxation on personal incomes. It is significant to note that less than one per cent of the population pays direct taxes and that the taxpayers are mostly represented by public employees and large firms. Moreover, indirect tax collection has been designed in a way to minimize administrative costs and problems: the major part of the revenues from these sources are from custom duties, sales taxes and excise duties. Under these conditions it is logical to question whether the overall taxation potential of African economies is rationally and fully exploited, and whether such fiscal policy does not in some way negatively affect the savings potential of the economy. This is an important point for future consideration and it is worth debating along theoretical lines. It seems clear that in a static approach increasing taxation, if direct, reduces available income to households and, if indirect, lowers the purchasing power of existing personal incomes. One way or the other, savings potential and propensity are negatively affected, since the consump-

tion propensity is generally highly rigid with respect to income and in African countries average personal income is growing very slowly and in some cases is nearly stable. In this case a faster increase in taxation would not only prevent household savings, but it might also cause negative personal savings if some income-earners were induced to disinvest accumulated wealth in order to counterbalance the reduction of income (actual or in purchasing power) allocated to current consumption expenditure. In the end it would be interesting to establish the break-even point beyond which fiscal policy, originally designed to foster resource mobilization and possibly to maximize it, no longer serves this purpose and the marginal increase in tax revenue is more than offset by the overall decrease in private savings. Therefore fiscal policy should be thought of not only as an instrument to mobilize resources through government channels, but also as a device to favour the same process through other channels (mostly self-financing of enterprises and financial intermediation of personal savings). In other words, taxation should endeavour to establish complementarity, rather than contradiction, between public and private savings.<sup>1</sup>

---

<sup>1</sup> Some interesting contributions have recently been made in this widely debated topic: B. Vinay, *Epargne, fiscalité, développement*, Paris, Collin, 1968; S. Please, "Savings through taxation: Reality or Mirage?", *Finance and Development*, Washington, March 1967; K. Krishnamurty, *Savings and Taxation in Developing Countries: An Empirical Study*, IBRD, Economics Department Working Paper No. 23, Washington, August 8, 1968; S. Please, *The "Please effect" revisited*, IBRD, Washington, July 1970; S.K. Singh, *The Determinants of Aggregate Savings*, IBRD, Economic Staff Working Paper No. 127, Washington, March 1972. In this paper it is quite impossible to present and discuss the rather complicated findings of the above-mentioned studies. It is nevertheless interesting to point out that, according to S.K. Singh (on page 30), "the three findings together, (i) the positive effect of tax-rate on private saving; (ii) the negative effect of government saving on private saving, and (iii) low propensity to save of governments, are of significant interest from the point of view of policy and should be explored further". However he



So much for the economic problems arising from taxation vis-à-vis private savings. But there is also a social aspect to the same problem, since personal savings should be thought of as a way of social participation and direct contribution to economic development, and their importance in this respect must not be underestimated.

In order to complete the picture of the financial inflows of the government budget, it must be remembered that, besides ordinary revenue, the public administration also mobilizes resources from extraordinary and loan sources. Anyway, since 1960 the relative importance of both these sources has been decreasing and in 1969 they represented only 13.5 per cent of total government receipts. Extraordinary revenue decreased in absolute terms, while on the other hand loan receipts registered a high, but decreasing, annual growth rate until 1968, and finally fell in 1969. These considerations are based on the same 22 countries mentioned above, but they are likely to apply to all developing Africa. In concluding this brief sketch of government revenues and receipts by source, it is quite

---

specifies that "the marginal effect of tax-rate on private savings becomes negative after the tax-rate is 28 per cent of GNP or more. The average effect, on the other hand, continues to be positive... However, in less developed countries, where the tax-rates are lower than 28 per cent, the marginal effect of increasing tax-rate would be to increase the private saving rate". It should be noted that the effect of an increasing tax-rate on the overall rate of savings depends largely upon the relative position of the government's marginal propensity to save vis-à-vis the same propensity of the rest of the economy. This relative position contributes to determining the degree of substitutability existing between private savings and government savings, and finally the overall effect on aggregate savings. However, it is important to make clear that S.K. Singh's arguments and the ensuing considerations do not apply directly to the problem debated in the text, where the effect of tax-rate on personal or household savings is considered, which differ from private savings by the quantity of private business or enterprise savings (which in their turn sometimes improperly include also the savings of public enterprises).

evident that the dominant role has been played, until now, by direct and indirect taxes and "other domestic sources", and that the present orientation is not likely to change in the near future.

Government expenditure and public savings.

Coming to the expenditure side of the government budget, the *ECA Survey 1970* (pages 135-136) reveals that, in 1968, in 14 out of the 20 countries examined capital expenditure got a larger share of total expenditure than it did in 1960. Individually the situation varies very much: in some countries (such as Zambia) current expenditure represents only 50 per cent of the total, while in others (such as Chad) it amounts to as much as 97 per cent. The functional distribution of government current expenditure among "defence and administration", "social and community services" and "economic services" appears to be quite balanced on the average. On the other hand, the distribution of capital expenditure under these same headings is mostly oriented towards economic services. Also in this case, there is a wide variety of situations at the individual level: in 1968 some countries (e.g. Algeria and Zambia) allocated more than 30 per cent of total expenditure to economic services while others (e.g. Liberia, Ghana, Central African Republic and Chad) less than 10 per cent.

The above-mentioned *ECA Survey* (page 135) remarks that "although the capital expenditures have increased substantially in absolute terms in the case of almost all the countries, their share in total government spending is still not substantial (except in a few cases) because of a comparatively larger increase during the decade in the level of recurrent expenditures". This is only an indirect way of saying that government current spending in most cases shows an upward trend and therefore tends to absorb new resources made available by the government budget. In this respect it must be noted

that current expenditure, because of its particularly rigid nature, cannot be easily cut back, while on the contrary capital expenditure can be more easily reduced whenever the public administration has not definitively committed itself to finance specific investment projects. Moreover, it is important to stress that capital expenditure always needs an adequate institutional set-up, i.e. accessory current expenditure for evaluation, organization, implementation and administration of investment projects. On the contrary current expenditure does not always call for collateral investment capital in significant proportions. For these reasons the growth rate of current expenditure tends spontaneously to exceed that of capital expenditure, which is thus in constant danger of being "marginalized". This is particularly true of developing countries where the still high unemployment rate exerts a social pressure on public administration to create new jobs. This situation favours the growth of oversized administrative structures which usually require a very low investment-capital outlay per-capita and, on the other hand, imply a great, and irreversible increase in current expenditures. Moreover, in developing countries capital expenditure is largely allocated to the construction of economic and social infrastructure (roads, dams, irrigation schemes, water supply projects, schools, hospitals, housing, administrative buildings, etc.). Such capital investment has a low, long-term, and for the most part indirect, rate of return: therefore the largest part of government capital expenditure is not self-financing and in the short-medium term does not give much indirect contribution (via income growth) to tax revenues. This incapacity of government capital expenditure to be "self-feeding" in the first stages of development certainly does not help to prevent the above-mentioned "marginalization" effect.

In this particular context, the overall performance of the capital expenditure policy of African governments ought to be considered



good, even if it is still unsatisfactory. In fact, in most countries the tendency of current expenditures to grow faster than capital expenditures has been successfully checked and to some extent reversed, thanks to the investment-oriented philosophy now prevailing among African development planners. But, if a further investment effort is to be financed in order to achieve the fixed GDCF target, more resources in relative terms will have to be allocated to this purpose. This further step will not be easy: for the time being a simple reallocation of government budget expenditures is out of the question, owing to the inherent rigidity of current expenditures and of their normal growth rate.

Therefore attention must be focused on the revenue side of the government budget, in order to identify ways and means of increasing, in relative terms, the present excess of government total revenue over public consumption expenditure, i.e. public savings. The same analysis could be extended to all the public sector, including also non-government parastatal bodies and public enterprises, but it would rather complicate the matter. For this reason, public corporate savings will be dealt with further on.

It has often been asserted (for instance in the *ECA Survey* for 1970, page 141) that taxes and other current domestic revenues should be able to provide, on a continuous basis, an expanding volume of public savings to be utilized for public sector investment. It has been explained before that particularly taxation and fiscal policy are limited as an instrument specifically assigned to resource mobilization. It seems that these limits are not too far off, considering the rather high GDP share actually levied by taxes in several African countries. Therefore it is optimistic to think that it would be possible to fill in the gap between actual and desired public savings by simply increasing taxation. This does not imply a denial

of the important role which a more efficient tax-collection mechanism could play in contributing to the solution of the problem at hand.<sup>1</sup>

Government borrowing.

Another way by which African governments have mobilized resources for public development expenditure has been through borrowing financial resources from the private sector. By this transfer, the reduction of private claims on available physical resources would free a part of these for capital investment financed by government. Various techniques have been used to implement this transfer, but mostly the collection of private savings through the post office branch system, the issuance of government bonds, and restrictions on the allocation of bank assets. In fact, financial resources mobilized by the post office were (and still are) usually channelled to the Treasury or invested in government bonds. On the other hand, government bonds were (and still are) placed on the market and bought mostly by the post office administration (as has been said) and by banks, either on a voluntary or a compulsory basis, because only a negligible share was (is) actually subscribed to by private in-

---

<sup>1</sup> In fact the so-called "Please Hypothesis" would tend to prove that Government savings cannot be substantially increased by raising the tax-rate. On this topic see both the studies by S. Please, mentioned above. Commenting on the "Please Hypothesis", S.K. Sing, *The Determinants of Aggregate Savings*, IBRD, Washington, March 1972, page 33, contends that "if the Government's marginal propensity to save is lower than the MPS of the rest of the economy, raising the tax-rate would lower the overall saving rate. This would be the "strong" version. The strong version is clearly negated. However, it is the weaker version of the "Please Hypothesis" which has interest and the overall reading of S. Please, *Savings through Taxation: Reality or Mirage?*, clearly points to the weaker version. What Please emphasizes is that the increase in the tax-rate is not going to solve the problem of a significant step-up in saving and investment rate because current expenditure rises too. The weaker version, while admitting that the overall saving rate may increase, would posit that the increase is not likely to be substantial. In this weaker form, the "Please Hypothesis" is clearly confirmed.

vestors. Finally, restrictions imposed on the allocation of the bank financial assets have normally taken the form either of minimum reserve requirements (i.e. compulsory deposits at the central bank or at the Treasury) or of a minimum investment ratio in government bonds. Notwithstanding the variety of instruments and devices used, this transfer of financial resources from the private to the public sector has certainly been significant, but it has rarely given the desired results. In fact, post office resources were soon exhausted and had a very slow growth rate, bank assets could not be "taxed" beyond a certain limit which was soon reached (because of the financial needs of the private sector for investment purposes), and private investors propensity to finance the government budget by subscribing to public bonds has always been very low. Actually government borrowing policy overlooked just one major point: the primary source of these funds — private savings — was (and still is) not given sufficient incentive either by post or banking deposit facilities, or by government bonds, on the mistaken assumption that private savers would be responsive to traditional (European) financial investment opportunities.<sup>1</sup>

#### Deficit-spending.

When this source of funds was exhausted, many African governments resorted to still another way of mobilizing financial (and therefore physical) resources: deficit-spending. This last resort of budget financing has taken different technical forms. The most common one has been direct (short- and medium-term) borrowing by the

---

<sup>1</sup> Some governments, instead of providing adequate incentive to investment in public bonds, have even negatively affected the propensity of individual investors to hold such bonds, by enforcing compulsory subscription plans for wage-earners. This policy has initially and momentarily helped in expanding the subscription to public bonds, but it has caused a subsequent reduction of the government borrowing capacity on the (free) financial market because investors have come to associate new bond issues with the levy of new taxes.



Treasury from the Central Bank. And in some countries central bank lending has become a quite normal method of financing the deficit of the government budget. It is obvious that in so far as this operation is financed by increasing the issue and circulation of banknotes (which are the typical liability of central banks) and is not backed by other central bank liabilities (such as commercial bank reserve requirements or cash deposits in the central bank), the financial resources lent to the government are neither mobilized nor transferred through financial intermediation, but are simply created *ex-nihilo*. The same effect could be obtained although in a more devious way, if the central bank were to refinance commercial banks by an amount greater than requested for reserve requirement purposes and commercial banks were at the same time requested to allocate the consequent liquidity surplus to finance government liabilities (for instance, by subscribing to new government or public bond issues). Finally, the central bank could achieve the same result by depositing non pre-existing, but newly created, funds at the post office savings administration (which usually invests in government liabilities) or by lending newly created financial resources to public enterprises or parastatal bodies and these were ordered to invest part or all of them in government liabilities. Such indirect methods of financing government expenditure have been used mostly in those countries where the upper limit imposed by law on government direct borrowing vis-à-vis the central bank has already been reached. For instance, such was the case of Tunisia.<sup>1</sup>

It is quite evident that such ways of financing government capital expenditure are potentially inflationary and could lead to internal, and also external monetary devaluation. Such would be the

---

<sup>1</sup> For more details on the specific financial techniques to which the Tunisian government resorted between 1964 and 1969, read P. Mottura, *The Banking System of Tunisia, 1956-1970*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1972, pages 167-169 and Table 38.

case if — as has happened in some countries — the flow of available means of payment (banknotes and demand deposits) were to express an overall demand for internal goods and services that could not be matched by the total availability of internal physical resources at the existing price level. In assessing this balance it is necessary to take into account that the liquidity eventually created by the interaction between the Treasury and the Central Bank is actually amplified in certain proportions by the banking system. In fact, through deficit-spending banks can usually increase their liquidity (excess reserves) and — if not limited by restrictive measures, such as stronger compulsory reserve requirements — they might find new investment outlets and hence start piling up new credits and deposits (multiplier effect). Therefore government deficit-spending may very well start a self-feeding increase in the money supply.

In order to establish the limits to which deficit-spending and hence money-supply growth could go without putting an upward pressure on the price level, it is also necessary to foresee the overall amount of physical resources which are not actually mobilized, and to identify (and remove) the eventual bottlenecks preventing their effective mobilization (such might be the case of unexploited natural resources). At present, most developing African countries are favoured by two typical conditions which somehow allow larger scope to deficit-spending and to the growth of the money-supply. First, the monetization of African economies is as yet unaccomplished, but it still is a dynamic and growing process: therefore, with development going on, more and more physical resources are gradually integrated into the monetary circuits and need a growing monetary stock to be mobilized and traded if the circulation velocity of money does not increase. Second, in some countries the habit of cash-hoarding is still widespread among a large part of the population (particularly lower-income groups) and a certain amount of the banknotes issued by the central bank actually goes out of circulation: hence, the cur-

rent claims of cash-holders against available physical resources are for the time being reduced and the consequent gap can be temporarily filled in by deficit-spending and money supply growth.<sup>1</sup>

This somewhat larger possibility afforded to African countries to implement the mobilization of physical resources through deficit-spending and money supply expansion is indirectly proved by the monetary statistics reported in *ECA Survey 1970*, pages 149-152. While these data are altogether inadequate to thoroughly analyse the monetary and financial performance during the first development decade, at least they show that the average annual growth rate of the money supply was 6.3 per cent, in 1960-1965, and 6.9, in 1965-1969. On the other hand, domestic credit registered higher growth rates, respectively 8.8 and 9.7 per cent in the same periods. This

---

<sup>1</sup> This type of monetary policy implies the obvious risk that the stock of money hoarded by individuals may at any time be circulated again, thus causing an inflationary situation because the eventual gap between monetary demand and physical supply (if the trade balance remains unchanged) would be forcedly levelled off by a price increase. From the economic point of view it might be argued that, even if deficit-spending exceeds the limit beyond which inflationary pressures set in, the government can still increase its own claims upon available physical resources, as far as the nominal increase of household monetary revenues (particularly salaries and wages) can be prevented or adequately checked by a proper policy while prices are allowed to increase. If such is the case, the total amount of household monetary revenues (the relative increase of which is at most inferior to the rate of inflation) can only buy a lesser share of available resources (at increased prices), while the government can claim a larger portion. If the latter resources are used for capital investment, then the whole process can be termed as one of "development by means of inflation", which is inherently supported by the compulsory savings or the implicit additional taxes levied on household monetary revenues via increased prices. In fact the loss of purchasing capacity suffered by household revenues can be seen both as savings (reduced consumption) or as taxation (transfer of resources from the private to the public sector). Similar policies of fostering development financing by means of inflation have sometimes been applied, as the past experience of a few Latin-American countries would seem to suggest, notwithstanding the danger of the government losing control on inflation. On the contrary, no African country seems to have yet, except occasionally, overcome the above-mentioned limit inherent to deficit-spending.



means that banks have engaged more and more in local investments. Such a performance was also made possible by the high, although decreasing, growth rate of quasi-money (15.0 per cent per year in 1960-1965 and 11.8 per cent in 1965-1969). It is important to note that the growth of the major monetary variables has not been offset by an equal increase in the price level: consumer prices only registered an average increase of 3.4 per cent a year in 1960-1969, and of 4.7 per cent in 1965-1969. Obviously, it would be much more meaningful to examine the same figures at the sub-regional and country level, where it would be possible to observe a large variety of situations. In conclusion, the overall monetary performance of African countries in the last decade appears to be good (with the exception of extreme cases such as Ghana and Congo), particularly considering that at least a part of the mild inflation recorded has been recently imported from developed industrial countries and that in most instances monetary authorities have been quite efficient in enforcing anti-inflationary controls.

### *The self-financing of public and private enterprises*

Besides the capital expenditure financed by governments through current budget surpluses, borrowing and deficit-spending, GDCF in African countries has also been fostered by the self-financing of enterprises. Most enterprises, particularly the public ones, have made large efforts to retain and to reinvest profits, thus expanding their operations. Sometimes these profits have been transferred to different sectors for reinvestment or have been used to finance new industrial projects. Several public enterprises have furthermore enjoyed a monopolistic status, having no competitors on the internal market and being shielded by import duties from external competitors. These conditions have no doubt strongly contributed to the formation of public business profits and some public

enterprises have even succeeded in applying monopoly or monopsony prices under government control in order to increase their revenues still further. A case in point are the marketing boards which have built up remarkable profits by buying export products at prices lower than those quoted on the world market and by then exporting them at the full price.<sup>1</sup> Also financial intermediaries (commercial banks, development banks, etc.) have performed an important role in helping along the public sector to self-finance its investments and growth. They have usually provided financial advice, project evaluation, co-ordination, management and a funds transfer system.<sup>2</sup>

On the other hand, it is much more difficult to assess the extent of self-financing in the private business sector.<sup>3</sup> It is likely that, in this particular case, self-financing has reached lesser proportions for various reasons, including a different market context: private businesses are usually more heavily taxed, do not always enjoy monopoly status, are rarely shielded from import competition. Moreover, both local and foreign private firms commonly export a significant share of their profits for reinvestment outside the country of origin, and foreign-owned commercial banks are often willing to

---

<sup>1</sup> *The Caisses de stabilisation* have played a similar role in most French-speaking countries.

<sup>2</sup> Owing to differences in accounting procedures and techniques it is often quite difficult to quantify the self-financing of public enterprises separately from other government receipts. As a matter of fact in some countries the profits of public enterprises are paid over to the government budget (usually to the Treasury or the Ministry of Finance) and then allocated to government (capital or current expenditure), while in other countries they are accounted separately from other government revenues and are directly reinvested in the public enterprise sector.

<sup>3</sup> The most exhaustive and recent source of information on African private enterprises is J.C. de Wilde, *The Development of African Private Enterprise*, International Bank for Reconstruction and Development - International Development Association, Washington, December 10, 1971, 2 Vol.

provide the proper channels for this outflow of internal resources.<sup>1</sup> A separate analysis should be made of the too often neglected small business sub-sector, but here even general information is lacking.

From the theoretical point of view it is important to recall that enterprise self-financing depends on a number of external factors, beside internal productivity: among these, specific attention should be given to fiscal policy, and to market prices of the outputs and inputs of enterprises, with particular reference to the cost of labour and to the cost of capital. As far as fiscal policy is concerned, it is obvious that taxation of business profits strongly affects the self-financing capacity of enterprises. The same result can be, and in fact is, achieved by manoeuvring indirect taxes, and particularly those on imports and exports. In this sense fiscal policy is a major tool for influencing the formation, allocation and transfer of enterprise savings. Moreover, in some African countries government manages rather strictly the pricing of outputs and inputs, mostly in favour of public enterprises, which can thus earn larger profits and achieve a self-financing capacity greater than that allowed by a free-market price system.<sup>2</sup> Particularly the prices of two typical and very important inputs are often appropriately managed by governments: the cost of labour (mainly salaries and wages) and the cost of capital (preferential interest rates, soft loans, subventions, grants, etc.) can be so controlled that enterprises may earn larger operating profits

---

<sup>1</sup> A frequent cause of confusion is provided by the rather free and not too clear finance of multinational enterprises operating in some African countries. In fact multinational companies often enjoy a remarkable degree of freedom (and a strong bargaining position) and can therefore significantly contribute to the transfer of funds to and from the country concerned.

<sup>2</sup> A case in point is that of Mali, where the price system is so managed that the formation of public savings (either government or enterprise) is greatly enhanced. Such is the opinion expressed by F. Arcucci and C. Dematté in *Rapport préliminaire sur la création d'une Caisse d'Epargne Ordinaire dans la République du Mali*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1973 (unpublished report).



by paying lesser prices to both the above-mentioned inputs.<sup>1</sup> It is obvious that, everything else being equal, tax and price mechanism only act to transfer savings (i.e. claims on available resources) and therefore affect resources allocation between enterprises and other sectors (government and households). Although the main objective of this paper is not to assess the relative advantages and disadvantages of such transfers as far as overall savings formation is concerned, it is nevertheless important to make clear that these mechanism greatly affect the savings formation pattern and capacity of any sector vis-à-vis each other and its potential relative contribution to GDCF, and they strictly condition the subsequent choice of the most appropriate techniques for mobilizing financial resources for development.

Concluding these notes on the self-financing of enterprises, a particular point is worth stressing: the lack of statistical data on the extent of such savings, notwithstanding its great actual and potential importance. It is a fact that most economic plans implemented by African governments rely largely on business self-financing. Even the *ECA Survey 1970* focuses its attention almost exclusively on government finance and external aid, but other aspects are also well worth studying. Enterprise finance does and will perform a vital role in GDCF, and therefore in African development. If this assumption is true, then this sort of savings must no longer be neglected and proper steps should be taken in order to collect extensive statistical documentation. Without such information background, it will be

---

<sup>1</sup> For instance in Tunisia, during the 1964 and successive years stabilization programme, salaries and wages were frozen mostly to the benefit of public enterprises. Initially this freeze was not openly admitted, but it was an essential prerequisite, however implicit, to the implementation of the *Perspective décennale de développement*, established in 1961, which relied mainly on public sector self-financing. In more detail P. Mottura, *The Banking System of Tunisia 1956-1970*, *op. cit.*, pages 152-153 and 165.

quite impossible to orient African co-operation towards the identification and implementation of the most effective policies of promoting and rationally allocating enterprise savings.

### *Personal and household savings*

After dealing with public and business savings, attention must be drawn to the third and last source of domestic financial resources to be mobilized for investment: personal and household savings.<sup>1</sup> Since this is the main object of the present paper, it will be exhaustively examined in the forthcoming paragraphs. At this point, it is sufficient to observe summarily that until now personal savings have received little attention either by African authorities or by economists and planners concerned with African development. No statistical data are actually available to assess, in aggregate terms, the magnitude of these resources. Even the *UN Yearbook of National Accounts Statistics 1969* provides a table on the finance of GDCF for only 6 countries (Libya, Mauritius, Niger, Sierra Leone, Tunisia and Zambia), but in most cases savings of households and private non-profit institutions are presented together with those of private and even public corporations.<sup>2</sup> This disregard for household savings should not come as a surprise since up to now nearly all attention has been focused upon government and enterprise savings and on the more apt techniques to increase their volume. It has been explained in the preceding paragraphs how fiscal and price policies

---

<sup>1</sup> Here only the personal savings of the indigenous population are considered. In fact expatriates' savings are usually transferred abroad. On this point, *Mobilization of Domestic Savings*, UNECA, Addis Ababa 30 March 1971, pages 31-38. Although this paper refers only to East and Central African countries (except Congo and Mauritius), it is nevertheless quite representative.

<sup>2</sup> It is worth noting that in the *UN Yearbook of National Accounts Statistics 1970* the table "Finance of Gross Domestic Capital Formation" has been suppressed owing to the adoption of new accounting and classification criteria.

have probably affected the overall savings formation pattern in most African countries and how such policies have probably concurred in putting various constraints on savings formation in the household sector.<sup>1</sup>

It is a known fact that personal savings contribute in a minor proportion to GDCF, the bulk being provided by public saving, enterprises self-financing (profit-reinvestment), and external aid. As will be explained further on, the present widespread disregard for personal savings is currently based on the following:

- (a) average personal savings are very small and often widely scattered (since the major part of the population lives in rural areas), if not actually non-existent;
- (b) the costs involved in mobilizing personal small savings would be prohibitive and could not be repaid by any normal investment return;
- (c) the growth of personal savings depends upon the growth of average *per capita* income and therefore, since the latter is rather slow, personal savings mobilization could give significant results only in the long run.

These three assumptions will be thoroughly examined and discussed, concluding that they cannot be entirely accepted, on the basis of existing knowledge. Also evidence to the contrary will be presented and discussed. But at present the important point is that, by accepting more or less consciously these partially aprioristic assumptions, most economists and planners decided that it was too great a difficulty to include personal savings in their financial plans, bypassed this source of development finance and soon jumped to the conclusion that resort to external resources was the only possible

---

<sup>1</sup> Similar opinions are expressed in *Economic Progress and Prospects in Kenya*, Volume II, Annex B; *The Mobilization of Private Savings*, IBRD-IDA, Eastern African Department, March 20, 1972 (restricted).



way to step up GDCF to the fixed target. More exactly, it was not the only possible way, but the easiest one, since external aid is much quicker to mobilize than personal savings. All this is quite understandable if one considers that the normal perspective of an economic planner's work and thought is usually investment-oriented or, in other words, mainly focused on the inter-dependence and interaction of GDP and GDCF, in dynamic terms. Such particular orientation and philosophy has found strong theoretical support in Keynesian economics and derived further strength from social, and therefore political, pressures for quick development in poor countries. In a way, investment has come to be thought of as the leading variable of economic development, on the implicit assumption that savings (particularly private savings) are themselves induced — as a sort of derivative feedback — by economic development. This approach causes investment to exert a "pulling effect" on available resources, and particularly on external resources, since domestic resources are either insufficient or cannot be easily diverted from their present allocation (consumption expenditure). Perhaps this is another case of misguided application of economic theories, originally worked out for developed countries,<sup>1</sup> to the African situation.

### *External aid*

The aggregate figures reported in the *ECA Survey 1970* (pages 143-149) reveal that in the period 1962-1968 (seven years) the outstanding external public debt of Africa increased by 163 per cent

---

<sup>1</sup> Some of the ideas expressed in this paragraph are also debated in A. Mauri, "The Mobilization of Savings in African Countries", Milan, 1972, revised version of the paper "Savings Banks in African Countries" presented by the same author at the *Conference on the Mobilization of Savings in African Countries*, held by CARIPLO and ISBI in Milan, 20-23 September 1971. The proceedings of this Conference have been published, under the same title, by the Cassa di Risparmio delle Provincie Lombarde in 1972.

and that in 1968 the debt service payment was 3.6 times higher than in 1961. Moreover in 1968 this outflow had reached a quite large proportion of export receipts: in one case (Tunisia) this proportion was as high as 24 per cent. It must be noted that debt service payments rose much faster than outstanding external public debt: for instance, the ratio of the former to the net capital inflow was nearly 9 per cent in 1961, while it amounted to as much as 35 per cent in 1968. This was mostly due to two main factors: during the past decade, the annual net capital inflow has not grown significantly and, with time, more and more external debts have come to maturity. Another factor which contributed to deteriorating the balance has been the growing use of suppliers credit by African countries. It is well known that this kind of credit, besides being of rather short duration, normally implies high interest costs. Owing to this "scissors effect" between new external debt and repayments, the outlook for African countries is obviously not optimistic: while foreign indebtedness will continue to grow, the share of capital inflow which is allocated to GDCF will gradually become smaller, because of the relative increase of debt service payments. There is hope that external financing of African development will more and more take the form of "soft loans", and will therefore delay, or even reverse in the long run the "scissors effect" mentioned above. Notwithstanding this hope, one should not forget that external aid, particularly when bilateral, tends to tie the economic development pattern of the recipient country to that of the lender or donor country. There is no doubt that in the past such financial relationships have in some way damaged recipient countries, biasing and distorting their development performance and limiting their effective independence. For instance, the financial link with developed nations has sometimes caused the African partners to import technology unadapted to local socio-economic conditions, cost-push inflation, high-standard consumption patterns, extraneous cultural elements, unduly sophisti-

cated institutions alien to local social background and even undesirable political pressures. It therefore seems quite logical to conclude by stressing that external aid should only be a complement to domestic resources in financing GDCF. Otherwise African countries might become in a way dominated by, and dependent on, external factors and, in the end, would let themselves be passively developed by industrial countries and international organizations. Active self-development should be once more asserted as a top-priority condition because it is quite obvious that, beyond a certain optimal point, a greater reliance on external aid implies a "trade-off" between socio-economic independence and rapid (externally-induced) growth. This might very well be the final result if a too much investment-oriented philosophy of development were to prevail among African economic planners.<sup>1</sup>

### *Provisional conclusions*

Despite the actual lack of statistical information about GDCF financing, it is a known fact that the funds allocated to capital investment are mostly provided by public savings, the self-financing of public enterprises and external aid, while private business and personal savings appear to perform a minor role in this respect. The actual tendency has been partially fostered by the investment-oriented philosophy now prevailing both in the theory and practice of African development. It was only too logical that, in such a context and for the sake of GDP growth, investment expansion should

---

<sup>1</sup> On the relationship between economic growth and external debt in developing countries, B. Balassa, *Economic Growth, Trade and the Balance of Payments in the Developing Countries, 1960-1965*, IBRD, March 1968; B.B. King, *Notes on the Mechanics of Growth and Debt*, Baltimore, Johns Hopkins University Press, 1968; and T. Mende, *De l'aide à la recolonisation: les leçons d'un échec*, Paris, Editions du Seuil, 1972, first part.



have a "pulling effect" on available financial resources: thus these were mobilized from whichever source was easier to implement. The upshot obviously was an increasing reliance by African countries on public savings (obtained through taxation), deficit-spending (implemented by monetary policy), on other public sector savings (self-financing of public enterprises, often fostered by appropriate fiscal, wage and price policies) and on external aid (mobilized mostly through growing indebtedness). Some of the negative consequences deriving from this unbalanced financial performance have already been pointed out, particularly in connection with taxation and external aid. Private enterprises and households have been largely neglected as a potential source of resources for GDCF. In fact their savings were neither promoted nor actively mobilized. It is likely that such orientation has contributed to aggravating the following, pre-existing, weak points of African development, during the last decade:

- (a) private entrepreneurship has stagnated, if not regressed, as is proved by the actual number of small-scale business now in operation;
- (b) the financial system (both banking and non-banking financial intermediaries) has not developed according to the needs of all scales of business and productive activities and of all income groups;
- (c) economic, social and financial dualism has not been eliminated, and sometimes it has been increased, because the largest part of the population was not provided with adequate and sufficiently direct means of social and economic participation in national self-development.

On the ground of previous considerations, the obvious conclusion is that planners should try to assess a more balanced view of development financing and that, in this respect, private savings should be given more attention than has been the case up to now.

3. HOW CURRENT DEVELOPMENT FINANCING HAS AFFECTED THE STRUCTURE AND PERFORMANCE OF AFRICAN FINANCIAL SYSTEMS, WITH PARTICULAR REFERENCE TO SAVINGS MOBILIZATION

The development financing policy implemented in most African countries during the past decade has gradually, but significantly, affected the structure and performance of financial system. This fact is important not only from the historical point of view, but also for its future implications, since the task of mobilizing savings will have to be performed mostly by the financial system itself. Therefore it is useful to outline briefly the evolution of the institutions which have undertaken to provide financial intermediation among the various sectors and economic units composing the economic system.

*Evolution of the banking system and of other financial intermediaries*

When African countries gained political independence, one of the first tasks undertaken by many new administrations was to assert economic, financial and monetary independence. In this process, the financial system established by the mother country was soon deeply involved. In fact it was quite obvious that it performed functions that were not, in most cases, oriented towards the autonomous development of the new country. All the commercial banks were foreign-owned and normally served foreign interests. They usually limited their operations to the so-called "modern sector", which was mostly composed of foreign-owned corporations and businesses, and provided the essential financial channels through which capital could be exported or imported without any restrictions, thanks to the existing fixed exchange rate system. On the contrary, the "traditional sector" was generally assisted by altogether different institutions, which mostly performed the task of subsidising indigenous economic activities. Obviously this situation could not be maintained after independence, because it caused destabilizing effects on

local development (outflow of capital) and tended to aggravate the dualism of the economic system. Thus, the new administrators of African countries gradually endeavoured to gain control of the financial system left over by colonial administrations and to introduce all the changes and innovations which were deemed necessary to finance development.

#### Establishment and performance of central banks.

In the first stages of independence, a great number of African countries established new central banks which are, so to say, the cornerstone of the financial system and represent the first step towards the assertion of monetary autonomy. Usually such institutions were not created *ex-nihilo*, but were the result of the transformation of pre-existing currency boards or similar organizations founded and strictly controlled by the colonial administrations. Newly established central banks could not start fully performing their typical functions, without first gaining total control of the local currency. Therefore, many countries eventually came to the point of establishing new monetary relationships with the ex-mother country: the agreements enforcing the equivalence between local and foreign currency and unlimited bilateral capital transfers inside the same monetary area were rejected or normally expired, and were in many cases substituted by more balanced and flexible monetary clauses. Following this essential monetary reform, autonomous central banks engaged mostly in the following operational fields: management of currency issue, introduction of new banking legislation, reform of the banking system, reform of the credit policy and commercial banks refinancing, control of foreign exchange rates and capital transfers, management of foreign exchange reserves, supervision and control of banking performance, management of government debt and Treasury financing, anti-cyclical and development policy. It is important to note that the new central banks were



generally given quite a large scope and a wide variety of tools to manage money and credit according to the development goals.<sup>1</sup>

These brief remarks apply to all African countries with two main exceptions:

- (a) some countries still do not have an independent monetary status and an autonomous central bank. Such is the case of Liberia, where the legal tender is still the US dollar, and of the countries (Lesotho, Swaziland and Botswana) whose internal currency supply is made up of South African rands and is therefore provided by the South African Central Bank, which manages a sort of rand zone or area;
- (b) some countries, which are still enclosed in the franc zone, have a substantially common currency (the CFA franc) which is linked to French franc and is actually managed by two international central banks, the *Banque Centrale des Etats de l'Afrique Occidentale* (BCEAO, for Mauritania,<sup>2</sup> Senegal, Niger, Upper Volta, Ivory Coast, Togo and Dahomey) and the *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun* (BCEAEC, Chad, Gabon, Congo, Central African Republic and Cameroon). In practice, these countries have limited monetary autonomy.<sup>3</sup>

---

<sup>1</sup> On the topic of African Central Banks the best known texts, however some years old, are S.K. Basu, *Central Banking in the Emerging Countries - A study of African Experiments*, London, Asia Publishing House, 1967, and W.T. Newlyn, *Money in an African Context*, Oxford, Oxford University Press, 1967.

<sup>2</sup> The Mauritanian government has however recently declared its intention of leaving the franc zone, of establishing its own central bank and of severing previous connections between the local currency and the French franc. It is anyway too early to know how monetary relationships between Mauritania and the franc zone will be regulated.

<sup>3</sup> The same should be said also for Madagascar and Mali. Both these countries have national central bank, but they have signed special agreements with the franc zone, whereby their monetary autonomy is restricted.

This is certainly a major obstacle to internal savings mobilization, since the promotion, collection and investment of savings require — as it will be explained further on — certain prerequisites which could be provided only by an independent national monetary authority.<sup>1</sup> But even in the countries where such institutions have been established, no active savings policy has until now been defined and implemented, except in very general and abstract terms. It seems that African central banks have until now given little thought to private (and particularly personal) savings mobilization and have not yet fully understood the need for integrating personal savings and all income-groups into the financial circuits of the economy and for bringing them to contribute to and participate in economic development. This factual approach to the substantive matter of personal savings would gradually lead the way of African financial systems to increasing and spread "Africanization", which is the essential precondition to the effective mobilization of internal resources. Perhaps the true explanation for the incapacity of most central banks to bridge the gap, which has until now prevented their total integration into the socio-economic system, lies in their operational, administrative and political environment. In fact central banks have frequently been hard-pressed by other, apparently more urgent, problems such as controlling and managing the internal and international liquidity position, mobilizing financial resources from outside, implementing the less inflationary way of financing the government budget deficit, compromising the IMF restrictive guidelines with expansionary pressures exerted by central planning authorities. In a way it seems that central banks philosophy and policy-making have also been affected and influenced by the same strongly investment-oriented views prevailing among the government de-

---

<sup>1</sup> This is the opinion of G. Dell'Amore in *Banking Policy and Savings Policy in African Countries*, Proceedings of a Conference held in Milan, 20-23 September 1971, *op. cit.*, pages 12-17.

velopment-planners. Moreover, the fact that the central bankers approach to reality is always biased by a traditional and conservative way of thinking, typical of the financier's frame of mind, should not be overlooked.

It seems, however, that the African central banks' philosophy on private savings is going to change in the next years. Although it is premature to pass a definite judgement on some recent events, it is still useful to recall and comment briefly on the following facts. Most African central bankers have shown considerable interest in the topics debated at the already mentioned Conference on the mobilization of savings in African countries, held in Milan, September 1971, under the sponsorship of ISBI and CARIPLO.<sup>1</sup> The Association of African Central Banks, established in December 1968, has recently adopted a work programme which includes a study on the role of financial institutions in the mobilization of domestic financial resources. The main objective of this study should consist in reviewing and analysing the actual situation of savings mobilization in African countries, for the purpose of formulating practical recommendations. The first results of this programme have been presented and discussed at the Seminar held by the same Association in Tunis, from 20 November to 4 December 1972.<sup>2</sup> These elements lead one to think that African central banks may be looking forward to a new orientation in GDCF financing.

Commercial banks.

Commercial banks are the oldest financial intermediaries in African countries, since their origin can be often traced back to the colonial period and to the initiative of the European settlers. After

---

<sup>1</sup> This is witnessed by the discussions recorded in the publication mentioned at the preceding footnote.

<sup>2</sup> The proceedings of this Seminar were published by the *Banque Centrale de Tunisie*.



independence, these foreign-owned banks were no longer acceptable as the backbone of the financial system; in fact, by merely financing import-export trade and the economic activity of the foreign enclave, they have given little or no contribution to local development. Moreover they provided the channels through which the non-indigenous population could transfer its capital abroad and thus certainly contributed to enhance economic and financial dualism.<sup>1</sup>

On the ground of this negative performance, many national governments decided to impose strict controls on the banks locally operated by foreign capital. This major objective was achieved in different ways, either by actually nationalizing foreign banks,<sup>2</sup> or by "Africanizing" them with significant inputs of local private or public capital, or by forcing them to submit to local laws which strongly limited their operational freedom. In some cases, also new foreign capital, provided by countries other than the ex-colonial power, was encouraged to share in local banking, on a minority basis. The objec-

---

<sup>1</sup> For more detailed information on the performance of commercial banks in African countries before independence, read W.T. Newlyn - D.C. Rowan, *Money and Banking in British Colonial Africa*, Oxford University Press, 1954; E. Jucker-Fleetwood, *Money and Finance in Africa*, London, Allen & Unwin, 1964; W.T. Newlyn, *Money in an African Context*, op. cit.; A. Mauri, *Il mercato creditizio nei Paesi sottosviluppati*, Milan, Giuffrè, 1966; A. Mauri, *Il mercato del credito in Etiopia*, Milan, Giuffrè, 1967; R. Bistolfi, *Structure économique et indépendance monétaire de la Tunisie et ses enseignements*, Paris, Cujas, 1967.

Further information on the same topic, after independence of African countries, is provided by other volumes of this series of monographs on "The Credit Markets of Africa". No. 1: *Banking Systems in Africa*, 1971; No. 2: S. Bortolani, *The Banking System of Niger*, 1971; No. 4: P. Mottura, *The Banking System of Tunisia*, 1972; No. 5: B. Rossignoli, *The Banking System of Algeria*, 1973; No. 6: L. Frediani, *The Banking System of Gabon*, 1974; No. 9: M. Onado and A. Porteri, *The Banking System of Lesotho*, 1974; No. 10: C. Caselli, *The Banking System of Tanzania*, 1975; No. 11: S. Bortolani, *Central Banking in Africa*, 1975; No. 12: L. Frediani, *The Liquidity Policy of Deposit Banks in Kenya*, 1975.

<sup>2</sup> Such is the case of Egypt, Tanzania, Algeria, Guinea, Sudan, Somalia, and Libya, although nationalization was implemented with different procedures.

tive of this policy consisted mainly in counterbalancing the influence of the residual colonial interests in the country.<sup>1</sup> It is significant to remark that, except in the extreme case of nationalization, the Africanization process generally took place rather gradually and was helped along by the common interest of the parties concerned not to precipitate the situation. In fact, many new African governments would not or could not endanger the existence of important financial relationships with the ex-colonial administration and, on the other hand, the ex-colonial administration would not or could not too openly delay the Africanization process under way, because of the private economic interests still existing in the ex-colony. No doubt the establishment of autonomous national central banks in African countries helped very much in accelerating this transformation and it is well known that in some cases local monetary authorities put strong pressures on, and even penalized, foreign banks in order to accomplish the target of Africanization. In our opinion, it is not merely a coincidence that, at present, foreign banks still have a very strong position in those African countries where no national central bank was set up.

In order to further africanize the banking system, some governments established entirely new commercial banks by supplying public capital and management, with the implicit intent of counterbalancing foreign influence and establishing a sort of financial leadership inside the system.

The situation of commercial banks in African countries in the early seventies can be summarized under three groupings:

- (a) countries where foreign banks still have a leading position and account for a large share of the banking business. It must be

---

<sup>1</sup> This policy has been largely adopted by Tunisian banking authorities. Read P. Mottura, *The Banking System of Tunisia 1956-1970*, *op. cit.*, pages 55-66 and table 25.

- noted that these are the countries which either have not achieved monetary autonomy or lack a national central bank;
- (b) countries where foreign banks have been more or less intensively africanized. Foreign capital, ex-colonial or other, is still present in the system, but no longer has a strong hold on local commercial banks policy and practice. In these countries the central banks usually has good control over the banking system;
  - (c) countries where all foreign banks have been nationalized and all new banking institutions are state-owned.

It is not the purpose of this paper to review and evaluate African commercial banking performance under these different conditions, but it is nevertheless useful to enquire if African commercial banks, after undergoing the evolution described, have in some way changed and innovated their operational philosophy. In this context, it will be possible to point out the role, if any, which such banks have played in mobilizing personal savings.

Until now it seems that commercial banks — it does not matter if foreign, local, africanized or nationalized — have not yet taken a positive approach to the problem at hand, with very few exceptions. The reason is simple: the structural and functional features of these institutions are such that they do not have either vocational orientation towards personal savings collection or any convenience in dealing with household savings on a large basis. In fact African commercial banks are still strongly conditioned by European banking and business philosophy. Even africanized or nationalized institutions, for the time being, have merely changed management, but have not substantially innovated their performance. Their long-consolidated structure, historical background, traditional management criteria, conservatively-trained staff cannot be re-oriented by any external pressure (africanization or nationalization) to serve purposes other than those for which they were originally established.



Time and changing environment will certainly develop their performance in the long run.<sup>1</sup>

The structure and performance of African commercial banks are so far incompatible with the savings mobilization philosophy that it would be quite impossible to ask them to convert themselves to this task. If such a conversion could be achieved, they would simply lose their commercial orientation. It is quite unrealistic and ingenuous to nurse any hope in this respect, because at present African commercial banks:

- (a) concentrate their business in the areas, mostly urban, where there is a high density of economic, commercial and financial activity. In fact their branches are principally located in or near important towns, industrial areas, market and trade centres, and ports, while rural areas usually lack adequate banking facilities;<sup>2</sup>
- (b) are very selective in accepting and extending customer relationships in the sense that they do not deal with customers who do not come up to a certain, rather high, economic standing. Depositors are generally requested to keep their (savings or demand) balance over a certain minimum and not to carry out deposit and withdrawal operations under a certain lump sum.

---

<sup>1</sup> Besides the structural and organizational factors mentioned, it is only fair to remember that in most cases nationalization and africanization were adopted as political choices more than economic and financial measures, although a number of economic and financial reasons were given. Among these, mobilization of domestic financial resources (and particularly of household savings) was rarely cited as a motive, while attention was mostly focused on credit operations of financial intermediaries and their role in managing external financial relationships (capital exports).

<sup>2</sup> For some information, however partial, about localization of bank branches in Africa, read H.L. Hengberg - W.A. Hance, "Growth and Dispersion of Branch Banking in Tropical Africa", *Economic Geography*, Clark University, Worcester (Massachusetts) 1969, and R.E. Fitchett, *Report on a Mission Concerning Rural Banking Facilities in Ghana*, UN Economic Commission for Africa, Addis Ababa, 31 May 1971.

Considering the personal income of most people in African countries, these limitations are particularly restrictive. Moreover large depositors and potential borrowers are singularly favoured. Deposits from small savers are rarely solicited and encouraged. Borrowers are usually evaluated according to the amount of the loan requested, to their contribution to the bank's earnings, to their solvability, to the kind of collateral security they can provide. It is obvious that, in this context, small borrowers would have but little chance to obtain credit from a commercial bank;

- (c) have quite high operating costs because of their specialization and are generally profit-oriented. In the past decade most African commercial banks have earned remarkable profits: small savings mobilization and small-scale lending would just not be a valid business proposition for them, as an alternative or activity collateral to the actual performance.

It might be pointed out that most of these observations do not apply to nationalized commercial banks. This is partially true, although the experience of these banks since nationalization has been too short to make an objective evaluation. This experience, however limited, has already shown that most state-owned banks have simply switched from private to public customers, by extending their operations to the public sector and to public enterprises. But the operational criteria have remained substantially unchanged, with the exception that some economic criteria have been substituted by political ones (for instance, solvability and collateral requirements have been partially satisfied by government guarantee).<sup>1</sup> Also the profit-motive has usually been maintained, although a state-owned

---

<sup>1</sup> For some severe comments, but altogether well-founded, on the somewhat deceiving results of nationalization and africanization of African banking systems, read G.O. Nwankwo, "Traditional Banking in Developing Countries", *The Bankers' Magazine*, London, February 1973.

bank might forego profits to achieve higher functional standards. But past performance, and particularly the amount of dividends paid, seem to show that the goals which motivated the nationalization of commercial banks were not only the elimination of damaging foreign influence and the acquisition of a powerful tool of socio-economic development, but also the need to gain control of their profits. It is quite significant to note that some African state-owned banks have used profits to buy equity (share capital) either in other commercial banks, or in newly established financial intermediaries, or even in public enterprises. In some cases these banks have been the leading force in the growth of the public sector. On the other hand, the experience of those state banks which are engaged in small-scale lending and in small savings mobilization has not been encouraging and they have gradually turned back to traditional commercial banking.

In conclusion it seems out of place to complain about the lack of interest shown by commercial banks in savings mobilization: they are highly specialized financial intermediaries, whereas the performance of savings mobilization requires an altogether different specialization, structure, orientation and philosophy. Therefore it would be absurd to confer to commercial banks a task that they could only perform on a collateral basis and without any proper vocational orientation. Obviously this statement does not imply that the actual performance of commercial banks is to be considered satisfactory: on the contrary they should make any conceivable effort to extend as far as possible their intermediary function from the economic, social, geographical point of view, so that their africanization becomes an ever-expanding process of social integration and development.<sup>1</sup>

---

<sup>1</sup> To express this need of integration between the banking and financial system and national economy, the new term "indigenisation" has recently come into use. See G.O. Nwankwo, "Indigenisation of Nigerian Banking", *The Bankers' Magazine*, London, July 1972.



### Post Office Savings Banks.

Among the various financial institutions left by the colonial administration were the Post Office Savings Banks. Their structural and functional criteria reflected almost exactly those of the two similar organizations which had proved useful respectively in the United Kingdom and in France. The original purpose of their establishment was to provide wide-scattered facilities for savers, and particularly for those belonging to lower-income groups and having no practical access to banking facilities, either in urban or rural areas. The savings thus collected through the accounts opened in the large network of postal branches were channelled to the head office which transferred them to the central organization abroad or invested them in bonds issued by the government of the mother country. In both cases, the result was the same: the financial resources drained from the indigenous and foreign population were invariably exported, with an economic loss for the country concerned.<sup>1</sup> After independence, these institutions were maintained and managed by the local governments, which found in them an efficient and inexpensive way of financing public expenditures: in fact their funds were soon channelled to the local administration.<sup>2</sup>

---

<sup>1</sup> It should be clear that the final part of this statement is valid only if the capital outflow generated by the postal administration is not counterbalanced and offset by a corresponding capital inflow from the public administration of the mother country.

<sup>2</sup> It must be remembered that in many African countries, soon before and after independence, the funds deposited at the POSB decreased sharply, owing to the massive withdrawals and transfers made by expatriates. It is also significant to note that, on the same occasion, the number of accounts administered by the POSB decreased by a much lesser percentage, while the average amount deposited in each account dropped sharply. The phenomenon shows that the average sum deposited by expatriates exceeded by many times that deposited by indigenous depositors. A specific example of what has been said is reported in P. Mottura, *The Banking System of Tunisia, 1956-1970*, *op. cit.*, pages 215-216.

While it must be recognized that the POSB have no doubt carried out a useful task in mobilizing savings and in increasing government receipts, it is nevertheless useful to draw up a balance sheet of their past performance, in order to find a way to improve them.

Among the advantages, particularly the following should be mentioned:

1. the POSB provides deposit and safekeeping facilities to a very large group of small savers, who otherwise would not be offered any alternative opportunity for financial investment. In fact commercial banks do not generally provide this kind of facilities to small savers;
2. the POSB usually administers a very wide branch system, also in the rural areas where no other banking facilities are readily available;
3. the POSB collects financial resources which would otherwise be most probably spent on consumption goods or hoarded;
4. the POSB provided a significant financial contribution to the government budget;
5. the operating costs of the POSB are much lower than those of any financial intermediary, since postal branches perform a great number of other functions besides collecting savings.

On the contrary, there also are a number of disadvantages:

1. the POSB is not a financial intermediary in the banking sense since it does not provide any credit facilities at the local level;
2. the POSB drains savings from all areas of the country and channels them to the head office which lends them to the government (Treasury) to finance its expenditures. It is likely that this mechanism has the effect of transferring resources from one

part to another of the country, and particularly from rural to urban areas, thus causing an undesirable "urbanization" of resources at the expense of the rural economy;<sup>1</sup>

3. the funds provided by the POSB to the public administration are not always specifically allocated to capital expenditure, but are often indistinctly used by the Treasury to finance government consumption. In this case the savings propensity of households would be offset by the consumption propensity of the public administration, whereas financial intermediation would ensure that the major part of these funds be invested in productive activities;<sup>2</sup>
4. the deposit services offered by the POSB are not always adapted to small savers' needs, because they are still ruled by the now

---

<sup>1</sup> This is obviously only the primary effect deriving from the centralization of the POSB administration. It remains to be ascertained if funds collected by the POSB are in some way reallocated, via the government budget and government expenditure, to the same economic areas from which they initially came. A cursory examination of the financial flows generated by the POSB and government expenditure by geographical zones would seem to prove that the supposition advanced under (2.) in the text is well founded and that the funds transfer made by the POSB is not merely a primary and temporary effect, but tends to last. The whole argument may be open to criticism because the migratory flows of population should also be taken into account. In fact, if the population tends to migrate from rural to urban areas as it is the case in most African countries, then a certain concentration of public expenditure (even financed by POSB funds) in the urban areas might be well justified on social and economic grounds. More detailed information is to be found in M. Onado, *Control on drainage of small agricultural savings by urban bank*, draft research paper prepared for the FAO/CARIPLO Study of Agricultural Credit and Savings Problems in Developing Countries, Milan, 1973.

<sup>2</sup> In some cases the use of POSB funds in financing public consumption is prevented by appropriate regulations, which establish that such funds must be invested in bonds issued by the government specifically to finance capital investment or development plans. On the other hand the last statement under (3.) is consistent only if financial intermediaries do not engage in consumer credit and in subscribing, in large quantities, to general purpose government bonds.



obsolete regulations left over from the colonial administrations;<sup>1</sup>

5. the POSB personnel, organization and management are not trained and qualified to promote savings in a dynamic way. Savers are offered little or no incentive, except a low interest rate, to increase and deposit their small economies. Among the heterogeneous functions performed by postal branches, that of savings collection easily tends to become marginal.
6. last but not least, savings deposited in African POSB have been stagnating, or even decreasing, during the last few years. This shows that, for some reason, the attraction of the POSB for personal savings is dwindling.

In conclusion, these deficiencies inherent in the POSB mechanism can be summed up in the following statement: with regard to savings mobilization, the POSB is a static and passive institution and a more dynamic effect should be brought to bear on the economy, particularly at local level and in the specific context where household savings form.

In order to achieve this target, their organizational and management structure could be adapted. The most direct and effective way of doing this is to render the POSB administration autonomous from the main body of the government apparatus, so that — with proper management, organization and vocational orientation — it can perform jointly the two essential functions of promoting-mobilizing savings and lending. In other words, the POSB would become a

---

<sup>1</sup> As is generally known, small savers generally have a high propensity to liquidity and are therefore unwilling to accept restrictions on withdrawals. On the contrary, POSB internal regulations frequently establish that withdrawal at sight is allowed only for insignificant sums and usually limit the number of withdrawals during a specified time-period (week or month), while larger sums can be withdrawn only by giving a certain notice (the length of which is traditionally correlated to the amount requested for withdrawal).

public non-profit financial intermediary, a sort of Savings and Credit Bank, with dynamic features. The main point of this suggestion consists in the fact that the reformed POSB should provide savings and credit facilities together, at the same level (i.e. at household level and locally), and make every effort to extend as far as possible these facilities to the end of integrating in an organized financial circuit those geographical areas and lower-income groups, which until now have not been provided with the services of a financial intermediary. It is important to stress that the philosophy underlying the whole idea of dynamic financial intermediation is that personal savings formation should be promoted and motivated at the grass-roots level with appropriate collateral lending, i.e. by financing particularly those small-scale economic activities which are most directly connected with household welfare (small businesses, crafts, trade and farming where production, consumption and savings are closely associated).

It is obvious that in this way all of the disadvantages — except partially that in (4.) — would not be lost, because the new institution could very well make an agreement with the postal administration whereby this latter would allow specialized personnel to carry on saving and lending business in post office branches and would also provide them with administrative services (accounting, safe-keeping, etc.).

Until now only two countries, Algeria and Swaziland, have replaced their POSB with institutions more suitable for mobilizing household savings. The *Caisse Nationale d'Epargne et de Prévoyance* of Algeria has been operating since 1966, while the Swaziland Savings and Credit Bank was set up in 1965.<sup>1</sup> Similar POSB reorgani-

---

<sup>1</sup> See respectively the Country Reports delivered by Mr. Tahar Imalhayene (Algeria) and Mr. John David Owen (Swaziland) at the quoted Conference on *The Mobilization of Savings in African Countries*, held in Milan, September 1971.

zation projects are under way in Ghana and Mali (with the co-operation of the Cassa di Risparmio delle Provincie Lombarde),<sup>1</sup> in Zambia and Dahomey (with joint ISBI-UNDP co-operation), and in Nigeria although at a former stage of development.<sup>2</sup>

Newly established institutions for development financing: development banks.

After independence, in most African countries, a number of new institutions has been established for the specific purpose of financing investment. All those organizations are, in some way or other, directly and strictly connected with general or sectoral development project financing and can therefore be classified as development banks, although their organizational structures and functional features may differ widely.

The great majority of these institutions (development banks, investment banks, industrial banks, agricultural banks, mortgage or estate banks, etc.) have at least one common feature: they do not usually depend on savings or deposits collection to finance their investment activities, but are generally provided with funds by primary level financial intermediaries (commercial banks), POSB, government, central banks, other state or parastate bodies and agencies, international organizations, and foreign development agencies. In

---

<sup>1</sup> See S. Bortolani, "La Cassa di Risparmio del Gana", *Il Risparmio*, January 1974; G.M. Raggetti, *La riorganizzazione del 'Post Office Savings' in Ghana*, Cassa di Risparmio delle Provincie Lombarde, 1972 (unpublished report); G.K. Obeng, *Proposals on the Re-organization of the Ghana Post Office Savings Bank*, Accra; F. Arcucci - C. Dematté, *Rapport préliminaire sur la création d'une Caisse d'Epargne Ordinaire dans la République du Mali*, *op. cit.*

<sup>2</sup> See the Country Report presented by the National Delegation of Nigeria at the International Seminar on *Mobilization of Savings and Local Credits* held in Berlin, 1-30 August 1972, under the sponsorship of the German Foundation of Developing Countries in collaboration with the German Savings Banks Association and the ISBI.



some cases they have tried to float bond issues on the internal market, thereby establishing a financial relationship with savers, but the near-totality of these bonds has been subscribed by the above institutions. Therefore, until now, the performance of development banks has been in no way directly connected with savings mobilization.

In a sense, development banks might be defined as secondary level financial intermediaries since they re-intermediate the funds already mobilized and intermediated by other institutions. From the functional and structural points of view they should be considered as specialized investment agencies rather than banks. This latter attribute is in fact somewhat misleading.

Recently, a few development banks have established new Savings Departments in order to set up a savings policy and to implement savings mobilization.<sup>1</sup> In our opinion, this innovation cannot make a valid contribution to solving the problem at hand, for two main reasons. First, development banks do not seem to have any specific vocational orientation towards savings mobilization, because they already are, quite logically, strongly investment-oriented, and their present functions make great demands on the management and executive staff. In fact, development banks do not limit themselves to providing finance for investment projects, but must also perform the following difficult tasks: evaluating projects, implementing their establishment, co-ordinating all interested parties (national and foreign), supervising the works, providing all needed extension and collateral services. Under such operating conditions, it would seem difficult for development banks to efficiently perform savings mobilization as well. Second, development banks normally have a very limited or non-existent branch network and therefore

---

<sup>1</sup> For instance this is the case of Lesotho, where the local development bank recently organized a Saving Department. See M. Onado - A. Porteri, *The Banking System and the Formation of Savings in Lesotho*, *op. cit.*

their organizational structure is not appropriate to perform savings mobilization. On the other hand, this function could not be efficiently and dynamically carried out by proxy, that is through the postal or banking branch system. In conclusion, it seems unlikely that development banks can take an active part in savings mobilization.<sup>1</sup>

Savings and credit banks.

Savings banks are relatively young institutions in African countries. In addition to the Algerian and Swaziland savings banks mentioned previously, Zaire, Rwanda and Burundi, following the liquidation of the *Caisse d'Epargne du Congo Belge et du Ruanda Urundi*, have each set one up. Moreover in 1963 a savings bank (Mit Ghamr Savings Bank) was established in the Nile Delta (Egypt).<sup>2</sup> Soon after two more were set up respectively in Somalia (the Somali Savings and Credit Bank), and in Ethiopia (the Savings and Mortgage Corporation of Ethiopia). Besides the reorganization already mentioned of the POSB in Ghana, Zambia, Dahomey and Nigeria, an altogether new savings bank will be established in the Gezira area of Sudan, according to the Savings Bank Act recently passed by the Sudanese government. At present, other four countries — Mali, Upper Volta, Lesotho and the Central African Republic — are seriously considering the possibility of following this line, either by reorganizing

---

<sup>1</sup> For more details on African development banks: M. Onado, "Le banche di sviluppo nei Paesi africani", *Il Risparmio*, July 1970, and the classic works of W. Diamond, *Development Banks*, Baltimore, Johns Hopkins University Press, 1969, and S. Boskey, *Problems and Practices of Development Banks*, Baltimore, Johns Hopkins University Press, 1964.

<sup>2</sup> It is worthwhile mentioning that, following the positive experience of the Mit Ghamr Savings Bank, Egyptian authorities have decided to extend its performance on a much wider scale. For this purpose they established the new Nasser Social Bank which started operations on 23 July 1972. The Mit Ghamr Savings Bank has been merged into this new institution. See the Country Report delivered by the National Delegation of Egypt at the International Seminar on *Mobilization of Savings and Local Credits*, already quoted.

the POSB or by setting up new savings and credit institutions.<sup>1</sup> Savings banks are in principle public non-profit financial intermediaries, the main objectives of which are to (a) promote household savings, with special attention to lower income groups, (b) collect deposits, particularly from small savers, (c) grant credit to small-scale business in all sectors of the economy, and (d) expand savings and credit facilities both in urban and rural areas, but preferably in the latter. It follows then that savings banks are national in scope and non-specialized, their eventual specialization depending upon the local economic and social environment and consisting more in the choice of potential customers than in the selection of specific banking operations. Finally, the essential function of savings banks, however vague and indefinite, should be that of promoting social and economic welfare in the social strata where such need is most felt.

It is perhaps premature to draw a balance of the experience of the performance of African savings banks. Their growth rate has been very good and they have made every effort to orient their activity in a wide social sense, by extending banking facilities to lower-income households and to small-scale business, and their services have generally been accepted favourably by large sectors of the

---

<sup>1</sup> Further information on these new initiatives is reported in the Country Reports of Algeria, Ethiopia, Zambia, Egypt, Swaziland in the previously quoted Conference on *The Mobilization of Savings in African Countries*, Milan, September 1971, and in B. Rossignoli, *The Banking System of Algeria*, op. cit.; J.D. Owen, "The Swaziland Credit and Savings Bank", *World Thrift*, Geneva, ISBI, No. 1, 1972; W. Quade, "Savings Banks in Egypt", *World Thrift*, Geneva, ISBI, No. 6, 1968; H. Greisinger, *Report on Personal Savings in Zambia*, UNDP, Office of Technical Co-operation, December 1970 (unpublished); P. Mottura & others, *Report of the Technical Commission for the Foundation of a Pilot Savings Bank at Wad Medani (Sudan)*, Milan, Cassa di Risparmio delle Provincie Lombarde, December 1970 (unpublished); J.P.V. Benoit - A. Pin, *Mission sur la mobilisation de l'épargne privée en Haute-Volta*, UN - ISBI, 1972; A. Presanis, *Rapport sur un projet pour l'établissement d'une caisse coopérative d'épargne et de crédit agricole*, Ministère du Développement Rural, République Centrafricaine, April 1973 (unpublished).



population. The new purposes and philosophy of these institutions have been understood and it seems fair to foresee a further increase and extension of their operations. Certainly, the problem of promoting and mobilizing savings from until recently untapped sources (African households belonging to all income groups) cannot be solved either easily or quickly. The same must be said of the problem of finding the most suitable investments for the savings mobilization in a slow-growing process, at least in respect to the increasing investment needs of most African countries. At this point, it would not be useful to go into the details of the performance of African savings banks, and it is sufficient to state that such new institutions and their future expansion can indeed provide a good and practical answer to the problem of mobilizing savings from large sectors of the African population. Therefore the main guidelines of their present and future approach to the substantive problem of savings mobilization are explained and discussed in a later paragraph.

#### Credit unions.

Like savings banks, credit unions have recently entered the African financial system and have registered a high growth rate. These institutions, which are essentially co-operative, aim principally at providing their own members with savings and credit facilities at local level and represent, in a way, the spontaneous answer to the deeply-felt lack of banking facilities, particularly among lower-income households and in rural areas. Credit unions are typically local in scope and mostly rely on the self-help spirit which can easily be awakened among African rural, and even urban, communities. In fact their success rests for the most part on the traditional co-operative spirit which is common to many African populations, as is proved by the existence of numerous indigenous savings and mutual aid associations (discussed further on). In a sense, credit

unions represent a sort of formalization of this spontaneous co-operative tradition. But it must be noted that the technical catalyst which has led and motivated native co-operative forces to merge into credit unions has been largely provided by an external agent or factor, i.e. the intensive field work supplied by the experts of the World Council of Credit Unions, the Credit Union National Association (USA), the National Association of Canadian Credit Unions (Canada) and other voluntary agencies and religious services.

The performance of African credit unions can be summed up in the following aggregate figures, relating to December 1972.<sup>1</sup> Legalized credit unions were then operating in 21 African countries,<sup>2</sup> and had a total number of 5,076, with more than 316,000 members. Their funds (shares and deposits) amounted to nearly 13.9 million US dollars, and their outstanding loans to 7.7 million US dollars. In 15 countries credit unions are grouped into National Associations,<sup>3</sup> while in other countries organization at the national level is provided by promotion Committees, which do not have legal status. National Associations are further grouped into the African Co-operative Savings and Credit Association (ACOSCA), with headquarters in Nairobi, Kenya, which is receiving support from the United Nations Economic Commission for Africa. Such associations, at country or continental level, supply to their respective members technical assistance, expertise, management advice, personnel training and other extension services. It must be noted that these associ-

---

<sup>1</sup> These figures are taken from Table 2 of the 1973 *Yearbook of Credit Unions*.

<sup>2</sup> Botswana, Cameroon, Dahomey, Ethiopia, Ghana, Kenya, Lesotho, Liberia, Mauritius, Nigeria, Senegal, Seychelles, Sierra Leone, Swaziland, Tanzania, Togo, Tunisia, Uganda, Upper Volta, Zaire and Zambia.

<sup>3</sup> Cameroon, Dahomey, Ethiopia, Ghana, Kenya, Lesotho, Liberia, Mauritius, Nigeria, Senegal, Sierra Leone, Tanzania, Togo, Uganda and Zambia.

ations are themselves organized in co-operative form and structure, but they cannot be considered as financial intermediaries since they do not institutionally perform any financial service for their members.<sup>1</sup>

While it is still premature to evaluate the performance of credit unions, it is nonetheless obvious that they show a number of advantages:

1. they are a powerful and efficient means for developing human resources;
2. they easily integrate with the social and sociological background of African communities;
3. they perform their functions at the grass-roots level, locally, by relying mostly on self-help;
4. they offer very simple, but very useful, financial services to their members who do not generally have access to alternative banking facilities;
5. they have very small operating costs.

On the other hand, credit unions show a number of weak points:

1. they do not extend their operations to non-members and therefore the scope of their financial intermediation is limited;
2. as single entities, they do not seem to have great growth potential, since the increase in the number of members would imply a more sophisticated organizational structure and increasing operating costs;

---

<sup>1</sup> For more detailed information: ACOSCA: *History, Present Status and Plans*, UNECA Voluntary Agencies Bureau, Addis Ababa, 29 December 1971; *Proceedings of the Tenth International Meeting on Mobilization of Savings and the Third Annual General Meeting of the African Co-operative Savings and Credit Association*, Tunis, 11-16 September 1972.



3. they show a few organizational deficiencies and weaknesses, particularly in the field of safe-keeping, accounting and personnel qualifications;
4. they often have investment problems, in the sense that they do not receive enough sound loan applications or just cannot find adequate local investment opportunities.<sup>1</sup> This excess of liquidity obviously raises the problem of safe-keeping, which is often solved by depositing excess funds in a bank. Thus the credit unions aims are partially frustrated;<sup>2</sup>
5. this want of investment opportunities depends also on the fact that credit unions do not follow an integrated approach, i.e. they do not provide a sufficient amount and variety of collateral extension services to open up potential investment opportunities and thus activate a self-feeding dynamic relationship between savings and incomes, via productive investment. Hence they risk being conditioned and finally blocked by the traditionally static economic environment;

---

<sup>1</sup> On the matter of the lack of loan applications it has been observed that "the failure of investors to take advantage of credit possibilities is interpreted as resulting from a mentality of orientation to thrift rather than to credit: members of societies in Africa are often credit-shy", quoted from ACOSCA: *History, Present Status and Plans, op. cit.*, page 11. Such observation implicitly proves that credit unions are expected to play a more dynamic role in local communities.

<sup>2</sup> From this point of view the case of Lesotho is typical, however extreme: credit unions have a permanently large excess of liquidity for which they can find no deposit or safe-keeping facilities other than those provided by expatriate banks which concentrate their investments in South Africa. This is reported in M. Onado - A. Porteri, *The Banking System and the Formation of Savings in Lesotho*, op. cit.

As it has been said, the case of Lesotho is extreme. But even if the excess funds of credit unions were deposited into national commercial banks — as happens in many instances — the essential aim of credit unions (i.e., to finance local investment and development with locally collected savings) would be equally frustrated, because it is highly probable that recipient commercial banks invest those funds elsewhere (in sectors and geographical areas other than those which have originated

6. they lack central financial organizations at the national level. Such institutions could provide useful support for the liquidity management of the single credit union, by supplying deposit facilities for eventual excess funds and external finance for recurrent seasonal needs.

There is one more point worth debating. Historically, the driving force of the co-operative movement in Europe has been supplied not so much by a state of need as by personal entrepreneurship. It has been said before that the catalyst of the African credit union movement has been largely provided by external agencies, which are still working intensively in the field. Carrying on within this chemical metaphor, a catalyst is generally used to set off a desired reaction which usually continues after the catalyst itself is removed. Such should be the case of credit unions and their movement should be self-supporting. But one wonders what could happen if the catalyst supplied from outside were the cohesive and dynamic force of entrepreneurship. The assumption that entrepreneurship may be an external factor ought to be carefully tested and eventually rejected.

---

the funds). If it is considered that credit unions operate mainly in rural areas, while commercial banks tend to concentrate their investments in urban areas, industry and largescale trade, it becomes evident that credit unions provide involuntarily an effective channel through which rural savings are drained and transferred elsewhere. This phenomenon stands to prove that the present performance of credit unions may sometimes contradict even their most essential aim: a form of financial intermediation, devised to serve local needs, forcedly becomes an instrument of inter-sectoral and inter-regional intermediation to the benefit of commercial banks which can thus mobilize additional (low-cost) financial resources. It is needless to point out the intrinsic and lasting harm deriving to the rural economy. On this point see also M. Onado, *Control on drainage of small agricultural savings by urban banks*, *op. cit.* The problems raised by point 4 and 5 have been partially solved in Cameroon, where an inter-lending scheme has been recently launched to finance agricultural co-operatives with credit union funds. The solution would be made easier if national associations were to perform the role of centralizing excess funds of primary co-operatives, in order to reinvest them in the rural sector. This suggestion is made by M. Onado and A. Porteri in their work on Lesotho, quoted above.

But if it proved true, it would mean that the credit union movement will have to be kept going for quite a long time by a permanent external stimulus, before it can stand on its own feet.<sup>1</sup>

Some sociologists and economists have expressed the opinion that either African people do not have an innate entrepreneurial drive or native entrepreneurial skills were not allowed to develop during colonial times. They conclude that entrepreneurship could and should be taught to African people and that positive results depend mainly on the upgrading of mass education in Africa. While part of this statement is certainly true and based on historical facts, it is nevertheless impossible to agree with it, because of its unsupported generalization and of its extreme and very unsociological conclusion. In fact entrepreneurship — in its historical “western” meaning — is a form of social and economic behaviour rather than a technique, and consequently cannot be taught unless a particular economic and social environment exists. Any effort to reproduce such environment by an artificial external conditioning is obviously out of the question. In this situation, any teaching of entrepreneurship is bound to fail, because it would sooner or later be rejected by the social and cultural environment, which spontaneously resents any alien interference. Until external agencies and factors cease “tampering” with the intrinsic values, behaviour and structure of African societies, the growth of a spontaneous and native entrepreneurship will be stifled, delayed or possibly diverted. African societies should be encouraged to make the most of their intrinsic — not necessarily traditional — values, while external factors should only help in inducing self-development, change, innovation and finally entre-

---

<sup>1</sup> If economic and financial co-operation were not founded upon entrepreneurial spirit and motivation, this phenomenon would assume traits more typical of mutualism or mutual aid association. As is explained further on, mutualism rather than co-operation (in the traditional “western” sense) is distinctive of most African societies and communities. On this topic read G. Gosselin, *Développement et tradition dans les sociétés rurales africaines*, Geneva, BIT, 1970, page 87.



preneurship through appropriate (and one would say "respectful") means. The same considerations apply to co-operation, bilateral or other.

Apart from this difficult issue, the credit union movement has already proved its intrinsic value and can certainly make a significant contribution to solving the problem of savings mobilization, because it has devised and positively tested one possible approach to African savers, and because it has demonstrated that such an approach should be more psychological than economic. On the other hand — as will be explained further on — there seems to be the possibility of strengthening the weak points mentioned above, through establishing some sort of connection between the credit unions and the savings banks movement.

#### Building societies and similar institutions.

At present, about 9 building societies are operating in various African countries (Botswana, Ethiopia, Ghana, Kenya, Liberia, Malawi, Nigeria, Swaziland and Zambia). Among these are included not all of the institutions which finance house-building, but only those which give priority to this kind of investment and directly collect funds from those people wishing to own houses.<sup>1</sup> In this respect, building societies contribute to the mobilization of savings and must be considered dynamic institutions, since they connect savings to housing finance at local level, thus promoting household welfare and savings potential. In fact the existence of building societies has a dynamic impact on the household economy for two main reasons:

1. they stimulate the formation, accumulation and mobilization of personal savings for housing purposes. It must be noted that building societies approach to savings is effective because it

---

<sup>1</sup> See *Establishment and Development of Housing Banks and their Role in African Countries*, UN Economic Commission for Africa, Addis Ababa, October 17, 1972, and — for more comprehensive, but less up to date information — *Housing in Africa*, New York, United Nations, September 1965.

- provides people with a very specific aim and with a strong motivation for saving, i.e. the ownership of a home. The effectiveness of this stimulus obviously depends upon the absolute amount of the down-payment requested, in respect both to the household's annual income and the total costs of the house;
2. those who associate in building societies for the purpose of owning a home become contractual savers, in the sense that they are compelled to save an annual fixed amount in order to amortize their loan through instalment repayments. The past performance of African building societies shows that home-ownership could strongly motivate personal savings and could therefore act as a driving force for savings mobilization. On the other hand it appears that building societies should extend this stimulus to lower-income groups.

Other formalized financial intermediaries and organizations.

In order to complete the picture of African financial systems and institutions, some attention must also be given to insurance companies and stock exchanges.

Insurance companies have an important position in most African countries and their growth seems to be based on the fact that the desire for security is strongly felt by African people, owing also to the deficiencies of the existing social security systems. This is supported by the high growth rate of the life-insurance business. While it must certainly be recognized that insurance companies motivate and mobilize savings on a contractual basis, it is also true that they exert a stabilizing effect, and not a dynamic one, on household incomes and savings. In fact insurance companies do not perform a lending activity directly connected with the household economy and welfare. Moreover, their business is generally limited to upper- and middle-income groups and practically ignores lower-income classes.

A few African countries have also organized stock markets,

although not all of these have the formal structure of stock exchanges.<sup>1</sup> Their performance has not yet been thoroughly studied: little is known about their actual operations, except that transactions are for the most part concentrated in the hands of institutional investors, public and private (commercial banks, insurance companies, development finance companies and the like), and of some capitalists. Without implying any premature appraisal, it is obvious that there is a very limited relationship between household savings and the stock market in African countries. In fact, only higher-income groups invest in stocks or bonds and there is an obvious gap between this financial investment opportunity and the large majority of savers. In some cases (as in Tunisia), the propensity to invest in the stock market has been somewhat discouraged by the enforcement of compulsory subscription to new bond issues. In conclusion, it seems that the establishment of stock exchanges in African countries would aggravate the present situation of financial dualism, rather than give a positive contribution to the overall mobilization of personal savings.

Household savings and indigenous savings associations.

At present limited empirical data are available on the extent and performance of African indigenous associations, since little and non-coordinated field research has been made on them.<sup>2</sup> They may

<sup>1</sup> Egypt, Ethiopia, Ghana, Kenya, Morocco, Mauritius, Nigeria and Tunisia.

<sup>2</sup> W.A. Warmington, *Savings and Indebtedness among Cameroon's Plantation Workers*, London, Oxford University Press, 1958; C.M. Isong, *Modernization of the Esusu Credit Society*, Nigerian Institute of Social and Economic Research, Conference Proceedings, December 1958; C. Geertz, "The Rotating Credit Association: a Middle Rung in Development", *Economic Development and Cultural Change*, vol. X, No. 3, April 1962; J. Sangue, *Les institutions traditionnelles et les mouvements associatifs dans la vie économique bamiléké*, Paris, 1966; A. Mauri, "Alcune forme tradizionali di intermediazione creditizia in Etiopia", *Il Risparmio*, March 1967; FAO, *Agricultural Credit through Co-operatives and Other Institutions*, Agricultural Studies, No. 68, page 34; M.R. Jellicoe, *Indigenous Savings Associations in Eastern Africa and the Mobilization of Domestic Savings*, UN Economic Commission



be classified according to the two main functions they perform: financial intermediation or mutual aid. The present paper is much more concerned with indigenous savings association than with the mutual aid ones, since the former can give a good insight into the saving behaviour of African communities and — as will be explained further on — they might represent either an obstacle or a conducive factor to savings mobilization via financial intermediation.

Indigenous savings associations are currently known under different names ("ekub" in Ethiopia, "sanduk" in Sudan, "esusu" in Nigeria, "chilimba" in Kenya, "tontine" in French-speaking West Africa, and many other), but all of them consist of a simple organization in which savings and credits are administered on a periodical rotating basis by the members.<sup>1</sup> These associations convene on fixed

---

for Africa, Addis Ababa, 21 October 1968; O. Teriba, "Die Einheimischen Banken in Nigeria (Nigeria Indigenous Banks)", *The Bankers' Magazine*, 1969; C. Hubner, *Private Savings in Uganda*, in P. Marlin (ed.), *Financial Aspects of Development in East Africa*, IFO Institute, Weltforum Verlag, München 1970. A. Daubrey, "La collecte de l'épargne rurale en Afrique", Réunion d'Etude Internationale sur les Problemes de Financement de l'Agriculture en Afrique, Kinshasa (Zaire, 1-3 juin 1972, published in *Bulletin Spécial*, Confédération Internationale pour le Crédit Agricole, Paris, No. 2, Janvier 1973, page 16; R.A.J. Roberts, *Some aspects of the utilization of existing credit sources by institutions applying public funds to small farmer credit programmes in Africa*, 1972 (unpublished); D. Wirmark, "Savings for Development", a contribution (circulated separately) to the *Report of the Inter-regional Seminar on the Mobilization of Personal Savings in Developing Countries*, Stockholm, 2-11 August 1971, published by United Nations, New York 1972.

<sup>1</sup> In part of the bibliography quoted, the same associations are defined as "traditional", but the use of the term "indigenous" appears to be more appropriate, since some students contend that such associations have a rather recent origin. In fact they argue that those could not have developed before the initial stages of the monetization of African economic life, and that the decadence of the traditional "extended family" or "village community" concurred in helping along their development. And it is likely that monetization itself was a major cause of this decadence. Such opinion is expressed in I. Kimbo, "Modalités actuelles de l'épargne en Afrique", *Construire*, No. 10, 1966. This hypothesis would help in explaining why indigenous savings associations have registered remarkable development in urban areas as well, as the text makes clear further on.

dates (weekly, fortnightly or monthly) and all the members pay a specified sum: the whole amount collected is then given to one of the members, who is either drawn by lot or chosen according to a list of priority or selected during the meeting itself with regard to his needs and requests. This person will then reimburse the sum received by paying his regular contribution to the association for the time needed to cancel the debt. Normally no interest is charged on either these loans or paid on the savings contributed by each member. Finally, it is important to remember that such associations traditionally have an ethnic basis, although this kinship or ethnic bond is gradually losing its previous importance, and is often overtaken and substituted by any other tie which spontaneously forms in day-to-day social life of the members belonging to a certain community. In fact it has been observed that frequently the bond which brings and keeps together the members is provided by working in the same place, living in the same area, common interests, etc.

The wide distribution of these associations in most African communities shows that they are vital and have something of continuing value to offer. Particularly significant is the fact that such associations have not been swept out, or even weakened, by such strong and disruptive social phenomena as industrialization, migration and urbanization. In fact they have successfully kept in step with the continually changing social environment and structure, as is proved by their surprising liveliness in large towns. This might be partially explained by the assumption that such associations are in some way a sort of subconscious defensive reaction by the individual and his community to the external changes of the social environment. In a sense, indigenous associations may be thought of as a kind of shield between the individual and the environment or as a device through which individuals recreate social conditions no

longer provided by the day-to-day social life and environment.<sup>1</sup> Perhaps this hypothesis is farfetched, but it should carefully be tested because it could have some bearing on the right interpretation of this social phenomenon and therefore on the comprehension of savings behaviour in African communities. In this respect a particularly clear-minded approach is needed, because on this specific topic there are misconceptions and misunderstandings, as well as among African people who tend to criticize and reject such social phenomena, on the ground that they stem from ethnic and tribal roots.

It is true that these uncontrolled spontaneous associations have sometimes given way to abuses either on the part of the administrators (particularly the treasurer) or on the side of defaulting members. It has also been reported that in some cases indigenous savings associations have even engaged in money-lending to non-members with an evident profit-motivation.

Notwithstanding these understandable deficiencies, the large number of such associations and their performance and vitality in a wide variety of socio-economic situations are evidence of some important points:

1. In African communities it is preferable to establish financial relationships on a personalized basis.
2. African people at lower- and middle-income level do have a propensity to save.
3. Savings behaviour is not motivated by itself or by the mere desire to accumulate wealth for "rainy days", but rather by a principle of credit-reciprocity among the members of the same

---

<sup>1</sup> The same concept can be expressed more appropriately from the point of view of sociology: because of migration from rural to urban areas, most people forcibly lose contact with their original community and therefore unconsciously tend to rebuild a substitute, one kind of association or another, which serves the specific purpose of providing the "means of social identification" that the town-life or work-life is unable to supply.



association. This element can be traced also in the relationship, between the members of the "extended" household, or even of a larger community. The indigenous savings behaviour is therefore traditionally motivated by a deeply-rooted expectation of reciprocal behaviour on the part of other savers or, in other words, by the desire to ensure the availability of credit by accumulating savings to the benefit of the other members of the association. It must be said that behind this credit-motivation there is always a specific objective in the sense that the proceedings of the credit granted by the association are normally used to finance some large, previously planned, expenditure. This shows that, in African psychology, savings are always made for a purpose and lead logically to a reciprocal counterpart (savings and credit are strictly linked together).<sup>1</sup>

4. According to the association's traditional regulations, savings are a social and personal obligation, which is voluntarily contracted. The decision to enter an association is usually motivated not only by economic and financial considerations, but also by other more general social stimuli. The actual membership consequently enforces the above-mentioned obligation. This explains why, in the African context, individual savings behaviour does not react well to any mere economic motivation and requires also a social one. Moreover that explains why compulsory and contractual savings, if properly motivated, can gain wide popularity with lower- and middle-income groups.<sup>2</sup>

---

<sup>1</sup> Some of the authors quoted on the topic of this paragraph raise the question whether the motivation laying behind indigenous associations really is a saving purpose or a credit need. The terms of this question are not logical, since in most cases the recipient of the sum periodically collected is drawn by lot. As it is explained in the text (points 3 and 4), both motivations usually co-exist in the same person, while it is understandable that from time to time one may prevail on the other.

<sup>2</sup> See *Contractual Saving-for-Building* published by the United Nations, New York, 1972.

5. The extent and importance of indigenous savings associations prove that, until recently, financial intermediaries have not followed the right approach to African savings behaviour and psychology, particularly among the most numerous social groups. In other words, the banking philosophy now prevailing is no doubt quite alien to the traditional social background and tends to aggravate the present state of social dualism. That further demonstrates that there is an almost absolute lack of "indigenization", even on the part of the so-called "Africanized" financial institutions.

All these points should be taken into consideration whenever the matter of savings mobilization is debated. Unfortunately quite a number of people, and particularly many dynamic African bankers, support the view that indigenous savings associations are just an obstacle to savings mobilization and that the savings thus collected are used to finance consumption. That is true in the sense that savings mobilized by such associations rarely find a way to investment either in banks or directly in productive activities. But the real problem should be approached on an altogether different side, i.e. by questioning how this huge gap, now separating the large majority of savers from the "organized" financial sector, might be bridged. Since it seems logical to assert that institutions are made for the benefit of the people and not the other way round, the answer is obvious: the proper institutions should undertake the task of integrating indigenous associations into the "organized" financial sector, by approaching them in the right way and by developing their intrinsic values.<sup>1</sup>

---

<sup>1</sup> As to the opportunity and possibility of integrating indigenous savings and credit associations into the organized financial sector, widely varying opinions have been expressed and the problem is far from being settled. The bibliography previously quoted on the topic of this paragraph also gives witness to this open debate.

Certainly, commercial banks do not have the necessary orientation for this kind of approach, but savings banks, credit unions and building societies could really co-operate towards gaining the confidence of indigenous savings associations, reorienting them to a more dynamic performance and developing them into an active factor in the savings mobilization process. In a following paragraph it will be shown how this important result might be practically achieved.

Before concluding this analysis, it is useful to review briefly other common transactions which take place in the "non-organized" or indigenous financial sector. In this respect, particularly the following spontaneous form of financial life must be mentioned: the activity carried out by money-lenders, the deposit and safe-keeping services supplied by shopkeepers, employers and missionaries and the trade and suppliers' credit provided by merchants.<sup>1</sup> All these are unfortunately a very deeply-rooted and common financial behaviour in most African countries. In fact they must be considered negative and regressive phenomena: negative, because they can often lead to abuse (usury, exploitation, excessive indebtedness, embezzlement, etc.) at the expense of the less privileged, and regressive, because they represent a deterioration of the traditional African social and economic environment, in the sense that monetization of the economy, unsupported by an adequate collateral financial organization, prepares the way for the spontaneous growth of an indigenous financial market which demonstrates through its transactions, both a nearly total lack of organization and control, and an intrinsic unfairness in the economic structures. It is quite logical to view the same phenomena in a different way, i.e. an actual deficiency of the organized financial sector.

---

<sup>1</sup> Some evidence of this widespread phenomenon is given by A. Daubrey, in his previously quoted paper. "La collecte de l'épargne rurale en Afrique".



*Provisional conclusions*

After reviewing the structural and functional features of African financial systems, it is necessary to summarize briefly the most relevant deficiencies observed, in order to show how the development financing policy adopted by African countries has affected (and is affecting) the performance and evolution of these systems, and which points will have to be carefully considered before taking any future action with regard to banking and saving policy in African countries. These points could provide a set of tentative or provisional guidelines to the forthcoming paragraphs. The following aspects must be underlined:

1. The evolving structure of African financial systems shows a growing disequilibrium between the development of the investment function and that of the mobilization function. In fact, apart from savings banks, credit unions and building societies which still represent only a small part of the financial systems, the attention of most African governments is mainly focused on the establishment of new institutions almost exclusively in order to finance investment, and hence development. In this respect the creation and growth of development banks and similar institutions are significant and in themselves confirm the assumption that the investment-oriented philosophy prevailing among African economic planners has deeply affected the evolution and performance of the financial systems. In fact these institutions usually are not intended to and do not perform any active or direct function of mobilizing internal resources, and even less personal savings. Their operating funds originate from other sources, such as the government budget, the central bank, POSB, commercial banks and external aid. This evolution and policy are partially responsible for the "atrophy" now affecting the organs which should be performing the task of collecting domestic financial resources.

2. The function of financial intermediation has been left mainly in the hands of commercial banks which have obviously performed it according to their own philosophy and orientation. Therefore financial intermediation has been misdirected and has led to an unbalanced, dualistic situation: there is now a clear-cut gap between an "organized" financial sector and a "non-organized" one. It is logical that — owing to the fact that financial intermediation has not been savings-oriented — the major part of savings originated by middle- and lower-income groups is to be found in the "non-organized" financial system.
3. Therefore there is a lack of intermediation, which can be seen from different viewpoints: economic (small-scale and household businesses receive little or no banking facilities), social (lower-income households have little or no access to banking services), geographical (the great majority of rural areas lack adequate banking facilities). The conclusion is that a large part of the economic system and the majority of population live at the margins of, or even outside, the circuits of financial intermediation and have little means by which to integrate themselves into the organized financial system: the so-called "substance sector" is not only an economic, but also a financial phenomenon.
4. The lack of financial integration has an obvious causal effect on both economic and social dualism, and therefore hinders the development of human and economic resources. This negative tendency could consolidate into a spiral process. One of the major consequences of this unbalanced evolution is that a part of the economic system will be financially subsidized on a permanent basis.
5. The lack of "indigenization" of African banking systems is partially due to their excessive centralization.

#### 4. THE ORIENTATION OF SAVINGS MOBILIZATION IN AFRICAN COUNTRIES

##### *Regulations of UNECA*

On the basis of previous considerations concerning both the finance of Gross Domestic Capital Formation and the performance of African financial systems, it can be stated that domestic resource mobilization in African countries must be fostered by any means, and especially that improved financial intermediation and proper action must be taken to orient African financial systems and institutions towards a more extensive and intensive mobilization of internal savings, with particular reference to household savings.

A debate on these problems received growing emphasis and participation during the First Development Decade and finally gave way to a new policy orientation.

Resolution 98 (VI) adopted by the UN Commission for Africa at its 111<sup>th</sup> Plenary Meeting on 28 February 1964 decided that "... in order to facilitate the achievement of the above purpose (promotion of inter-African trade) member States and associate members of the Commission should, in the shortest possible time, establish in their respective countries a chain of indigenous commercial banks with the aim of granting sufficient credit and giving encouragement to African engaged in trade...". The motivation for this statement was mainly the consideration that the financing of the import-export trade of African countries was nearly monopolized by non-indigenous commercial banks which tended to direct trade policy in favour of their respective mother countries.

In Resolution 207 (IX) adopted by the UN Commission for Africa at its 153<sup>rd</sup> Plenary Meeting on 14 February 1969, ECA further "recommends that member States make increased effects in the mobilization of domestic resources to support increasingly self-reliant programmes of self development during the Second United



Nations Development Decade; and requests the Executive Secretary to further assist member States in the improvement of their budgetary systems and in the strengthening of financial institutions for the purpose of a more effective mobilization of internal resources".

In Resolution 218 (X), Africa's strategy for development in the 1970s, adopted by the Council of Ministers at 163<sup>rd</sup> Meeting on 13 February 1971, a full chapter (pages 10-12) was dedicated to the mobilization of domestic resources. According to this Resolution, "(23) The basic objectives of a strategy for mobilization of domestic resources during the 1970s should be to (a) increase the rate of growth of African economies and (b) provide a basis for independent economic policies and the preservation of sovereignty...; (26) African countries must in the 1970s, as they did in the 1960s, bear the main burden of financing their own development. An essential element in the strategy for the 1970s should therefore be to ensure that a rising proportion of the national incomes will be saved for financing investment. Specially, African countries should aim at increasing the ratio of savings to the gross national product to at least 20 per cent by the end of the Decade...; (28) The fiscal mechanism has been, and will probably remain, at least through the 1970s, a most important source of funds. But a well — organized financial system appropriate to the level of economic development reached by individual countries or by certain leading sectors — including such institutions as commercial banks, development banks, postal and other savings bodies, co-operative societies, insurance companies and institutionalized capital markets — can introduce greater flexibility into the resource mobilization process. Its efficiency should be judged by its ability to attract and mobilize domestic savings and its adequacy in channelling funds towards productive uses. It can in particular play an important role in opening traditionally closed sectors to the money economy...; (33) Personal savings out of wages and salaries depend on the rate of growth of real incomes, on the rate of growth of the number of wage and salary earners and on earnings per head. The

strategy for the 1970s for this group should aim at the provision of adequate financial institutions to encourage savings and appropriate monetary and related fiscal policies".

In the Draft Programme of Work and Priorities, 1974 to 1976, with projections through 1979, ECA classified the role of domestic resources in development under "broad issues and techniques relating to development" (Programme 4A:2). The aim of this project will be to improve mobilization of sources of domestic finance for development and its work content includes (a) assistance to countries and territories (1974-1979): country missions on request, and (b) studies such as:

1. Preparing periodic reviews of the progress made in the mobilization of domestic financial resources in African countries, as a basis for advice to governments on appropriate policies and measures.
2. Evaluating the role of various domestic institutions in mobilizing domestic financial resources (1974-1979).
3. Country studies of savings policies, structures, sources and volume (1974-1979).
4. The role of Unit Trust in the development of African countries (1974-1976).

Following these Resolutions, the ECA secretariat staff has started working on the problem of savings mobilization, particularly in the following departments: joint ECA/FAO Agriculture Division, Fiscal and Monetary Section, Voluntary Agencies Bureau (Human Resources Division), and Housing Finance Section (Industry and Housing Division).

#### *Contributions made and actions taken by voluntary agencies*

The new policy orientation outlined by the Economic Commission for Africa has been further debated in various seminars,

conferences and meetings organized by, or with the collaboration of, different voluntary agencies. The problems related to savings mobilization have thus been further analyzed and more specific recommendations have been proposed.

Among these various contributions, the following are particularly worth reporting:

1. The Inter-regional Seminar on the Mobilization of Personal Savings, held in Stockholm, 2-11 August 1971, under the sponsorship of the United Nations and with the co-operation of the Swedish International Development Agency, Swedish Savings Banks and the International Savings Banks Institute (Geneva). The Seminar produced recommendations which may serve as broad guidelines for a savings policy in developing countries.<sup>1</sup>
2. The International Conference on the Mobilization of Savings in African Countries, organized in Milan, 20-23 September 1971, by the Cassa di Risparmio delle Provincie Lombarde and the International Savings Banks Institute. This Conference, which brought together 138 delegates from 37 African countries and was attended by banking and savings policy experts, further contributed to the knowledge of the real savings situation in Africa and to the discussion of the issues raised in the previous Inter-regional Seminar. Since quite a number of Ministers from African governments attended, the Conference also succeeded in bringing the problems directly to the attention of political leaders.<sup>2</sup>

---

<sup>1</sup> The Report of the Seminar has been published by the United Nations, New York, 1973.

<sup>2</sup> The proceedings of the International Conference were published both by the Cassa di Risparmio delle Provincie Lombarde, and the International Savings Banks Institute, in 1972 (in English and French).



3. The International Seminar on the Mobilization of Savings and Local Credits, organized in Berlin, 1-31 August 1972, by the German Foundation for Developing Countries in collaboration with the German Savings Banks Association and the International Savings Banks Institute. This Seminar, which was directed to experts from African countries and Pakistan experienced in the field of savings banks and other credit institutions, produced a set of country reports and a final resolution for implementing savings mobilization policy.<sup>1</sup>
4. The Tenth International Meeting on Mobilization of Local Savings, organized in Tunis, 11-16 September 1972, by the African Co-operative Savings and Credit Association (ACOSCA) Nairobi, and the World Council of Credit Unions, Madison, Wisconsin, USA. This meeting, as did those previously held in other African capitals, provided a complete set of country reports on the performance of credit unions in 13 African countries.<sup>2</sup>

Some of these voluntary agencies mentioned have made a number of efforts to promote the mobilization of domestic (particularly private) savings in developing countries, as has already been pointed out under the paragraphs dealing with savings banks and credit unions. While their activities cannot be described here in detail, it is nonetheless useful to outline their main actions in the field.

The International Savings Banks Institute has mainly concentrated its efforts on co-operating with some national savings banks associations, either for the organization of international conferences and seminars or for the technical assistance to developing countries.

---

<sup>1</sup> The Report of the International Seminar was published by the German Foundation for Developing Countries in October 1972.

<sup>2</sup> The Proceedings of these meetings are published by CUNA International.

The ISBI partners in this effort are generally represented by the Italian, German, Swedish and Austrian national savings banks associations, ISBI co-operates also with some International Organizations, such as UN, UNDP, and UNECA. Further ISBI has established a Development Aid Committee and regularly publishes a review entitled *World Thrift*.

The Cassa di Risparmio delle Provincie Lombarde, which is the largest in the world, uses its massive organization mainly on three fronts: the training of banking personnel, research and technical assistance. Since 1967 CARIPLO has organized annually an eight-month training course for African banking personnel, aiming principally at intermediate-level employees. For this course, which is also sponsored by the Italian Ministry of Foreign Affairs, CARIPLO makes a number of fellowships, between 80 and 100, available annually to African students. In the research field CARIPLO has directly contributed working papers to many conferences and seminars; it publishes this series of monographs all of them based on field researches carried out by external experts; it undertakes and finances — usually upon the request of African governments — studies and reports on various topics (banking system performance, savings situation and mobilization, personnel training, agricultural credit organization and operations, establishment of new savings banks; reorganization of existing Post Office Savings Banks; a feasibility of financial projects), which may or may not open the way to successive action and technical assistance; it has organized, in co-operation with FAO, a three-year study on agricultural credit and savings problems in developing countries (now under way) and is contributing a number of experts to this initiative. In the field of technical assistance, CARIPLO has assisted and is at present assisting some African governments and financial institutions in the implementation of some projects which have resulted from the feasibility studies mentioned above, mainly for the establishment of new savings banks or

the reorganization of existing POSB. In such cases CARIPLO provides its counterpart with banking experts, according to the specializations needed (banking policy and management, organization of branches and operations, savings promotion and programmes, etc.) and it usually undertakes to finance the expenses budgeted for the take-off of the savings promotion campaign and to supply part of the equipment and material needed (accounting machines, mobile units, propaganda materials, etc.), on non-repayable grants sometimes made by the Italian Savings Banks Association. Finally CARIPLO established in Milan a Centre for Financial Assistance to African Countries (FINAFRICA) to manage these various activities. It is important to add that CARIPLO activity in the field has until now taken place only in Africa.

The African Co-operative Savings and Credit Association has mainly concentrated its efforts in field work, by providing credit unions and African national associations with experts, *animateurs* and extension services. Since 1971 ACOSCA, whose headquarters are in Nairobi (Kenya), has established and operated five training centres in Bamenda (Cameroon), Bobo-Dioulasso (Upper Volta), Bukavu (Zaire), Maseru (Lesotho) and Nairobi (Kenya). ACOSCA — which is assisted by the World Council of Credit Unions, CUNA, NACCU (National Association of Canadian Credit Unions) and other voluntary and religious agencies — initially concentrated its activity in English-speaking countries, but is now developing a number of initiatives in French speaking Africa as well. During the Symposium on Rural Development in Africa in the 1970s, it was agreed to recommend support for ACOSCA and the Voluntary Agencies Bureau of UNECA has recently undertaken this task.<sup>1</sup>

---

<sup>1</sup> See *Report of the Symposium on Rural Development in Africa in the 1970s*, UNECA, Addis Ababa, 9-13 August 1971, and "Rural Development", *Newsletter*, April 1972, published by the Voluntary Agencies Bureau of UNECA.



5. CURRENT COMMON-PLACE STATEMENTS REGARDING HOUSEHOLD SAVINGS IN AFRICAN COUNTRIES

After establishing this new policy orientation through which more emphasis than in the past will be given to internal savings mobilization via financial intermediation, it is necessary to examine how all the recommendations advanced could be implemented and which actions should be taken to foster the solution of the problems previously debated. At this point, it seems quite appropriate to point out that the achievement of a substantive solution may be considerably delayed if action is not based upon a strictly pragmatic and clear-minded approach.

In fact the conception and implementation of any scheme for personal savings mobilization are likely to be biased by two opposite, but equally unacceptable, mental attitudes, both of which must be avoided: prejudiced pessimism and optimism (wishful thinking). The former attitude is rather widespread among economists and commercial bankers. It may take different forms, and will be discussed in this paragraph. On the other hand the latter disposition, though less common than the former, can be traced to some of the voluntary agencies which deal with this area. The latter way of thinking seems to be far less harmful, since it does not prevent action and is effectively cured by contacts with reality. Thus attention should be focused mainly on the arguments supplied by the so-called "cynics" of personal savings mobilization in developing countries, in order to test them. As already said, the main objections to the mobilization of personal savings are:

- (a) average personal savings are very small and often widely scattered (since the major part of the population lives in rural areas), if not actually non-existent;
- (b) therefore, the costs involved in mobilizing personal savings would be prohibitive and could not be covered by any normal investment return;

- (c) the growth of personal savings depends upon the growth of average *per-capita* income and therefore, since the latter is rather slow, personal savings mobilization could give significant results only in the long run.<sup>1</sup>

While it cannot be denied that these statements contain elements of truth, they are far too pessimistic, and should certainly be restated in a less assertive form: they are questionable on the grounds that they are not consistent with existing evidence, and should be considered as hypotheses to be carefully tested. It is obvious that if these views are not seriously questioned and restated acceptably, any attempt to approach the subject of personal savings mobilization might be rejected *a priori* as so much wishful thinking. Therefore, since all previous paragraphs have endeavoured to prove that African development financing should rely more on domestic resources and particularly on mobilization of personal savings via financial intermediation, this impasse must be overcome if the attempted line of reasoning is not to come to a dead end.<sup>2</sup>

With respect to statement (a) above, much needs to be said, and the following points particularly should be carefully weighed:

---

<sup>1</sup> Frequently, these opinions are implicit in one of the two following statements, either that "all savings are mobilized", or that "there are no significant savings left to mobilize".

<sup>2</sup> Most of the experts who had the opportunity to comment on the first draft of this paper have suggested that the statements reported in (a), (b) and (c) be tested through specific and exhaustive statistical data. Although in full agreement with this suggestion, the author regrets that sufficient statistical data are unavailable on the subject. A thorough search has been made, with frustrating results. This is certainly a good topic for future research. The Cassa di Risparmio delle Provincie Lombarde has tried all ways and means to collect such statistical documentation from any conceivable source, in order to define clear-cut limits for future field research. The experts charged with the task of reviewing and evaluating the "statistical collection" thus obtained, have come to the conclusion that statistical data on personal savings at the household-level (quantity, form, dynamics, distribution, dispersion, etc.) and on bank collection costs are in most cases: (a) very scarce, (b) usually limited to very specific, particular and small-scale experience, (c) heterogeneous,

1. The number and performance of indigenous savings (and credit) associations: the financial flows accruing to such institutions seem to be significant and seem to demonstrate that a remarkable number of middle- and lower-income households has a savings potential, at least for the purpose of deferred consumption expenditure.
2. The remarkable demand for safe-keeping facilities, particularly in rural areas.
3. The rather wide-spread habit of short-term (and sometimes even long-term) cash-hoarding among middle- and lower-income groups.<sup>1</sup>
4. The overall dimension of personal and household expenditure for status-symbol properties (jewellery, cattle, land) for wealth-demonstration purposes, rather than for investment's sake.
5. The past and present performance of POSB, savings banks and credit unions, with particular reference to the high number of savings accounts administered and of depositors or members.

---

because of the large variety of statistical methods and definitions used, (d) not altogether reliable, because of the politics involved and of the accounting procedures adopted (particularly for banking costs), (e) unpublished or restricted. Notwithstanding these deficiencies, available statistical information has been used in re-drafting this paper, whenever it allowed a cautious generalization. In many cases the sources of information have deliberately not been quoted, in order to limit the number of lengthy quotations and the equally lengthy comments on them, the utility of which would have been questionable considering the general purpose of the paper.

<sup>1</sup> In order to size-up the overall savings potential of households in the African rural environment, it would be necessary to take into account also savings in kind, which seem to be far from unimportant from the quantitative point of view. A more restrictive (financial) definition of household savings has been adopted here because attention is focused on savings that can potentially be mobilized. On the topic of savings in kind: A. Daubrey, "La collecte de l'épargne rurale en Afrique", *Bulletin Spécial, op. cit.*, pages 14-15, where the accumulation of stocks of agricultural produce, livestock and "family treasures" are considered, in the context of subsistence economies.



6. Two significant statistical indices: the growth rate of the money supply and the average currency stock held by households. It is well known that in some African countries the money supply growth rate is not entirely accounted for by GDP increase, growing monetization of the economy and price inflation, but is also explained by cash-hoarding (and consequent destruction or loss of banknotes and coins) which is a drain on the currency in circulation. Other things being equal, the Treasury and central bank can neutralize this drain by increasing the issue of currency in various ways (government deficit-spending, re-financing of commercial banks, etc.), for an amount equal to the stock of hoarded purchasing power held by individuals. An indirect, but quite significant, evidence of this phenomenon is provided by the remarkable amount of currency which is turned over to banks whenever the central bank and the Treasury issue new bills and coins to substitute existing ones. The same conclusion can be statistically proved by relating the total amount of currency in circulation outside banks to the number of households (conventionally and prudently defined on the average of a 6-7 person unit). This ratio should not be significantly biased either by the amount of currency held by higher-income households and fair-sized business (since they usually deposit the larger part of cash in banks) or by the number of such households (which is small in relative terms). Such hypotheses are quite reasonable and even supported by statistical data: therefore it can be assumed that the proposed index gives a realistic measure of the average stock of currency held by middle- and lower-income households. By comparing this amount to the average income per household (which certainly grossly overstates the average disposable monetary income of middle- and lower-income households, because it is biased by the inclusion of higher-income groups, subsistence-

sector product and part of taxes levied on personal incomes), it can be shown that lower- and middle-income households actually hold an average stock of currency at least equivalent of a few months' income.<sup>1</sup> Since this amount exceeds by many times the stock of currency needed to finance the current (consumption) expenditure of households, it can be concluded that a large majority of people uses currency as a "store of value", rather than a mere "means of payment", and consequently that among the middle- and lower-strata of African societies currency-holding is a common way of saving. After all, the average personal savings of such households do not seem to be so small, particularly if compared to current monetary incomes.<sup>2</sup>

7. On the other hand, the statement that personal savings are widely scattered in rural areas must be accepted as a situation which can seriously hinder mobilization under the present condition of the financial system.

As to statement (b) above which is mainly supported by the opinion of commercial bankers, the following must be said:

---

<sup>1</sup> This sentence may be criticized on the grounds that currency in circulation is also handled and held by small merchants (tradesman, shopkeepers, etc.), who do not generally use bank demand deposits as a means of payment and might therefore hold considerable currency stocks. Hence the consistency of the reasoning developed here is partially based on the assumption that the turnover of stocks held by the merchants is high and that consequently their average currency holdings for business purposes are not excessive by comparison to effective need. Obviously the frequency of purchasing orders (which directly determines the stock turnover) is closely related to the location of the suppliers and the possibility and speed of transportation. It is evident that the whole issue should be carefully tested.

<sup>2</sup> Some information, though limited to very small geographical areas, on budgets of African households can be sought in J. Binet, "Budgets familiaux des planteurs de cacao au Cameroun", *L'homme d'Outre-Mer*, No. 3, and in R.A.J. Roberts, *The role of money in the development of farming in the Mumbwa and Katete areas of Zambia*, unpublished PhD dissertation, Department of Agriculture and Horticulture, University of Nottingham, October 1972.

1. The unit-cost for mobilizing and intermediating small savings is no doubt very high and unacceptable if it is calculated taking into consideration the organizational structure of commercial banks and is related to their actual operating earnings and profit-expectation.
2. This approach should not be accepted at face-value; in fact, (a) the unit-cost of savings mobilization and intermediation could be lower in different organizational structures and in *ad-hoc* financial institutions, as it is shown by the performance of credit unions; (b) the rate of return on bank assets, net of defaults, might be higher if a different loan pricing policy were adopted;<sup>1</sup> and (c) the infrastructure for personal savings mobilization should not necessarily be profit-making or profit-oriented institutions.
3. In this case, profit-motivation appears to be quite misleading, because — if the assumption is accepted, as it should be, that intermediaries for savings mobilization have to be considered as essential infrastructures for the development of economic system — then (a) to measure the efficiency of the mobilization — intermediation process on a profit-basis, that is by referring to a profit-standard, would be erroneous, and (b) it becomes necessary to assess efficiency and performance on the grounds of a much more extensive cost-benefit analysis, with reference to the whole socio-economic community served by this mentioned financial infrastructure, possibly by considering and computing not only all the monetary and economic variables concerned, but also significant social values (benefits or eventual costs), such as the development of human resources, financial education, social participation, etc., and also, why not,

---

<sup>1</sup> The possibility and the opportunity of increasing interest rates in developing countries without negatively affecting economic development will be examined and discussed further on.



psychological values like goodwill and self-consciousness. Moreover, in this case the cost-benefit analysis should refer to an extended time-perspective, longer than that normally used in profit-oriented financial institutions.<sup>1</sup>

Notwithstanding the preceding arguments, the consideration about costs certainly represents the major obstacle to personal savings mobilization from lower income groups and rural areas. A few estimates of the costs involved in the intermediation of small savings in rural areas have been attempted.<sup>2</sup> The scope of such estimates has been limited to rather small areas and very simple accounting and forecasting techniques have been used. Even if allowance is made for these imperfections, resulting estimated costs have been considerably higher than those at present borne by commercial banks for deposit collection in developing countries. Hence, a way out of this impasse can be found only if the costs of intermediating small savings are proved to be "economical" vis-à-vis human, social and economic development, in a marginal sense. In other words, the additional physical resources which could be made available through the intermediation of small savings should exceed the resources spent in the same process by an amount greater than that of any other alternative solution. After all, the final decision rests with the implementation of a realistic cost-benefit analysis.<sup>3</sup>

---

<sup>1</sup> This argument is supported by G.O. Nwankwo, "How Developing Countries can Mobilize Local Savings", *The Banker*, London, June 1973, pages 586-587.

<sup>2</sup> Examples of such tentative estimates can be found in P. Mottura and Others, *Report of the Technical Commission for the Foundation of a Pilot Savings Bank at Wad Medani (Sudan)*, *op. cit.*, and F. Arcucci - C. Dematté, *Rapport préliminaire sur la création d'une Caisse d'Epargne Ordinaire dans la République du Mali*, *op. cit.*

<sup>3</sup> It is important to note that in the cost-benefit analysis the interest rate structure has no relevance at all vis-à-vis the micro-economics of financial intermediation, in that it ensures the maximization of benefits over costs. This seems to be a strong argument in favour of public financial intermediaries, because private intermediaries might not accept the optimal interest rate structure established on the basis of a cost-benefit analysis.

Statement (c) above can be regarded in an altogether different light, on the basis of the comments made on the two preceding points. While its intrinsic consistency with economic theory cannot be denied, it nevertheless must be made clear that it conveys to the reader only half the truth, the other half being that income growth depends upon savings growth in an economic system where the total amount of available (physical) resources is equal to Gross Domestic Product (i.e. there is neither a net import, nor a net export of resources). Perhaps this misunderstanding is another example of the numerous abuses to which Keynesian economic theory has been submitted. In fact, some economic planners have come to think that investment (GDCF) — financed by whichever mix of financial resources is the easiest to mobilize from available sources (internal and external) and with existing techniques — would in fact set into motion the development mechanism, by causing GDP to grow. GDP growth would allow a higher savings ratio (eventually enforced by taxation or other policies), which in turn would permit a higher GDCF ratio financed by domestic resources, and so on. This process would sooner or later free the economic system from the need to borrow external resources. In other words GDCF-GDP positive spiral-effect, set off by external resources, would by itself induce the growth of savings and would also take care of mobilizing newly-produced internal resources, since investment would exert a "pulling-effect" on them (provided that the distribution of such resources between new investment and consumption can be controlled). While this reasoning, although oversimplified, is consistent with economic theory, it cannot be generally applied to economic systems in the first stages of development. In such systems, the development process (GDP-GDCF intercausation) is hindered by internal rigidities and bottlenecks, which either reduce investment productivity or prevent domestic resource mobilization in favour of investment. Moreover, it may also happen that — despite the extensive use of policies

(taxation, wage controls, price and consumption control, deficit-spending, increased money supply) to enforce the mobilization of domestic resources and their investment — a larger part than planned of GDP is absorbed by current consumption (public and/or private). Under such conditions, the result is quite obvious: if GDCF is to be kept high for development's sake, then the "pulling effect" exerted by investment will discharge itself on external resources.

On the other hand, if it is assumed as a starting point that investment and development should be self-reliant,<sup>1</sup> the mutual dependency between incomes and savings becomes quite clear in its dynamic terms, as it is in a "Robinson Crusoe economy", and the logical priority of savings — as a starting point — over investment is no less clear. By this different approach, the fallacy implied by statement (c) can be better identified, and the limited role of internal monetary variables (which are useful for stabilizing the development process) and of external aid (as a starting point and complement to GDCF) can be understood in the right perspective.

In conclusion, if savings have a logical priority — however slight — over investment, then also active savings mobilization should be given priority. And if until now savings mobilization — mainly enforced by taxation, government borrowing, money supply growth, corporate self-financing — has not achieved a satisfactory level (target-ratio, with reference to GDP or National Income), then it would seem quite logical to rely more on financial intermediation, by orienting it toward personal savings mobilization. The discussion of statements (a) and (b) shows that there are possibilities and it gives much food for thought.

---

<sup>1</sup> This does not imply a "closed-economy" hypothesis, since the country concerned could always exchange internally-produced with externally-produced resources (on a barter basis so to speak), in order to obtain the optimal resource mix for investment (and consumption). Obviously in this case the total amount of resources made available to the country is conditioned by the terms of trade.



6. NEGATIVE FACTORS ACTUALLY AFFECTING THE FORMATION, ACCUMULATION AND MOBILIZATION OF PERSONAL SAVINGS

On the basis of previous considerations and existing socio-economic knowledge, it is possible and useful to review the major factors which tend negatively to affect the formation, accumulation, and mobilization of personal financial savings in most African countries. The main purpose of this review is not to give empirical or statistical evidence of the factors recorded, nor to classify them according to their different origins (demographic, social, political, psychological and economic), nor to rank them in order of relative importance. In fact, most of these factors have a complex nature, are interdependent and interactive. Hence the present paragraph aims only at listing the various difficulties which usually hinder an effective mobilization of personal savings and which may therefore call for specific government action or for the use of more appropriate techniques of financial intermediation. As will become clear further on, the determinants and constraints of personal savings mentioned herein are essentially intended as an introductory frame to the following paragraphs which are broadly to define the scope and objectives of government action and financial intermediation vis-à-vis the solution of the problems posed by household savings mobilization. It is self-evident that any factor reviewed in this paragraph should be further submitted to close examination and careful testing, by means of appropriate research methods.

Among the main factors negatively affecting personal savings, the following are particularly worth consideration:

- (a) the particularly "young" age-group composition of African populations. This factor can be measured in economic terms by the average number of income-earning persons per house-

hold or by the ratio of economically active population to total population;<sup>1</sup>

- (b) the low average life-expectation;
- (c) the survival, sometimes subconscious, of traditional religious beliefs and practices, which do not favour or may even prevent the development of savings habits;<sup>2</sup>
- (d) the survival of traditional laws and customs regulating marriage, property and inheritance;<sup>3</sup>
- (e) the survival and the present evolution of the traditional extended-family system. Originally this form of social organization, which grouped a large number of family-units connected, even distantly, by ties of common kinship, was based on the mutual understanding that economically active members were expected to contribute to the welfare of the whole group and particularly of non-economically active members, by giving over part of the resources personally produced or however acquired. Since such a system of wealth distribution was generalized and applied to a large number of persons, it is understandable that the individual could not appreciate the need or

---

<sup>1</sup> Some significant data on this aspect are reported in the UN Economic Commission for Africa, *Survey of Economic Conditions in Africa*, 1971, United Nations, New York 1972, pages 31-33.

<sup>2</sup> It is known that in many cases the traditional religious beliefs of African populations do not attribute a high ethical value to parsimony and thrift and that in various instances religious ceremonies (marriages, funerals, initiation ceremonies, etc.) mean the spending of large sums. The religious factor is specifically mentioned in the *Report of the Inter-regional Seminar on the Mobilization of Personal Savings in Developing Countries*, *op. cit.*, page 11.

<sup>3</sup> Some examples are recorded by the same Report quoted in the previous footnote, on page 7, and by C. Gillete - N. Uphoff "The Credit Connection: Cultural and Social Factors Affecting Small Farmer Participation in Credit Programs", *Small Farmer Credit Analytical Papers*, AID Spring Review, Washington, February 1973 (draft), on page 26.

the advantage of saving. In this sociological context the propensity to save could not develop easily and spontaneously, considering the fact that a saving behaviour (at personal level) would have been contrary to the spirit itself of the extended-family system, which for obvious reasons of self-preservation tended to reinforce mutual dependence against individualism among the group-members. The growing monetization of socio-economic relationships and the ensuing uneven distribution of monetary incomes among the members of the same family have gradually altered the equilibrium of the economic relationships inside the group: in most cases the reciprocity of mutual obligations and contributions could no longer be maintained, because of the uneven income distribution continually aggravated by the migratory flow from rural to urban areas and the widening gap between urban and rural incomes. Since the obligation of the individual vis-à-vis his family-group is still strongly felt, the majority of income-earners (and particularly wage-earners) is continually called upon to help several relatives who enjoy lower and less stable incomes and even to support the poorest. If such is the case it is obvious that the savings capacity of the income-earner is greatly reduced, even if his monetary contributions are put to good use (education of children, medical care, etc.). It is equally evident that if the extended-family were to degenerate into a chronic form of social parasitism, the formation, accumulation and mobilization of personal financial savings would be seriously hindered.<sup>1</sup>

---

<sup>1</sup> In H. Greisinger, Report on Personal Savings in Zambia, UNDP/OTC, December 1970, on page 29, the author comments on the extended-family system in Zambia or "bakumwesu" and observes that "this habit, rooted in a sound and natural feeling for one's fellowman, seems to have turned into an excessive pressure on small and medium incomes in the course of growing economization and accelerating migration to urban areas".



- (f) the diffusion of indigenous mutual-aid societies. Their influence on savings formation and accumulation is contradictory. By providing an efficient — however informal — insurance system, indigenous mutual-aid societies certainly contribute towards weakening the individual propensity to save. However, on the other hand they compel members to save regularly (it could be said contractually) a given sum of money. But indigenous mutual-aid societies have a negative effect on the mobilization of savings, since they are in no way integrated into the organized system of financial intermediation;
- (g) the degree of illiteracy and the lack of economic and financial education;
- (h) the lack of confidence and interest in financial institutions, on the part of the majority of the population. This psychological attitude is mostly due to the social gap now existing between the major part of the population and the banks, which are either socially and psychologically inaccessible or offer unattractive savings and financial services (i.e. alien to the social background);
- (i) the lack of economic motivation for savings formation and accumulation. This factor is connected with many others mentioned in this section and must be considered a major consequence of the static nature of the economic environment, which does not provide a sufficient number of investment opportunities, real or financial. This factor, which is in many cases reinforced by unfavourable psychological elements, can probably be removed by a more comprehensive approach to economic development, and not merely by an appropriate personal savings policy, which appears to be too limited in scope. As will be made clear further on, several problems posed by the formation, accumulation and mobilization of personal

savings can be solved only in the broader context of economic policy (implementation of specific development projects, formulation of appropriate credit programmes, etc.);

- (j) the low level of personal disposal monetary income and its low growth rate. Recent research tends to prove that the latter element is perhaps more important than the former one, at lower- and middle-income levels, for savings formation and accumulation.<sup>1</sup> On the other hand it is not clear how the variability of monetary income affects savings. This point is particularly important, since in African countries the majority of monetary incomes is dependent upon agricultural production and upon its broad fluctuations. It is likely that, up to a point, the uncertainty of future income positively affects the formation and accumulation of personal savings for a self-insurance purpose, whereas beyond a certain limit (when the individual savings capacity is much lower than the minimum level required to compensate future predictable income loss), it is likely that uncertainty negatively affects the savings formation and completely frustrates the accumulation of savings. Moreover the variability of monetary income also affects the mobilization of savings, in the sense that mobilization techniques must be adapted to the fluctuations in expected income. It is important to remember that the level of personal disposable monetary income is rather strictly conditioned by the fiscal, price and wage policies enforced by government action;

---

<sup>1</sup> In the *Report of the Inter-regional Seminar on the Mobilization of Personal Savings in Developing Countries*, already quoted in a previous footnote in this section, it is stated on page 35 that "the notion that because people were poor they were incapable or unwilling to save did not seem to be supported by the evidence. Even in very poor countries, an increase in personal income was not used simply for consumption. Rates of savings were more a function of a change in income levels than of absolute levels of income".

- (k) the low degree of monetization of some economic sectors, particularly the subsistence sector of agriculture;
- (l) the lack of price stability, and more specifically the fear of inflation;
- (m) the excessive use and the misapplication of subsidy policies, particularly during the colonial period. In fact, such policies, if improperly used, may affect negatively the propensity and motivation to save;
- (n) the fear of taxation. Particularly this factor is a serious obstacle to the mobilization of personal savings;
- (o) the unfavourable patterns of private consumption expenditure, which is noticeably inflated either by traditional customs (births, marriages, funerals and other ceremonies) or by increasing urbanization;
- (p) the persistence of traditional investment habits (investment in jewellery, cattle, land, "family treasures", etc.), motivated either by the psychological and social need to demonstrate wealth according to the values of a certain class system, or by a deeply-rooted distrust in currency and financial assets;
- (q) the more recent, but not less harmful, tendency to emulate higher consumption-standards and to demonstrate spending capacity in particular social environments, where the consumption-patterns are often influenced by the high standard of living kept by well-to-do people;
- (r) the habit of hoarding. This is rather a derivative factor since hoarding behaviour is, in a way, a consequence of the growing monetization of economic relationships, the gradual evolution of traditional social structures (extended-family system), the lack of investment opportunities, the lack of banking facilities, the fear of taxation, the need for secrecy, the lack of confidence



in financial institutions, the lower degree of financial education, etc.;<sup>1</sup>

- (s) the lack of physically accessible banking facilities, due mostly to the insufficient network of the banking system and the unsatisfactory development of transportation and communication services. This factor has particular relevance in the rural areas;
- (t) the very limited spectrum of savings facilities provided by banks and other financial institutions. Moreover the financial assets now available to savers do not seem to be well-adapted to the various and specific needs of savers, and particularly those belonging to the lower- and middle-income groups. In fact, in most cases, the mobilization techniques now used do not seem to fit well with the savings behaviour and motivations of the majority of African people. This point will be further examined.

This list of the factors which negatively affect personal savings is impressive and somewhat discouraging to those who contend that personal and household savings should be brought to play a greater

---

<sup>1</sup> In some instances the habit of cash-hoarding is also motivated by the shortcomings of the distribution system of consumer goods in rural areas. Such seems to be the case of Malawi, where a few government-sponsored projects for developing cash crops in rural areas have been partially frustrated by the fact that the existing distribution system did not provide an adequate outlet (consumption opportunities) to the farmers' increasing cash earnings. For this reason, most farmers — after piling up a considerable amount of cash receipts — decided to cut down the production of cash crops. It is also important to point out that farmers had no alternative to currency-holding because in the same areas banking and saving facilities were lacking too. This example is reported in F. Arcucci - L. Frediani, *Report and Recommendations relative to the mission in Malawi undertaken on the basis of the terms of reference proposed by the Malawi Development Corporation*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1972 (restricted). However, the habit of cash-hoarding does not appear to be a common phenomenon in African countries: the demand for safe-keeping facilities, particularly in rural areas, stands to prove that most African people are at least sensitive to the risks inherent to cash-hoarding (theft, destruction by fire, floods or insects, etc.) and resort to hoarding when no alternatives are available.

role in future development financing in African countries. The pessimistic implications of this impression must be dismissed in favour of a strictly realistic and pragmatic view of the problems, the difficulties and advantages inherent in the mobilization of personal savings. It should be clear that, in order to gain a more balanced and mature view of the matter at hand, future field research ought to concentrate on « weighing » the relative importance and implications of the above-mentioned factors, with reference to specific situations and conditions. In other words, a fair number of "surveys on household savings" at a national level would constitute an essential pre-requisite and an optimal starting point for future action in the field of personal savings mobilization. Still another conclusion can be drawn from the comprehensive consideration of the above-mentioned factors: the problems of personal savings appear to be so intimately connected with a large number of other psychological, social and economic factors, that their final solution cannot be thought of and implemented independently from the broader context of overall economic policy. In fact to the economic and social policy falls the very important task of establishing appropriate environmental conditions for a growing formation, accumulation and mobilization of personal savings. If such were not the case, any personal savings policy, however cleverly devised and supported by the use of the most advanced and appropriate techniques, will nevertheless give unsatisfactory results and cause an undesirable waste of precious resources (economic and human), which might have been more fruitfully invested otherwise.

#### 7. GUIDELINES OF AN ACTIVE POLICY FOR PERSONAL SAVINGS

As explained in the foregoing section, the promotion of personal savings at the national level calls for a comprehensive and co-ordinated approach: an effective and dynamic savings policy cannot be considered merely as a technical-institutional problem. It is likely

that not even a basic change (reorientation and innovation) in the existing banking structure and policy could be completely effective if the overall financial and economic environment is not favourable to the formation, accumulation and mobilization of personal savings. Hence it should be clear that a successful policy for personal savings largely depends for success both on governmental effort (at the policy-making level) and on the effort of the central bank (at the implementation level). Without such a support, any initiative taken by financial intermediaries in the field of the mobilization of personal savings would produce only limited results and would probably turn out to be unduly expensive.

*Governmental efforts to promote and mobilize personal savings*

According to its essential policy-making function, the government effort should include at least the following points:

- (a) to define the guidelines and targets of a national (personal) savings policy, in accordance with the general objectives assigned to GDCF growth and financing, as set out in the development plan;
- (b) to test the viability and feasibility of the savings policy defined in (a), on the following grounds: (1) existing empirical knowledge of the saving potential of the economy, and particularly of the household sector; (2) an exhaustive cost-benefit analysis, to be carried out along the general lines already specified, on a comparative basis with possible alternatives; and (3) the consistency of this policy vis-à-vis overall economic policy, with particular reference to its implications in the matter of personal income distribution, wage and salary levels, direct and indirect taxation, prices, interest rates and the other variables relevant to personal savings;
- (c) to entrust to the central bank — which in this respect would appear to be the most appropriate choice — the basic responsi-



- bility and the main task of (1) proposing (on a consultative basis) the lines of action for the government's savings policy; (2) co-ordinating the various parties which can contribute to the success of the selected savings policy, either by fostering general environmental conditions favourable to savings or by giving collateral support to the main effort or by providing technical assistance;<sup>1</sup> and (3) supervising the implementation of the savings policy outlined and defined according to the procedure mentioned above;
- (d) to invest the central bank with sufficient powers to carry out the assigned tasks without being obstructed by political pressures and interferences and by interests conflicting with other government bodies (the responsibility in the matter of savings policy should in any case rest with a unique organization, central bank or other);<sup>2</sup>
  - (e) to take all necessary actions to make the planned savings policy as effective as possible. The fields where such actions appear to be most indicated are (1) legislation directly or indirectly concerning personal savings and financial intermediaries, (2) taxation of savings and of financial institutions engaging in savings intermediation,<sup>3</sup> (3) mass education, in order to stimulate social

---

<sup>1</sup> Experience would suggest including among these parties at least the Ministry of Finance, the Treasury, the Planning Authorities, national banking and financial associations, and — in the frame of international co-operation — also international organizations and qualified voluntary agencies. It would be advisable to constitute, with the assistance of these institutions, a sort of permanent Committee for the promotion and mobilization of domestic savings. This Committee could very well pivot on the central bank.

<sup>2</sup> In a number of African countries the absence of an autonomous national central bank certainly represents a serious obstacle to the implementation of the savings policy outlined in this text.

<sup>3</sup> For instance, tax exemptions or rebates might be granted to savers with regard to their interest gains and/or to savings institutions with regard to their operating surpluses.

participation in savings programmes, (4) anti-inflationary controls, if necessary (5) political stability, in the sense that the Government must gain the people's confidence by ensuring the continuity of the basic political options underlying economic policy, and (6) savers' security; if the government were to guarantee the savings mobilized via specific technical structures against loss (by bankruptcy or theft), future taxation, and confiscation (either temporary or definitive), the effectiveness of savings policy would no doubt be greatly enhanced.

Finally and for practical purposes, it might be recommended that governments assume, as a starting-point of their effort in the area of domestic savings, the new policy-orientations recently formulated and adopted by the UN Economic Commission for Africa for the purpose of increasing the participation of domestic resources in development financing.

#### *Fields of action of the central bank*

Being clear that the government and the governmental apparatus must concentrate their attention and efforts on substantive policy-matters concerning savings in general, with particular regard to the now-neglected household sector, the tasks assigned to the central bank are of a more technical and executive nature, although their importance should certainly not be underestimated. The main areas covered by the central bank's action should be the following:

- (a) to carry out all the functions of advising, co-ordinating and supervising, as specified under point (c) above;
- (b) practically to implement the direction of the savings policy as defined by the government. In order to achieve concrete results along these lines, the central bank cannot avoid assuming a major responsibility in the following areas, which are further analysed in the subsequent paragraphs:

1. a knowledge of the current situation of national savings in all sectors (government, business and households). Existing knowledge on this matter is fragmentary (confusing is perhaps a more appropriate definition), and it is needless to say that a consistent savings policy can be firmly founded only on substantive, statistical and extensive knowledge of the present situation of African savings, such as is obtainable only from exhaustive field research on a large number of closely inter-related topics;
2. the study, definition and organization of an effective incentive system in order to stimulate the mobilization of personal savings via financial intermediation;
3. the study, definition and organization of the institutional apparatus most apt to carry out the function of implementing the national savings policy (financial intermediaries and other financial institutions).

It is reasonably evident that the effort suggested in sub-paragraph (b)1. in the preceding paragraph should possibly use as a starting-point the identification of the existing fallacies in current economic thinking about household savings in order to test their inconsistency, while the effort suggested in sub-paragraph (b)2. and (b)3. might correctly start with a thorough analysis of the present deficiencies of existing financial systems and a thorough consideration of the major factors now negatively affecting the mobilization of personal savings.

8. EXTENT AND TYPE OF BACKGROUND INFORMATION NECESSARY  
FOR THE FORMULATION AND IMPLEMENTATION  
OF A NATIONAL SAVINGS POLICY,  
WITH SPECIFIC REFERENCE TO HOUSEHOLD SAVINGS

It has already been made clear that an effective savings policy requires a considerable amount of background information, other-



wise the resources invested in the effort of mobilizing personal savings might be wasted or at least less profitably allocated. Hence, the central bank should initially concentrate its attention on the task of providing such information and of improving it. To this end, some preliminary research on the following topics would be particularly useful:

- (a) the flow-of-funds accounting system. A statistical and detailed knowledge of financial flows inside the economy (by sector, by type of economic and financial operator, by type of financial asset traded) would provide an ideal framework for the national savings policy. Moreover, this system of financial accounts could constitute a most clear and useful link between the savings policy and the national (real) account system. Thanks to the "intermediation" of the flow-of-funds accounts, it would be possible to link the savings policy with GDCF and to have a clearer view of development financing. Finally, this fundamental connection would help in improving the consistence of the savings policy with the overall financial planning of the economy;
- (b) the distribution of wealth and income according to different criteria (by income groups, geographical areas, economic sectors, age-groups, household composition, etc.), in order to achieve an exhaustive cross-section of these basic economic quantities;
- (c) the patterns of personal income-flows, in order to test their variability with specific regard to the economic activity (agricultural, industrial, commercial, etc.) generating the income;
- (d) the household budgets, their financial inflows and outflows (amount and fluctuation), and the composition of household wealth (real and financial assets), under different economic and social conditions of particular significance. However, such re-

search can be practically implemented only if it is based on an appropriate "sample" of households;

- (e) the review and analysis — based on information provided by (d) — of the households' behaviour in spending (purposes) and in saving (motivations), in order to identify the dynamic patterns of the financial surpluses forming in the households' budgets;
- (f) the appraisal — on the basis of the information supplied by research on points (b) to (e) — of the households' savings potential, by geographical area, income-group, origin of income, etc., so that the activity of financial intermediaries can be properly oriented to tap the existing sources of savings as efficiently as possible;
- (g) the overall dimension, structure and performance of indigenous and mutual-aid associations, in order to identify their motivations, functions and socio-economic background. This research is important for estimating the possibility and opportunity of institutionalizing the indigenous associations or of integrating them some way into the financial system. Moreover, it would be helpful in appraising the households' savings potential under (f) and in developing research suggested in the following point (h);
- (h) the group and individual psychology of African people in respect of savings and other financial matters, with particular reference to different environmental conditions (extended-family system, ethnic composition, class structures, religious practices and beliefs, inheritance laws and customs, land-tenure systems, local prevailing economic activity, degree of literacy, other relevant socio-economic components). The importance of such research is mainly related to the problem of providing adequate incentives to personal savings;

- (i) the review and analysis of the various factors affecting the formation, accumulation and mobilization of household savings, in order to test the hypotheses formulated on page 62-64. It is evident that this study would prove particularly useful in providing guidelines for future savings policy;
- (j) the formulation of an appropriate system of incentives to household savings. In this respect, it would appear logical to orient research mainly towards the following goals: (1) to identify — in abstract terms and on the ground of past experience — all the possible incentives (economic, social and other) to personal savings; (2) to test the responsiveness of savers to the various incentives, under different environmental conditions, in view of assessing their relative efficiency; and (3) to study the feasibility of alternative "savings incentive programmes", on practical grounds. Because of its importance, the problem of incentives to savings will be resumed and examined in greater detail in the following paragraphs;
- (k) the review and analysis of existing saving facilities, of their performance, and of their efficiency vis-à-vis the overall savings potential of households, as ascertained in (f);
- (l) the reorganization of the existing financial structures and the constitution of new financial intermediaries specialized in savings mobilization, on the basis of the findings of previous research. In fact, at this stage, if sufficient information is available on the items (a) to (k), it should be clear (1) when, where and for what purpose household savings are forming, (2) their amount, (3) how they can be given effective incentive and mobilized, and (4) the deficiencies of the present mechanisms for savings mobilization and intermediation. On the basis of such fundamental information, it should not be difficult to outline the main structural, organizational and functional features required of financial institutions, to the end of fostering the



mobilization of personal savings. This aspect is obviously of paramount importance and it cannot be dealt with in the limited space of a few general and cursory remarks. Therefore, in the next section there will be an attempt to outline — on hypothetical grounds — the ideal features of a specialized "savings institution";

- (m) the formulation of an appropriate procedure for cost-benefit analysis, in order to appraise the overall and comparative convenience of specific savings programmes and savings institutions resulting from the research on items (j) and (l).

#### 9. INCENTIVES TO HOUSEHOLD SAVINGS:

##### THE NEED FOR AN INTEGRATED APPROACH

The main thesis of this section is that the system of incentives to household savings, and consequently the mobilization techniques to be applied, should first of all correspond to the need to motivate the formation, accumulation and collection of savings in the household sector. In other words, the application of certain incentives is successful only if they can properly motivate the savings behaviour of the individual or if they can strengthen any pre-existing, and perhaps latent, propensity to save. This truth, however self-evident, is nevertheless worth considering, because the past performance of African banks tends to show that household savings have until now received incentives which might be termed as "traditional", with few exceptions. In fact the spectrum of savings facilities offered by African banks and other intermediaries is still, in most cases, the same that can be found in developed countries and is mainly based on the interest rate incentive. It is useful then to ask the following question: is such a form of incentive really adapted to the African socio-economic context and can it effectively motivate the savings behaviour of the African people?

Considering that this paper is primarily concerned with the mobilization of personal savings at lower- and middle-income levels, it can be observed that:

- (a) in this context, the elasticity of household savings to the interest rate would appear to be very low, at least in the limited range of interest rates now offered to African savers;<sup>1</sup>
- (b) the concept of interest rate as the price of money seems to be rather foreign to African cultures.<sup>2</sup> Financial transactions between individuals and financial relationships inside indigenous associations are generally settled without the payment or calculation of interest. In the context of African economic and financial psychology, the interest rates applied by money-lenders or those implicitly included in the price of goods sold with payment in advance (such is the case of some agricultural crops) or of goods bought with deferred payment should be considered an exception, however frequent, deriving from the introduction of a monetary market economy;
- (c) in any case, the sum to be gained by interest rate, even if it is high, normally has little economic significance to savers, whose deposits or investments amount to a small average volume;
- (d) therefore the saving behaviour is not merely motivated by the interest and savers do not seem to be particularly interest-sensitive. Rather the formation and accumulation of savings

---

<sup>1</sup> At present it is rare that financial assets, of any kind, available to the average African saver, earn an interest rate higher than 6-7 per cent a year. However it is difficult to say, whether or not, beyond this upper limit, savers would become more interest-sensitive. Obviously the possibility of paying higher interest rates on savings depends strictly upon the opportunity of raising the average level of interest rates on loans. This problem will be dealt with in the following paragraph.

<sup>2</sup> As is widely known, in some African countries, namely the Moslem ones, specific religious norms forbid interest rates and the case of depositors who refuse to withdraw the interest accrued from the bank is not rare.

at the household-level appears to be strongly motivated by the following factors: the need for insurance, the need for credit, the feeling of social obligation, and the planning of future expenditure (consumption or investment). Again, this is indirectly proved by the performance of indigenous associations (both the savings and mutual-aid kind) and by the behaviour of their adherents. In such an environment, it becomes understandable that the interest rate cannot provide a sufficient motivation to save or to deposit savings into a bank. In fact, by saving with an indigenous association (or even a credit union) the household obtains security, credit and social standing inside the local community. It is also important to note that, according to the logic of indigenous associations, personal savings tend to assume an obligatory character after the individual has joined the association, and that savings become, in a sense, a form of social participation.

Therefore, the formulation of an ideal incentive programme for household savings should start from such basic considerations and should seek to make full use of existing savings motivations in view of developing the savings potential of the household sector. Finally, the saving policy implemented by financial intermediaries could essentially pivot on the following four elements:

1. the forms and techniques of savings mobilization must conform to the objective of motivating spontaneous saving behaviour;
2. the same forms and techniques must be adapted to existing saving patterns and habits, besides being adapted to the socio-economic conditions characteristic of the various classes of savers (degree of literacy, income patterns, need for liquidity, etc.). Past and present experience of indigenous associations suggests that particularly contractual savings would be well accepted by the majority of savers, for whom the act of saving is normally a voluntarily-contracted obligation;



3. the savings policy must adopt an integrated and comprehensive approach whereby savings schemes and incentive programmes are strictly connected with complementary credit and insurance schemes;
4. savers must be allowed to participate in some way in both the management of the financial institution and in the credit programmes implemented by the same institution.

In these respects, the most appropriate form of deposit appears to be that provided by some kind of contractual saving plan, whereby the saver is obliged to regularly deposit a given sum of money, even small, in exchange for an interest payment<sup>1</sup> or, preferably, for the right to obtain certain financial services (credit and insurance). Some of these schemes have already been successfully introduced in a few African countries. For instance, the contractual savers might be granted, upon certain conditions, loans for various purposes (to finance the building of their own house, to finance the purchase of particular farm inputs, to pay for their children's education, to meet unforeseen expenses such as funerals, medical treatment and the like).<sup>2</sup> Instead of credit, savers could receive at their choice a multi-

---

<sup>1</sup> The payment of interest could be usefully substituted by the drawing of prizes, so that the single saver's expectation for financial remuneration increases substantially. However, the ratio between the number of prizes drawn and the number of depositors should be high and the amount of the prizes should be proportionate to the savings deposited. Thus, any single saver would have a reasonable, although uncertain, expectation of remuneration and the incentive would contain only a mild "speculative" element (which is rather typical of lotteries).

<sup>2</sup> This particular type of savings plan has been successfully experienced in Egypt, by the Mit Ghamr banks (now Nasser Social Bank). The experiment is illustrated in detail in the Country Report of Egypt, in *Mobilization of Savings and Local Credits*, German Foundation for Developing Countries, Berlin, October 1972, on pages 159-162.

purpose insurance policy, whereby they are covered against certain risks, such as natural death, death by accident, inability consequent to disease or accident, etc., for an amount proportional to the sum deposited.<sup>1</sup> Moreover, under certain conditions, savers might enjoy the assistance of a "social service fund", the main purpose of which should be of helping adherents out of difficult situations, caused by unforeseen events not covered by the insurance service.<sup>2</sup> Finally, savers might receive, upon request, financial and technical advice from the bank on problems strictly concerning either their economic activity or the management of the household budget.

In order to make savers enjoy some degree of participation in local financial problems, (1) a few of them might be elected by the local group of savers to constitute a sort of advisory council for the local manager of the bank, and (2) the bank might organize — in co-operation with other competent government agencies — credit or investment programmes specially devised for specific classes of savers (farmers, artisans, etc.) or for specific goals or projects of common interest to large groups of savers (house-building, irrigation schemes, establishment of co-operatives in rural and urban areas, etc.). It is apparent that these credit and investment programmes would give incentive to savings formation and mobilization, because the savers themselves could directly observe what can economically be done with their own savings, to the benefit of the local com-

---

<sup>1</sup> A form of savings-insurance scheme has been adopted in Egypt. See the presentation by Hikmat Said Ahmed Rizk, "The Mobilization of Domestic Savings in the UAR", in *The Mobilization of Savings in African Countries*, *op. cit.*, on pages 141-161.

<sup>2</sup> An experiment along these lines has been made by Egypt in the Nile Delta (Mit Ghamr). More information is reported by the Country Report of Egypt, in *Mobilization of savings and local credits*, *op. cit.*, on page 161.

munity.<sup>1</sup> In other words, the creation of new investment opportunities — which perhaps constitute the best incentive to save — should keep up with the gradual implementation of savings programmes: the strict connection between savings programmes and credit and investment programmes is an essential component of the integrated and comprehensive approach mentioned above. Along these lines, such projects might even be implemented on a group-basis, in the sense that the bank devises a procedure to collect group-savings and to grant group-credit.<sup>2</sup> The solution suggested is particularly practical, when it is considered that the implementation and management of such a complex system of saving incentives would imply the high costs of a heavy administrative structure and the organization of an efficient network of extension services. Although the ideas presented in this section are merely hypothetical, they nevertheless prove that (1) any system for giving incentive to household savings in the African environment has a long way to go and must necessarily follow an integrated approach, and (2) its implementation cannot go without a preliminary cost-benefit analysis

---

<sup>1</sup> On this matter see D.W. Adams, "Rural savings and small farmer credit programmes", *Small Farmer Credit Analytical Papers* (draft), USAID, Department of State, Washington, February 1973.

<sup>2</sup> A more detailed examination of group-credit can be found in T.F. Carroll "Notes on group credit", in *Small Farmer Credit Analytical Papers*, already quoted above. In Ivory Coast, the *Banque Nationale pour le Développement Agricole* has been managing for some years now a successful system of group-credit for small farmers. The main purpose of the programme is to finance small farmers when their cash receipts fall to a very low level between two successive crop seasons: in fact such loans are called *prêts de soudure*. It is important to note that the loans granted by the BNDA under this form have no fixed destination and that farmers may even use their proceedings for consumption purposes. This proves that, under specific conditions and within certain limits, savings programmes may give better results if they are connected with consumer credit programmes. For more details on the Ivorian experiment see *BNDA Prêts de soudure* (English), in *Small Farmer Credit in Africa, Country Papers* USAID, Department of State, Washington, February 1973,



covering all aspects (economic, social and financial) of the issue under discussion.

10. IDEAL FEATURES OF DYNAMIC SAVINGS  
AND CREDIT INSTITUTIONS: SOME TENTATIVE PROPOSALS

On the basis of the provisional — and hypothetical — conclusions expounded in the previous section, it becomes evident that a dynamic savings institution should also actively perform credit operations, if it hopes to give the maximum incentive to household savings. Therefore it seems much more correct and appropriate to make use of the term "Savings and Credit Institutions", being understood that the credit function is expected to play an important role in any savings incentive system. However, the objective of the present section is not to outline and recommend a specific institutional set-up, as the ideal solution to the problems of savings mobilization. It is obvious that no institution or organization is better in absolute terms than any other and that the right approach, i.e. a functional one, requires a solution adopted to the specific environmental conditions. Hence the answer to the problem posed by this section will come only from the practical implementation of point b.2 on page 197. Nevertheless, in order to draw a few concrete conclusions from the present study and in view of generally pointing out the difficulties inherent to the institutional and organizational aspects of savings mobilization, it has been judged useful to select and present — for further consideration and analysis — some major problems which will no doubt arise on the road to the practical implementation of the structures needed for personal savings mobilization.<sup>1</sup>

---

<sup>1</sup> An attempt to outline the ideal features of financial intermediaries in the rural areas recently was made by the Association of African Central Banks, during its latest seminar in Tunis (20 November - 4 December 1972), with a paper entitled *Le développement de l'économie rurale en Afrique par le moyen de la création des banques rurales*.

*Structure and organization*

Irrespective of their legal status, which might differ widely according to the various legislations of African countries and because of their different political orientations, savings and credit institutions should have public nature, but be autonomous vis-à-vis the government or the public administration, as far as their management is concerned. The government should only provide appropriate savings policy orientation (along general lines and in nationwide terms), appropriate legislation, collateral assistance (extension services and mass education), the central bank's co-operation and action, supervision and control, possibly seed-capital for new structures, and other items which have been already mentioned. It is important to underline this statement because savings and credit institutions, being necessarily social-oriented, should not be profit-motivated (in the private meaning of the term, but they are expected to forego profit opportunities in the long-run goal of fostering socio-economic development through providing the community with low-cost and highly efficient financial services. Hence the only standard for judging the feasibility of a savings and credit institution, from the economic point of view, is that of a positive cost-benefit balance. Obviously the responsibility of deciding the latitude of the cost-benefit concept for factual application rests totally with the public authorities, since only public money could make up for possible operating losses incurred by savings and credit institutions in performing their basic functions. However, for practical purposes and given that a prudent approach is wise, considering the doubts inherent in any cost-benefit analysis, authorities could — on first approximation — establish the criterion that savings and credit institutions must balance their accounts in the long run. Although this criterion is likely to be sub-optimal, at least it provides a clear and unequivocal standard for judging the performance of savings and credit institutions, whenever no other standard can be clearly de-

fined.<sup>1</sup> Although it is not clear how the performance of savings and credit institutions must (and can) be practically measured, the profit-motive is clearly not compatible with the functions performed by savings and credit institutions: the assertion is further supported by the postulate that such institutions should be considered financial infrastructures essential to socio-economic development, on the assumption that basic financial intermediation is a service of public (general) interest. The profit-concept is certainly not always consistent with the conception and purpose of economic infrastructures. In conclusion, the combined public-autonomous nature of savings and credit institutions would ensure that private interests and political pressures do not influence, in principle, their management and performance.

Independently of the specific organizational set-up, savings and credit institutions should be country-wide in scope, but essentially local in purpose. Banking facilities and the advantages of financial intermediation must be made available to as many households and businesses as possible: this objective could not be achieved, if the efforts to spread banking services were not nationwide and social-oriented and if the dynamic effects of financial intermediation were not localized by means of a strict connection between savings mobilization and credit programmes.

However, the practical implementation of this principle runs into two major difficulties: the identification and choice of the optimal location of savings and credit institutions, and the selection of the optimal organizational structure of savings and credit institutions. Obviously the solution of the former problem depends mainly upon the specific long-run objectives of the savings (and credit)

---

<sup>1</sup> Nevertheless, it would be advisable to allow for the formation of a reasonable surplus between revenues and expenses, so that a sufficient amount of fresh capital is gradually made available for growth purposes (investment in new fixed assets, expansion of the branch network, etc.).



policy, with particular reference to local and national development. Besides, the actual choice of location requires a preliminary survey of local conditions (savings potential, investment opportunities, etc.) at the regional level and an exhaustive analysis of the costs and benefits inherent in financial intermediation under specific environmental conditions. Presumably, the problem of location can be better solved by means of a gradual approach, that is by establishing savings and credit facilities first of all in the most suitable and promising locations, from the point of view of an overall cost-benefit analysis, and by selecting among such locations those which presumably allow the accounts of the savings and credit institution to break-even, so that the institution itself can become self-sufficient.

The choice of the optimal organizational structure depends mainly upon the evaluation of the following alternatives:

- (a) only one savings and credit institution, national in scope, with a country-wide branch system, (provided that local branches have sufficient autonomy to perform a local savings and credit policy), in order to achieve an optimal integration into the socio-economic environment and subsequently activate a dynamic effect through local financial intermediation;
- (b) a number (few or several, according to local conditions) of regional or provincial savings and credit institutions connected, supported and supervised by a central financial organism, which — besides eventually performing all normal banking services — could provide affiliated institutions with depository facilities for seasonal excess liquidity, refinancing facilities to cover seasonal and temporary liquidity shortages, personnel training, co-ordination, technical assistance and advice (on management policy matters, organization, accounting, administrative and legal matters), financial transfer system, contacts with central authorities (ministries, Treasury, central bank, etc.). Each of these alternative solutions has advantages and disadvantages.

Actually — on the ground of the experience of such institutions in more developed countries — it seems that the structure proposed in (a) is more efficient (i.e. lower operating costs), but perhaps more bureaucratic, centrally-oriented and possibly more exposed to political pressures. On the other hand the organization outlined in (b) is more expensive (i.e. the community supports a higher intermediation cost), but ensures a more determined outward orientation, a more flexible and integrated performance at the local level (higher degree of "indigenization"), a greater autonomy from extraneous pressures originating in the centre of the system. While an efficient central organization is necessary to obtain and develop skillful management and to achieve overall good performance (co-ordination of savings and credit policy, financial stability, economic soundness, supervision, reduction of peripheral operating costs, etc.), on the other hand decentralization is no less necessary if financial intermediation is to integrate itself, with sufficient flexibility and optimal dynamic effect, into the local socio-economic environment. By compromising the views expressed in (a) and (b), it may be said that the broad guidelines of savings and credit policy should be established by the centre with the co-operation and advice of peripheral organs and these should adapt these guidelines to local conditions, because financial intermediation must be at the same time co-ordinated at the national level and localized in purpose.

It is obvious that in such organizational structures, the operating costs (particularly fixed and personnel costs) limit the establishment of new branches only to those areas where the potential demand for banking services allows the single branch to earn an overall revenue sufficient to cover expenses. This is a major obstacle to a capillary diffusion of banking facilities in rural areas, since it is

likely that only relatively large villages can economically support a branch. In order to spread financial intermediation further, beyond medium-large villages, it is necessary to base banking operations on a different organizational structure. In this respect there are four possible solutions:

1. to establish small branches on a periodical basis, to perform current banking operations on given week-days (for instance, market-days) or during limited periods (for instance, harvesting and seeding seasons) when overall local economic activity (trade and financial flows) increases.  
Such periodical branches can be organized also in public administration offices, in factories, and so on;
2. to service smaller villages with mobile branches during the same days and periods. Experience here has given contradictory results: in some cases such a solution has proved unsatisfactory because of obvious distrust on the part of the people, while in other cases it has gained the confidence of people and has proved even more efficient than a permanent or temporary branch for various reasons (popularity, advertising effect, etc.);
3. to make an agreement with the Post Office Administration, whereby the savings and credit institution is allowed to perform savings mobilization and credit operations (permanently or periodically) on the premises of peripheral post offices, with its own qualified personnel. This solution would be nearly automatic in the case that the savings and credit institution is established by reorganizing the POSB savings collection service. If the solution proposed were practically adopted, it is obvious that the Post Office Administration should accept to pass over all operations on savings to the savings and credit institution. However this is a compromise solution and may have a negative effect on savers' psychology and on their responsiveness to the new incentive system applied: in fact savers might not make



the distinction between the new institution and the POSB and react unfavourably to incentives being negatively influenced by the traditional POSB image. In conclusion, this solution is acceptable only on condition that the new identity and image of the savings and credit institution can be sufficiently differentiated and innovated, with respect to the image projected by the POSB. However, it should be recognized that the operating costs involved in such solution are likely to be much lower than those in solutions 1 and 2;

4. to connect the peripheral savings and credit branches with local credit unions in order to perform periodically out-of-branch operations in co-operation with them and on their premises. For the time being it does not seem advisable to turn over day-to-day operations to credit unions, because they generally lack qualified personnel, organization, safe-keeping facilities and reliable accounting procedures. But these deficiencies could, with time, be partially solved by the technical assistance of the nearest savings and credit branch, which might also provide financial services to the credit unions themselves. In this respect, the savings and credit institutions and credit unions could make some sort of agreement for future co-operation.

Obviously, this is a solution only in the long run. The same problems would arise with greater gravity if the savings and credit institutions should try to develop some form of co-operation with indigenous savings (and credit) associations. Therefore it must be concluded that such solutions, however promising, are still premature. At present, in most countries the capillary network of credit unions and indigenous associations might suggest the possibility of experimenting with group-credit and group-savings programmes. In no case should the essential socio-economic function performed by credit

unions and indigenous associations be lost. In fact, a stable connection and co-operation (even if gradually developed) between credit unions, indigenous associations and the savings and credit institutions would certainly make the integration of the latter into the socio-economic environment at local level much more effective and easy: credit unions and indigenous associations may in a number of cases bridge the psychological gap existing between the individuals and the new savings and credit institutions, by acting as a sort of informal intermediary.

Thus, for practical purposes, only solutions 1 and 2 appear to be available for immediate implementation, while proposal 3 must be considered a sort of sub-optimal solution and solution 4 may possibly give very good results only in the future. However, all these possible solutions must be considered as temporary and savings and credit institutions should make every effort to substitute them with permanent branches, as soon as possible.

#### *Main functional features*

It is much more difficult to outline the functional features of savings and credit institutions, since they must necessarily vary according to local conditions and needs and to the incentive system specifically applied: hence a mere simplification would obviously be incomplete and unsatisfactory. Hence, this sub-section is devoted mainly to broad definition of the over-all policy-orientation, which should underline the performance of savings and credit institutions.

As has already been pointed out, the top-objective of the savings and credit institutions is to extend financial intermediation as far, and as deeply, as possible into the socio-economic environment, in order to expand the "organized financial sector" vis-à-vis the "non-organized" one. In other words, the institutionalization of savings and credit at all levels in African countries must be fostered

and improved by appropriate means, particularly by the establishment of appropriate financial infrastructures with a high degree of "indigenization". In order to penetrate the indigenous economy, the management and staff of savings and credit branches would be expected to make any possible effort to integrate into the banking circuits (i.e. to intermediate) the maximum possible amount and the widest variety of the financial flows received and generated by all local economic units (businesses, households, etc.) in order (i) to mobilize their financial surpluses, and subsequently (ii) to lend the funds thus collected to those units whose budgets show financial deficits. If this has the effect of increasing the overall production and income of the community and if such an increase exceeds the value of the resources spent (costs), then it can be said that the use of financial resources is improved and their productivity increased. In principle, the process now outlined should be self-feeding, because the growth in income would produce new and larger financial surpluses (savings) within household budgets, if the propensity to consume is not too strong or can be checked. Obviously the efficiency of the whole process very much depends upon the performance of functions (i) and (ii), and particularly upon the actual choice of customers, that is surplus-units and deficit-units.

In this respect, if the principle is accepted that savings and credit institutions must be socially oriented (and should not put undue emphasis on short-term economic productivity), the efforts of savings and credit institutions should concentrate mostly on (i) mobilizing financial surpluses from the economic units not yet integrated into the institutional financial system (mainly households belonging to the lower- and middle-income groups), and (ii) on financing those economic units (mainly small businesses, farmers, co-operatives, etc.) which have very limited and difficult access to bank credit, to offset their respective financial deficits. In this way, through appropriate financial intermediation, idle or underused financial resources (at the micro-economic level) would be brought



in to finance new investment opportunities which are still potential or underdeveloped. Action along these lines may at first appear too costly and even unproductive, but will no doubt turn out to be most rewarding in the long-run, in various aspects (economic, social and political).

Therefore, from the functional point of view, savings and credit institutions will have to:

- (a) exert a "pulling effect" on idle and potential financial resources, by attracting an ever-increasing number of households into the financial circuits.

This action obviously calls for a great amount of preliminary and collateral effort for the establishment of adequate saving facilities and incentives. In this respect, practical solutions will have to be worked out directly in the field, in close co-operation with local people having a good knowledge of local psychology, behaviour and habits;

- (b) exert a "pushing effect" on potential and under-developed investment opportunities, by supplying appropriate credit facilities. Also this action requires preliminary spade-work, collateral supervision and promotional efforts: in fact small-scale entrepreneurship must be developed and assisted, in view of improving investment productivity;
- (c) keep the unit-cost of financial intermediation as low as possible, to the benefit of all interested parties (savers, borrowers, public authorities), and of the economy as a whole. This will be decidedly difficult, if the performance of savings and credit institutions is to conform to the functional standards outlined above. The problem of costs is mainly related to the restrictive effect caused by the small gap existing between the average rate on deposits and that on loans and investments. This particular point is certainly open to debate, since there is no reason why bank rates in developing countries should maintain levels

so similar to those of more developed (industrial) countries. While a higher level of deposit rates might effectively promote savings mobilization through financial intermediation, it might also be contended that higher loan rates would not hinder investment and economic development. In fact the correlation between the cost of capital and the rate of growth is likely to be far less negative in less developed countries where industrialization is still in its initial stages and consequently the over-all need for capital-intensive investments is certainly much lower. Under these conditions any monetary policy for keeping loan rates low, which is usually enforced for development's sake, might have the negative effect of fostering capital-intensive development schemes, whereas scarce capital resources would perhaps be better invested in labour-intensive projects to increase employment. Moreover, higher loan rates would give a larger scope and leave a wider margin to the credit operations of savings and credit institutions: in fact these could allocate more funds to expand their network and operations, to promote savings, to provide extension and collateral services, to accept and support a higher standard of default risk on their loan portfolios, and to other alternative uses. In more concise terms, higher loan rates would allow savings and credit institutions to perform a more pervasive and dynamic action in the economy. Thus there is reason enough for thinking about a revision of the existing interest rate structure in less developed countries. Although this point cannot be thoroughly discussed here, it is undoubtedly worth more attention than it has hereto received.

It is evident that the performance of savings and credit institutions cannot be fully effective if they are not adequately supported by the appropriate economic infrastructure, collateral extension services, mass-education programmes and other collateral actions.

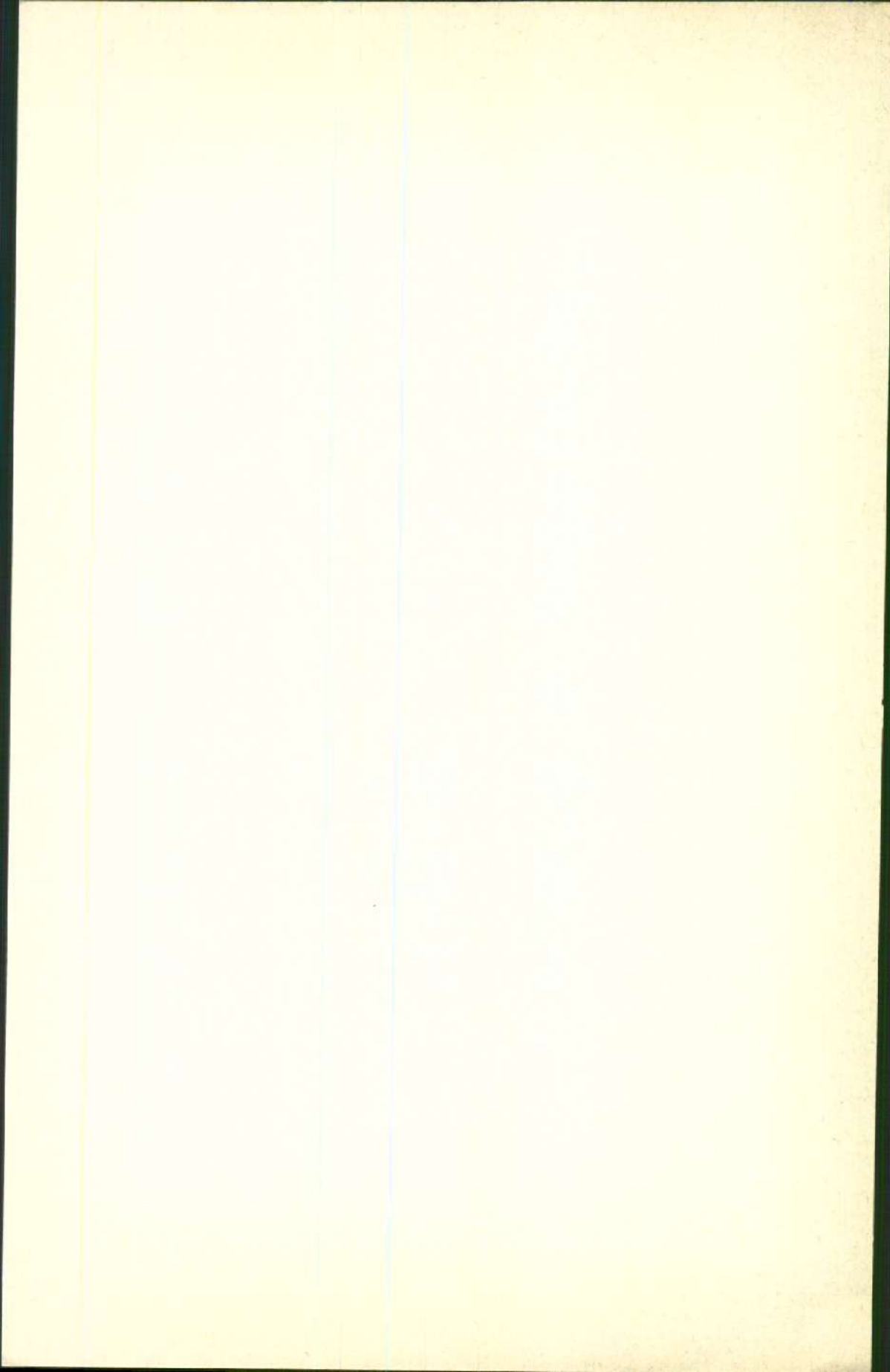
Without a sufficient effort in all these fields, the credit granted by savings and credit institutions would not be productive enough and consequently savings would not receive any substantive, long-term incentive. This proves once more that the mobilization of household savings and the establishment of savings and credit institutions are a necessary, but not sufficient, condition to foster local development, since they are only one component, however important, of a far more comprehensive and integrated approach.

## 11. CONCLUSIONS

The only conclusion and recommendation which can be drawn from this study is that the ideas presented be further discussed and debated among all interested parties, such as African governments, African central banks, international organizations and voluntary agencies. Although this paper may be further refined, its main purpose is essentially to attract the most attention to the problems, situation, possibilities and perspectives of savings, particularly household savings, in African countries. The information available at present is not yet sufficient to support any definite recommendations and no concrete line of action can, on such a limited basis, be suggested as a solution. Further research and more exhaustive studies on the topic at hand are urgently needed to determine a definite course of action. It has been shown that a new orientation to the problem has been adopted by the UNECA Secretariat and by some voluntary agencies. Furthermore, the Association of African Central Banks has recently taken a new interest in the issue of savings and credit. Some African governments have launched new schemes for promoting the formation and mobilization of savings in their respective countries. All these scattered efforts should, from now on, be co-ordinated in order to achieve better and more rapid results. It seems obvious that the United Nations Economic Commission for



Africa is the most suitable organization for leading such co-ordination and to act as a catalyst for all resources, energies and people which are currently being applied to solving the problem of African savings. Perhaps the best way to tackle the issue would be to bring it to the attention of the Conference of African Planners, which is held biennially under the sponsorship of UNECA.



PUBLISHED BY FINAFRICA - CARIPLO - MILANO  
PRINTED IN 1983 BY ARTI GRAFICHE CROCE - MILANO - ITALY





---

### Summary

One common theme links the four essays published in this volume: the problem of household savings. Still nowadays, in most developing countries little attention is paid to the savings which build up in the smallest economic units: the households. This lack of interest in the promotion and mobilization of savings is evident in government documents and emphasized by the lack of legislative and operational measures in this direction. And it is not so because somebody simply overlooked the matter or forgot about it: the situation is the result of a choice in terms of capital formation policy.

The reason for this deliberate behaviour of public authorities most often lies in their underestimation of the considerable potential contribution private savings can make to a country's economic and social development.

This volume is meant to be a contribution to the study of this problem.

It consists of four essays: one by Giordano Dell'Amore on "Household propensity to save: the pre-requisites", the second by Arnaldo Mauri on "The promotion of thrift and savings banks in developing countries with particular reference to Africa", the third by Mario Masini on "The banking system and savings policy in developing countries", and the fourth by Paolo Mottura on "Savings mobilization in developing African countries".

