

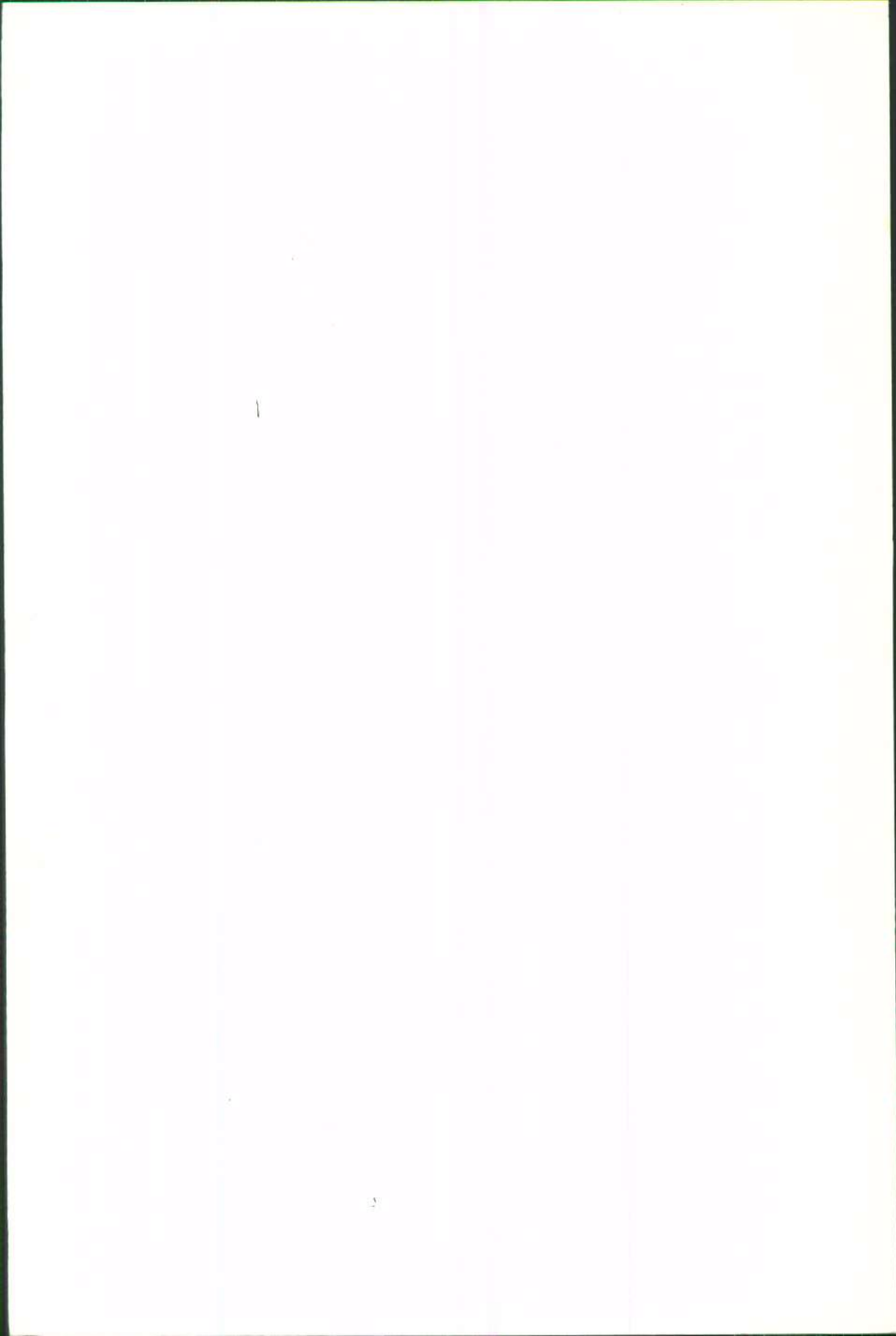
**THE CREDIT MARKETS OF AFRICA**  
A series of monographs under  
the general editorship of  
Professor Giordano Dell'Amore

# **THE MOBILIZATION OF SAVINGS IN AFRICAN COUNTRIES**



proceedings of an international conference  
held in milan,  
20 to 23 september 1971

cassa di risparmio delle provincie lombarde — milan





THE CREDIT MARKETS OF AFRICA

A series of monographs under the general editorship of  
Professor Giordano Dell'Amore

SERIES OF MONOGRAPHS ON THE CREDIT MARKETS OF AFRICA

No. 1. *Banking Systems in Africa*

No. 2. Sergio Bortolani: *The Banking System of Niger*

No. 3. *The Mobilization of Savings in African Countries*

IN PREPARATION:

Paolo Mottura: *The Banking System of Tunisia*

Lorenzo Frediani: *The Central Bank of Equatorial Africa and the Banking System of Gabon*



## **CONFERENCE ON THE MOBILIZATION OF SAVINGS IN AFRICAN COUNTRIES**

Proceedings of a Conference organized under the patronage of  
**THE PRESIDENT OF THE REPUBLIC OF ITALY**  
by the  
**INTERNATIONAL SAVINGS BANKS INSTITUTE**  
and the  
**CASSA DI RISPARMIO DELLE PROVINCIE LOMBARDE**  
in Milan, 20 to 23 September 1971

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## ADDRESSES

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### *21 September 1971*

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*22 September 1971*

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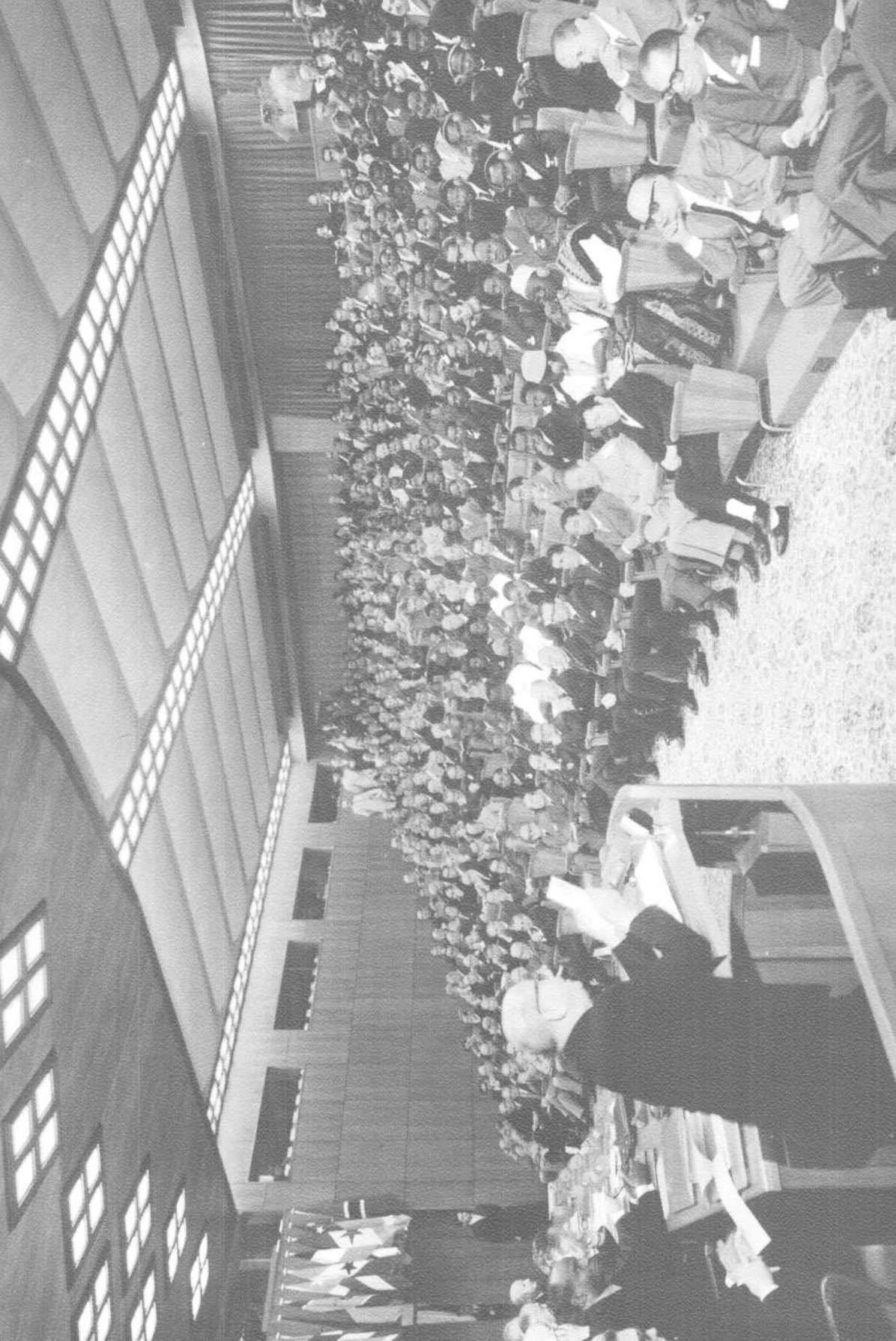
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Salone dell'Economia Lombarda - Opening of the Conference

# THE MOBILIZATION OF SAVINGS IN AFRICAN COUNTRIES

## *CHAIRMAN*

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Tahar Imalhayène (Algeria)  
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SALONE DELL'ECONOMIA LOMBARDA - Via Romagnosi, 6 - MILAN

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## PROGRAMME

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MONDAY, SEPTEMBER 20

### *Morning*

9 - 9.45

Banking policy and savings policy in African countries  
—a general report.

**PROFESSOR GIORDANO DELL'AMORE**

*Rector of the Università Commerciale "L. Bocconi",  
Milan. Chairman of the Conference.*

9.45 - 10.30

Official addresses on behalf of Italian Authorities.

10.30 - 12

Addresses by representatives of International Organizations.

12 - 12.30

How savings banks operate. Why there is a need  
for world-wide co-operation.

**ERWIN SINNWELL**

*General Manager of the International Savings Banks  
Institute.*

1 p.m.

Official lunch for participants in the Conference, for  
the Italian and foreign authorities, ambassadors and  
representatives of the savings banks associated to  
the International Institute, at the Hotel Continental,  
Via Manzoni (near the seat of the Conference).

### *Afternoon*

3 - 3.20

Savings banks in African countries.

**PROFESSOR ARNALDO MAURI**

*University of Genoa.*

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3.20 - 3.40

Savings banks and agricultural credit.

PROFESSOR ROBERTO RUOZI

*University of Siena.*

3.40 - 4

Savings banks and housing finance.

JOHANNES VÖLLING

*Westdeutsche Landesbank Girozentrale, Düsseldorf.*

4 - 4.30

Coffee break.

4.30 - 6

Discussion.

6

Appointment of Drafting Committee for resolutions.

7.30

Dinner for participants in the Conference, at the Hotel Continental.

9

Ballet at the Teatro alla Scala: "The Nutcracker", music by Tchaicovsky, choreography by Nureyev, with Liliana Cosi and Rudolf Nureyev.

## TUESDAY, SEPTEMBER 21

### *Morning*

9 - 9.15

The mobilization of savings in Algeria.

TAHAR IMALHAYENE

*Caisse Nationale d'Epargne et de Prévoyance, Algiers.*

---

9.15 - 9.30

The mobilization of savings in Ethiopia.

TAFFARA DEGUEFE

*Commercial Bank of Ethiopia, Addis Ababa.*

9.30 - 9.45

The importance of adequate savings banks legislation.

ASHOK M. THADANI

*ISBI, Geneva.*

9.45 - 10

The mobilization of personal savings in Zambia.

JACOB NYONI

*Ministry of Finance, Lusaka.*

10 - 10.30

Coffee break.

10.30 - 12

Discussion.

1 p.m.

Lunch for participants in the Conference, at the Hotel Continental.

*Afternoon*

3 - 3.40

Savings and development. Ways and means to achieve the goals of the second development decade.

PROFESSOR JAN TINBERGEN

*Netherlands School of Economics, Rotterdam.*

3.40 - 4.15

Discussion.

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4.15 - 4.45

Coffee break.

4.45 - 5.30

Discussion.

8

Dinner at "Circolo della Stampa" (Press Club),  
Corso Venezia 16.

### WEDNESDAY, SEPTEMBER 22

#### *Morning*

9 - 9.15

The mobilization of domestic savings in the U.A.R.  
**HIKMAT SAID AHMED RIZK**  
*National Bank of Egypt, Cairo.*

9.15 - 9.30

The mobilization of savings in Swaziland.  
**JOHN DAVID OWEN**  
*Swaziland Credit and Savings Bank, Mbabane.*

9.30 - 9.45

The mobilization of savings in the Ivory Coast.  
**HADJI DIARRA**  
*Caisse Nationale d'Epargne, Abidjan.*

9.45 - 10

The mobilization of savings in Nigeria.  
**SAMUEL OYEWOLE ASABIA**  
*Central Bank of Nigeria, Lagos.*

10 - 10.30

Coffee break.

10.30 - 12

Discussion.

---

1 p.m.

Lunch for participants in the Conference, at the Hotel Continental.

*Afternoon*

3

Meeting with the representatives of Lombard industries.

7

Reception by the Mayor of Milan at Palazzo Marino, his official residence, to be followed by a buffet supper.

THURSDAY, SEPTEMBER 23

*Morning*

9 - 9.20

Personnel training for African banks: principles and organization.

**PROFESSOR PAOLO MOTTURA**  
*University of Urbino.*

9.20 - 9.40

Techniques for the mobilization of domestic savings: why and how United Nations bodies offer assistance.

**SIDNEY SHERWOOD**  
*United Nations Development Programme, New York.*

9.40 - 10

How can the savings banks of industrial countries help their counterparts in developing countries?

**WALTER SADLER**  
*Secretary General of the Association of Austrian Savings Banks, Vienna.*

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10 - 10.30

Coffee break.

10.30 - 12

Discussion.

1 p.m.

Lunch for participants in the Conference, at the Hotel Continental.

*Afternoon*

3 - 3.45

Report of the Drafting Committee for resolutions.  
Conclusions and recommendations.

3.45 - 4.30

Closing speech.

PROFESSOR GIORDANO DELL'AMORE

8 Farewell dinner at the Hotel Principe e Savoia -  
Piazza della Repubblica.

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## LIST OF PARTICIPANTS

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### ALGERIA

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General Manager of the *Caisse Nationale d'Epargne et de Prévoyance*

MOHAND HAMRIOUI

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Representative of the Association of Austrian Savings Banks

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Minister of Finance

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Chairman of the *Banque Nationale de Développement Economique*

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Senior Loans Officer of the National Investment Bank

K. O. OWUSU

Controller of the Ghana Post Office Savings Bank

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ITALY**MARIO PEDINI**

Under-Secretary of State in the Ministry of Foreign Affairs, representing the Italian government

**GIORDANO DELL'AMORE**

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Controller of the Kenya Post Office Savings Bank

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**LESOTHO****VINCENT MHLAKAZA**

Manager of the Lesotho Credit Union Scheme for Agriculture

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Acting Director of Planning, Department of Planning and Development

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Assistant General Manager of the Malawi Development Corporation

**FREDSON L. MAMBIYA**Banking Manager of the Reserve Bank of Malawi

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MESSAGE FROM HIS EXCELLENCY GIUSEPPE SARAGAT,  
PRESIDENT OF THE REPUBLIC OF ITALY

TELEGRAM

ROME, QUIRINALE, SEPTEMBER 7, 1971

PROFESSOR GIORDANO DELL'AMORE  
CHAIRMAN OF THE  
CASSA DI RISPARMIO PROVINCE LOMBARDE  
VIA MONTE DI PIETÀ, 8 - MILANO

THANK YOU FOR THE COURTESY OF YOUR COMMUNICATION ON THE EVE OF THE CONFERENCE ON THE MOBILIZATION OF SAVINGS IN AFRICAN COUNTRIES STOP IN MY TURN I WELCOME ALL THE DISTINGUISHED PARTICIPANTS AND SEND MY BEST WISHES FOR THE SUCCESS OF A MEETING WHICH OFFERS A SPLENDID OPPORTUNITY AND USEFUL STIMULANT FOR EVER CLOSER COLLABORATION BETWEEN ITALY AND THE DEVELOPING COUNTRIES STOP.

GIUSEPPE SARAGAT

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**REPORTS PREPARED FOR THE CONFERENCE**

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which in any case is the *conditio sine qua non* of lasting industrialization. Nor is it enough to encourage technological progress in every field. It is essential, too, to take steps for the widest possible geographical and social distribution of the benefits of productivity gains.

Secondly, capital accumulation also presupposes an adequate propensity to forgo a part of the consumption made possible by the incomes earned. Accelerated economic development depends on such a propensity not being confined to small, privileged social groups, but on the contrary being spread as widely as possible among all the strata of the population, so that the process of capital accumulation becomes more democratic and its discontinuity is minimized.

As we all know, serious difficulties must be overcome in this connection, since in developing countries monetary saving is not something that comes instinctively to people, as it does elsewhere and sometimes to a remarkably large extent. Developing countries most often also lack the legal, economic, political and social conditions which are apt to stimulate the inclination towards private saving. This is the reason for the failure of so many educational and promotional efforts, especially among the young who, as is well known, account for a very high proportion of the population in Africa. The same goes for all the various kinds of incentives successfully applied in a number of European countries; in Africa these have proved rather ineffective, and so have measures to discourage hire-purchase sales of consumer goods, a system which is spreading in Africa.

To make the situation worse, some countries suffer a loss in the value of money, as an inevitable consequence of a balance of payment based mainly on exports of a few agricultural or mineral products which are affected by fluctuations in international demand, linked in its turn to the monetary vicissitudes of the importing countries.

The third group of problems concerns the best use to be made of the gradually accumulated savings which have been collected by a wide range of techniques and would otherwise have been hoarded. This task is no less exacting than those just discussed, but it can be tackled more speedily since the solution lies in a more efficient organization of the credit market and especially of the banking system, its basic sector. This question of organization is the one to which I particularly wish to draw the attention of this

Conference, in view of its participants' specific professional skills. I feel it may be useful to set the problem out clearly at the very outset of our discussions.

The structure of African banking systems and the way they function show profound disparities due to a complex of interacting circumstances, including above all those connected with surviving links with certain European countries. These links date from pre-independence days and are, on the whole, tending to become looser, but they continue to affect the morphology of the various systems, their operational characteristics and their respective efficiency. Even today, despite their gradual disengagement from European influence, African countries continue to maintain close economic connections with specific currency areas, and they have sometimes gone so far as to modify their rate of exchange in step with the devaluation of the currencies of other countries, as, for example, was the case with the countries of the franc zone when the French franc was devalued in August 1969 and with Malawi two years earlier, in connection with the devaluation of sterling.

Another factor which causes disparities among African banking systems is their respective countries' widely varying production potential — whether in industry, mining or agriculture, but in any case reflected in the relative weight of tertiary activities as well as in the dynamics of external payments. Accordingly, there are in Africa banking systems of every degree of development. At one extreme, we still find the almost total absence of differentiation characteristic of pre-take-off economies; at the other, the considerable efficiency of banking systems already made up of a whole range of specialized credit institutes in a setting of incipient, but continuously expanding money and capital markets.

But whatever their differences, most African banking systems have a good many structural deficiencies due to their being so new — for many of them are creation of the post-war period and date back no further than the end of the colonial regime and the advent of independence.

#### COMMERCIAL BANKS

Everywhere there are commercial banks, whether they are the heirs of earlier European banks or whether they have been newly set up on the initiative and with the backing of the State. Often, they are banks which



have been nationalized, but still retain some of their previous political and financial connections. In some cases, these connections are still helpful; they make possible the continuation of arrangements under which the banks draw on the services of skilled personnel which it would be difficult to replace. However, it is difficult to contest the view that these banks should be made to acquire more financial autonomy, so as to induce them to adopt an investment policy aimed above all at strengthening the national economy and to pay more attention to widening the range of services which they are in a position to provide to their customers.

The effects of the earlier colonial links are still noticeable in the choice of loans, which are often highly concentrated and primarily allocated to financing imports and to marketing typical local export products whereas the industrial activities of small- and medium-sized firms are neglected; yet these, too, badly need short-term credit.

But the greatest shortcoming of African commercial banks is their limited territorial coverage in rural areas. They are usually installed in urban centres, where their operations are more profitable, and neglect the smaller centres where, as a rule, there is a shortage of branches capable of spreading investments over a wide area. This concentration is often decisive in creating the monetary and credit dualism characteristic of the economy of most of the countries in question, where extensive areas still use barter and primitive forms of money, thus making it difficult for the state to apply effective credit control and adding grist to the mill of hordes of money-lenders. As a result, there are wide differences in rates of interest as between one area and another, with obvious economic consequences.

It is easy to justify this centralizing policy in terms of the lack of incentives to the banks to open a branch in areas of scarce economic activity, but against this it may be pointed out that bank branches are themselves impulse factors which develop the local productive forces, both helping to create them and to expand them by financial backing. Hence, numerous branches which, to start with, run at a loss tend to become profitable in time, and the initial cost then proves to be a sound investment.

This illustrates one of the most significant connections between banking policy and savings policy, since the multiplication of economic ventures in backward centres with abundant unemployed labour is the precondition of gradual increases in the accumulation of savings by households and firms.

The strengthening of the banking systems thus presupposes the adoption of measures designed to secure the rapid expansion of the branch network in accordance with rationally conceived territorial plans, and the connected social cost is no less useful than the social cost of improving road communications. In addition, a wide territorial coverage will allow the savings gradually accumulated in rural areas to flow back to the land rather than be diverted to urban centres. The proposed extension need fear no juridical obstacles in the case of public banks, but this is possible also in other cases, especially where the central banks have adequate powers of control over the banking system.

A wide branch network, together with more intensified mobile banking centres, especially when certain important agricultural products are being harvested, will foster the development of the commercial banks themselves by expanding the circulation of bank money, that is, settlements through current accounts. It should be recalled that in recent decades the development of commercial banks in advanced countries has owed very much precisely to the expansion of bank money, which has facilitated the rapid transfer of resources and has greatly increased the operating funds of the banks themselves, not to speak of the more effective control central banks thereby acquired for purposes of monetary and countercyclical policy.

In some African countries, the short-term credits characteristic of commercial banks are handled also by the central banks, either directly or by special sections. This competition is typical of developing countries, either because the commercial banks have inadequate resources for the purpose, or because the issuing banks, by directly discounting the bills of non-banking customers, seek to secure more effective control over the credit market. However, competition on these lines does not enhance the prestige of the central banks, which can exercise their functions of supervision and control more effectively when they act solely as a bankers' bank and lender of last resort. In the interest of the economy as a whole, therefore, this is the line along which central banks should develop.

#### DEVELOPMENT BANKS

In almost all African countries, development banks were set up in the years after the Second World War, under different names but generally

public. Their public status, while involving the risk of political intervention in investment choices, does make it easier to place such bonds as have to be issued and also to obtain appropriate fiscal privileges. Nor need public development banks worry about returns on their own capital, which means they can lend at low rates and can finance also ventures which may be slow in maturing but in the long run are certain to prove useful to the community. These ventures would not be undertaken, or would be rated below others giving a more rapid economic return, if the suggestion of the World Bank were to be accepted that preference should be given to banks formed of groups of private capitalists.

Although development banks are heterogeneous, both structurally and functionally, they have in common the aim of stimulating fixed capital investment by providing the necessary long-term finance. They are doing very valuable work in spite of the limited resources at their disposal. These are sometimes drawn from deposits, but this source of supply is certainly not the most suitable. Even in the case of savings deposits not payable at sight, it is unwise to use them in the long-term operations typical of these banks, which can function efficiently only if they are in a position to place their own bond issue. Very appropriately, therefore, in some countries such as Morocco and Libya, the development banks are not permitted to accept deposits from the public.

There are obvious difficulties in placing such bond issues in countries where, as a rule, there is no efficient capital market and where savings are either few or not widespread. However, these difficulties can be temporarily overcome by obliging the commercial banks to include these securities in their portfolios. There have been various examples of this in Cameroon, Gabon and Congo-Brazzaville, where the so-called *bons d'équipement* issued by the local development banks must be taken up by the commercial banks in a proportion of up to 10 per cent of their respective deposits. As against this obligation, the commercial banks have access to refinancing facilities at the central bank 180 days before the bonds mature.

These provisions could usefully be copied elsewhere. After all, the commercial banks themselves have an interest in the expansion of medium-and long-term loans, which in turn raise demand for short-term credit. For the rest, a high degree of specialization in banking certainly is the best system to work for in developing countries. It is better for commercial banks not



to lend directly for the medium and long term, but to concentrate on short-term credit together with portfolio investment as a means of channelling finance funds to other credit institutes specializing on longer-term loans.

It is common practice in developing countries for the central bank to give financial backing to development banks, but everywhere these can count on help from other sources as well. Sometimes the central bank holds the entire equity capital of development banks, or else it takes up substantial amounts of their loan issues or rediscounts their borrowers' medium-term bills. Obviously, such practices cannot be regarded as orthodox, although they are sometimes allowed by statute, as for example in Nigeria, Morocco and Sudan; the fact remains that they may impair the soundness of the central bank as well as the effectiveness of its monetary and short-term economic policy. It is only fair to add that these are temporary expedients made necessary by a weak economy and as such admissible so long as there is no broad and continuous capital market on which the development banks can rely. These banks, incidentally, can do much themselves to increase stock exchange dealings — witness the example of Nigeria, where the Lagos Stock Exchange has been greatly stimulated by the operations of the National Industrial Development Bank.

In some cases, development banks have been able to obtain loans from international financial institutions such as the World Bank, or from foreign financial groups. Such funds can, of course, provide additional loanable resources, but they are sometimes tied in the sense that they must be spent only on capital goods imports of specified origin. It is unwise for development banks to borrow on such terms, which restrict their freedom of choice, complicate monetary management and reduce the effectiveness of the banks' contribution to economic and social progress. Instead of accepting clauses of this kind, it would perhaps be preferable if the state, in default of other resources, allocated to the development banks an annual quota of its own budget receipts, following the example of Venezuela and its *Corporacion venezolana de fomento*.

Investment policy, too, varies widely from one development bank to another. Some lend in high amounts at a time to finance large-scale public works for infrastructures to be built under government-sponsored development plans. Others prefer to lend in smaller amounts to small- and medium-sized

private firms in industry. The latter method, while involving higher risks, certainly does most for the emergence of a numerous and vigorous local entrepreneurial class, which alone can provide the social base for speeding up economic development and expanding the supply of family and business savings over wide areas. To enhance the impulse effect of such loans, development banks often provide technical assistance; this varies in quality at the moment, but should be introduced as a characteristic function of all development banks.

Some development banks invest in the equity capital of industrial firms. This practice, if adopted on a large scale, slows down the circulation of loanable funds and hence reduces the total volume of credit. Equity investments are advisable for development banks only where the existence of a securities market makes it possible to sell shares fairly quickly and without loss. In no case should deposit funds be invested in equity, lest the new development banks fall into the same error that ruined so many of the so-called mixed banks in Europe during the thirties. In any event, as things are at present in most African countries, development banks would do well to concentrate exclusively on medium- and long-term loans repayable in six-monthly instalments, so as to keep scarce resources moving fairly fast.

Equally, they would be well advised to specialize on loans to industry, which offers enormous investment opportunities and urgently needs a numerous entrepreneurial class professionally trained for the assumption of production risks.

#### BUILDING CREDIT

There thus seems no advantage in generalizing the policy of lending indiscriminately also to finance building and agriculture. Credits designed to promote the construction of buildings of various categories are doubtless necessary, especially in urban centres where there is a disturbing demographic explosion. But it is desirable for such loans to be concentrated in specialized financial institutions which can raise the necessary capital by issuing their own bonds. The successful experience with real estate credit institutes in Europe suggests that it would be useful to found similar institutes in African countries, where it is urgently necessary to develop building activities in

order to meet shortages both in the cities and in rural areas, not to speak of the resulting stimulus to many other collateral types of production.

The large-scale circulation of mortgage bonds issued by public institutes to finance long-term loans presupposes the existence of a capital market, but the emergence of such a market may be accelerated by the bond issues themselves. Since the securities are guaranteed by a mortgage, it is easier to place them even with diffident investors who are still not ready to face the risk involved in shares and other bonds. Mortgage bonds may thus represent the first stimulus for the creation of a capital market, or they may strengthen an existing one. Moreover, since these bonds are specifically designed to raise funds for building, the areas where building is to be done offer a good chance for successful publicity campaigns.

In a number of African countries, the expansion of construction work has been greatly helped by building societies on the British model. These finance their loans from deposits, but in Africa do not always find suitable conditions in which to develop. In any case, they are not able to meet the increasing demand for urban and rural buildings; this need can be satisfied more quickly by the real estate credit institutes referred to above. Such institutes can also be set up as separate sections of other existing financial institutions. Indeed, such special sections are widespread and successful in Italy, where they are attached to commercial banks, and especially to savings banks. Italian experience shows that real estate credit can be most efficiently handled through separate sections attached to institutes which accept deposits. These liquid resources can in part be utilized, with appropriate techniques, to help place mortgage bonds and to support their price in order to make it easier to place them directly with savers.

In African countries, construction loans can also be granted by the savings banks which already exist or are to be set up. These banks will also be in a position to promote the expansion of savings schemes for housing, as has been done by a very large number of European savings banks, and by the *Caisse nationale d'épargne et de prévoyance* in Algeria, with its successful *épargne-logement* scheme. But it will not be possible by this means to achieve results as quickly as with the creation of appropriate real estate credit sections attached to public deposit banks. It would not, however, be desirable to entrust this task to development banks, in order not to divert them from their essential functions which are, as I have said, the grant of long-term invest-



ment loans to industrial enterprises. These banks ought not even to deal with international trade business; this should be handled by the commercial banks, since in general only short-term operations are involved.

#### AGRICULTURAL CREDIT

As I mentioned before, some development banks also provide agricultural credit. There is no denying that in various cases they perform a useful function, but in this connection, too, it must be emphasized that it is desirable to arrive, even if gradually, at the maximum degree of functional specialization. In all African countries there is an enormous need for agricultural credit, but this should be met primarily by institutions which are devoted exclusively to this activity and have a widespread network of branches in the rural areas, in direct contact with the farmers.

Specialization and wide territorial coverage are the two essential characteristics of an efficient credit system for agriculture, because, among other things, production growth depends not only on an abundant supply of low-cost credit, which does not always exist in Africa, but also on permanent technical assistance, which can be provided in our days only by specialized institutions with branches spread throughout the countryside.

Conscious of this need, a number of countries have set up agricultural banks which operate on a nation-wide scale and thus have a comprehensive view of agriculture's needs. They still have their shortcomings today: financial resources are inadequate and the network not dense enough. But these deficiencies can be made good in time, especially where savings banks have been, or will shortly be, set up — for these will be able to channel to farm investment the bulk of the deposits they manage to attract.

The structural and functional characteristics of savings banks will be dealt with by other speakers at this Conference. I will therefore confine myself to stating that these banks seem to me the institutions best suited to promote a great expansion of agricultural credit. They have in their favour their flexible and decentralized structure, their public, yet not state-controlled status, the fact that they are non-profit-making institutes, and their ability to set up branches throughout the rural areas, to the obvious benefit of a wide range of economic activities on the part of small and medium-sized farms and artisan firms. In the more advanced countries they have made a decisive

contribution to the formation of a vigorous middle class which is essential for economic and social progress, and to the increase of household savings, thanks to the many forms of collecting funds worked out by them.

I would add that the postal savings banks which operate in numerous African countries cannot replace ordinary savings banks, since they confine themselves to collecting savings, even if with moderate working costs, without investing them to promote local activities. The postal savings banks therefore do nothing for economic and social progress in the areas in which they operate, and nothing to foster the formation of a numerous entrepreneurial class. But postal facilities may be used by savings banks to expand their supply of funds and their investments, as is the case in some African countries and particularly in Algeria, Burundi, Swaziland, Congo Kinshasa and Rwanda.

At present, agricultural credit is also granted by numerous co-operative bodies of heterogeneous juridical and economic status, including here and there indigenous mutual societies of the traditional type sometimes at village level, and by credit unions which, however, prefer to operate in urban centres and are sparing in their assistance to farmers, even when these unions are parts of national federations. Significant examples of saving and credit associations are to be found in Libya, Nigeria, Sierra Leone, Tunisia and Ethiopia.

They do not seem, however, to thrive in all African countries. The regrettable deficiencies in the field of agricultural credit can be eliminated only by a comprehensive plan for the provision of credit, based on the concept that technical progress in agriculture is essential for the economic development of Africa, in view of the high percentage of the rural population in all countries of the continent and of the backwardness of agriculture both as regards crops and animal husbandry. In many of these countries, as I have pointed out, there are public institutions which handle agricultural credit on a nationwide scale; but, in order to make their work more effective, it would help if it were possible to create a dense branch network of savings banks which would operate in the first place in the interests of the small and medium-sized enterprises directly engaged in growing crops and in animal husbandry.

Even if agriculture is often still primitive, it represents a source of inexhaustible potential wealth for the peoples of Africa. This was the conviction underlying the agreement recently signed by FAO and the *Cassa di Risparmio delle Provincie Lombarde*, under which a large-scale international survey of agricultural credit in developing countries is to be carried out by a

commission of experts. Since the honour has been done me of appointing me chairman of that commission when it is set up in the near future, I shall propose that the study, the conclusions of which will subsequently be discussed by a world conference, should begin with the continent of Africa, where an efficient organization of agricultural credit could be more rapidly set up and yield greater benefits to the whole community.

### THE CENTRAL BANKS

The profoundly heterogeneous characteristics of the African banking systems derive in great part from differences among central banks. Apart from Liberia, whose currency is the dollar, and from Botswana, Lesotho and Swaziland, which use the South African rand, central banks have been set up in recent years everywhere but in very different conditions, especially by reason of the variety of relations with the colonial countries before independence. There are two monetary unions linked with the French franc zone; one, since 1962, comprising Dahomey, the Ivory Coast, Mauritania, Niger, Senegal, Togo and Upper Volta, with the *Banque Centrale des Etats de l'Afrique de l'Ouest* (B.C.E.A.O.), and the other grouping together Cameroon, the Central African Republic, Chad, Congo-Brazzaville and Gabon under the *Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun* (B.C.E.A.E.C.). In most of the other countries, on the contrary, there are separate central banks, in many cases the heirs of the currency boards which in the past performed extremely useful functions, pending the emergence of an institutional form which would correspond more closely to the altered economic setting. There was, it is true, some opposition, even from authoritative quarters, to this trend. It was argued that the currency boards were in a position to continue to exercise effective control over the monetary system in accordance with their terms of reference at the time they were set up. These views cannot be accepted, since they ignore the fundamental functions which central banks are called upon to perform at the present time and which the currency boards would not be in a position to discharge. It was the realization of the usefulness of these functions in recent years that led to the abolition of the West African Currency Board which was set up as far back as 1912 and which operated in Nigeria, Gambia, Ghana (or the Gold Coast, as it then was) and Sierra Leone. The same thing happened to the East African



Currency Board, which, created under British auspices in 1919, included Kenya, Uganda and Tanganyika, and which was dissolved in 1966 when separate central banks were founded in the three East African countries. In the same way, the central banks of Rhodesia, Malawi and Zambia in 1964 replaced the Central African Currency Board, which was established ten years earlier to replace the Southern Rhodesia Currency Board.

A central bank in Africa today has more to do than just to issue and manage the currency and pursue a systematic short-term economic policy. It needs to maximize the rate of economic growth, to act as a central monetary authority with powers of supervision over the whole credit system, and to strengthen the banking system and enhance its efficiency. It also has to collaborate with the Treasury, and in fact all central bank statutes contain provisions governing central bank relations with the state. Finally, especially in Africa, it is up to the central bank to promote the formation and productive investment of private savings. These latter aims cannot be achieved without central co-ordination on the principle that specialized credit institutes acting in close collaboration have a decisive part to play especially in countries that go in for economic planning.

In some countries, these central banks still maintain close connections with the ex-colonial monetary authorities. No doubt, these relations may still be useful, but it may confidently be predicted that in the near future a gradual process of emancipation will take place which will allow the central banks to solve money and credit problems solely in the light of the interests of their respective countries, and will eliminate the danger of political or monetary factors abruptly putting a stop to the inflow of foreign capital on which excessive hopes had been placed.

It will become more and more obvious that monetary equilibrium does not depend on gold reserves supplied by other countries or on guarantees of the convertibility of the local currency into foreign currencies, as in the countries of the French franc zone. Among other things, this monetary dependence deprives the central banks of the possibility of intervening in the exchange market. Monetary stability depends in the first place on the progress of the nation's economy, which is not possible without a sufficient supply of domestic savings, and this presupposes a gradual but resolute disengagement from the monetary affairs of other countries and a widely differentiated range of credit institutions guided by sound and efficient central banks.

In its turn, such differentiation is impossible without a broad and continuous capital market. This is indispensable to allow securities of various categories to be placed in an orderly and continuous manner, and also to facilitate the interventions of public authorities for monetary and counter-cyclical purposes. Some central banks are doing a good job alone, particularly in Nigeria, where the Lagos Stock Exchange has been functioning for a decade with increasing success. In general, however, it can be said that almost all African countries have no stock exchange which, in non-collectivistic societies, constitutes an essential instrument for the expansion of medium- and long-term finance for productive activities of all kinds.

Efforts to make good this deficiency must therefore be tenaciously pursued, but they would be vain without the expert and careful guidance of the central banks which can make a decisive contribution in this connection, especially as regards bonds. It may be helpful to this end, as I have noted, to carry out systematic publicity campaigns for the creation and circulation of mortgage bonds, but it will be equally useful to adopt a judicious policy as regards the issue of government securities, reinforced by the collaboration of the commercial banks and by a carefully administered discipline of their compulsory liquidity reserves.

In some countries, as in Zambia, the system has already been introduced of offering Treasury Bills every week by public auction, a system which has long been current in Europe and America. It would be excellent if these examples were copied elsewhere. To the same end, it may be good policy to issue long-term bonds by the central banks, which can easily place them thanks to the prestige they have acquired on the market. A typical example of this practice is the Central Bank of Ghana.

Occasional sales of one-year Treasury Bills may also represent a first step towards the formation of local money markets. Their development is at present meeting with serious difficulties in most African countries, although in Nigeria it has been possible to organize a promising system of call money operations by means of a special "Call money fund" administered by the central bank; similar dealings were initiated in Tunisia in 1963 and in Sierra Leone in 1964. The difficulties in question will be overcome only after a considerable time when the various banking systems have become structurally and functionally more vigorous and when the central banks have completely withdrawn from financing private non-banking customers directly.



As already noted, these direct loans are common in developing countries all over the world and are justified by the modest credit resources of the commercial banks, but they do not enhance the prestige of the central banks or the efficiency of their interventions in defence of monetary stability. This judgment is of course not affected by the fact that these credit operations are sometimes carried out by special departments as, for example, in Morocco.

Despite their recent origin, African central banks have pursued this policy of monetary stability, which is one of their fundamental objectives, with commendable skill, and their success is the more praiseworthy since they are still not in a position to make use of all the instruments usually employed by central banks in the more advanced countries.

They cannot rely much on discount rate policy, and in fact if we look at their official discount rates, it will be seen that in the last decade they have changed in only a few cases, notably in Ghana, Nigeria and Tunisia. In the last two years, that is, in a period of frequent oscillations in Europe and America, variations in Africa have been negligible. Moreover, the rate in question are in general very low. Only in a few cases is it at present as high as 3.5 per cent, whereas there are a large number of countries where for some years the official rates have constantly been as low as 3.5 per cent; in Rwanda the discount rate has even, for five years, been kept at 3 per cent.

All this goes to show that the discount rate, especially as an exclusively quantitative instrument, has rarely been used for monetary and countercyclical purposes because local economic conditions sharply reduce its effectiveness; but it is to be hoped that these conditions will change in the near future. For the moment, it is significant that in some countries the authorities are now beginning to apply multiple official rates for purposes of selective credit control, and it is heartening to observe that some countries such as Ghana, which in the past adhered rigidly to all changes in the official London rate, have begun to adopt an independent policy in this regards as well, and one which is adapted to their specific economic and monetary circumstances.

While limited recourse has been had to the use of the discount rate, the defence of monetary stability is often usefully pursued by judicious changes in reserve requirements, which in some cases even vary seasonally with the harvesting of the basic local agricultural products. A typical example of this is Ghana, in the case of the cocoa harvest. No less satisfactory results

are obtained in various countries by means of selective control measures, with pre-established advance deposits on imports of consumer goods, as in Ghana, and above all by means of moral persuasion, whereby the central bank induces the commercial banks to follow certain criteria deemed desirable in the general interest. The successes so achieved are the most striking proof of the prestige acquired by the central banks in the course of a few years in the countries in question, and suggest that this moral authority may be relied on to continue until it is possible to use the more sophisticated tools now current in advanced economies, among them open market operations.

Open market operations have in fact already begun to be used, but it is clear that they cannot become a habitual and effective weapon of monetary and countercyclical policy until efficient capital markets are functioning buttressed by a widespread use of bank money. This diffusion of bank money will allow the central banks to attain their own ends with a more flexible monetary policy, which is especially indispensable in those countries where the marketing of some agricultural commodities is concentrated in short seasonal periods. There will be more flexibility, too, once it is decided to do away with the maintenance of rigid statutory ratios as regards the central banks' gold reserves. This rigidity, which in former days was characteristics also of European issuing banks, far from representing a reliable protection of the currency, merely creates obstacles to timely and fruitful interventions by the central banks in defence of monetary stability and as a means of combating sharp cyclical fluctuations.

Interventions could be more timely if there were a centre for information on credit risks such as that already functioning in Tunisia and in other French-speaking countries on the French model. This arrangement makes it possible to exercise continuous control over the banking system's credit policy and to keep it in step with general economic needs and resources. Control is based on the assumption that all credit institutions, even in regimes where there is a large measure of competition, serve public interests, that is, must systematically give priority to the interests of the community over the striving for private gain. This is natural enough, since the institutes in question are responsible for administering the nation's savings.

If bankers everywhere were conscious of this responsibility, there would be no need to nationalize the banks, and such a measure could with advantage be replaced by the application of an effective discipline by the monetary



Giordano Dell'Amore  
Chairman of the International Savings Banks Institute  
reads the general report

authorities. Indeed, we can go even further. Failing such a discipline, even nationalization would in practice mean no more than to transfer the administration of the banks from private financial groups, who may be European or American, to local state officials of whom not enough may as yet be so highly qualified.

The "Africanization" of the managers and staff of the banks will yield benefits only if it can spread an awareness of the exacting duties incumbent on those who, whether in a public or a private system, administers financial institutions of whatever kind. And it would be pointless to do one's utmost to raise the accumulation of private savings without making sure that they will be used in the community's interests by an efficient banking system guided by the overriding national interest — and this requires the maintenance of the real value of the capital and its distribution among various economic activities in accordance with their needs, subject to a pre-established scale of priorities.

These brief observations bring out the fact that Africa's central banks will have to face fundamental, but arduous tasks in the near future. To speed up economic and social progress in Africa, the central banks will gradually have to improve the efficiency of their interventions, and this they cannot hope to do without close co-operation with each other. As an institutional framework for such co-operation, they might set up a permanent monetary committee acting, at first, in a consultative capacity only, but capable of assuming, at a later stage, such functions as the Bank for International Settlements has been discharging successfully at Basle for many years. If Africa's central banks were to act on this suggestion, I think that the European Economic Community's central banks might well look into the possibility of collaboration on their own part.

If requested, technical assistance would gladly be made available by the Bocconi University of Milan through some of my former pupils, now distinguished economists in their own right and familiar with Africa's problems. They stand ready to study and advise on measures for restructuring the banking system of various countries. Technical assistance of the same kind will be provided by the International Savings Banks Institute, which has set up a special committee to deal with the problems of developing countries in all parts of the world.



For its part, the *Cassa di Risparmio delle Provincie Lombarde*, which has for some years been the largest savings bank in the world, has decided to allocate the sum of one billion lire (approximately £ 660.000) for setting up an "Italo-African Centre for Financial Assistance". The new Centre will take over and intensify the advanced courses in the economics of banking which the *Cassa* itself has been running in the past few years for young African trainees, and it will also work on other schemes designed to put credit at the service of development in Africa. The City Council of Milan have generously donated a site for the building which is to house the Centre and which it is hoped to inaugurate in 1973 on the occasion of the celebration of the hundred and fiftieth anniversary of the foundation of the *Cassa*.

This decision was prompted by the same sentiments of disinterested human and international brotherhood, which have inspired the *Cassa* throughout its long activity and which have led it to organize the present Conference. I am certain that all the participants at this meeting are animated by the same sentiments, and I am sure that it will long be remembered in the history of relations between our two continents.

## ERWIN SINNWELL

### HOW SAVINGS BANKS OPERATE. WHY THERE IS A NEED FOR WORLD-WIDE CO-OPERATION

May I count upon your understanding if I forgo the customary hymn of praise which so many speakers address to their hosts and guests at the beginning of their speech. To say yet another word about how much I value the contribution of Professor Dell'Amore and the *Cassa di Risparmio delle Provincie Lombarde* would be like carrying coals to Newcastle, as they say. And my admiration for Africa extends back in time to when, during the 60's, I stayed in Egypt for two years in order to collaborate in the establishment of a savings bank organization.

The two questions which form the theme of my speech are thus very familiar to me from that period, and I will endeavour to give answers in a way that they may really mean something to you also.

May I make one preliminary remark. My discussion about "How savings banks operate" must necessarily draw on savings bank systems in those countries where they have been existing for a long time. Thus I might say also that I will speak first of all about "How savings banks operate in Europe", where they originated. In a second step, I would like to deal with the question: "Do savings banks have something essential to contribute in promoting savings in the developing countries?". Then I will conclude my speech with some ideas about "The need for international co-operation".

The savings banks movement was the first, privately organized declaration of war against the poverty of a large part of the European population at the time of the industrial revolution, 200 years ago. From this, it may be understood that among all the differences which have existed and still exist among the saving banks of some 50 countries, there are common, unchanging guidelines. These are:

1. to promote saving
2. to focus attention on the lower and middle classes
3. to follow the principle of co-operation for common benefit.

You may think that this is more easily said than done. Where and how will these guidelines be converted into action? The International Savings Banks Institute has 72 members from 45 countries at present, with conditions differing everywhere. If I wished to give a survey of saving and the methods of savings banks in the world, then I would be here until this evening — and you would have left the hall long since. Thus I am forced to confine myself to those savings banks whose type, I believe, could come into consideration for Africa, well knowing that it would be both presumptuous and unrealistic to assume that the savings bank idea could be bodily transferred to your continent. Let us consider the savings banks in the Scandinavian countries (Denmark, Finland, Norway and Sweden) and in Central Europe (Germany and Italy for example).

The initiative to create savings banking was taken by private persons who saw in these banks a way of alleviating the poverty of the masses. In the beginning, the savings banks were in the nature of social self-aid institutions. Usually they were very modest affairs, based on the self-sacrificing work and enthusiasm of a few individuals. In the Scandinavian countries, unlike many other parts of Europe, the sort of community where they came into existence was not yet industrialized to any great extent, and many decades were to pass before the number of savings banks began to grow. In general, the savings banks movement did not make any great advance until the latter half of the 19th century, when agriculture was modernized and industrialization occurred on a big scale.

Today, savings banks hold a strong position in all countries in which they have been established for a long time, as their successful work has made them administrators of a large part of total bank deposits. When judging the importance of the savings banks in the various countries, note that with such a long history, most of the savings banks were founded in communities where life was very different from what it is today. Since then, agriculture has lost in importance, while industry, commerce and the service trades have become the dominant occupations. This change has been accompanied by a migration from the countryside to the urban areas. In addition, the rising



standard of living in recent decades has obliged the savings banks to increase their services, at the same time as the more varied economy has necessitated a greater differentiation of credit facilities. It has become essential for the savings banks to adjust to modern conditions.

In each country the savings banks are subject to a special savings bank act. The act contains regulations on such matters as the manner of the bank's formation, its administration, reserves, loans, deposits and appropriation of profits etc., and also its supervision.

In Denmark, Norway and Sweden, the government appoints a joint supervisory authority for both savings banks and commercial banks. In Finland, there has been since the beginning of 1970 a joint inspection agency, called the Bank Inspection Board, for all monetary institutions. In other countries, supervision is undertaken by the Finance Minister, the central bank or other state and local government authorities. In all cases, state supervision is a common factor in savings banking.

The Scandinavian countries all have similar regulations for savings banks reserves. Usually a basic fund, the "founders' fund", is stipulated and formed when the bank is established.

Under certain conditions the founders' fund can be repaid to the founders; it can also run at interest. Over and above any basic fund, every savings bank in Denmark, Norway and Sweden also possesses a legal reserve fund, built up from the savings bank's profits set aside for that purpose. As a rule, either the whole or a large part of the profits is transferred to the reserve fund, while a smaller proportion may be put into a gift fund or else distributed directly to some useful purpose in the community. In Norway there are no such reserve funds, any profits not otherwise disposed of being transferred to the basic fund. In Denmark, the savings banks also have a special fund as a security against a fall in the value of bonds. In Sweden, this is usually taken care of by writing off the value of assets entered in the books. In order to keep the proper balance between the savings banks' debt to depositors and their reserves, the savings banks in Sweden can form a guarantee fund by means of contributions from trustees and others.

The final responsibility for administering a savings bank, in all the Scandinavian countries, rests with a board of trustees. In Denmark, there are two types of organization. In one, an assembly of guarantors elects a board of

trustees; in the other, the trustees are elected by the depositors, not by an assembly of guarantors. In both types, one trustee must always be appointed by the Ministry of Commerce. In Finland and Norway, the trustees are elected by the depositors, though in Norway, one quarter of the trustees must be appointed by the municipality. In Sweden, one half of the trustees must always be elected by the municipality and the rest by the trustees from among the depositors. Among other functions it is the trustees' duty to approve the annual accounts and decide on the disposal of profits. They elect the savings bank's board of directors, which is responsible for the more immediate activities of the savings bank, and in its turn appoints one or more managers.

In most countries, efforts are being stepped up to train employees, in keeping with their capabilities, in savings bank routines and general economics. In Sweden, a certain degree of elementary training is essential for permanent employment. Some countries have a form of training at a higher level, known as savings bank school or savings bank college, to which entrance is selective; applicants must have qualified for entry by taking correspondence courses or preliminary tests. The syllabus includes subjects such as economics, statistics, law, business economics, organization and administration, the management of securities and certain banking subjects. In addition to the regular course of studies, there are special courses lasting one to two weeks, partly of an advanced type, as well as shorter refresher and information courses.

In Italy, Germany and the Scandinavian countries in particular, the custom of having a savings bank account is very widespread. The various forms of deposits differ, but in all the countries there are both cheque accounts and other kinds of accounts, with various rates of interest and length of notice for withdrawal. For the vast majority of people in Germany, the savings bank passbook continues to be the main means of private capital formation. It is as modern an instrument as it ever was, since it is the simplest and handiest way of accumulating savings. Yet the savings banks do not interpret their statutory task of promoting savings in an out-dated, narrow sense, making savings accounts the only possible medium. They encourage all forms of accumulating private money capital that are suitable to the needs of the individual saver.

Savings clubs are a fairly new form of organized saving. The clubs are usually organized at offices, factories etc. Savings are either deducted from pay or else collected through a savings club cashier. Besides savings clubs and school savings, all these countries have certain other forms of organized saving. Usually the basis is some form of agreement between the savings bank and the depositor that the latter shall save a certain amount regularly and over a certain period of time, thus qualifying for a loan.

The savings banks can also, in co-operation with insurance companies, sell life insurance, which is a form of saving. Certain categories of savings banks' customers can also take out group insurance policies at low premiums.

In Sweden there exist "wage-savings schemes" for persons aged 16-25 years. After a certain period, the members take part in an annual free lottery, to which the state allocates a total prize money of 1 % of the sum deposited on these accounts during the year. The state also encourages those who are more than 25 year of age to participate in the so-called General Wage-Saving Scheme, through an annual state lottery. The money put into this scheme is not tied, but to be entitled to take part in the lottery, a person must save a certain amount regularly.

In Finland too, junior savers, who are aged from 15 to 30 years, can take part in a state lottery organized annually. At the 1970 drawing, a total of 155,000 young savers took part, 64,000 of them (42%) being customers of the savings banks.

In Great Britain, the Department of National Savings established a contractual savings scheme in 1969 "Save As You Earn" which offers bonuses for regular saving with the department. A similar scheme operates in Germany.

In many countries it has become a comparatively usual procedure for firms to pay their employees' wages and salaries through a bank. Salary and wage-paying accounts may take the form of a savings bank passbook, a non-passbook account or a cheque account. Other forms of organized saving also occur, for example for pensioners and for mothers who receive state child-allowances. School saving is an old-established form of organized saving. The aim of this system is to create good saving habits and to



help the children appreciate the national importance of saving as well as its function in the sensible management of their own economy. Various systems are used in the school savings movement for collecting the savings.

In accordance with their idealistic aims, the savings banks regard it as one of their chief duties to spread knowledge about the importance of saving for the national economy as well as for the individual. Information work is done with all the means at the disposal of modern advertising: advertisements, films, pamphlets, posters. Public relations work is energetically carried out through meetings, courses, conferences and a press service. Radio and television are also used for instructing children and adults in economics, and publications on subjects concerned with economics are issued. In many countries there are local and central advisers, both for general information and for certain specialized fields, such as different forms of organized saving, school saving, agricultural economy and home economy.

An outstanding feature of the savings bank movement is the active policy of loans to which the savings banks are committed. Savings banks are not just savings institutions in the sense of limiting themselves to accepting savings and investing them in the safest possible way. Their aim, "to promote thrift", has been given a more positive interpretation. Loans constitute one of the most essential branches of their work. In Germany, the savings banks contributed approximately 40% of all loans from credit institutions in 1970, and of those for housing, over 40% were granted by savings banks. In Denmark, loans are directed to many uses within agriculture, including the economic associations of farmers (slaughterhouses, dairies etc.), and about one-eighth of all loans goes to various municipal needs.

In Finland, the savings banks grant 35% of building loans and about 34% of all agricultural loans. Over and above the credits they grant themselves, the savings banks in Finland act as agents for a number of state loans. The greater part, or more than 90%, of all loans consists of long-term credits, the rest of short-term credits.

In Norway, savings banks are a financial source for manufacturing and trade, particularly in the rural districts. In Sweden, the savings banks are one of the major sources for investment funds for the national infrastructure — roads, schools, hospitals etc. A large proportion of the loans raised by the municipalities and other local authorities comes from the savings banks.

It is worth noting that in some countries such lending by each individual savings bank is restricted to the area within the boundaries of the municipality concerned. In general this means that savings banks can contribute to decentralization within the credit system, unlike the commercial banks who may lend where they wish, or, rather, where they see the best prospects for a profit.

Referring to the descriptive outline of my speech, I would like to turn now to the question: Do savings banks have something essential to contribute in promoting savings in the developing countries?

It is obvious that what I have already described to you about savings banks in Europe cannot be transferred unadapted to other countries. However, several reasons speak in favour of a profitable infusion of the underlying idea of the savings bank into the developing countries.

The developing countries do not only need specialized and advanced savings and credit institutions, the danger lies rather in an excessive degree of specialization, but also simpler local institutions, more responsive to the daily needs of the people and having a closer contact with the individuals. The savings bank, oriented especially to the small saver and to small local credit needs, should constitute an unobtrusive complement to the existing savings and credit structure. An advantage of the savings bank is precisely that it is very flexible and can be adapted to other components of the financial system. Savings banks can be organized to cover loan sectors neglected so far by other savings and credit institutions. After some time the credit organization can also be modified to suit changed conditions in the economy. In view of its institutional character, meaning that there are no owners nor interest in personal profit, the savings bank can also offer a politically attractive structure.

The savings banks endeavour to give the small saver the best possible profit on his savings. He can deposit as small an amount as he wants and withdraw his funds at any time. This liquidity aspect has proved to be very important for savers in developing countries. For example, the Latin American experience showed very clearly that one of the most important demands made by savers on savings institutions is, precisely, the possibility to be able to make immediate withdrawals.

In Africa it is likely that the savings bank idea has been discredited in many countries through the fact that the only savings bank operation known

is the state postal savings bank, which is characterized by stagnation and antiquated methods. To strengthen the savings bank activities in these countries, what is needed is improved employee training, a more knowledgeable organization of savings-promoting publicity, and greater opportunities for the banks to administer the savings funds in the most profitable manner from the twin viewpoint of the savers and the bank. Last but not least, the operations must be complemented by local lending. When individuals and businesses or local community investments are supported with loans from the savings banks, they will see the usefulness of saving to the individual demonstrated properly and convincingly. The experience of the Mit Ghmar experiment in Egypt shows that the feeling for local village ties, combined with the personal interest shared by all members of the community in the improvement of the general standard of living, can be a major driving force with small savers.

#### SAVINGS BANKS AND DECENTRALIZATION

There are many forces in developing countries that favour centralization. The influx into the cities is enormous, partly because of the poverty in the villages and the limited subsistence possibilities, partly because of the general magnetic attraction of the cities. The few existing industries are concentrated in the capital cities or the larger towns. The areas of responsibility and the duties of the government expand, and so does the government administration. The result is regional imbalance producing big social and economic chasms within the nation itself. This warped growth in the social body continues practically unchecked and threatens to become even larger. From this viewpoint, too, the application of the savings bank idea is invaluable for the developing countries, since it can promote decentralization within the economy.

To achieve this purpose it is not only important that the remote areas of the country get a bank office, but also, and this point is decisive, that the banks provide a suitable set-up.

The setting up of a large number of commercial bank offices in remote regions will probably result in the transfer of funds from the village to the capital city where the head office is located, for the main office is often very



unwilling to give loans to distant regions. In order to balance this development, a portion of the savings and credit institutions should have a decentralized structure. The advantage is that a larger portion of the savings can be kept within the local area. This arrangement contributes in the long run to a more homogeneous income structure of the population. Furthermore, the possibility of getting loans for local needs proves the importance of one's own savings deposits. Individuals can therefore understand better that the local bank is there to help those who make their own efforts. The bank becomes an incentive to self-help.

It is not only the distribution of loans that is essential. The decisions regarding loans should also be decentralized as much as possible. The resource administration responsibility is thus subdivided, and persons with local ties and personal knowledge of the borrower are engaged in economic judgments. One of the obvious difficulties, just as in the community at large, is to avoid personal favouritism and prevent corruption. Therefore the question for an efficient supervision, that should nevertheless not be overburdened with details, should be solved from the beginning.

#### OPERATION AS LOCAL AND REGIONAL DEVELOPMENT BANKS

By decentralization and by linking themselves to the economic and social development in their own villages, the savings banks can play an important part in acting as regional or local development banks.

From interviews and discussions during my stay in Africa, I noted that there was an interest in the decentralization idea. Not all countries have the same need for decentralization. Some are so small and underdeveloped, that decentralization would only involve unnecessary division, leading to work duplication and uneconomic utilization of the scant administrative manpower available. Decentralization can naturally be performed in different ways. It is by no means an axiom that the savings bank idea must materialize through independent local savings banks started by individual initiative. This type of local savings banks is probably more suitable in the more advanced developing countries. It was found to be feasible in a country like Egypt. These banks would certainly fulfill an important function in many Latin American countries, but, in the majority of African countries a

state savings bank is probably to be preferred. Such a savings bank would from the beginning offer on a national level a more stable economic basis and possibilities for a more efficient activity. It should naturally have the full support of the government, yet have considerable freedom in the administration of its funds. It should therefore be an autonomous institution, whether it is or is not supported by the state.

Many African countries find themselves today on a lower development level than that enjoyed by Europe at the start of the savings banks. This level of development refers to literacy, education and administration. In European countries it was the factory owner, the mayor or any other person of trust in the district who, at the beginning, took upon himself the main responsibility for the local savings bank. This type of person is hard to find in many developing countries, since educated or trained professional men and trustees are rare outside the big towns. Robert Gardiner's positive reply to the question whether local savings and credit institutions catering to the needs of small savers would be possible in Africa is, however, a sign that it would be possible to obtain active local co-operation in the building-up of these institutions, provided a sufficiently simple form of organization were selected. Where a savings bank cannot establish its own local organization it should be agreed with the state authorities to use the post offices for depositing.

#### CREDIT TO AGRICULTURE AND HOUSING

The important thing is, however, that the government should not consider the savings banks as a means to obtain increased resources for the activities of the state. The savings bank, whether a state bank or a bank based on individual initiative, should have the power to administer the incoming funds at its own discretion and to lend money to any sector within the objectives of the bank. It should be able to support local initiatives in handicrafts and business, and should certainly organize itself for giving loans to the farming and housing sectors.

We know that, especially in Africa, there are few possibilities for small farmers to obtain credit. The commercial banks, if they lend to agriculture, have organized themselves to provide short-term loans to finance crops or to



provide loans to large commercially operated agricultural establishments. There is therefore a large need for short-term, medium- as well as long-term credits to small farmers. In this area, the savings banks should be able to work with the co-operative farming organizations. Where there are as yet no specialized institutions, where the co-operative associations can invest their capital and from which they can obtain loans if required, the savings banks should be able to fulfill this part.

It is likewise important that the savings banks assist with loans in the field of housing, but Mr. Völling will speak about this subject in the afternoon and I do not wish to anticipate him.

May I now come to the third part of my speech: world-wide co-operation and the need for it.

First of all, it is easy to understand that savings banks, although they differ from country to country, stand closer to each other than to other credit institutions with other stated aims. This feeling of togetherness is no invention on my part. In fact, it was appreciated at the beginning of this century, and it was in this very building that the decision was made in October 1924 to found the ISBI. This was done in June 1925 and its head office was situated for a long time in Milan. Indeed, the co-operation accomplished within the framework of the ISBI, up to the 2nd World War, was more an expression of international solidarity than interest in close business co-operation. This has changed substantially in the last 20 years. World-wide co-operation has become the fourth and most recent savings bank characteristic, which need has resulted from the permanent internationalising process. Rapid industrial growth has resulted in large undertakings being regularly financed from outside, and, above all, international trade is growing at an unprecedented pace. In consequence, there are hardly any spheres of activity left today in which savings banks can allow themselves not to look beyond their national frontiers. On the other hand, the great and diverse problems which confront the developing countries require intensive co-operation among the savings banks in the world and all international organizations. The tasks which must be taken in hand and solved are too big for individual savings banks or the UN or the country concerned to be able to undertake.

At the Interregional Seminar on the Mobilization of Personal Savings in Developing Countries, held last month in Stockholm, it was recommended, among other proposals, that the United Nations Secretariat, in close co-opera-

tion with the ISBI and in consultation with the national associations of savings banks or national savings organisations, should study the feasibility of working out effective arrangements for research and training, at the international level, in the field of savings in developing countries.

And in the plan of action of the General Assembly for the Second United Nations Development Decade, it is stated:

“International co-operation for development must be on a scale commensurate with that of the problem itself. Partial, sporadic and half-hearted gestures, however well intended, will not suffice”.

Let me conclude: The ISBI and the savings banks all over the world are very conscious of their responsibilities in these matters.

ARNALDO MAURI

## SAVINGS BANKS IN AFRICAN COUNTRIES

### THE IMPORTANCE OF SAVING IN ECONOMIC GROWTH

If one reviews the attitude taken by economists towards saving over the past hundred years, one is led to the conclusion that economics, like other disciplines, is not immune from the whims of fashion. Saving was always highly regarded by classical economists as being an impulse factor in any economic system, in the sense that it constituted the basis for capital formation. Yet in the period following the great slump, the concept of saving was, as it were, downgraded in economic thinking, largely as a result of the increasing popularity of Keynesian theories.

This trend is now being reversed, and more interest is again shown in the problems of saving.

Unlike developments in other fields, these changes in direction and viewpoints in the economic theory are by no means casual. Indeed, when economists formulate their theories, they are inevitably influenced by the economic facts of the moment, and their thinking is in some cases conditioned by events of transient significance.

This explains why saving was relegated to the background at a time when economists were preoccupied with business cycles. In individual choices on income use, saving was considered as the residual item after consumption; and in the economy as a whole, investment was regarded as the strategic growth factor. The dependent variable in the saving: investment relation was switched; instead of being governed by saving, investment was assumed to determine the total volume of savings, in the sense of *ex post* equality with aggregate investment.

Along with this change in the general attitude of economists, there was an even more drastic change in public opinion. Thrift ceased to be consider-

ed a virtue. Saving implied not consuming, and therefore led to unemployment. In the opinion of some, the saver began to be thought of as a person lacking in social responsibility.

Unfortunately, prejudices of this kind are still widespread in the affluent society. On the other hand, it is gratifying to note that the formation and mobilization of savings in industrialized countries, and even more so in developing countries, are now arousing growing interest from economists. In the course of surveys on the subject it has become clear that we need more knowledge about the relation between the formation of savings and the credit and financial system as a whole. This is an important research, for it has a bearing on many aspects of economic and financial policy and particularly of development policy.

Attention has been drawn from virtually every quarter to the need to foster the formation and mobilization of savings in the Third World countries during the first U.N. development decade, yet today even developed countries are having to cope with a lack of savings, which are proving inadequate to meet growing investment requirements. Not only does production need higher investment, largely as a result of technological progress, but we need to finance also social investment and projects aimed at safeguarding man's natural environment.

It is likely that under the pressure exerted by fears of inflation the question of saving will return to the forefront of economists' minds and government thinking over the next few years.

This paper, however, is concerned with saving in developing countries, with particular reference to Africa.

It is a well-established fact that capital formation constitutes one of the essential driving forces for economic development. If one leaves aside for a moment the conventional concept of investment and gives the term a wider meaning, to embrace expenditure to improve human resources, one can state that the right kind of investment in the right amount constitutes a fundamental prerequisite for the economic and social progress of any community in the medium and long run.

In the light of greater knowledge of the history of economic development in industrialized countries and of the need to place less reliance than hitherto on international aid, a consensus of opinion is growing to the effect that the developing countries must henceforth rely mainly on their own resources

withheld from consumption in order to finance the investment plans they need. In other words, the developing countries must themselves be the major architects of their economic and social progress, and this calls for sacrifices such as many of these countries have already made to gain political independence. After all, the industrialized countries have also had to go through the same experience.

It is therefore easy to understand the importance attributed in official documents and economic development surveys to endogenous saving. The governments of African countries are aware of this problem, and increasing attention is being devoted to domestic savings, as demonstrated by government planning and the efforts some countries have made to step up the savings ratio. Of course, nobody wants to curtail consumption, but the question is how to slowdown its expansion. If there is no effective control over consumption nor any proper savings policy, it will be impossible to accelerate development, even if the terms of trade shift in favour of developing countries.

#### HOUSEHOLD SAVINGS

Savings generated within any economic system are classified according to their source as a) public savings, b) business or corporate savings, and c) personal savings. In my view, it would be more correct to define the last of these as household savings, since the family is after all the smallest economic unit in any community. One generally tends to draw a distinction between public savings, the formation of which falls within the decision-making sphere of government, and private savings. I feel it is worth stressing that there is a further distinction between two forms of private savings, i.e., business savings and household savings; they do differ to a considerable degree, even if it is sometimes difficult to get separate statistics for them. The respective contributions of these three types of savings to capital formation also differ notably from one economy to another, for both short-term and structural reasons. The government's economic and financial policy has a quite considerable effect here. In comparative surveys covering several different economic systems, other discrepancies arise for methodological reasons. In developed economies, savings policy is geared to achieving an optimum rate of saving, which is not necessarily the highest obtainable. The situation is different with backward economic systems, and this is reflected in their savings



policies, which simply aim at raising the overall rate of savings. It should be made quite clear from the outset that this is the real target to be achieved in this particular context.

To step up public savings is, if anything, a secondary objective to be pursued only on condition that it helps to achieve the primary objective. Given the close interrelations between the three types of savings, an increase in public saving has sometimes served merely to raise the public savings ratio, while the national one remained unchanged or even declined. The difficulties associated with policies aimed at expanding public savings lie both on the revenue and expenditure side of a government budget. With the rare exception of countries in which the state budget benefits from copious royalties, any policy to expand revenue in the short term will inevitably call for increased taxation. If this mainly hits income as opposed to consumption, private savings may decline, and capital exports may be encouraged.

It is also worth pointing out that a policy of this kind, if it is to be properly implemented on a fair basis, requires costly administrative reorganization of the inland revenue system, often resulting in a substantial increase in government spending.

On the subject of government expenditure, one should not forget that over-drastring cuts in civil servants' salaries may jeopardize productivity in the civil service as a whole. I should add that a rise in state revenue constitutes a powerful incentive to step up public expenditure. The problem of disguised unemployment in Africa is certainly not restricted to agriculture; in many cases it is appearing to an alarming extent within the *corpus* of the civil service itself.

It is also my view that excessive emphasis on increasing public savings at the expense of household savings would be a retrograde step which might be tantamount to a withdrawal from educational responsibilities and a misguided return to colonial paternalism.

Clearly then, this is not the right way. Rather, what must be done is to generate civic responsibility by encouraging the entire population to save. This means making them understand that if they voluntarily refrain from spending all their disposable income, they will not only improve the family's living standard and build up a reserve for future needs, but make a real personal contribution to the economic and social progress of their country as a whole.

Given an equal aggregate amount of savings, the varying share of each type of savings does of course affect the investment structure and the mechanism whereby savings are mobilized.

One should however point out that the government, business and household sectors are all linked by financial flows and thus the investment capacity of each is not restricted to its own savings. Furthermore, the more efficient is the banking and financial system in any given country, the less is the investment structure affected by the composition of savings as between these three sectors.

#### MOBILIZATION OF SAVINGS

In discussing the mobilization of savings, one should bear in mind that corporate and public savings have no difficulty in being converted into investment, and indeed frequently take the form of investment. On the other hand, household savings only become investment to a limited degree, i.e., within the framework of the family which as an economic unit is responsible for their formation. Even when all the families are aggregated under a single heading, there is a surplus of savings from this sector which should be guided into public and corporate investment via a variety of financial channels. The biggest difficulty in mobilizing savings does in fact lie in how to channel savings accumulated by households into the public and corporate sectors.

Non-mobilized savings simply lie idle in the form of hoarding. Even though it is not covered by national statistics, hoarding continues to be a widespread phenomenon in developing countries, and Africa is no exception.

The degree of hoarding of precious metals, goods negotiable on local and world markets, and hard currency provides a yardstick for the gap between the actual volume of investment and its potential volume. But the introduction of an efficient mobilization mechanism has a considerably greater effect on the volume of investment, because it not only enables savings which would otherwise have been fruitlessly hoarded to be invested, but it also encourages households to save, and thereby steps up the formation of national savings as a whole.

The actual mobilization of households savings thus takes priority over simply promoting them. If a proper mobilization system exists, it will in itself constitute an effective promotional tool.

A prerequisite to improving the mobilization of savings is to increase the use of money. In urban areas in Africa the money economy is well-established and even the existence of some income in kind does not hamper the formation of monetary savings in households. The use of money encounters more resistance in rural areas. The introduction of cash crops for sale on local, if not necessarily export markets, in addition to subsistence crops can be a great help in encouraging the use of money. Here again, continuing to grow produce for consumption by this family will not affect a farmer's capacity to accumulate savings in cash.

Yet it is worth recalling that although increased use of money is a necessary condition for mobilizing savings, it is not a sufficient condition, for the simple reason that money itself can be hoarded. The hoarding of a national currency is of course less deleterious, since it does not necessarily bring about any unproductive immobilization of resources; nevertheless, widespread hoarding does nothing to stimulate economic development.

Money is the most suitable vehicle for transferring disposable resources for investment purposes from households to other sectors of the economy, and also for redistributing those resources among households. To this end financial channels are needed in the form of financial and banking intermediaries properly organized to mobilize savings and in a position to offer households a widely diversified range of facilities for saving.

In the absence of major securities markets in Africa at the present time, attention must focus on existing banking and credit systems.

#### AFRICAN FINANCIAL SYSTEMS AND THE MOBILIZATION OF HOUSEHOLD SAVINGS

The credit system has a number of vital functions in any modern economy. It carries them out with varying efficiency, but since this paper is concerned solely with the mobilization of household savings, the views expressed on African credit systems and the various type of credit and financial intermediary relate only to their performance in this particular respect.



In this restricted context, one must admit that many African banking and credit systems have shown considerable shortcomings. In order to illustrate the reasons for this, one must go back to the situation existing prior to independence.

During the colonial era, a variety of monetary and financial agencies were set up in Africa together with commercial banks, which to a greater or lesser degree were dependent on the banking system of the mother country concerned; in many cases, this involved simply opening branches of European banks. The purpose was to meet local monetary and credit requirements as seen by the colonial powers. The natural upshot was a credit and financial structure closely geared to the needs of European companies and settlers in Africa. A typical case was that of the commercial banks, whose clients were almost exclusively of European or Asian origin, and whose operations were largely confined to financing transactions connected with international trade. Yet some agencies such as the banks of issue, the currency boards, the specialized financial institutes and the post office savings banks did in fact serve local population to a greater or lesser extent.

Only the postal savings banks systematically took in the savings of the African population, but even they did not as a rule promote saving as such. Not can their activities be described as mobilization of household savings for the benefit of the local economy, because the postal savings banks were not free to invest deposits on the spot. Indeed, in much the same way as the commercial banks and the currency boards, the postal savings banks too had the effect of siphoning capital out of Africa to Europe and more developed countries elsewhere.

Yet it is only fair to point out that this drain on local resources was not a deliberate policy aimed at depriving Africa of capital which might have been used for its economic development. Rather, it was the result of the specific operating practices that characterized these colonial financial institutions. Their aims were different. Their primary consideration was to safeguard their depositors and they looked for safe investments. In many cases, this highly cautious investment policy was dictated by rigid legal and statutory restrictions. Since they used the same yardsticks for lending as were used in Europe, the commercial banks only regarded a few of their clients, mainly Europeans or Asians, as really creditworthy, and turned down loan applications from other quarters which were considered too risky.

As a result of this conservative lending policy, very large liquid resources were built up and these were largely invested outside the country in what were deemed to be sound ventures. The currency boards and postal savings banks effectively operated in the same way, since they were required by law to place their funds in gilt-edged securities in the mother country in order to protect the interests of banknote holders and depositors, respectively.

In all fairness, it is only right to add that quite a substantial part of the outflow of capital was offset by public or private investment in the colonial territories directly financed by the mother country.

With a very few exceptions, no savings banks were set up in Africa during this period, by which I mean banks engaged in raising local savings and investing the deposits locally. Again, the virtual absence of this type of financial intermediary, particularly suitable for mobilizing household savings, was not in my view the result of a deliberate policy designed to deprive Africa of just the kind of institution which could have given her peoples the greatest stimulus to economic and social progress. The true explanation for this state of affairs is to be sought in special circumstances of a political and historical nature. The two major colonial powers were France and Britain, which both happened to be countries in which savings banks were relatively less developed than elsewhere, since they were conceived purely as vehicles for collecting savings and were thus regulated by very tight restrictions as to how they could employ their funds. The gravitation of savings towards centralised investment, which was already a feature in these countries despite the existence of a large number of savings banks, received further impetus following the establishment of postal savings banks, the first of which was set up in England in 1861. France followed the example twenty years later. Other European countries, whose savings banks engaged both in fund-raising and autonomous use of deposits and thereby achieved a leading role in their local banking systems, either had no colonies in Africa or were only established there for a relatively brief period. It is thus no coincidence that the few minor examples of ordinary savings banks set up in Africa go back to this period and to colonial powers other than France and Britain.

After the last war African countries began to gain independence, and decolonization speeded up in the early sixties. This process is still incomplete,

even though Africa has now caught up with and overtaken Asia as far as political emancipation is concerned.

With their accession to independence, African countries have had perforce to tackle an enormous number of reorganization problems in the political, legal, administrative and economic spheres, all of which cannot obviously be solved in the space of a few years.

Among other things, the banking systems these countries inherited from the colonial era have proved to be inadequate for the new functions and the new objectives required of them.

Far-reaching structural and functional renewal was needed to adapt African banking systems to the specific tasks they have been assigned within the framework of government policies aimed at stimulating economic and social progress.

A number of important innovations were introduced on the recommendations of the IMF, the World Bank, FAO and other international organizations. Central banks, development banks, agricultural credit institutions and mortgage banks were set up. In the commercial banking field, dependence on European banks has been reduced, and in some cases, total independence has been achieved by Africanization and nationalization measures.

Yet in many cases, the lack of adequate expertise in the reorganization of banking, the shortage of properly trained local management, and the modest amount of help forthcoming from European experts have combined to result in policies aimed more at the preservation of the old system than at innovation.

For the time being, then, many countries have chosen to retain a colonial-type credit and financial system. While in its own right this was efficient and functional, it is, as we have seen, unsuitable for achieving new objectives, which have been neglected in favour of concentrating all efforts on slackening or cutting off previous links with European institutions.

A typical example of this attitude can be found in the postal savings banks, which operate in almost all African countries. In the ex-French colonies, national postal savings banks have been established, which have taken over from the French *Caisse Nationale d'Epargne*. In the English-speaking countries, where autonomous postal savings banks were already in existence, a break with the mother country has gradually taken place by increasing "Africanization" of investment portfolios.



Only two countries, Algeria and Swaziland, have replaced their postal savings banks with institutions more suitable for mobilizing household savings. The *Caisse Nationale d'Epargne et de Prévoyance* of Algeria was established under a law dated 10th August 1964 and began operations in 1965 while the Swaziland Savings and Credit Bank was set up in 1965.

In all African countries which have postal savings banks, these represent the largest, if not the only, haven for the savings of poor households.

This mere fact is enough to indicate that there are major shortcomings in the mechanism for mobilizing household savings and illustrates one of the main reasons for the unsatisfactory results so far achieved in accumulating financial savings.

There are a number of adverse factors in the postal savings bank system, although it does have one advantage, namely, it enables a vast network of post offices to be used for collecting savings deposits, even though this network is countrywide only in relatively few African territories.

The use of an infrastructure created and kept up for other purposes means that the cost of offering an additional service is very small. On the other hand, as we shall see, it also severely restricts the operating possibilities of this medium when it comes to mobilizing savings.

The most obvious shortcoming of postal savings banks in comparison with other types of financial intermediaries — I am thinking particularly of savings banks — lies in the very much more limited range of financial services offered to clients. In effect, even where a post office is able to effect payments and transfer money, it can in no case lend money. In order to get an idea of how serious this basic defect is, one should remember that one of the factors that attract household savings into a bank is that the deposit-holder may in case of need not only withdraw the money he has deposited but also qualify for credit. It is worth recalling that in many African countries, as in developing countries elsewhere, economic activities are carried on largely by small family enterprises — in crafts, trade and farming — where production and consumption are closely associated. This applies also to financial resources, to earnings and spending. At times, the family enterprise accumulates cash, at other times it needs to borrow. There is an obvious case for one single financial intermediary to handle both deposits and loans.

But even from the sole point of view of attracting deposits the postal savings banks have their deficiencies. Their charters and internal regulations in many cases retain the rules in force during the colonial era, which in turn faithfully reflect those applicable in Europe, in the context of an economic situation and a credit and financial system which differ considerably from those in present-day Africa. Without going into details, it is easy to see that many of these institutions are becoming somewhat obsolete in modern Africa.

Difficulties also arise when it comes to customer relations and the training of staff. As has been rightly stated, a person who walks into a post office to deposit money has the right to expect more service than somebody who comes to buy a stamp. In fact, post office employees often consider that their job in accepting deposits is of secondary importance to their other activities. Finally, postal savings banks in most African countries have failed to mount any promotional campaign.

It follows that African countries cannot rely on postal savings banks as the main vehicle for collecting and mobilizing household savings. Innovations in this field are far overdue.

It is thus reasonable to conclude that in many African countries a determined policy for mobilizing and promoting household savings presupposes substantial changes in their credit and financial systems as such. Steps in this direction can be taken either by adapting the organizational and management structure of existing institutions, or by introducing completely new financial intermediaries.

Some useful models of both these lines of approach can be found in the past of developed countries as well as in some interesting experiments of other developing countries. As regards the conversion of existing institutions, the commercial banks and postal savings banks are the first candidates that spring to mind. In Africa, commercial banks enjoy considerable confidence from the business world and have more prestige than other financial intermediaries. Where the small saver is concerned, this prestige sometimes amounts to reverential awe.

This public image of the commercial banks goes back to the colonial era, when most of them were branches of European banks. The result was that bank failures were extremely rare and trained staff were able to offer an efficient and modern range of services qualitatively on a par with those in Europe.

After the advent of national independence, and in some cases even after being made subject to state control, the commercial banks have continued to maintain their original management principles. Since they deal with most dynamic and technologically most advanced section of the local economy, their business has continued to grow almost automatically both as regards deposits and loans, and they still operate on a very profitable basis.

It is not difficult to foresee considerable resistance on the part of commercial banks if they are asked to change their well-proven methods of operation. They will obviously be more reluctant to extend their lending to small enterprises than to take in deposits from small savers. Here one should stress that any operational change in the commercial banks' activities, if it is to be effective, must involve both the deposit and the lending side of their business.

I therefore do not place much confidence in this line of approach, even where the banks involved are in public ownership.

On the other hand, I believe the problems which would crop up in restructuring the postal savings banks would be even more arduous, to the point of being virtually insuperable should such reorganization require them to start lending money. To this end they would have to become completely independent from the Post Office administration, whose outlets they would continue to use for accepting deposits. This would in effect amount to the creation of a new type of financial intermediary and this would lead to the second solution I propose.

#### SAVINGS BANKS

Without in any way underestimating the possible advantages of converting existing credit and financial intermediaries and of changing the management principles and operating procedures of commercial banks, one should stress that the most significant innovations in any strategy aimed at reorganising the financial structure with a view to enhancing the mobilization of savings, must lie in the establishment of new kinds of financial intermediary.

If one examines the credit systems of developing and developed countries, one will find certain types of financial intermediary which at first sight appear suitable for this approach. I am thinking of savings banks, credit unions (the *caisses populaires* of French-speaking countries), building societies, de-



velopment banks, investment trusts, insurance companies and indigenous credit associations of the traditional kind.

In my view, savings banks and credit unions are most suitable for mobilizing household savings and their introduction is desirable in any credit system, irrespective of the social and economic features of the country concerned. Although in specific circumstances the other kinds of institution mentioned may be equally useful, they are not so adaptable to the requirements of each market and are often ineffective in mobilizing the household savings of the broad masses of the population.

Building societies and savings and loan associations, which cover only urban areas, do in fact operate efficiently in many developing countries, yet they concentrate heavily on one type of investment. Household savings are thus collected for a specific purpose and this means a close link between the mobilization of savings and their use in private residential building. This reduces the cohesion of the credit market and conditions investment policy, thereby sometimes hampering the implementation of the government's development plans.

Although development banks are fairly heterogeneous from both an institutional and a functional point of view, their purpose invariably is to channel financial resources, obtained in the form of loans or equity capital either within or outside the economy of a given country, into investment in industry and agriculture. Their primary aim is to foster industrialization by promoting new industrial ventures or strengthening existing ones. In a few cases they also collect household savings, but only from the more affluent sections of the community, and this side of their operations takes second place within the overall framework of procurement of financial resources. Thus, development banks mainly act as vehicles for mobilizing public savings or imported capitals.

The establishment of financial intermediaries in the form of various kinds of investment trust and unit trusts seems in my view somewhat premature, at least as far as the majority of African countries are concerned, in view of the general level of economic development so far attained. The need to diversify their portfolios and the limited supply of domestic securities would force these institutions to buy heavily abroad, and this would not only entail various technical difficulties but would in effect mean exporting capital to more developed countries.



Insurance companies contribute to the mobilization of household savings in contractual form only in the case of life policies which give policyholders the right to a capital sum or an annuity after a certain number of years. Obviously, only a portion of the premium received represents savings which can be mobilized. Also, in Africa this form of contractual savings exists virtually only in urban areas and even there is often of altogether secondary importance.

Indigenous credit associations are not an innovation in the strict sense of the word, even though they have recently become very widespread in almost all African countries, under a variety of names and with differing types of organizational and operating procedures.

As things are at present, however, these associations lack any sound organizational structure adequate to ensure their survival or indeed efficient functioning, and it seems that their operations stimulate consumption rather than encouraging investment. This type of association is thus for the time being no more a potential medium for mobilizing savings. One would hope, however, that these spontaneous ventures are not neglected by the authorities, since if they are appropriately controlled and organized, they could provide a widespread network of credit facilities and play a very useful role in mobilizing household savings from up-country areas and low-income town-dwellers. If this were to come about, the credit associations would become similar to credit unions.

Credit unions are co-operative financial intermediaries remodelled in the United States on the Raiffeisen pattern. For many years, CUNA International has carried out effective promotion campaigns in Latin America and Africa. A large number of credit unions have been set up in Africa and in some countries national federations have been established. The relative advantages and disadvantages of this type of small local intermediary are well-known, and I do not intend to go into details of these in this paper.

On the other hand, I would like to devote more attention to savings banks, since these intermediaries are little known in Africa and are often confused with post office savings banks.

Ever since the first half of the nineteenth century, savings banks have become increasingly widespread in Europe and North America. In almost all the countries in which they have been established, they have contributed more

than any other kind of financial intermediary to the promotion and mobilization of household savings among the poorer sections of the community. Nowadays, other types of credit intermediary are also engaged in collecting savings in developed countries, but in most cases they still differ substantially from savings banks properly speaking.

Financial intermediaries other than savings banks attract savings as a means to an end, namely, to increase their loanable funds and hence their credits in general or to specific economic sectors. The real purpose is to enhance profits or to step up the flow of finance into specific investments.

By contrast, the primary aim of savings banks is to promote and collect financial savings accumulated voluntarily by households. The systematic pursuit of this aim over a very long period has enabled them to gain enormous experience, reflected in the very wide range of methods and instruments they use for collecting savings.

There are considerable differences of policy as between savings banks in one country and those in another as regards the breakdown of investments. Here one should remember that from the outset, the savings banks have collected savings set aside with much trouble by the poorer sections of the community to meet some vaguely foreseen future needs. It follows that the savings banks have concentrated mainly on safeguarding their deposits and satisfying, within reasonable bounds, their deposit-holders' cash requirements. Once these basic conditions were assured, the savings banks then sought to invest their deposits profitably in order to give their depositors an adequate return.

Over the years the savings banks have been able to consolidate their financial position by retained earnings, since they did not have to distribute dividends to shareholders. At this stage, it became feasible for savings banks in many countries to employ their funds in a more effective way as regards stimulating the economic and social progress of the communities in which they operated. This did not work to the detriment of the original purpose. Economic growth, fostered by credit extended by the savings banks, raised the income of their customers and hence considerably increased the flow of savings deposited.

In view of the close links between the savings banks and the communities in which they operated, the banks were at first locally-based. The

growing need for efficiency then led to mergers, so much so that in some countries regional rather than purely local savings banks are now the rule, and there are even some national savings banks.

At the present time, savings banks finance — in varying degrees according to the country concerned — the state, local authorities, enterprises in all productive sectors and households intending to buy their own homes. While they do not discriminate in disbursing credit, they often tend to finance smaller firms and artisan undertakings. They played an outstanding part in financing of co-operatives. In some countries, savings banks are also the main source of agricultural credit.

As with the collection of deposits, savings banks in many countries use a wide variety of techniques for employing their funds, investing them in securities or providing short-, medium- and long-term loans, in some cases secured on real assets. A worldwide comparative analysis of the institutional and functional characteristics of savings banks shows that they are endowed with flexibility to a degree not encountered in any other type of financial intermediary. They therefore have an exceptional capacity to adapt themselves to the requirements of any particular banking system. They are in a position to fill gaps in credit markets by devoting special attention to any areas of credit demand which may be neglected by other kinds of intermediary. This operational flexibility also applies on a time basis, since savings banks are able to change the composition of their placements in line with the changing needs of the economy in which they operate. They are thus a very ductile tool of the government's qualitative and quantitative credit policy, and easily fit into framework of a planned economy.

In the light of these special features, my view is that it is highly desirable to establish savings banks in the developing countries. If one did not have some knowledge of the origins of existing banking systems in Africa, it would be impossible to explain why Africa still has so few of the most suitable vehicles for mobilizing household savings, i.e., savings banks. Only eight African countries have savings banks, and in two of these have only recently been established. In addition to the Algerian and Swaziland savings banks mentioned previously, one each has been set up in the Democratic Republic of the Congo, Rwanda and Burundi, following the liquidation of the *Caisse d'Epargne du Congo Belge et du Ruanda Urundi*. Then there is the



Nile Delta savings banks in Egypt, the Savings and Mortgage Bank of Ethiopia and the Somali Savings and Credit Bank. Two more savings banks are about to be set up, one each in the Sudan and in Zambia.

Yet even when these two new banks have been established, three-quarters of Africa will still lack any financial intermediaries of this type.

The International Savings Banks Institute, in co-operation with several national savings banks associations and some of the leading individual savings banks, has decided to promote the establishment of savings banks in African countries where there are none as yet, and this project has been welcomed by the United Nations. In a seminar held in Stockholm last month on the mobilization of personal savings in developing countries, under the auspices of the UN Department of Economic and Social Affairs, it was gratifying to note that recommendations were made in line with the principles and objectives on which international aid projects organized by savings banks have been based for some years.

A further set of problems arises after the appropriate type of financial intermediary has actually been chosen. At this point, decisions have to be made as to how the nascent savings banks are to be organized and how they are to work. The considerable structural differences among existing savings banks and the many operational variants in different countries may well cause bewilderment.

Yet if one considers current trends in countries with long-established savings banks and the general shortcomings of African banking systems, it is not too difficult to arrive at a basic model of what an African savings bank should be. There remains a choice with respect to secondary features, but while this eases adaptation to any particular country's conditions and needs, it also requires specific prior research.

#### THE INSTITUTIONAL AND FUNCTIONAL FEATURES OF AFRICAN SAVINGS BANKS

In Africa as elsewhere, savings banks should be in public ownership, irrespective of their actual legal status. This is essential to ensure that management is not influenced by private interests. In order to avoid any harmful political interference, it is also desirable that the banks be completely autonomous *vis-à-vis* the government, while at the same time they

should operate in full compliance with the legislation regulating their activities and with the credit policy directives issued by the government.

Where possible, savings banks should operate on a countrywide scale, which alone is large enough to guarantee financial soundness and stability as well as skilled management. The need to have locally-based institutions may be fulfilled by credit unions and other kinds of rural co-operatives. In fact, a national savings bank may take on the role of a central supervisory body for these kinds of local institution.

It is no coincidence that all the existing African savings banks, with the sole exception of those operating in Egypt are of a national character. The lack of banking services in small towns and up-country areas characteristic of many African countries means that priority must be given to setting up a wide network of branches, even if some of these are not permanent, while others take the form of "mobile banks". However, the cost of running up-country branches has quite a considerable effect on a bank's profitability, and from a business point of view, even the medium- and long-term advantages of operating such branches may seem doubtful. This explains the reluctance of a number of commercial banks to operate in rural areas.

On the other hand, one should not forget that banking services are a vital prerequisite to stimulating economic development. Governments might thus consider the advisability of granting subsidies for branch networks, and of course the state could itself take advantage of them for its own incoming and outgoing payment transactions.

Once the need for savings banks to have their own branch networks is established, it may be desirable for them to be able to use post offices for collecting savings, while of course remaining completely independent from the post office administration. This form of co-operation has been introduced in five African countries with encouraging results.

If savings banks were also to grant loans in order to help the economic progress of the community from which they collect deposits, they could instal non-permanent counters in post offices. On certain days of the week or month savings bank staff would man these counters to make credit arrangements personally with customers. The collection of household savings would also benefit enormously if savers were given a wide range of choice. A variety of terms and conditions for depositing and withdrawing money and for

interest on deposits could be worked out, bearing in mind the habits, requirements and motivations of different types of savers. As a general principle, savings banks should not set out to attract funds away from other financial intermediaries, even though this may in practice often happen because savings banks can pay higher interest on deposits; rather, they should try to mop up savings which otherwise would not find their way into the banking system at all, for a variety of reasons not the least of which is the attitude of the commercial banks.

A precondition for any effective incentive policy for saving is government support. It is therefore necessary to co-ordinate all state interventions in the credit system as a whole aimed at promoting and mobilizing household savings.

Here there is a fundamental prerequisite which is far and away more important than any incentives which may be offered, namely, to safeguard the real value of the savings deposited. This calls for a full or partial state guarantee for depositors, in the most appropriate form. This guarantee will of course only cover the face value of a savings deposit, and becomes wholly ineffective if there is a sharp fall in the purchasing power of money. It is thus worth stressing that an economic policy geared to defending monetary stability is still the best basis for any action taken to promote and mobilize household savings. It is only when internally or externally induced inflation gets out of hand that adjustment techniques should be adopted to safeguard depositors in whole or in part from monetary risks.

These recommendations may be felt to be out of place at this meeting, given that many African countries have proved their ability to defend the stability of their money much better than developing countries in other parts of the world, and a good deal better than some industrial countries. Yet one must allow for the likelihood of increasing monetary erosion in Africa too.

Among the incentives true and proper, I should like to mention — in addition to a range of interest rates calculated according to a variety of different formulae — premiums in money and kind, lotteries and tax exemptions or rebates. It should be noted that incentives of this kind are not aimed merely at collecting more savings but also at making deposits more stable.



This second objective, however, should not be pursued by imposing tight restrictions and onerous terms when it comes to withdrawing funds deposited. One should bear in mind that a portion of the funds collected will have been deposited as a reserve against possible future emergencies. These funds should be promptly available when needed. For instance, offering high returns on savings deposited for a considerable length of time could be a valuable means of discouraging withdrawals except in cases of absolute need.

Then there are possibilities of contractual and semi-contractual saving through various special-purpose savings schemes for house purchases, education or life insurance. Interesting examples of experience in this field can be found in both developing and developed countries. I do not, however, feel that it would be advisable for these special-purpose savings to represent any significant proportion of the total funds collected.

Co-operation between government authorities and savings banks designed to promote saving could prove very fruitful in fostering action over a wide front to encourage large sections of the population to save and to teach people to use their savings judiciously. Here again, government assistance is fully justified because these objectives are part and parcel of any savings promotion and mobilization policy. Within the framework of any savings promotion strategy one should draw a distinction between short-term and long-term targets. In the short run, stress should be laid on savings campaigns, which should be launched at fairly regular intervals to counteract the natural inclination to consume, which is particularly marked in urban areas and is encouraged by rising incomes, continuous exposure to advertising and the demonstration effect. Long-term action, on the other hand, should aim at educating young people to save, and should concentrate on schools.

The contribution of savings banks to all these promotional activities, which incidentally benefit all financial intermediaries, may prove to be highly effective as these banks are in a position to draw on the wide experience gained by similar institutions in many countries.

As regards the employment of funds by savings banks in Africa, it should be stressed that these institutions should not be regarded simply as agents for the collection of funds for the state, local government authorities and public enterprises. It is essential for savings banks to use a substantial portion of their deposit funds for lending to the private sector.

With regard to the duration of loans, it should be noted that the nature of the deposits is such as to make room for medium- and even long-term lending, always provided that its total volume is kept within safe limits. There is no need to underscore how useful this type of loan is for promoting investment.

As far as credit to the private sector is concerned, I should once again emphasize that this should not aim at competing with existing financial intermediaries, but at filling gaps in existing banking systems.

I do not agree with those who hold that African savings banks should compete with the powerful commercial banks in order to lower the cost of money. Their credit policy should instead be designed to expand the "organized" credit market.

At this juncture it should be pointed out that African credit markets have a two-tier structure, as do developing countries in other continents. In terms of credit supply there is a very clear-cut division into what amounts to two entirely separate markets. The first is commonly called the "organized market". Here credit is supplied by credit intermediaries, primarily by the commercial banks, and the bigger public and private enterprises engaged in industrial and trading activities have free access to loan funds. Industrial enterprises employ relatively advanced technologies, whereas trading firms deal mainly in goods of foreign origin and those destined for export. Many of these firms have ties with foreign enterprises through equity holdings or special agreements.

Those who have no access to the organized market may turn to the second market, which is generally termed the "non-organized market". This is dominated by usurers and credit, mainly in the form of trade credit, carries far higher interest rates.

This split in the credit market has in many cases been accepted without much concern by the authorities, while the commercial banks do not appear to object to it. The authorities have ignored or underestimated the non-organized market and have concentrated their attention on the organized market, on which they try to keep interest rates low. This policy is inspired by the desire to create investment incentives to accelerate economic growth.

The commercial banks have found no difficulty in adapting themselves to the interest rate policy imposed or recommended by governments in many

African countries, since it does not interfere with their traditional management principles and operational procedures. Their profits are unaffected because the low level of lending rates is offset by deposits which either bear no interest at all or very low rates, by copious proceeds arising from foreign exchange dealings, by high commissions charged for various services rendered to clients, by the exclusion of small-scale business, by the modest rates of interest charged by the central bank for refinancing operations and, above all, by strict selection of credit applications.

It lies outside the scope of this paper to make any critical assessment of the low-interest rate policy in developing countries, by illustrating some of its adverse effects on economic development and social progress. I shall confine myself to stating that this policy has often resulted in increased hoarding, sub-optimal allocation of resources and accentuation of disparities in the distribution of income.

What is of interest, however, is the influence exerted by this policy on the structure of the credit market, on the mechanism whereby household savings are mobilized and on corporate financing. The answer is clear: the split between the two credit markets has become even more pronounced to the sole advantage of larger enterprises, while smaller firms, which could make a substantial contribution to balanced economic progress, find their growth hampered by severe obstacles of a financial nature. The emergence of a class of small entrepreneurs is thus hindered.

These brief considerations suggest what principles should be followed by savings banks in granting loans to the private sector. Their object should be to widen the organized section of the credit market or, better still, help attenuate the dichotomy of the market as a whole. This lending policy can take effect through loans to small firms, artisan enterprises and urban and rural co-operatives hitherto unable to draw on sources of finance in the organized market. Such a policy would be in complete accordance with the traditional operating tenets of savings banks, which have always been ready to make available a substantial portion of their loan resources to the social classes which provide them with the bulk of their deposits.

It is, however, unthinkable that savings banks can take pioneering action of this kind in the credit market by charging the same rates of interest



as the commercial banks and other financial intermediaries who have fallen into line with the latter.

In my opinion, government subsidies, although very useful at the initial stage, do not constitute a lasting answer to the problem. I believe it is imperative for savings banks to adopt a system of highly differentiated lending rates, with the lowest close to the minimum rates charged by the commercial banks, while the highest could be very considerably higher than the latter's maximum rates.

Interest rates higher on the average than those of commercial banks are fully justified by the substantial administration costs arising from low-figure transactions and by the considerable risks involved in lending to borrowers who have been refused credit by the commercial banks. Moreover, it should be borne in mind that production processes in small African firms require relatively little capital and that high interest rates of the kind proposed will not be considered excessive by those who have no choice other than the non-organized market, where rates of interest are as much as ten times as high.

However, African credit markets are not what might be described as fluid or well-informed. Very seldom is a borrower in a position to assess the actual cost of credit and thus to make a careful choice as between possible alternatives. Lack of information and psychological obstacles may cause him to prefer going to a money-lender for credit.

It is therefore not enough simply to be prepared to grant loans, waiting idly for credit applicants to walk through the door on their own initiative. Potential borrowers must be actively approached in order to allay their apprehension and traditional diffidence when faced with a bank; these clients must also be helped to weigh up the benefits of one type of facility as against another.

Moreover, the traditional practices and procedures followed in the non-organized market should be examined with a view to developing appropriate lending techniques which, while compatible with sound management, might be more familiar to would-be borrowers. In other words, all possible actions and expedients aimed at destroying the psychological barriers protecting the monopoly position of the usurers should be taken into consideration.

## CONCLUSIONS

At the outset, I discussed the need to improve the mobilization of household savings so as to accelerate economic growth, and I stressed the desirability of innovation in credit systems to achieve this primary objective.

On the subject of innovations I have dwelt on savings banks and sought to describe the main institutional and functional features of this kind of financial intermediary and to make some suggestions as to how they could be introduced into Africa.

I am only too aware of the host of arduous problems which will have to be tackled in order to increase the efficiency of African credit systems. I also realize that such problems cannot be solved in the short run. Far be it from me therefore to advocate savings banks as a sort of panacea. Yet I do believe that something must be done gradually to improve the situation. I am absolutely convinced that dynamic savings banks, suitably adapted to local habits and economic conditions, can be of considerable help in eliminating the current shortcomings of nascent African banking systems, thereby fostering economic and social progress in Africa.

Savings banks in Africa will be able to do all the more towards these ends if, as is hoped, they can count on the co-operation and assistance of similar institutions operating in the developed countries.

ROBERTO RUOZI

## SAVINGS BANKS AND AGRICULTURAL CREDIT

### INTRODUCTION

Other speakers before me have fully discussed the functions, structure and purposes of savings banks, which are the specific concern of this Conference. My own subject, the part that savings banks can play in agricultural credit, is, of course, closely connected with these matters; I shall have to refer to them constantly, but shall suppose them to be known and therefore will not repeat the argument except when this is strictly necessary for a precise understanding of the ideas and situations I propose to discuss in this report.

Before I turn to the contribution that savings banks can make to financing agriculture in developing countries, and more particularly those in Africa, it will, I feel, be useful to say something about the part savings banks have played in industrialized countries in the solution of the same kind of problems. In so doing, I shall draw mainly on the experience of Italian savings banks. They are highly representative in this respect, I know most about them and they are right here for all participants to see at close quarters. Finally, it is only right to pay tribute to Italian savings banks for their outstanding concern both with economic development in general and with the introduction of the system of savings banks in Africa — a cause to which for some years past they have been dedicating much effort, financial and otherwise.

### SAVINGS BANKS AND THE SUPPLY OF FUNDS TO AGRICULTURE IN ITALY

Italian savings banks were not, initially, concerned with financing agriculture, but entered this field only towards the end of the nineteenth century



and the early years of the twentieth. At first, they concentrated almost exclusively on investment in public or other low-risk securities and on personal loans of limited individual amount. There came a point, however, when the savings banks felt they could safely venture into less traditional fields for investing the mounting flow of deposits from the public, given that the overwhelming majority of these deposits represented income durably withheld from consumption and hence characterized by a decidedly low velocity of circulation. They started lending to firms, and not always only for the short term.

This type of investment offered higher returns than the traditional types, but required a more costly organization and more skilled staff, and this might easily have wiped out any additional earnings.

It should not be thought, therefore, that it was simply the prospect of easy gains which led Italian savings banks to invest their money directly in credits to producers. This might seem to be a statement of the obvious, since, by definition and by statute, savings banks are not profit-making institutions; but it is not so obvious as all that, since nevertheless savings banks, as everyone knows, do try to make a profit — only for them profit is not an end in itself, but a means to a number of other ends, both social and charitable.

The true reason which led Italian savings banks into financing production directly lies in their very nature. Most of them are so deeply and exclusively rooted in the local environment that their whole fortunes and chances of expansion depend closely on the economic and social prosperity of the area in which they operate. So long as savings banks invest their deposits chiefly in government securities or place them with banks or similar institutes, as was done at certain times when the Italian banking system began to build up its internal cohesion, the prosperity of the region where these deposits originate is entirely conditioned by the extent to which the government or these other banks reinvest the money in the same regions where it originally came from.

While it is true that economic policy often aims at mitigating income disparities between a country's richer and poorer regions, it is also true that, if only for reasons of risk, a centralized system tends to drain savings from the poorer regions and invest them in the richer ones. It follows that in so far as many savings banks left in the hands of others the control and

decisions concerning the investment of their own funds, they not only created an obstacle to their own growth but sometimes contributed to the impoverishment of their operational area. Thus in agricultural regions, savings banks often unwittingly and in all good faith, channelled funds to the industries of richer regions and thereby, without meaning to do so, contributed to the flight from the land and to the further deterioration of the farmers' precarious living conditions.

The remedy to this unsatisfactory situation was found in the direct investment of deposits in loans to producers working in the same areas from which the deposits had come. This enhanced the multiplier effect both of the deposits and the loans, and made room for a kind of self-sustained acceleration of local development, both economic and social.

In predominantly agricultural regions, the savings banks' credits to producers meant, in effect, credits to farmers. But even elsewhere they never neglected agricultural credit. Here again, the reason was not solely and not even mainly the profit motive, but laid in the typical character of the savings banks themselves.

They are, as we know, non-profit-making institutions whose main concern is with the prosperity of the area in which they exercise their primary function, which is to promote saving. In areas where agriculture does not predominate, credits to non-farming activities enable savings banks to earn enough not only for making appropriate amounts of capital available for social and charity purposes, but beyond that also for meeting the farmers' credit needs, especially with respect to the rate of interest charged. In this manner the savings banks can achieve two important ends: they meet the farmers' financial requirements on the best possible terms and at the same time keep their own accounts sound and balanced.

It may be asked at this point whether credits to agriculture, which is generally considered to be the riskiest of economic activities, are compatible with the overriding requirement of safeguarding depositors, as savings banks are institutionally bound to do. Now, first of all, it is not at all proved, at least in Italy, that farm credits entail appreciably higher risks than credits to other producers. I am deliberately not making a point, in this connection, of the fact that farm credits are nearly always backed by real collateral, because it is common knowledge that such security is generally not worth

very much, in the sense that it retains its value most often only when not drawn upon, and otherwise may well lose much of its value.

But farmers can offer their creditors moral guarantees which often are worth more than real ones. One such moral guarantee is the dogged attachment of a farmer to his land, which leads him to accept the hardest sacrifices in times of crisis. Often such sacrifices are made for the sake of re-establishing balance between costs and earnings in a farm enterprise, and thus saving it from bankruptcy. In practice, furthermore, cases of insolvency are infrequent because of the scrupulous honesty common among country folk, so that anyone who has contracted an obligation always does his level best to discharge it in full at the proper time. The same traditional spirit tends to inject an additional element of caution into farm management and thus helps to conserve the capital value, which certainly works to the benefit of creditors.

Despite the undoubted risks inherent in farming, the risks of credits to farmers can, therefore, be greatly reduced when the lender has first-hand knowledge of the borrower's personal character and of the qualitative and quantitative aspects of his financial needs.

Savings banks, local institutes in close and continuous contact with the farmers no less than with other borrowers in the area concerned, are particularly well placed to know what goes on, what problems and needs there are, and hence can work with very low risks even in the field of agricultural credit.

So much for these preliminary questions. Now let us see how savings banks in Italy have met the farmers' needs — without, of course, going into the more intricate technical aspects of the problem.

In Italy, savings banks are authorized by the monetary authorities to grant agricultural credit to finance both current expenses and farm improvements, in the latter case lending for more than the short term. Hence the savings banks lend directly to farmers. In addition, they wholly own or have a majority holding in most of the special agricultural credit institutes in the country. Hence they are the chief architects of the system of financing Italian agriculture.

Nevertheless, if we look at the time series of the proportion of their total credits which savings banks devote to agriculture, we see that this proportion has been falling steadily, which suggests decreasing activity in this field. But this does not mean that the savings banks have been disen-



gaging from agriculture; rather, it means that credit demand from farmers and from other economic categories increased at a different pace. The figures tell the story only in relative terms, for in absolute terms agricultural credits have been rising continuously. What happened was simply that demand for agricultural credit has risen less fast than other credit demand, and that is a sign of agriculture's still lagging behind the rest of the Italian economy, and perhaps more so than before.

#### THE CASSA DI RISPARMIO DELLE PROVINCIE LOMBARDE: ITS FUNCTIONS IN AGRICULTURAL CREDIT AND ITS FARM DEVELOPMENT POLICY

This last consideration brings us to a wider issue, which is the common concern of Italy and of the African countries represented at this Conference. I have in mind the role of credit in the economic and social development of agriculture before it reaches the sort of level characteristic, say, of the United States of America, where farming is regarded as the country's most dynamic economic activity.

In many countries credit is virtually the sole instrument used in the promotion and implementation of agricultural development programmes. Agricultural credit institutes are set up, budgetary funds are appropriated for agricultural credit, and credit incentives are devised so that farmers can afford to take up the loans offered to them. But there are other things that can be done to enhance the "productivity" of credit, and these are often more or less totally neglected — such things as agricultural extension, marketing of farm produce, co-operation in farm work, in processing and services, and so on, and certainly also the encouragement of rural saving and the appropriate use of saved resources.

It is, perhaps, easy enough to explain why so much more attention is being paid to credit as a means of agricultural development than to the other forms of intervention mentioned. As happened elsewhere than in farming, credit has been preferred to other means because it was felt to be the way of least resistance, does not interfere so much with old-established interests and customs, and also because it rests on an institution, the banking system, which is fairly well rooted and effectively organized, at least in a relative sense, even when a country is still in its earliest stages of economic development.

It is, incidentally, an interesting point that where action supplementary to credit has been taken, the various programmes of extension, marketing, co-operation and savings promotion have not been co-ordinated with agricultural credit, or at least not in anything but a chaotic and non-organic way.

Maybe more has thus been asked of agricultural credit than is in its power to do, and this is a matter to which the new countries would do well to devote the most careful attention, so as to enable them to avoid repeating the mistakes made by others.

In Italy these mistakes, of course, were not the fault of the savings banks and cannot be attributed to them. On the contrary, they tried, to the best of their ability, to redress the situation. This is how the savings banks, each in its area of competence, have come to develop not only a credit policy for agriculture, but an agricultural policy as such.

As an example, it may be useful to recall what has been done in this respect by our host at this Conference, the *Cassa di Risparmio delle Provincie Lombarde*. I do not propose to dwell at length here on what the *Cassa* has done to promote rural saving and to channel the funds so saved into appropriate uses; these are explicit parts of the *Cassa's* statutory purposes and have been discharged with growing success ever since its creation as long ago as 1823. But beyond that, the *Cassa* has pursued its own agricultural policy along the three lines previously mentioned.

As regards co-operation, it has not only always given preference to loans to co-operative societies, but has actively promoted the creation of many of them, especially in the field of processing dairy products, an industry of great importance in Lombardy, where animal husbandry is one of the chief sources of farm incomes. The establishment of co-operatives, and the financial backing given to them, have strengthened the Lombard farmers' bargaining power in marketing their produce.

Marketing, in its turn, is a field in which the *Cassa* launched a series of projects connected both with dairy products and with fruit and vegetables. As regards dairy products, the *Cassa* owns a chain of storage facilities for ripening and keeping cheese, where the product may be left even for long periods pending the most profitable market conditions for sale. For fruit and vegetables, the *Cassa* sponsored and financed a market centre in Milan, which is one of the largest in Europe and the operational base of *Ortocis*, the

first Italian venture in the long-distance marketing of these products without physical display of the goods traded.

A whole series of other projects, finally, was promoted and financed by the *Cassa* in the field of agricultural extension and training. Truly enormous sums have been made available to experiment stations, to plant protection consortia, to institutes concerned with anti-tubercular vaccines and animal health generally, to agronomic faculties in universities and to agricultural schools. On its own initiative, furthermore, the *Cassa* set up the National Selected Seeds Corporation, for promoting and co-ordinating research on the creation of new, selected varieties suitable for the country's different farming regions, as well as for promoting the production of these selected seeds and their distribution to farmers. The *Cassa* furthermore has an agency for the development of animal husbandry and the improvement of animal health on dairy farms; this agency, incidentally, specializes on artificial insemination. The *Cassa* runs a school for vegetable, fruit and flower growing, where many young farmers come for training every year not only from Italy but from abroad. And finally, it publishes a weekly agricultural paper as well as a great many books and pamphlets on various technical, economic and financial aspects of farming. In this field of extension and training, the *Cassa di Risparmio delle Provincie Lombarde* has indeed gone well beyond the boundaries of its own region and is extending its activities to the developing world. In line with its growing concern with the problems of economic development, it recently concluded an agreement with the Food and Agriculture Organization of the United Nations (FAO) for a far-ranging study of the problems of agricultural credit in developing countries. This study will take three years, it will lead up to the publication of what will amount to a manual of agricultural credit and its results will probably be discussed at a world conference to be convened by FAO in Rome in 1974.

All these manifold activities are co-ordinated with the *Cassa's* credit policy in one integrated approach. It might seem strange, perhaps, that a savings bank should worry about such problems and go in for such a varied range of activities — but then it must be remembered that this is a public institute not out for profit but concerned solely with economic and social progress. The best answer was given some years ago by the *Cassa's* chairman, Professor Giordano Dell'Amore, in these words: "More than in any other field it is true of agricultural credit that any institute wishing to do its duty



in using the deposits placed with it to the best possible purpose in line with a genuinely public-spirited investment policy, cannot rest content with mere credit intermediation. Beyond that, it must at all times stand ready to offer technical and financial assistance to all ventures that promise to speed up agricultural development as well as economic and social progress in the rural world, for whose savings it is responsible. It may sound like an empty slogan to say that the capital formed on the land must be returned to it, but in fact it is a sound rule of economic policy, especially at a time when farming foots the bill for the process of industrialization going on in all countries."

#### AGRICULTURAL CREDIT IN AFRICA

Everything that I have said so far has an immediate bearing on the problems of agricultural development in African countries. Credit has its well-defined function there, but by itself it can do little. In industrial countries, credit is underpinned by extension, marketing, co-operation and savings promotion, but in developing countries we find the opposite situation of credit underpinning all these other endeavours. The latter are, of course, of all the more importance as the degree of development is lower, and agricultural credit then appears as a flexible instrument for providing the farmer with a whole series of other services which can help him to better his position and above all to raise the productivity of his farm in money terms.

Agricultural credit can make a really effective contribution to economic and social development in agriculture only if it is part and parcel of a comprehensive programme of the kind I have just mentioned. Only then, to put it in a nutshell, will agricultural credit cease to be static and become dynamic — which means that when the loan is due for repayment the borrower is in a position to earn more than before, and not simply the same or, for that matter, less than when the loan was taken up in the first place.

If all this is true, as indeed it is proved to be by experience and by a great many studies under the direct or indirect auspices of FAO, the next question is what savings banks can do in such an integrated agricultural credit programme. Now, here there are two points to remember. First of all, the whole purpose of this report is to demonstrate the usefulness of savings banks in solving the problems of financing agriculture in African

countries. Secondly, whatever may be said about the efficiency of credit in agricultural development plans, the fact remains that there must be institutes to handle that credit — whether they are built into a comprehensive system or left to their own devices and regarded as almost the sole instrument of agricultural development.

It is too soon to be able to draw on experience in speaking of the part that can be played in all this by savings banks in Africa. Most of them have not really come to grips with that problem as yet. We can talk only of the future, and for the rest discuss a few theoretical questions. The only experience to draw on is that of European savings banks and that of African credit institutes other than savings banks.

Beginning with the latter, it must be frankly admitted that experience in Africa so far has not been very encouraging — barring, of course, a number of exceptions for which the merit belongs to men sitting with us here in this hall. Commercial banks have generally not bothered much about lending to farmers, because they were too heavily committed to investing their funds in backing foreign trade or, at home, industry, commerce and possibly mining.

Development banks have done a good deal more, but, because of their structure and organization, must confine themselves to dealing with only a few rather large-scale projects, which they can follow easily from headquarters without the need of a widespread peripheral network.

Much the same applies to agricultural banks, most of which are state-controlled; whenever they have gone into lending to small farmers, the only result has been an increase in the number of insolvencies.

Very different, on the other hand, is the position of co-operative agricultural banks. These, perhaps, have been expected to assume functions both too broad and too difficult. Very often they have had to contend with the same difficulties that hampered the other types of banks I have mentioned, and in addition they found that the co-operative spirit which was supposed to be their working principle, was simply not there, or at best very little of it. These banks were sometimes, with varying success, integrated with such few agricultural credit programmes as have been attempted on a limited scale in African countries.

Now, if on the whole the story so far is one of failure, the fault certainly does not lie solely with credit institutes. In some cases, to be sure, bad management is the principal cause of failure, but there are others — such as shortage of funds, the difficulties of implementing any programme of integrated agricultural development, environmental conditions, and so on and so forth.

All these obstacles would, no doubt, have to be faced also by savings banks, if they were to be set up. Yet these would have a number of major advantages over credit institutes of the type mentioned so far.

#### SAVINGS BANKS AND SUPERVISED AGRICULTURAL CREDIT IN AFRICA

First of all savings banks are, by definition, local institutes, like the co-operative banks but without the problems created for the latter's management by the lack of co-operative spirit among the peoples of Africa. As local institutions, savings banks have the fundamental advantage of not withdrawing from rural areas the money saved and deposited by the farmers. This money would, on the contrary, be directly reinvested in the same areas and would thus contribute to their relative economic and social development; hence, it would generate additional income and saving, which in turn would contribute to further local development.

Secondly, savings banks are public, non-profit-making institutions. As such, they need not look at farming simply as an unremunerative activity, but rather in terms of catering to its needs, which are generally acknowledged in the national and regional development plans which savings banks, as public agencies, would have the duty to help implement.

For these two reasons, savings banks would be in a very good position to assess the financial needs of farmers, and to check and supervise the use they make of any loans extended to them. To do this, the savings banks would of course need trained staff, but this is a matter in which their European counterparts can easily help, as will be shown in another report, by Professor Mottura. But given trained staff, savings banks in Africa could do much to reduce the risks of farm loans.

Now, here I want to recall a point I made before. For all savings banks, in any country, it is imperative to reduce their investment risks to



the absolute minimum. This is an essential condition of safeguarding depositors and hence also of the survival and growth of the savings banks themselves. One way of reducing the risks of agricultural credit would be to lend only to farm enterprises which have a growth potential of their own, or else to those which form part of an integrated programme of the kind described earlier and which therefore offer the best security of all, namely, the prospect of profitable returns, the prime factor in prompt and full repayment of loans due.

It might be objected that with such an investment policy the savings banks would neglect the small, marginal farmers who, in many regions of Africa, represent the overwhelming majority of all farmers. To this objection, one might reply as follows. Even if savings banks were to mount a large-scale promotion drive to encourage saving and attract deposits, they would for several years after their creation find themselves short of investable funds, or short at any rate in comparison with the enormous needs of local farmers for consumption and production credits. For this reason savings banks would in any case have to make investment choices and to leave some credit demand unsatisfied. Secondly, one should have the courage once and for all to make a strict distinction between people who need a loan, which means money to be repaid when due, and those who need a subsidy, which does not have to be repaid. The mistake which caused the failure of so many agricultural credit plans in developing countries, and not only in Africa, was precisely to have confused loans and subsidies, to have applied the standards of the first category to the second as well and to have entrusted both to one type of agency, the credit institutes, which by definition should have been concerned only with one, namely, loans. The result was that the credit institutes were unable to recover a large volume of their loans and thus got into financial difficulties themselves, not to speak of the hardship caused to their clients, people who, by mentality and education, were not ready for the use of banking services. But if a clear distinction is made between farmers who need a loan and those who need a subsidy, it goes without saying that savings banks should lend exclusively to the former, to those borrowers, in other words, who expect they can repay the money when it falls due. And these are generally among the selected group of which I spoke a moment ago. This is not to suggest that savings banks need

altogether neglect the other kind of farmers, but any funds lent to them should not be taken from the public's deposits, but rather from operating profits earmarked for social purposes.

This brings us to yet another advantage which savings banks would certainly have over any others. One part of any savings bank's annual operating profit would be allocated to reserves and would thus serve to strengthen the institute's own resources and hence the safeguards for depositors. But another part of the profit would be distributed and spent on public projects for the economic and social betterment of the area in which the savings bank operates. Such projects may very well include some designed to improve the position of the farmer — like those, for instance, which the *Cassa di Risparmio delle Provincie Lombarde* has sponsored in such fields as marketing, extension, training and co-operation.

## CONCLUSIONS

From everything I have said, and I stand ready, of course, to clarify any points that may be raised in the discussion of my report, we can, I think, draw the clear conclusion that, all other things being equal, savings banks are in a better position than any others to satisfy the financial needs of farmers in African countries. It is true that there is little direct evidence from Africa to support this statement, but the experience of industrial countries together with the theoretical arguments exposed build up to so strong a case that we may legitimately accept them in place of direct evidence.

But I must add a warning. Quite frankly, it is no use harbouring too many illusions about what savings banks can do on their own for the solution of the problem. They will be the less effective, the less they are integrated with agricultural development programmes covering also marketing, extension and co-operation — to the extent, of course, that such programmes exist, which is not the case in all African countries.

On the contrary, savings banks will be most effective where they are fully integrated with such programmes and act as the latter's financial agents in encouraging saving, attracting deposits and financing the programmes, in part by reinvesting their deposits and in part by acting as a channel for such public funds as may be made available for this purpose.



The last-mentioned function may very well be assigned to savings banks under a system of so-called supervised agricultural credit — a system which has been tried out by FAO with varying success, but in my view is the most organic of all, even if it is certainly open to further improvement. Usually such a system works through co-operative credit institutes belonging to multi-purpose co-operatives. These have indeed proved extremely effective in countries with a highly advanced agriculture, like the Netherlands or the Scandinavian countries, but in Africa they could not hope to be anything like so successful, for reasons that have been touched upon earlier. It is a fact that in all developing countries the co-operative movement has encountered insuperable obstacles, just because, as FAO has pointed out in connection especially with the Indian experience, an attempt was made to transpose to the developing world the kind of organization and mechanism that proved their worth in industrial countries. As I see it, multi-purpose co-operatives are the last stage in the evolution of the co-operative movement, and as such not suitable for new countries, where it is much better to promote simple co-operatives, concerned with only one activity or possibly just a few. Credit had best be left to specialized credit institutes.

And among those, I repeat, savings banks do have very much to speak for them. It applies to them, of course, as to everything else, that if working in Africa they must not simply copy what is done in Europe. That would be a great mistake and would most likely lead to failure. The principles underlying the organization of traditional European savings banks will obviously have to be adapted to the specific requirements of every single African country in which they are introduced. In any case, it is clear from the European example that there exists not just one type of savings banks but several, even though they are all developing along the same sort of lines ultimately leading up to the Italian and German model. But this is not the place to discuss the problem of how to adapt Italian savings banks to African conditions. It is a relatively simple problem, as will readily be appreciated by reading the studies prepared prior to the establishment of savings banks in the United Arab Republic, in Ethiopia, Somaliland, Zambia, Sudan and elsewhere.



## JOHANNES VÖLLING

### SAVINGS BANKS AND HOUSING FINANCE

#### THE HISTORICAL DEVELOPMENT OF BUILDING-SAVINGS BANKS AND SAVINGS BANKS IN GERMANY

The present form of savings banks developed in Germany in the nineteenth century. At that time, the municipal authorities (towns, districts, communes) and, in some cases, the state also, started to undertake the development of savings bank business.

In 1838 already, Prussian savings banks regulations were issued which established the functions and legal foundations of the savings banks. They stipulated that the savings banks had to meet the needs of the poorer strata of the population and provide them with an opportunity of putting aside small savings. These regulations, which constituted the model for municipal savings banks and introduced the decentralization familiar to-day in savings bank business, limited the powers of the state *vis-à-vis* municipal autonomy. These savings bank regulations stimulated the entire German savings bank system to such an extent that there were already 1200 savings banks in Germany by 1858. Regarding the re-investment of savings money, the banks were given a free hand within the authorized forms of investment (first mortgages, internal State bonds and debentures) and taking into account local conditions. The guiding principle of investment policy was always the safety of savings money. For this reason, most money was invested in real estate loans and less in personal credit, which only assumed importance later. This cautious investment policy is demonstrated by the large percentage of mortgage business amongst total investments, which amounted, for example, to 43.7% in Prussia in 1856, 68.3% in Baden in 1864, 62.3% in Bavaria in 1869 and 81% in Saxony in 1903. At the turn of the century, a development started in savings banks which resulted in their becoming

bank-like institutes. The *clientèle* spread to the middle classes and banking business such as current accounts, deposits, commission transactions and safety holdings were introduced for the first time into savings banks. The German Savings Banks system witnessed a great boom due, in particular, to the acceptance of transfer business which was built up under the title of "savings transfers" (*Spargiroverkehr*), and to a comprehensive cashless payment system made possible by the authorization of savings banks to undertake passive-cheque business. In the course of this development, there came into being the German clearance centres, which contributed mainly to the development of inter-locality payment traffic and grew, in a few years, into large regional credit institutes with universal functions.

This widening of the functions led to an efficient savings bank organization in Germany, with a broad, dynamic outlook which laid the basis for the important chain of savings banks existing in Germany to-day.

After the first world war, the tremendous shortage of accommodation led to a large-scale building-society movement. The first private building society was founded in Germany in 1924. The founding of the first public building society followed in 1928; this was a legally non-autonomous department of the Stuttgart Municipal Savings Bank. Between 1925 and 1930 a large number of building societies were founded, but over 150 of them collapsed following the banking crisis in 1931. There are now 15 private and 12 public-law building societies in the FRG. Unlike to-day's Anglo-Saxon building societies, they do not obtain their funds through the capital market, but usually collect the savings of their future debtors by means of building-society contracts and loan these funds to mortgagees in accordance with a distribution plan based essentially on the individual savings potential.

The 15 private building societies in West Germany operate on a supra-regional basis and reach the interested savers even in the most remote places through their branch offices and widely distributed agents. The activity of the 12 public-law building societies is limited mainly to any one "Bundesland". They get their *clientèle* to a large extent through the local savings banks and the latter's many branches, but also operate branch offices of their own. Some of the public-law building societies are legally independent institutes, which nevertheless are usually non-independent departments of clearance centres, the central institutes of the German savings banks (Cf. Table 3).

## COMPOSITION OF THE "CLIENTÈLE" OF GERMAN BUILDING SOCIETIES

The composition of the *clientèle* of German building societies is only known with any degree of reliability in terms of the occupational branches to which the savers belong. The published data do not refer to the total contractual sums, but only to new commitments and newly granted loans. If we consider the payments data in respect of new business in 1968 as representative of the total contractual holdings of the building societies, we find that about 3.65 million salaried and wage-earning savers have contracted building society agreements to a value of almost 70 thousand million DM. The occupational breakdown of the savers shows that the building societies constitute an irreplaceable self-help facility for a wide range of the population when obtaining a dwelling.

## FINANCING OF HOUSING CONSTRUCTION IN THE FEDERAL REPUBLIC OF GERMANY

The Federal Republic has a total of about 20 million dwellings and about 500,000 new dwellings are constructed annually. The enormous sum of 324.4 thousand million DM required for building construction from 1950 to 1969 consisted of 71,000 million from public sources, 188.4 thousand million from the capital market and 65 thousand million DM from other sources. The contribution from public sources for housing construction dropped from 43.9% of the total in 1950 to 8.6% in 1959. On the other hand, the contribution from the capital market rose over the same period from 41.9% to 69.6%. The Savings Banks Organisation (savings banks, clearance centres and public building societies) contributed barely 50% of the money obtained from the capital market to finance building construction. Most of the money for construction of housing obtained from the savings banks and clearing centres was for first mortgages, whereas the building societies are used mainly for second mortgages.

The development of the participation of individual groups of institutes in the financing of housing construction is shown in Table 2.



TABLE 1

OCCUPATIONAL BREAKDOWN OF HOLDERS OF BUILDING SOCIETY AGREEMENTS IN 1968 <sup>(1)</sup>

Occupational group	No. of agreements		Amounts saved (in DM '000)	
	Absolute	%	Absolute	%
Workers (inc. non-independent craftsmen)	307,477	27.68	5,971,604	23.18
Employees	311,349	28.03	6,494,807	25.20
Officials	129,115	11.62	3,175,085	12.32
Social security pensioners and annuitants	55,902	5.03	916,276	3.56
Persons independently employed in trade, crafts and industry	123,574	11.12	3,843,432	14.92
Agricultural and forest workers	32,785	2.95	692,670	2.69
Independent professions	26,442	2.38	885,945	3.44
Legal personalities	9,537	0.86	1,763,722	6.84
Persons without occupation and housewives	114,806	10.33	2,022,826	7.85
Total	1,110,987	100.00	25,766,367	100.00

<sup>(1)</sup> Werner Lehmann, *Die Bausparkassen, Frankfurt a/Main 1970*, p. 45.

TABLE 2

PARTICIPATION OF GROUPS OF CREDIT INSTITUTES IN THE FINANCING OF HOUSING CONSTRUCTION IN GERMANY <sup>(1)</sup>

Year	Savings Banks	Public and Private Mortgage Institutions	Life Insurance Companies	Social Insurance Institutions	Public and Private Building Societies
1960	15.0	13.2	3.2	0.6	19.0
1961	13.5	14.2	3.6	0.6	19.4
1962	13.4	16.6	3.2	0.8	19.8
1963	14.5	16.5	3.5	0.9	21.0
1964	14.1	15.8	3.8	0.9	20.9
1965	14.2	13.9	4.5	0.9	21.6
1966	13.8	11.2	5.1	1.0	23.8
1967	14.5	12.9	4.0	1.1	26.1
1968	16.2	15.2	5.0	0.7	26.9
1969	17.2	15.0	4.9	0.7	31.8

Source: ISBI, *World Thrift, "House Building and Housing Finance in the German Federal Republic"*, Geneva 4/1970.<sup>(1)</sup> Expressed as a percentage of total annual investment in housing construction.

TABLE 3

## NUMBER OF SAVINGS BANKS AND BUILDING SOCIETIES IN GERMANY

Year	No. of Savings Banks not counting branch offices	No. of building societies	
		Private	Public
1858	1,200	—	—
1910	3,072	—	—
1915	3,137	—	—
1920	2,845	—	—
1924	2,601	1	—
1925-1930	2,650	200 (*)	1
1933	2,428	54	16
1935	2,731	50	16
1938	2,879	38	16
1940	2,876	22	15
1960	866 (**)	17	14
1970	832 (***)	15	12

(\*) Estimated.

(\*\*) Figures for the FRG; the marked drop was due mainly to mergers of savings banks.

(\*\*\*) With 14,903 branch offices.

TABLE 4

PROPORTION OF GROSS SAVINGS INVESTED IN HOUSING CONSTRUCTION IN SOME MAJOR COUNTRIES <sup>(1)</sup>

Year	FRG, in thou. mill. DM			Italy, in thou. mill. Lit.			Netherlands, in thou. mill. Fl.			USA, in thou. mill. \$		
	gross invest- ment	housing constr.	%	gross invest- ment	housing constr.	%	gross invest- ment	housing constr.	%	gross invest- ment	housing constr.	%
1960	70.6	15.7	22.2	4.4	1.1	25.0	10.1	1.8	17.8	82.5	22.6	27.4
1961	80.7	17.8	22.1	5.1	1.2	23.5	10.9	1.9	17.4	82.4	22.9	27.8
1962	90.2	19.8	21.9	5.8	1.5	25.9	11.6	1.9	16.4	94.0	26.9	28.6
1963	95.3	21.2	22.3	6.6	1.9	28.8	12.4	2.1	16.9	99.1	28.2	28.5
1964	109.2	24.4	22.3	6.5	2.2	33.8	15.3	2.9	19.0	107.3	28.8	26.8
1965	118.9	25.5	21.4	6.7	2.4	35.9	17.0	3.4	20.0	120.0	28.4	23.7
1966	121.9	26.5	21.7	7.1	2.4	33.8	19.0	3.9	20.5	129.8	26.1	20.1
1967	110.4	25.2	22.8	8.0	2.6	32.5	21.0	4.7	22.4	133.4	25.9	19.4

<sup>(1)</sup> Statistical yearbooks of the FRG.

## HOUSING PROBLEMS IN DEVELOPING COUNTRIES

The rapid population growth in developing countries causes major housing problems, especially in urban areas and big cities where the population growth rate is as high as 4.6 to 7.5 per cent annually (see tables 5, 6, 7).

Tables 5, 6 and 7 give comparative figures for Africa.

TABLE 5  
ESTIMATED POPULATION GROWTH IN AFRICA (in millions) <sup>(1)</sup>

Items	1960	1965	1970
Total population	237	263	294
Urban population	39	47	59
Rural population	198	216	235

TABLE 6  
HOUSING NEEDS ESTIMATED ON THE ASSUMPTION OF THE ESTIMATED POPULATION GROWTH ABOVE (in thousands of dwelling units) <sup>(1)</sup>

Items	1960	1965	1970
<i>A. In Urban Areas</i>			
Dwellings needed to house population increase	304	367	543
Dwellings needed to offset obsolescence	130	130	130
Dwellings to remedy existing deficit	130	130	130
Total	564	627	803
<i>B. In Rural Areas</i>			
Dwellings needed to house population increase	540	667	726
Dwellings needed to offset obsolescence	900	900	900
Dwellings needed to remedy existing deficit	600	600	600
Total	2,040	2,167	2,226

TABLE 7  
NEW ESTIMATED POPULATION GROWTH (in millions) <sup>(1)</sup>

Items	1967	1970	1975	1980
Total population	327	352	400	458
Urban population	47	57	77	106
Rural population	280	295	323	352

<sup>(1)</sup> UN ECA, Housing Finance from Public and Private Sectors, E/CN. 14/HOU/22, 23 October 1968.

TABLE 8

CRUDE TENTATIVE PROJECTIONS OF TOTAL, RURAL, URBAN AND BIG-CITY POPULATION IN AFRICA 1960-1980, AND ESTIMATES FOR 1920-1960 (Millions) <sup>(1)</sup>

Items	1920 (est.)	1940 (est.)	1960 (est.)	1980 (projec.)	Absolute increment		Annual rate of growth 1960-1980 %
					1920- 1960	1960- 1980	
Total population	143	192	276	449	133	173	2.5
Rural, small town	136	178	240	360	104	120	2.1
Urban	7	14	36	89	29	53	4.6
(Big cities)	(1)	(3)	(11)	(47)	(10)	(36)	7.5

<sup>(1)</sup> UN ECA, Slums and Uncontrolled Settlements: Investment and Development Policies in Africa, E/CN. 14/HOU/62, 11 March 1970.

#### SAVINGS BANKS AND HOUSING FINANCE

Without being an expert on the problems of developing countries I have come to realize how much housing and housing finance are general economic problems, common to all countries. The contribution to housing finance which the savings banks are able to provide is not limited to later stages of economic and social development, either. Already in the earlier stages of economic development in Europe and America, savings banks have in fact played an important role in housing finance. I do not think, however, that there is anything particularly European or American about them. Savings banks provide the solutions to certain basic economics problems. These problems started to trouble us some decades ago, forcing us to come up with the solutions that much earlier.

In discussing housing and housing finance here, we are generally talking about urban housing. Rural housing is a problem by itself — technically as well as financially — and can in my opinion be dealt with only in the context of agricultural credit. This is not to deny the importance of rural housing — quite to the contrary. Rural housing is a problem of considerable economic and social importance and the fact that it is badly neglected by most developing countries does not make it any less important. However I do not consider rural housing to be part of my subject today.



There has been a serious housing shortage for quite a number of years in most towns and especially in the big cities throughout Africa. And the problem is going to grow. Urban population in Africa is increasing at an average rate of about 5 per cent per year and the rate might still go up. The implications for millions of human beings, for social life and, last but not least, for political stability are obvious.

One of the main factors limiting the supply of houses is the shortage of capital, and that is the factor I have to deal with today. There are two potential sources for housing finance: Government, i.e. central or local government, and private savings.

I am all in favour of relying on private capital to the largest possible extent.

This is for four reasons:

1. Government funds are so much in demand for many purposes that governments should rely on private finance wherever possible.

2. Housing can usually be financed privately on a large scale, because housing is one of the main incentives for saving. Private ownership of houses, in other words, is one of the most effective ways to increase national savings and national investment and thereby to foster production, employment and economic growth.

3. Private ownership exercises a strong formative influence. Saving for a house, acquiring it, paying for it, owning it and caring for it transforms the character of those who undergo this experience. It establishes thrift, discipline, individual egoism and economic thinking. Not all of these qualities are very likable personally. They are however imperative for developing countries. There can be no progress without them.

4. Finally, I consider private ownership of houses as one of the most effective props for social and political stability.

Individual ownership is related to individual saving. Before moving on to the problems of saving, I would like to touch on another aspect of housing policy, i.e. building costs. Building costs determine the volume of the capital needed and thereby the building activity and the supply of housing. Having said at the beginning that governments in developing countries should leave housing finance as far as possible to the private sector, I would



like to add here that governments bear a particular responsibility for building costs. There are several important things governments can do:

1. Most important is the organization or promotion of large projects.
2. The efficiency of the town-planning departments has to be built up to such an extent that the departments can actually initiate and push new projects instead of delaying them. An inadequate town-planning department can be a most damaging bottleneck.
3. Governments have to organize the training of building foremen, masons, carpenters, plumbers and electricians.
4. Research on the techniques of and the materials for low-cost building is another responsibility which can be fulfilled only by government.

The problem has been dealt with in some detail here, because cutting costs helps more than anything else to solve the problem of finance. The lower is the cost, the greater is the part of the population that can hope to own a house or a flat, and the greater therefore is the percentage of the population which can and will save for this end. The concept of private ownership should therefore, right from the start, aim at the mass-market of standardized low-cost housing.

Housing policy determines the methods of finance. This is the point where the savings banks come in. They are particularly suited to finance this type of housing policy because they reach a larger segment of the population than any other credit institution. They are in consequence able to attract savings more effectively.

In Germany as well as in other European countries savings banks have provided and still are providing a sizeable share of the finance for private housing. There are three basic reasons for this activity:

1. The demand of the customer. Finance for private house-ownership is one of the main interests of the customers of savings banks.
2. The supply of funds. A sizeable share of savings is available for long-term lending.
3. The problem of risk. Savings banks have to be particularly risk — conscious, and mortgages do match this requirement ideally.

The contribution of savings banks to housing is not, however, limited to the direct provision of finance to customers who want to build. In addition they make credit available to contractors, to manufacturers of building

materials and to road transport firms. Even more important is their long-term lending to city councils and townships, most of which is directly related to housing.

In Germany as well as in other European countries a major proportion of housing finance is provided by building societies. In Germany quite a number of these institutions are part of the savings banks organization. Historically, building societies came into existence at a rather late stage of economic development, — in Germany the first was formed in the early twenties and I tend to think that this late appearance did not just come about by historical chance but resulted from the logic of economic development. A sufficiently broad market would seem to be a prerequisite for specialization. Specialised agencies such as building societies can in my opinion make their full contribution only at a stage when national wealth and national income have already reached sufficient proportions. For countries at an earlier stage of development it would seem preferable to have saving-for-building schemes offered by savings banks as part of their activities. Special building societies should, however, be set up as soon as this business has become big enough to justify separate institutions. Too early and too strong a competition, however, would hamper all institutions in their growth. Growth, however, is needed because savings banks should be strong enough to cover the country by a network of branches, most of which will need one or two years to break even. In their first years they will have to be supported by the older members of the family, which are already making a surplus in the main towns. If, however, the limited market of the few cities is divided among too many competitors none of them will be able to expand.

In most of the countries which are taking part in this Conference, savings banks could therefore make a valuable contribution to economic development in general and to the provision of housing finance in particular.

Having arrived at this general conclusion, I should perhaps now touch upon a few organizational problems. I would recommend that the new savings banks be:

- a) non-profit enterprises in public ownership
- b) dynamic and comprehensive savings and credit banks
- c) locally organized institutions.

The savings banks should be public and non-profit-making because in the interest of economic development they should fulfill some duties which will not be profit-making. "Thrift promotion" in all its various aspects is one of the main examples. Another is the steady expansion of the network in order to cover the whole country. Private capital will, understandably, neither be able nor willing to take on these responsibilities to the same degree. It is even doubtful if, at the present stage of development, it would be willing to go into this industry at all. The starting capital will therefore of necessity have to come from public sources. The safety of savings is another powerful reason for public ownership. Control by central or local government implies a guarantee to the savers and this entails close supervision by the government. The savings banks should not, however, form part of the public administration itself but be set up as independent enterprises. Thus organized they will most likely be able to strengthen their adaptability as well as their rate of expansion, characteristics particularly needed in developing countries.

This leads me to the second point mentioned above, namely, that the new institutions should be dynamic savings and credit banks, offering their customers a comprehensive range of financial services. Following the experiences made in my own country as well as in Italy, Austria and the Scandinavian countries, I think that this type is best suited to further economic development in general and to provide housing finance in particular.

The third problem is local versus centralized organization. In reality the question is not as simple as that. The aim must be to combine the advantages of local institutions with those of a centralized organization. Here again I am referring to experiences in my own country as well as in other parts of Europe. We prefer local savings banks because they are nearer to their customers, because they are better acquainted with local conditions and because they are easier to run and to supervise. Still more important is the fact that they are able and willing to assist the forces of economic activity at the regional and local level. This makes them a valuable counterweight to the strong tendencies of centralization which are so dominant in all developing countries. It would seem important not to concentrate too much of the initiative and too many of the decisions on the national level and therefore in the capital.

On the other hand, the local or regional savings banks have to be strong enough to play their role properly. The creation of too many and

too small units would be disadvantageous. It might therefore be advisable, for example, to start by setting up savings banks in the capitals of each province, one after another. The institutes would then slowly build up a network of branches in the bigger townships. Branches which have reached a sufficient size to act as independent units could be split off, and the plan might envisage one organization in each district in the end. Sufficient size of the local institutions is, however, only one half of the answer. The other half is a strong central association. It would have to take care of the functions common to all the individual savings banks, such as training, planning, auditing, advertising etc. Co-operation with central government would be another major responsibility of the association and a responsibility of particular interest in the context of our theme as it would include co-operation in the field of housing finance.

The suggested set-up of strong local savings banks with a strong central association combines the advantages of local initiative and local self-government with the advantages of central organization. Experience has taught us that this is a particularly effective solution, likely to give the best results in the field of housing finance as well as in other fields of activity.

TAHAR IMALHAYENE

## THE MOBILIZATION OF SAVINGS IN ALGERIA

The Algerian Savings Campaign, launched on 6 May 1966, in the presence of the Head of State and several government members, obtained since its beginning the unanimous approval of all the people responsible for the conduct of the country's affairs.

Of course the economic and psychological conditions of the time were most unfavourable since Algeria, which had only recently obtained its independence, acutely presented the characteristics of an underdeveloped country: economic stagnation, practically non-existent home production, unemployment, emigration, a confused economic policy. All these conditions made saving start under the worst possible omens, but the sense of responsibility of our leaders, the faith of our fellow-countrymen in a better future and the happy results obtained the previous year (19 June 1965) in the field of economic recovery allowed us to look forward with confidence to the future expansion of our savings programme. At the end of 1966, that is in only 7 months, the Savings Bank had already collected 40,166,810 dinars <sup>(1)</sup> on 24,107 accounts.

With the settlement of the disputed French-Algerian claims on December 23rd, 1966, which allowed us to recover from the former *Caisse d'Epargne Française* 261,000 accounts with altogether 30 million dinars, which, so far, had been lying dormant, and with Algeria getting politically and economically organized, saving increased steadily. That is why the Savings Bank succeeded in attracting deposits in the following amounts:

1968	. . . . .	52,644,367.08	dinars
1969	. . . . .	107,566,812.18	dinars
1970	. . . . .	137,021,798.86	dinars

<sup>1</sup> Dinar = 1.125 FF - 1 Dollar = 4.903 dinars.



This progress in financial saving was due to two determining factors. First, economic activity was developing at a satisfactory pace and under stable monetary conditions, suitable thus ensuring the regular and fair growth of disposable family incomes. Secondly, the Act levying down the articles of association of our *Caisse Nationale d'Epargne et de Prévoyance* had shaped a flexible instrument, perfectly suited to the circumstances and the aim, that is, maximization of saving for the purpose of balanced economic development.

This flexibility of the Savings Bank allowed us from the outset to put at the disposal of the public numerous services such as:

1. credit for housing projects and mortgages
2. loans for social purposes
3. budget finance for local authorities
4. long-term loans to town councils and "wilayate", as well as to national and mutual companies, the rate of interest being between 4.75% and 7% according to the types of loans.

It must be pointed out that this period coincided with the coming into force of the Three-Year Plan (1967-1969), the first social and economic development plan of independent Algeria.

With the new Four-Year Plan (1970-1973) which fixes a target rate of 9% for annual growth and involves public investments of 27 billion dinars to be financed essentially from national resources, an austerity policy was now inevitable and the mobilization of savings became one of the main objectives which the public authorities were to support at all levels.

We shall mention a few measures taken in view of this new economic policy:

- a) very high taxation for consumption goods considered as luxury or non-essential;
- b) prohibition of credit for consumption or the purchase of consumer durables, such as advances on salaries and wages, social loans, mortgage loans and automobile credit.

On the other hand, interest on deposits was raised from 2.80 to 3.50% tax free, while the amount for each passbook is still unlimited.

Moreover, a new Housing-Saving formula was worked out offering substantial advantages: funds are available at all times and allow people to obtain loans for construction projects at the end of 3 years' payments, even if

discontinuous both as to the amounts and periodicity. These loans involve an interest of 5% and 6%, according as they last more or less than 10 years.

Finally, to encourage saving on the part of our fellow-countrymen working abroad, a system of Currency-Saving accounts carrying 4.50% interest has been devised.

The *Caisse Nationale d'Epargne et de Prévoyance* is the exclusive banker to all local authorities at departmental and municipal level. Much of their work of housing construction, electrification, land reclamation and amenity improvement, especially in villages, is financed by loans from the CNEP. The rest is financed by local authority funds. Since the beginning of 1971, the CNEP has also become the sole bank handling all loans for collective and individual housing, including loans for the low-rent housing projects, urban and rural housing. Accordingly, the CNEP presides over the Technical Committee for Housing. Loans extended for this purpose in 1971 amounted to 200 million dinars.

The CNEP also undertakes housing and hospital construction on its own account. It has completed 180 dwellings, another 200 are in course of construction, and its Two-Year Programme 1972-73 involves the construction of 3,000 more dwellings.

Some of these homes are for renting and some for eventual sale, some of the loans are personal and some secured on mortgages; in all cases, the individuals concerned learn about the facilities of the Savings Bank and many of them become new clients of it.

We believe that the services we render are at least as effective in acquiring new clients as our intensive, not to say all-pervasive, publicity campaigns, of which I shall have more to say presently.

With a view to improving the conditions of the collection of savings, especially in large conurbations, the CNEP has expanded its branch network. In addition to the post offices which it uses, it has opened branches of its own, where it has better reception facilities for savers, and can offer them more comfort, quicker service and stricter secrecy. These new agencies are greatly appreciated by the public.

All these measures could not be fully efficient were they not supported by a wide advertising campaign meant to discourage boarding and to capture this flow of unproductive resources. This expensive but profitable adver-

tising has been greatly intensified in the course of the present year. The advantages offered by the Savings Bank have repeatedly been called to the attention of the public by means of notices, folders, posters, articles in the daily press, slogans, strip cartoons published in newspapers, films, broadcasting of advertisements on the whole radio network three times a day on each of the three channels and once a day on television.

This radio and television broadcasting, a modern advertising medium *par excellence*, gave Algerian saving a new dimension as it impressed the concept of saving upon all families and reached all the strata of the population: town-dwellers as well as peasants, women as well as illiterates and even those who most cherish hoarding either in jewels or in woolen stockings.

The results obtained by these exhortations to save are encouraging, since the number of accounts has nearly tripled (from 16,500 to 41,000) between 2 January and 31 March 1971 compared to the same period of the previous year, and the deposits on these accounts have nearly quadrupled (from 43 million dinars to 152 million dinars). This means that in five years since its inception the CNEP attracted altogether 591,304,596 dinars outstanding on 684,760 passbooks. By 28 August 1971 these figures had risen to 659 million dinars standing to the credit of 706,000 passbooks.

Saving is both a cause and an effect of economic expansion, and it is the most effective means of getting the people to take an active, conscious and free part in the development of their own country. For this reason our leaders never stop insisting on the importance of the mobilization of savings.

This point is repeatedly stressed in our Four-Year Plan, which constitutes a real charter for the country's economic development.

In the text of the law it is particularly stated:

"The government will put into effect the measures required by the austerity policy, especially in the fields of national consumption and saving".

Moreover, in the Four-Year Plan preamble it is stressed that "whether in the case of financial resources, material resources or human resources, what chiefly matters is to make the best possible use of all national availabilities before having recourse to any foreign help."

Finally, in another passage of that same document, it is stated that:

"The growth of the capacity of capital accumulation has been determinant in the economic policy choices, as can be seen once again in the types of invest-

ments, the struggle against waste, restrictions on consumption, education for saving and ceaseless striving for efficiency."

Saving has been stressed not only in the Four-Year Plan and other official texts, but it has also been the main subject of several speeches from the Head of State and various leaders, including the Party secretary, the Minister of the Interior, the Minister of Finance and the Secretary of State for the Plan.

During several meetings, in particular with political, administrative and economic leaders, the Head of State put stress on the need to start a campaign throughout the country for the mobilization of savings.

All officials have been asked to set an example by opening accounts of their own.

Among the members of government mentioned above, we shall quote only the Minister of Finance, who is responsible for safeguarding the CNEP and is closely concerned with saving and its expansion.

At public meetings and press conferences he has repeatedly insisted on the need to mobilize private savings.

On 9 March 1971, on the occasion of launching the operation "Housing-Saving", the Minister of Finance reminded the population that:

"The generalized, independent and rapid development of the country requires from us, as the Head of State has often stressed, to rely on ourselves first and to mobilize our human, material and financial resources to the utmost."

Further on he added:

"Besides, this leading principle of the government's economic and financial policy has been set up within the programme of the Four-Year Plan as a financing rule for investment, since financing must rest on national saving collected under all its aspects."

In the Party's weekly *Révolution Africaine* of 15 April 1971, the Minister of Finance stressed the importance of the mobilization of savings as follows:

"The chief (aim) consists in encouraging what is called accumulation or savings, which means that we must not spend the whole of the income earned in one year, must not put it aside, make it idle, but must invest it."



Still further he stated:

"The rate of investment planned in the Four-Year Plan for the period 1970-1973 amounts to 35%. In terms of financial policy this means that the financial apparatus must get from the economy beginning with the state, and including all private citizens, local authorities and firms an average rate of saving of 35%."

This mobilization of savings called for by the country's highest representatives is carried out daily by the Savings Bank. To this purpose it avails itself of two networks. One of them consists of our own branches, of which two or three new ones are opened on the average each year, depending on the material and human resources required and available. There are now eight branches (1 opened in 1967, 2 in 1969, 3 in 1970 and 2 in 1971), all located in large urban centres. By 31 May 1971 they had, between them, 25,000 accounts, of which 12,000 were school accounts. A month later, the number of passbooks had risen to more than 30,000, and the total amount involved to more than 37 million dinars.

The second network we use consists of post offices. Though less effective than our own branches, for well-known reasons, these nevertheless have the twin merit of being less expensive and of being on the spot everywhere, even in the smallest hamlet throughout the rural areas of Algeria. This network includes 900 post offices.

The number of new accounts opened in each of the past three financial years by all the units of this double network is shown in the table below, together with net deposits, that is, sums deposited less reimbursements.

Year	Number of new accounts opened	Net deposits (dinars)
1968	82,633	66,642,212.99
1969	53,763	107,566,812.18
1970	51,335	137,021,798.86

An important aspect of the steady growth of our savings deposits is the composition of our savers by social and occupational groups, which gives



us valuable guidelines for our advertising campaign. The figures are as follows:

Officials and employees	32.05 %
Wage-earners	17.97 %
Young people (under 21)	11.11 %
Rentiers and pensioners	7.38 %
Members of the armed forces	6.90 %
Traders, businessmen, professionals	3.31 %
Farmers, craftsmen	3.12 %
Companies	0.08 %
Miscellaneous	18.08 %

Admittedly, it is the officials and the wage-earners who bring us most savings, but we feel it should be possible to increase the inflow of deposit accounts by reaching the other strata of the population and inspiring greater confidence in the use of the Savings Bank's services among people having a high savings potential (traders, businessmen, professionals and so on). That is why we must improve the speed and quality of the service to avoid waste of time by savers. Besides, we must do our very best to reach country people more and more closely, since this category is generally hostile to this type of service owing to misinformation, distrust and ignorance.

To this effect adequate measures have been taken aiming at increasing deposit accounts. These measures are of different kinds:

1) Improvement and extension of the collecting network, on the principle "Go and meet the saver and do not wait for him to come to you."

2) Mechanization of operations through the computers, which allows us to:

- a) avoid mistakes, which are always detrimental to service,
- b) improve the quality and efficiency of work,
- c) reduce operating costs by eliminating useless or inoperative administrative and book-keeping systems (reduction of book-keeping centres, suppression of checking centres.),

d) obtain accurate information and data so that we can organize our advertising better and make it more effective, above all in districts where people do not yet know how to apply to the Savings Bank for service and for the purpose of making more impact on certain social and occupational groups which seem to be allergic to saving.

Our action in this field is facilitated by the new economic and social policy initiated since the adoption of the Four-Year Plan by the government. This policy encourages saving, since its main objective are:

1) The creation of new jobs and the absorption of unemployment thanks to the industrialization of the country and the imminent land reform.

2) The satisfaction of consumer needs by home production and the improvement of retail circuits.

3) The guarantee of the purchasing power and lasting stability of money, without which all political, economic and social measures aiming at encouraging saving would be ineffective and would fatally lead to inflation, this new social cancer, with catastrophic consequences for all of us and all countries, especially rapidly developing countries. Algeria is one of these countries and its Savings Bank is in the same image: it is an underdeveloped or rather a rapidly developing Savings Bank. We are well aware of its weaknesses and deficiencies.

Having 56 passbooks per 1,000 inhabitants and an average amount of 48 dinars for each Algerian citizen, a comparatively small achievement, even if this result has been obtained in 5 years only and without any foreign help.

As I have just said, our handicaps, both temporary and lasting, are manifold and of various kinds: a sparsely populated country, a low standard of living, an extremely young population (56% under 19) with a high percentage of women, partial unemployment, a very new Savings Bank, insufficiently tested and sometimes inadequate services, human and material resources limited as to quantity and quality, and still further deficiencies which cause clients to be few or their numbers to increase only slowly. But the whole-hearted support of our leaders, the faith which urges us on, the wealth accumulating in all sectors, particularly in the training of the population, the steady absorption of unemployment, the fruitful contacts with the International Savings Banks Institute and other older and more experienced savings banks in industrialized countries, not to speak of the understanding and friendship naturally deriving from these human contacts and the direct communications we have now and then with the other people responsible for saving during international meetings, exactly as in this Conference, are all positive, encouraging and determinant elements in our daily action in promoting saving, this delicate and volatile element which conditions economic growth in all our countries.

TAFFARA DEGUEFE

## THE MOBILIZATION OF SAVINGS IN ETHIOPIA

Mr. President, as I come from a country in Africa which is neither French nor English, I wish to associate myself with the speaker from Senegal who said we must now think not of Anglophone or Francophone Africa but a united Africa.

It is a privilege for me to have this opportunity to address this Conference with distinguished participants from the different parts of our African continent. Such an international gathering of financiers is sure to promote goodwill and understanding between Africa and Europe and pave the way for better mobilization of savings in Africa.

There are present in the audience much abler colleagues from Ethiopia who could give you a more authoritative analysis on the extent of savings mobilization in Ethiopia. But I rise to speak from the perspective of a practical banker following the guidelines of the questionnaire we received in advance. The report is being distributed in full and I will therefore mention only the salient points.

Before I launch into the discussion of my subject, I would like to associate myself with the preceding speakers in expressing appreciation to Prof. Giordano dell'Amore for his splendid efforts towards the organization of this Conference and for the hospitality extended to us by the *Cassa di Risparmio* in Milan. We are happy in Ethiopia to be associated in savings promotion activities with this renewed international institution and expect fruitful results from this close collaboration also in years to come.

## EFFECTIVE MOBILIZATION OF SAVINGS

Capital formation in Ethiopia at the present time is not as high as its known resources and development potential would justify.

In the five years 1968-1973, Ethiopia's Third Five-Year Plan foresees total fixed investment in all sectors of Eth. \$ 2,865 million. Of this amount nearly half is expected to come from the private sector.

Furthermore, total gross monetary investment at the end of the plan period is expected to amount to Eth. \$ 3,115 million. The gross domestic monetary savings required for the Five-Year Plan period to support the increased production and income is around Eth. \$ 2,400 million, of which Eth. \$ 1,720 million is expected to come from private sources, which include depreciation, reinvested profits and private savings.

This official plan emphasis on capital formation in the country is mentioned here to show the importance that the Ethiopian authorities attach to savings mobilization generally. This is as it should be. To match their national development with domestic resources, each developing country needs to mobilize local savings.

Accurate statistical information on the mobilization of savings is not readily available in our countries. This brief report has been hurriedly compiled for this Conference from data collected on a personal basis. The statistical information contained in the tables attached must be viewed with caution.

Let me say at the outset that in Ethiopia the modern institutions which mobilize savings are banks and financial institutions. There are no specialized savings banks except the Savings and Mortgage Corporation of Ethiopia which launched a saving program this year.

In addition, mobilization of personal savings is practiced in Ethiopia by broad sections of the population through the popular and widespread use of a traditional forced saving system known as "Ekub" and "Edir", which I will describe more fully in later pages of this report. But whether or not such savings mobilization can be considered "effective" and can be said to be based on sound money management is difficult to say. If by "effective mobilization" is meant the channelling of savings into the productive sectors, then it would appear that mobilization of personal savings by means of the above traditional system is far from being effective. Similarly, the practice of sound money management by individuals and the regular use of the savings and credit facilities of appropriate financial institutions by a broad section of the



population is limited, although some significant progress has been made in recent years.

The network of branches of commercial banks has become an effective channel for personal savings in the country. I will describe in greater detail the growth of savings in other paragraphs of this Report.

To a large extent the existing savings and credit facilities may be considered adequate to mobilize savings in the main cities. The principal factor for wider mobilization of savings depends on the possibility of the population to have sufficient income permitting it to save for investment and future consumption.

Although in 1971 there are no provinces without branches of commercial banks for deposits and there are no towns with population of more than 10,000 inhabitants without branches of commercial banks for deposits, it must be pointed out that there are only 35 branches of commercial banks for over 120 towns in Ethiopia with a reported population of less than 10,000 inhabitants.

From a cursory review of the position it will be readily admitted that existing savings and credit facilities (especially credit needed for the large agricultural sector in Ethiopia) are inadequate at present.

The inadequacy of the existing savings and credit facilities can further be shown by the existence of excess funds in circulation which can be brought into the banking system if new banks were to be opened in those rural areas that could support a bank or if there were to be an increased effort by commercial banks to attract deposits to their existing branches through more effective publicity.

In the effort at savings promotion, there is more emphasis now on self-reliance and on individual thrift. These are qualities emphasized in official utterances as the quoted examples will show.

As in all traditional societies where there is a personal relationship, and also due to limited banking facilities in certain areas, the tendency in the villages and in the countryside is to entrust one's savings to shopkeepers, missionaries and employers. As banking facilities become better known and bank offices become more accessible this tendency will break down. There is need therefore to extend and expand bank services throughout the country to make them more accessible to the masses.



The success of the Commercial Bank of Ethiopia in its savings growth in recent years is due to its easy access, as the depositors know they can draw their money easily in an emergency. As a special convenience, for example, the bank keeps its branches open to depositors in the evenings for savings withdrawals and deposits.

#### ENCOURAGEMENT OF SAVINGS

Recent measures that have been taken to encourage the mobilization of personal savings include the rise in interest rates on deposits from 5 % p.a. to 6 % p.a. in August 1971. At the same time the ceiling on individual savings accounts was raised from Eth. \$ 10,000 to its present level of Eth. \$ 20,000 per savings account.

Mention of the necessity to mobilize personal savings for development has been made in the national development plan, and by the Minister of Finance in his recent address to members of the Ethiopian Chamber of Commerce. In the same speech the Minister of Finance urged business organizations with surplus funds to invest in the 90-day Treasury Bills.

In spite of the expansion of bank branches in Ethiopia, there is more discussion now on a type of non-profit co-operative banking or credit organization for the small saver, especially to take care of the local funds of credit unions, mutual aid associations and small businesses. The authority which is encouraging such activity is the Ministry of National Community Development and Social Affairs. Some progress can be seen in this regard in this last year.

The factors that influence saving in Ethiopia, as in other countries, are many. They include the rising income of the urban population, the expansion of bank branches and the rise in interest rates. As a result of all these factors, the rate of personal saving in Ethiopia is rising (as may be observed from Appendices I & II). But as a proportion of disposable income the rate of regular saving is still very low.

Debt repayments also represent personal savings. Instalment payments on personal loans or mortgage loans add to total savings. In this respect the Savings and Mortgage Corporation's activity provides a useful impetus to this form of saving.

The other measures of personal savings include the private persons' financial assets: bank accounts, savings accounts, bonds, shares, insurance and pension reserves. A proper analysis of these figures may yield useful information when they become available in published form.

The saving rate is significant in the economic development of the country. Expansion of the economy needs a careful balance between personal saving and spending. This depends on taxation levels and on the encouragement of the saver. To encourage the saver to set aside idle funds, the fiscal authorities in Ethiopia exempt bank interest on savings accounts from income tax for the individual recipient.

If we are to draw on J. M. Keynes' economic theories, the propensity to consume is a stable function of income. The general rule is that as men's income increases they increase their consumption. At the same time there is a rise in savings. This appears to be the trend also in Ethiopia.

As the growth trends of savings in Ethiopia are encouraging, we need to educate a larger section of the population to save in order to bring about an increased tempo of capital formation needed for development.

#### PLAN EMPHASIS ON SAVINGS

In the important chapter dealing with the organizational and administrative implications of the Third Five-Year Plan the following significant provisions on financial administration have been included (Chapter IX, Section C):

##### *"C. New Institutions for Internal Development Resources"*

"The implementation of the Third Five-Year Plan depends crucially on the success of government policy and measures to mobilize the necessary additional resources for financing the development programme. In this connection, it is very important to assure adequate numbers, geographic coverage and strength of savings and similar institutions in the country. The government will make a special effort to institute measures and policies to strengthen the existing institutions, both traditional and modern, and to encourage the establishment of new ones. In addition to the existing savings institutions, a new post office savings scheme will be introduced early in the plan period.

The difficulties which prevented the implementation of article of the Public Servants' Pension Decree of 1961, namely the establishment of the Public Servants' Pension Fund, will be reviewed, taking into consideration recent government policy as to the status of public servants. Simultaneously, the policy of extending the public servants' Pension Scheme to the private sector with a view to mobilizing additional funds for development financing will be examined. The government will initiate the necessary study and will take appropriate action early in the plan period.

"In insurance, the Government will review the activities of insurance companies operating in Ethiopia, and a general insurance law will be issued in 1961. Following this, the Government will consider the feasibility of establishing a public re-insurance company which would be responsible for all re-insurance in Ethiopia.

"The channelling of savings to finance priority development programmes has in the past been very difficult. In the Third Five-Year Plan the Government will make every effort to direct savings to priority projects both in the public and private sectors. To ensure this, the Government will take measures to influence the use of savings from the recognized savings institutions ».

It is interesting to observe that, following plan targets, the new insurance law regulating the licensing and control of insurance companies in Ethiopia was issued in 1970. Registration under the new insurance law became effective in January 1971.

Efforts are also directed at mobilizing savings through financial intermediaries to channel such funds to productive purposes helping in the development of industry and agriculture.

In order to improve the effectiveness of the financial intermediaries in the task of development, the two former institutions: the Ethiopian Investment Corporation (established in 1963) and the Development Bank of Ethiopia (established in 1951) were merged a year ago into one single body known as the Agricultural and Industrial Development Bank (AIDB). The distinguished Managing Director is among the participants present at this Conference.

The AIDB's main duty was seen to be as the channel for investment in profitable development projects by means of medium- and long-term credits. AIDB is the government's principal instrument to extend investment in agriculture, industry and other economic activities.



## OFFICIAL ENDORSEMENT OF SAVINGS

H. E. Ato Getahun Tessema, Minister of National Community Development and Social Affairs — who is responsible for co-operative credit institutions — in addressing the 9th African Conference on the Mobilization of Local Savings and the 2nd annual meeting of the African Co-operative Savings and Credit Association (ACOSCA), held in Addis Ababa in August 1971, emphasized that the mobilization of individual savings and the productive investment of such funds is a necessary pre-requisite for sustained economic growth. The discussion centred on the promotion and development of credit unions in Africa.

The Ethiopian Minister stated in this connection that:

"In our developing countries there is a very strong tendency to spend earnings on conspicuous items, thereby wasting a considerable amount of potential savings. There cannot be investment or development without savings. Thrift or saving means the habit of setting aside something out of one's own present earnings in order to be able to use the same at some future time so that greater advantage may be derived from the use of such savings in the future than at present. As long as this tendency to waste is not checked the formation of the very badly needed capital for development may not be achieved. In order to accomplish this goal each and every one of us has to make efforts towards frugality in the proper management of our resources, the integral part of which is our family budget. Therefore, teaching in order to inculcate the habit of saving in the minds of all and every citizen, has to be given very high priority..."

"In order to augment capital formation there is a need for an institutional framework, other than banks, to encourage savings and ensure their utilization for useful and productive purposes. Such an institution greatly benefits the bulk of the population which normally cannot avail itself of the services of banking institutions. This institutional set-up should not restrict itself to encouraging the accumulation of small savings but it should broaden its field of activity to enable the bulk of the population to participate effectively in the formation of a new social order which may serve as a leverage for accelerated development..."

These passages are clear example of official concern in government circles for effective measures to mobilize small personal savings at all levels.

## SAVINGS INSTITUTIONS

(a) *Commercial Banks*

In Appendices I to V attached are listed the aggregate figures of commercial banks and the specialized financial intermediaries which are instrumental in mobilizing savings in Ethiopia. These are preliminary figures but they show the trends.

Even though much still remains to be done in the future in bank expansion and savings mobilization, when the position is compared back to what it was a few years ago, one can readily agree that great changes have taken place in the last five years in the Ethiopian banking scene.

As a result of this banking growth there are now four commercial banks operating in Ethiopia:

1. the Commercial Bank of Ethiopia (wholly government-owned and by far the largest bank in the country);
2. the Addis Ababa Bank (organized under private initiative);
3. the *Banco di Roma* (Ethiopia);
4. the *Banco di Napoli* (Ethiopia).

The general comparison of resources and bank offices of the various banks operating in Ethiopia shows the following picture for 1970:

Name of Bank	Number of Branches	Number of Employees	Total Resources (Eth. \$ million) 1970
Commercial Bank	80	1400	551.1
Addis Ababa Bank	18	300	75.0
<i>Banco di Roma</i>	7	130	79.6
<i>Banco di Napoli</i>	1	20	25.3
Total	106	1850	731.0

(b) *Post Office Savings*

In the order defining the "Power and Duties of Ministers" issued in 1966, the following provisions as to promotion of postal savings have been included among the powers of the Ministry of Posts, Telegraphs and Telephones (new renamed Ministry of Communications, Telecommunications and Posts): "establish and maintain a Post Office Savings Service".



On the basis of this sketchy provision a study is now under way to introduce a postal savings system in Ethiopia on a nation-wide basis.

Such innovation will have a useful impact in collecting small household savings, if these are mobilized by the post office as agent for the specialized savings institutions.

The establishment of postal savings banks may be of additional service in remote areas where commercial banks are not and cannot be available. This presupposes a large network of post offices extending even in the small towns. Even though one notes an accelerated expansion of post offices being opened in the country, much remains to be done.

(c) *Other Savings Institutions*

The position of the different financial intermediaries in savings mobilization is shown in Appendix IV.

This brief survey on credit institutions in Ethiopia and their role in economic development would be incomplete if the local insurance companies were not to be mentioned at least in passing. The national insurance companies do not as yet command large enough resources to have an effect on the local monetary situation. But as they grow these companies will begin to invest their funds in shares and government bonds and may also provide the much needed mortgage finance for building and construction on a longer-term basis.

The aggregate resources of the thirteen registered local insurance companies have not been published yet, as 1971 is the first year under the new insurance law, mentioned earlier. As insurance activity becomes more widespread and life policies expand, it is hoped the insurance companies will tap a certain part of private savings now inaccessible to banking and financial institutions, may then become important insurance activity, may then become important sources of medium-term funds in Ethiopia.

(d) *ISHOPA*

Functions like those of savings and loans associations or building societies are carried out by the Imperial Savings and Home Ownership Public Association, sponsored by the Government. The basic function of ISHOPA is collecting savings from the public and using these savings by lending to individual members by way of longer-term mortgage loans to housing of owner-occupiers.

This savings institution (ISHOPA) is organized as a public body but with its own autonomy and a certain government control through board representation.

The institution is still rather small. But in time it is expected to grow because of the increasing demand for better housing in the growing urban centres.

The attraction to save and thus purchase their own house is a strong and tangible objective to individual savers and should serve as an excellent motivation for this type of saving.

(e) *Credit Unions*

The credit unions are developing in two lines:

1. the government is encouraging the multi-purpose co-operative societies in rural areas, and these include the dual functions of thrift and credit. The continuing deficiency in agricultural credit is being met through the promotion of agricultural co-operatives. No swift change is possible in agricultural communities but individual ownership of land in both rural and urban centres is well ingrained and it can be used as a basis for promoting personal savings and investment by means of the co-operative system.
2. For urban centres credit unions are being formed by employees of larger organizations, but their number and resources are still small. A National Promotion Committee for Ethiopian National Thrift and Credit Co-operative Associations has been formed to encourage expansion of credit unions in Ethiopia. I am pleased to see a representative of this Association participating in this Conference.

(f) *Credit Co-operatives*

In addition to the conventional banking and other credit institutions which are engaged in the mobilization of savings in Ethiopia, there are traditional institutions in the form of solidarist movements. Thrift associations for mutual help are organized bodies with a central purpose of social solidarity and with certain elements of benevolence.

The thrift societies and mutual funds including the contributory « Edir » (Mutual Aid Associations) and « Ekub » (Rotating Credit Associations), which

collect many private deposits which can be effectively used if they are better co-ordinated, managed and their funds are channelled through banks or financial institutions.

The « Ekub » is normally organized under simple rules. It is usually formed by a group of persons who know each other and whose reliability is not in question. They each agree to make a regular fixed and equal cash contribution (paid and drawn on a weekly or monthly basis as the case may be) to a joint fund which is paid in whole to each contributor in rotation.

The money is collected openly at the meetings and is handed over to the person whose turn it is to receive the money. There is often a voluntary system of selling one's share to another member at a premium.

The most usual associations are formed by employees or salaried people who have regular cash incomes. The system is based on mutual trust of members.

In recent times such rotating credit associations have been formed by smaller businessmen or local traders who use the capital collected in turn to enhance their trading activity or to purchase equipment or to settle debts.

In the case of "Edir", they appear more prevalent among the Gurage, Dorze and Wollega ethnic groups. Now the ethnic grouping is breaking down and "Edir" are being organized on the basis of a common district or residential area in the city into what has come to be known as a community "Edir".

The normal purpose of an "Edir" is to provide assistance to members during sickness or for weddings or funerals. There is an entrance fee and monthly subscriptions. Non-attendance at meetings is fined. Fining for offences and expulsion are used to discipline members when they are seriously at fault.

These traditional saving systems have their place in a society in which the banking habit is not yet fully developed and where social services are not available to all in need as a national scheme.

## GROWTH OF SAVINGS

These savings institutions seem to show a relatively satisfactory growth during recent years. Particularly since 1964 when, as a result of the 1963 Banking Proclamation, commercial banking began to expand at a rapid pace, growth in the number of banks and their offices, in the number of savings

accounts, in the total amount of savings and time deposits as well as in the extent of services has been remarkable. This trend is expected to continue.

Except for the Savings and Mortgage Corporation of Ethiopia the Imperial Savings and Home Ownership Public Association, insurance companies and pension societies, which operate only in three towns of over 50,000 population, the commercial banks deal with the bulk of the savings in the country through their wide network of branch offices in many rural as well as urban districts.

As the basic function of banks is the acceptance of deposits and lending, the analysis of the growth rate of bank deposits and bank credit is a good method of determining the magnitude and the influence our banking system has played and continues to play in Ethiopia's economic scene.

There are no detailed statistics to determine whether the rapid increase in savings deposits reflects a genuine mobilization of personal savings or has come about as a result of a shift of deposits from demand to savings accounts. The trend in the Commercial Bank of Ethiopia, as assessed in our figures, shows a definite growth in the number and amounts of savings accounts. This is clear evidence that the bank is becoming successful in attracting new savers.

In the following comparison of deposits with the Commercial Bank during the years 1967-1969 one can note steady expansion (in Eth. \$ millions):

Deposits	1968	Change %	1969	Change %	1970	Change %
Demand Deposits	116.6	14.4	131.0	12.4	127.2	-2.9
Saving	78.1	22.4	91.9	17.7	108.4	18.0
Fixed Deposits	37.8	34.4	71.4	89.0	121.8	70.5
Total	232.5	20.0	294.3	26.6	357.4	21.4

Out of the total increase in 1969 of Eth. \$ 61.8 million, which is nearly 27% of the 1968 total, an amount of Eth. \$ 4,173,510 (6.7%) is attributable to the 14 new branches opened in the course of 1969. This provides the incentive for the acceleration in the pace of branch opening we have witnessed in the last few years.



In the year 1970 aggregate deposits with the Commercial Bank rose by Eth. \$ 63.1 million. Demand deposits recorded a drop whereas savings and time deposits in 1970 expanded by Eth. \$ 66.9 million.

In addition to extending banking services to outlying areas, there is a more pervasive influence for banks in developing centres to expand the variety of bank services. This influence extends to the development of a modest stock market in Ethiopia. This salutary influence extends also to the orderly conduct of insurance business generally as well as to the role of banks in the formation and financing of major industrial, trading and agricultural enterprises.

#### INCREASE IN PERSONAL SAVINGS

Two measures or initiatives that could increase the flow of personal savings to banks and prove particularly useful in the short term are the continued expansion of banking facilities and the exertion of greater efforts by banks to attract more deposits to new as well as existing branches by impressing upon the small saver the usefulness of saving.

The effect of the expansion of banking facilities on the mobilization of new savings has long been recognized and the commercial banks are continuing actively to open new branches all over the country, spurred on by their success in attracting more deposits.

A feasibility study concerning the establishment of efficient savings and credit facilities would indeed be very useful, with particular reference to the institution of the permanent "Ekubs" in Ethiopia. A study of the banking habits of a sample of urban population might also be very useful. International organizations can give assistance in financing feasibility studies and providing a temporary team of experts to assess the studies and to give qualified advice to existing institutions.

#### STIMULATION OF SAVINGS

I firmly believe that the experience and the success in savings mobilization by banks in recent years justifies confidence in an accelerated increase of personal savings deposits in Ethiopia.

In this respect it is of interest to point out:

1. the commercial banks are increasing their publicity for savings by means of posters, press, radio and television and other means and the response has been encouraging;



2. an endeavour is being made to promote savings and the concept of sound money management through schools by means of lectures and film shows. Many schools have established their own 'School Savings Banks' run by students with the assistance of commercial banks;
3. the Commercial Bank of Ethiopia is making an attempt at adult education by penetrating the illiterate market through film shows, followed by lectures; it also supports the voluntary National Literacy Campaign. A special system of savings accounts for illiterate depositors has been evolved by this bank and operates satisfactorily;
4. the improvement in the efficiency and the widening scope of banking services is expected to draw more smaller savings to banking institutions. Factories are being encouraged to pay salaries through savings accounts even though this represents more work and expense for banks until the saving habit becomes ingrained in the individual;
5. the development of the banking habit and the growth of savings is dependent on public confidence in the banking system. All banking and financial institutions involved in the mobilization of savings must inspire confidence and be above reproach in their handling of depositors' accounts. On their success in maintaining this confidence will depend their future growth;
6. in this endeavour to promote savings growth the support of international organizations interested in the promotion of savings as well as the sharing of experience and the exchange of information and co-operation between savings institutions in different countries should help achieve better results in years to come.

## CONCLUSION

In spite of the satisfactory growth of savings institutions in Ethiopia in recent years, it seems that the proportion of currency outside banks to the total of money supply has not decreased. Modern savings institutions seem at present to compete with traditional savings institutions such as the "Ekub" and "Edir" whose services seem to be more popular and more accessible and widespread than banking services.

This should not be viewed with disfavour as the traditional systems have their place if properly controlled by the government.

Thus a successful measure for mobilizing more savings might prove to be the conversion of these traditional savings institutions into modern ones, and also the reactivation of public relations and advertising by savings institutions in the country.

It has been rightly said that much greater research is needed to determine the impact and practical usefulness of such spontaneous or voluntary savings movements in the social and economic development of the country.

In general in the case of Ethiopia we can say there is a growing interest in savings. To promote savings mobilization more African economies have to become more commercialized, agriculture and industry have to develop, and we will then have a wider base for capital formation on a national scale. In the initial stage of this development national commercial banks must blaze the trail for banking development.

Continued monetary stability and the country's national economic policy of encouraging investment should bring about accelerated capital formation. In this capital formation the share of commercial banks is considerable in comparison to the much smaller amount of savings collected by the other credit institutions.

I will conclude with a quotation from the speech of H.E. Ato Getahun Tessema, former Minister of National Community Development and Social Affairs, who emphasized the benefits of savings mobilization when he said:

"As you very well know savings and credit co-operatives have played a very important role in the lives of many people both in the urban and rural areas. This institution if properly managed and run can help people to practice the idea of self-help and through hard work can overcome common problems and by so doing achieve self-reliance. The development of a sense of self-reliance can also be applied in other areas of their lives. It is through self-reliance that a new social order can be created. The whole co-operative movement, more particularly thrift and credit unions, should make their ultimate goal the creation of a new social order. The social order which one should aspire to achieve through the movement should be one which will bring men into mutually beneficial relations with each other, which in turn draw on the highest economic, political and human qualities in the people, and remind them daily that their own society and the nation at large counts on them for the improvement of their lots. Therefore, the true significance of the co-oper-

ative movement can be measured by the peoples' sense of mutual help, constant give and take, self-reliance, the prosperity of the individual, the prosperity of the community, and devotion to public needs... »

These are worthwhile social ends and they provide us the impelling force we need in our endeavours at quickened mobilization of savings in African countries.

GROWTH TREND OF DOMESTIC DEPOSITS OF ALL COMMERCIAL BANKS IN ETHIOPIA FOR THE YEAR ENDING DEC. 1960-DEC. 1970 (in Eth. \$' 000)

End year	Demand deposits	Savings and time deposits		
		Savings	Time	Total
1960	69.6	15.8	11.8	27.6
1961	76.0	18.8	13.6	32.4
1962	76.2	22.3	18.1	40.4
1963	83.0	28.0	19.0	47.0
1964	87.7	35.0	33.1	68.1
1965	108.0	43.0	28.4	71.4
1966	108.2	53.9	31.8	85.7
1967	116.9	67.3	33.0	100.3
1968	123.3	86.1	39.1	125.2
1969	133.3	106.3	43.7	150.0
1970	129.0	133.7	52.9	186.6

COMMERCIAL BANK OF ETHIOPIA IMPACT OF BRANCH EXPANSION ON MOBILIZATION OF DEPOSITS 1964-1970 (In Eth. \$' 000)

End year	Total deposits	Increase in deposits in the year	Number of new branches opened in the year	Deposits in new branches opened in the year
1964	150,449	24,449	2	916
1965	175,466	25,017	7	6,593
1966	184,492	9,026	1	101
1967	193,810	9,318	7	2,778
1968	232,454	38,644	9	2,160
1969	294,315	61,861	15	4,173
1970	327,637	33,322	9	3,024

COMMERCIAL BANK OF ETHIOPIA COMPARISON OF DEPOSITS BY TYPE END YEAR (1967-1971) (In millions of Eth. \$)

Deposits	1967	1968	1969	1970	June 1971
Demand deposits	101.9	116.6	131.0	127.2	165.6
Savings	63.8	78.1	91.9	108.4	121.1
Fixed deposits	28.1	37.8	71.4	121.8	72.9
Total	193.8	232.5	294.3	357.4	359.6

GROWTH OF SAVINGS INSTITUTIONS IN ETHIOPIA (in Eth. \$) AS AT END OF YEARS 1968-1970

Savings Institutions	1968		1969		1970	
	No. of offices	Amount of Savings & Time deposits	No. of offices	Amount of Savings & Time deposits	No. of offices	Amount of Savings & Time deposits
Commercial Banks	58*	125,145,433	77*	150,044,568	87*	186,512,205
Savings & Mortgage Corporation	2	3,675,000	2	4,651,000	2	5,718,298
Imperial Savings & Home Ownership Association	2	2,150,000	2	1,968,376	2	2,500,000
Agricultural & Industrial Dev. Bank**	7	4,411,445	7	4,499,203	7	7,000,000
Total	69	135,381,878	88	161,163,147	98	202,600,050

\* Not including branches of commercial banks which do not accept deposits.

\*\* AIDB was established in October 1970 as a result of the merger of the Ethiopian Investment Corporation and the Development Bank of Ethiopia (the figures for 1968 and 1969 relate to these institutions).

## SELECTED LIQUID ASSETS IN ETHIOPIA (In Eth. \$)

Assets	31.12.69	31.12.70
Savings deposits of Commercial Banks	106,308,097	133,659,644
Time deposits of Commercial Banks	43,736,471	52,852,561
Demand deposits of Commercial Banks	160,249,984	176,886,785
Time deposits of Savings & Mortgage Corp.	4,651,000	5,718,298
Savings deposits of ISHOPA	1,968,376	2,500,000
Share Capital & Savings of Credit Co-operative Societies	n.a.	518,491
Share Market	1,082,836	1,389,634
Government Securities: Treasury Bills	16,000,000	20,000,000
Total	333,996,764	393,525,413



ASHOK M. THADANI

## THE IMPORTANCE OF ADEQUATE SAVINGS BANKS LEGISLATION

Once the goals and objectives of a savings bank have been set, legislation commensurate with its proper functioning should be carefully construed. However, before going on to examine the salient features of appropriate legislation, it is necessary to define the tasks of a savings bank, with particular emphasis on developing countries. In this fashion, the links between legislation and the functions of a savings bank will be more easily appreciated.

When it has been established that a need for a dynamic savings bank exists in a given developing country, the assumption of the availability of potential savings becomes apparent. It also becomes apparent that potential savings have not been mobilized due to a lack in the institutional structure devoted to that purpose. From this follows the foremost objective of a savings bank: to provide adequate incentives for saving to broad sections of the population. Incentives for saving are associated with some fundamental aspects of savings banking, and legislation should stipulate conditions for their realization. Firstly, a savings bank is a financial institution which provides banking services with the prime objective of promoting thrift. In this connection it has the responsibility of educating the population to understand the importance of saving. Contacts with schools are maintained to further thrift education.

Secondly, a savings bank must inspire confidence and prove it is a sound financial institution interested in the community's welfare. In this respect legislation will take into account conditions for sound management, supervision, reserve fund, credit and other administrative operations. Depending on particular countries and conditions, necessary requirements for the soundness of operations will be stipulated by appropriate legislation. For instance in some cases it could be both desirable and feasible for public institutions to pay employees through the savings bank. This would have the dual ad-

vantage of public support for the savings bank and increasing the knowledge of employees regarding the uses of a savings institution.

From incentives we proceed to the motivation aspect which the savings bank should attend to, if it is to accomplish its objectives successfully. In motivating people to save, the savings bank in a developing country is faced with a difficult task. In this respect legislation governing savings banks should be liberal and should assure the institutions equal standing with other financial intermediaries. It should be borne in mind, though, that the main objective of the savings bank is to promote thrift and to provide normal banking services. It is worth mentioning that in the developing countries the practices and structure of financial intermediaries display a clear tendency to be weak with regard to the collection and promotion of savings among the most populous strata of society. This has resulted in a continued general preference of people for investment in tangible assets, for hoarding or for dealing with the extra-banking market. While the different financial intermediaries have not concentrated on serving the less well-to-do sections of society, they have no doubt fulfilled important and necessary objectives. However, it is seen that a financial institution devoted to serving people of modest means is essential. Legislation, carefully thought out, can give such an institution those qualities which are required for successful functioning.

It has to be recognized that people, especially those with meagre incomes, do not save just because it is virtuous to be thrifty. They save for a purpose. It is the accomplishment of such a purpose that a savings bank should be able to assist in. The most common purposes for which people are motivated to save are to provide security in old age, to educate their children, to build a home or to obtain credit. It is therefore the duty of the savings institution to be a place for the safe-keeping of people's savings and to assure the saver that there will be no decrease in the nominal value of the amount entrusted to the institution. In addition, an appropriate rate of interest should also be payable. Where possible the savings bank ought to make efforts on behalf of the saver so that he gets a positive real rate of interest. It has been noted that interest rates can have a good effect on the propensity to save, especially if upward adjustments are significant. Of course, savings banks legislation cannot influence interest rates, but it can allow such flexibility in the bank's operations, that at all times possibilities to assist the saver are used to the fullest extent.

Credit is another factor the prospect of which motivates people to save. Especially in rural areas it has been seen that saving is highly dependent on credit possibilities. If the savings bank is successfully to attract the custom of the money-lender and other black-market dealers, it must be able to grant credits. Hence, legislation must make adequate provision for this.

Further, an important prerequisite which savers seek before depositing their savings with a financial intermediary is liquidity. Since people save in order to have funds available in times of emergency or in order to invest them at a given moment, they want to be sure that their savings have the desired degree of liquidity. Here again, appropriately thought-out legislation will provide for this. To what degree the savings bank can assure its clients liquidity of funds will naturally depend upon the conditions in which it operates.

Finally, an essential characteristic of a savings bank has to do with the distribution of profits. A savings bank, being a non-profit institution, does not distribute profits to private individuals. Its main objective is not to maximize profits; rather it is to serve its community. Savings banks legislation should stipulate that the function of a savings bank is to provide normal banking services, with the main purpose of promoting thrift and without any profit-maximizing motive.

Legislation should define more precisely the sphere of the banks' activities by expressly forbidding them to undertake any non-banking business. At the same time, detailed stipulations should be given concerning the right of the banks to own shares in non-financial companies. It is important that a uniform legislative basis exists for all banking institutions accepting deposits in order to allow them equal opportunities to develop.

In Europe it has been experienced that legislation governing financial intermediaries in many countries has little coherence because it has been drafted and revised in separate parts. As a result, various monetary and credit institutions have been subject to different legal regulations.

This has become increasingly disturbing as the money market has become more unified. Hence, to avoid repetition of errors, it would be advisable to establish a legislative framework which would avoid any inequitable discrimination among the various groups of banking institutions, and within which the legal rights and obligations of each group will be in balance. Thank you, Mr. Chairman.



JACOB NYONI

## THE MOBILIZATION OF PERSONAL SAVINGS IN ZAMBIA

I would like to express my sincere thanks and those of my Government for your kind invitation to this Conference. You have requested me to make a concise report on the savings situation in my country and I think it would be important to start with a general summary of our economy.

Zambia is about 290,000 square miles in area and has a population of 4 million, 50 per cent of which is younger than 15 years. The working population consists of about 375,000 salaried people, while two thirds of the population is engaged in the agricultural sector, mainly subsistence farming. From this it will be noted that my country has a dual economy, the industrial sector of which is dominated by copper. Zambia is the world's number one export country of copper. Copper determines the national product of the country as well as the regional distribution of income. Ninety per cent of the income from employment is concentrated in the Copperbelt and in urban areas along the main traffic line to the south. The marketing agriculture is located mainly in two regions, the Eastern and Southern Provinces. Zambia depends to a high degree on the import of capital goods. The rate of inflation in the last year was close to zero.

As regards savings institutions, the following are operating at the moment: five commercial banks with about 30 branches and 80 agencies; three building societies which have recently been nationalized and have about 30 branches; the Post Office Savings Bank with about 130 post offices with savings counters and, finally, ten credit unions. The total savings with these institutions amount to about U.S. \$100,000,000, to which commercial banks contribute about 40 per cent, building societies 50 per cent, and the Post Office Savings Bank 10 per cent. Savings deposits from private and public institutions constitute about one third of the commercial banks' savings



funds. 40 per cent of savings deposits in building societies exceed an individual balance of U.S. \$14,000 and are dominantly non-Zambian. About 70 per cent of all savings institutions are situated in urban areas. The overall savings quota of these areas is, in spite of the high income concentration, lower than the quota in the outlying provinces. This is mainly due to differences in the structure and cash level of consumption. Owing to the easy accessibility of the post offices, Zambians save mainly with the Post Office Savings Bank which has about 230,000 accounts with an average balance of U.S. \$ 50.

The most popular savings instrument is the savings passbook. The Post Office Savings Bank offers an interest rate of 3.75 per cent per annum on these accounts and allows one withdrawal of not more than U.S. \$70 per week. Additional withdrawals, or withdrawals of more than U.S. \$70, require an application to the headquarters for warrant or cheque. Commercial banks pay 3.5 per cent per annum and there is no withdrawal restriction on these accounts. Building societies offer a greater variety of savings instruments, i.e. savings shares at 3.5 per cent per annum of which U.S. \$280 can be withdrawn at any time. In addition, they offer bonus savings shares at 5 per cent. At least one deposit is to be made each month on these accounts and not more than two withdrawals per year are permissible.

Finally, building societies offer investment shares at 6 per cent with several periods of notice as well as fixed-period shares at 6  $\frac{1}{4}$  per cent. In 1968, the government launched a Development Bonds scheme of a period of 5 years in order to attract small savers. The bonds are available in multiples of U.S. \$60 and the maximum permissible individual holding is U.S. \$1,400. Interest will be paid on maturity or on redemption provided that the bonds have been held for a minimum period of 6 months. The simple interest on the full 5 year period is 7.4 per cent. This scheme is carried out by the Central Bank in co-operation with the Post Office Savings Bank and commercial banks.

In regard to savings promotion, it is to be reported that my government launched a National Savings Campaign in July 1967. It was basically an educational effort at this stage, hoping first of all to promote the idea of individual saving. The Campaign has used all available communications media. A second aspect of the government's Savings Campaign was to offer

tax relief on income from savings. From 1968, the first U.S. \$280 per annum has been exempted from income tax; in addition to this, interest on Post Office Savings Bank accounts is tax free and 20 per cent of life insurance premiums up to U.S. \$420 is deductible from yearly gross income before tax is assessed. Interest on Development Bonds is also tax free. A third aspect of Development Bonds was to combat inflation. In connection with a steep upward trend of income in real terms, it can be said that the savings campaign brought an excellent result, though this did not last; from 1968 the overall private savings quota showed a downward trend, and now it stands at close to zero, while on the other hand individual income is steadily rising. It would appear, therefore, that the Development Bonds have failed to have an impact on small savings.

Recently, our Head of State and President, addressing a credit unions seminar said: "Many of us put away nothing for emergencies and we have not learnt to budget our income to provide effectively for the basic requirements of life such as food, clothing and housing. We are prisoners of a hand-to-mouth existence."

And the Minister of Finance, in the 1970 budget speech, said: "Without saving and the consequent investment our economy would remain static. Savings by individuals makes a very real contribution not only to the individual but also to the whole nation which is able to use these funds for real social and economic investment."

It shows therefore that we have always in Zambia felt the need for promotion of personal savings.

In 1969 the International Savings Banks Institute, through the auspices of the UNDP, offered technical assistance in the savings field at the request of the Zambian Government. A feasibility study on the savings situation was carried out and the recommendations that followed the study have been accepted by the government. At the present time, necessary steps are being taken for the implementation of the following schemes:

- 1) Introduction of items on thrift and savings education into appropriate fields of instruction at all levels of school.
- 2) Introduction of a School Savings Scheme.
- 3) Introduction of a National Savings Scheme in the form of voluntary salary deductions.

- 4) Introduction of a World Thrift Day.
- 5) Conversion of the Post Office Savings Bank into a dynamic National Savings and Credit Bank.

This latter institution will be clearly aimed at the promotion of small and medium savings in urban and rural areas. There will be a network of branch offices to intensify savings promotion locally together with the well planned development of savings associations in the rural areas. The savings funds will mainly be mobilized for personal housing, agricultural and public purposes as an incentive.

I would like to end by saying that while we hope that the schemes mentioned above are those appropriate for achieving the promotion of personal savings, success will much depend on the effectiveness with which these measures will be implemented. We have no technical know-how in this field and so would be grateful for any assistance from international institutions. In this connection, I wish to convey to the International Savings Banks Institute the appreciation of my Government for their kind offer of a study tour of European savings banks by the officer designated to be responsible for implementing the savings schemes.

JAN TINBERGEN

## SAVINGS AND DEVELOPMENT. WAYS AND MEANS TO ACHIEVE THE GOALS OF THE SECOND DEVELOPMENT DECADE<sup>1</sup>

### GOALS OF THE SECOND DEVELOPMENT DECADE

Impressed by the continuing and sometimes even increasing poverty of large masses of the world population, the General Assembly of the United Nations, for several years already, had emphasized the need of a more forceful development policy. In its last session, on the occasion of the twenty-fifth birthday of the United Nations, the Assembly adopted a new International Development Strategy for the period 1971-1980, now usually called the Second Development Decade [6]. Although in my personal opinion that Strategy is less forceful than it should have been, it nevertheless constitutes some recommendations for developing countries and for international co-operation which are important and should be followed by all concerned, as a minimum effort to raise the level of living of the poor masses.

Let me remind you first of some of the goals suggested. The official document, available to everybody at the price of half a dollar, under Sales Number E.71.II.A.2, sets out that development consists, first of all, of a number of *social changes*, aiming at less inequality among human beings, and conducive to the attainment of some minima of nutrition, health, housing and education. These changes require social reforms of a different kind in different countries, depending on the circumstances and the régimes in power. They will be enhanced by a growth in production, since almost all social

<sup>1</sup> The Report refers to the official document (following this Report with the same heading) concerning the "Action Programme of the General Assembly for the Second United Nations Development Decade" adopted and published on the occasion of the twenty-fifth anniversary of the United Nations.



reforms and measures require means, either in the form of money or in that of commodities and services.

The Strategy also requires to be appraised and evaluated periodically and this will be the more effective, the more the goals have been set in quantitative form. Since *figures* are available more often in the fields of production, consumption, trade, and so on, the goals have been formulated more precisely in these economic fields. Wherever figures can be given on social issues, such as demographic issues or education, they have, however, also been mentioned. There should not be the misunderstanding, therefore, that the economic goals have been given priority; both social and economic goals are important.

Most of the figures mentioned refer to the developing world as a whole or to international relations between all developing and all developed countries. But in the preparatory and specialized studies on which these general figures are based, attention has been given to the different circumstances prevailing in different countries and continents. One of the central goals, the *annual rate of increase in total production* has been set at six per cent as a minimum, which may be 3.5 per cent increase per capita per annum, provided we can bring the rate of growth of population down to 2.5 per cent per annum. In various parts of the document it has been pointed out that these figures are meant as a directive but that each country will have to take its decisions on the basis of its starting point, its circumstances and its own preferences.

An acceleration of growth is judged necessary, however, and this is brought out by a comparison with the preceding decade, where the aim for the final year was set at 5 per cent growth. In fact this aim has been surpassed last year, but for agricultural countries single year figures may be misleading because of fluctuations in crops. Three-year averages suffer less from such random fluctuations.

The goal set for total national production may not be feasible for all *African countries*. It is well known that they are facing difficult problems and will not be able at once to live up to what the average developing country can afford. The average growth rates of incomes per capita over the period 1961-1968 have even been negative in 17 out of 55 African countries; on the other hand, 12 of them have shown rates of growth of income per capita of over 3.5 per cent per annum over the period considered. Incomes per



capita in 1968 varied a good deal among African countries, from \$ 50 in Upper Volta, Malawi and Burundi to \$ 1,020 in Libya, and sixteen countries under \$ 100<sup>1</sup>.

In the Strategy document it has also been pointed out that for the developing world as a whole, *agricultural* output should rise by 4 per cent per annum and *manufacturing* output by 8 per cent. Moreover, exports should rise by somewhat more than 7 per cent and imports by somewhat less than this figure.

As already observed, also some social targets have been specified quantitatively, for instance for primary education, where enrolment of all children of the age group concerned is stated as a goal. Most other social goals are formulated qualitatively only and they include improved tax legislation and collection, more efficiency of government machinery, abolition of privileges to some social or ethnic groups and education of a type more directed at the future occupations the pupils have to exercise.

#### IMPLEMENTATION OF THE STRATEGY

As a rule we make a distinction between *goals* on the one hand and *means* to reach the goals on the other hand. In actual fact there is no such clear-cut difference between goals and means. A causal chain, sometimes short, but sometimes long, connects the means to be used with the ultimate goals. Thus, in order to increase human happiness we want to provide the individuals concerned with more and better food, health and housing; in order to provide them with more food, higher production or higher imports will be needed; higher production may require new methods of work, the use of better tools, or irrigation. These again require investment and investment has to be financed in a number of cases. In this chain we can fix intermediate targets, not in themselves the ultimate aims, and in the short run these targets will be considered as the goals of, for instance, a government period, or of some specified institutions, for instance the savings banks.

<sup>1</sup> Figures taken from World Bank Atlas, 1970 [7]. The sixteen countries are: Nigeria, Ethiopia, Congo (Dem. Rep.), Tanzania, Upper Volta, Mali, Malawi, Niger, Guinea, Chad, Burundi, Rwanda, Somalia, Dahomey, Lesotho, Seychelles Islands.

Even so it seems useful to remain aware of what the ultimate aims of a development strategy are and to understand that a broad front of activities, attitudes and changes in structure are needed to implement a strategy. Moreover the word strategy also suggests the need to be flexible, to learn from experience, own or others' — and to be prepared to introduce innovation.

Since the increase in production remains a central objective, if only an intermediary one, it is good to realize which factors are able to raise production. They are manifold and their success sometimes is dependent not only on the factor under consideration, but also on the use of other, complementary factors. As for agriculture, it is well known that the use of fertilizers presupposes the availability of water, that special knowledge is needed to use fertilizers in the best way. Considerable efforts of research have been made, but so far only, or mainly, for developed countries, to find out which are the many factors that have made for the increase in general production.

Half a century ago economists would mostly think of *land, labour and capital* as the factors of production and in the first place think of the *quantities* needed of each. Step by step we have learned that not only the quantities, but also the qualities of each of them matter, and sometimes even more than the quantities. Differences in quality of land have long been recognized, of course. Differences in the quality of labour were first introduced by speaking of organization or management as a separate factor and gradually the whole range of human attitudes, knowledge or skill have been understood to influence productivity to a large extent. Also capital goods, such as tools, machines, means of transportation and so on may be of very different quality and there is an almost regular progress in those qualities.

The importance of *education and research* as the activities to improve the quality of labour and of capital goods now have been generally recognized. Authors such as Denison [4] have carefully analysed the influence of these various aspects of human activities on production and it has been found that investment in education may be even yielding more result than an equal amount invested in physical assets. This is one of the reasons why an institution such as the International Bank for Reconstruction and Development is now devoting part of its capital to financing education projects.

Before discussing the role of capital, which of course I intend to do before this audience, I want to remind you of another aspect of development, at the same time economic and social. It is the *urgent necessity to use all the factors of production available*; to leave none idle. This is particularly true of human labour. The worst problems of poverty are to be found where people are unemployed or underemployed. Before thinking of increasing productivity per man we should see to it that all men are actually having a job. This is why, quite rightly, the first concern of the International Labour Office and of the U.N. Development Planning Committee is to *create employment*. For various parts of the world *huge building programmes* seem to be the best way of creating employment for all. I am coming back to this topic when speaking about "saving in kind", a type of saving we should not forget and which can sometimes be stimulated by saving in money.

A last remark about the implementation of the Strategy of the 'Seventies'. While it is perfectly clear that an increase in production stands out as the source of all welfare, such an increase does not make sense if the goods produced cannot be *sold*. Higher production needs *markets*, especially for small countries — in the economic sense — which because of natural resources or of their geographic situation must somewhat specialize their production. The need for markets is a question that can only be met by appropriate policies of international trade. This can be done, first of all, by regional co-operation in trade agreements in the form of common markets for new products.

For many primary products it also means that world-wide *commodity agreements* have to be concluded and I want to criticize the European Common Market for not having joined the Sugar Agreement and for not having made sufficient concessions in order to arrive at a cocoa agreement. In addition I have to criticize the United States for not having made a sufficient contribution to the *preferences* system negotiated between UNCTAD and OECD. What I have in mind in particular is the exclusion, beforehand, from the negotiations, by the United States, of textiles and shoes. More generally I also feel that the steps made in the field of preferences are only the first few; the ceilings put to the quantities of industrial products which can be imported duty-free have to be raised every year and have to be eliminated before the end of the Decade.



### THE ROLE OF PHYSICAL CAPITAL

As I already pointed out, we have discovered, in the twenty-five year period of conscious development policies, that not only physical capital, but also human capital — education, training, experience — is needed. But let me now invert my statement: the newly educated and trained individuals also need capital goods to work with. Human capital and physical capital are complementary. We must not forget one on behalf of the other. It remains necessary that the stock of capital goods — highways, dikes, canals, dwellings and other buildings and machines, from simple tools to Diesel engines — be expanded.

The financing of such investments requires *savings* and thus we are in the middle of your field of experience. The expansion of the capital stock in the physical sense, implying also all the stocks of raw materials, semi-finished products, spare parts, and so on, must be made possible by raising the level of savings. As a rough estimate of the quantity of new capital needed we have often used the figure of three times the annual increase in production of a country. This is a very crude estimate, based on the assumption of a fixed capital-output ratio.

Nowadays the calculations of capital needed can be more refined, since our knowledge about a large number of production processes has increased. Even so it remains a matter of experience that per unit of product the various industries require very different quantities of physical capital. Capital-intensive products such as energy and transportation (whether by truck, by railway or by ship) require relatively high quantities of capital. Since these activities — the production of energy and inland transportation — have to be done on the spot where the energy and the transportation are needed, the capital they require has to be obtained anyway. This may be a reason the more for adding a number of industries which do not need much capital per worker, in order that as much employment is created as possible. It is also a reason to push up capital formation and hence saving.

This is the reason why, explicitly, a target of implementation in the field of saving has been formulated in the Strategy document. To give an impression of the order of magnitude needed, the document states that savings, expressed as a percentage of national income, should increase by  $\frac{1}{2}$  per annum. If a country now saves 15 per cent, it should save 15.5 per cent

next year, 16 per cent the year after, and so on, until a savings ratio of 20 per cent has been reached in 1980.

You will understand that the savings to be added are more than  $\frac{1}{2}$  per cent of to-day's income, since the percentage for next year is expressed in terms of next year's income, which should be higher, by some 6 per cent as an average, that to-day's income. The savings, during the second year, in the example chosen, should be, therefore,  $15.5 \times 1.06 = 16.43$  per cent of to-day's income; hence an increase by 1.43 per cent. This is much more than the savings which can be expected from the increased income, if no special measures were taken. This "natural" increase in savings can only be expected to be 0.6 [5]. Although savings have to go up considerably, consumption can also rise, namely by 4.57 per cent of national income in the first year. Part of investment can, moreover, be financed by credit creation, in our example, of about 1 per cent of the original national income, without creating inflation. The savings target being an important target of implementing the Strategy, it is worth going into some detail as to what we understand by savings.

#### COMPONENTS OF SAVINGS

In older times the bulk of savings were made by private households, mainly of the richer strata of the population. Still private savings are an important portion of most developing countries' savings. As an example let me quote some figures on India: India has an average per capita income not so different from Africa and has more inhabitants than Africa and Latin America taken together. Moreover the country has a highly developed statistical apparatus; and a large number of good statisticians. From a recent article by V.V. Bhatt [1], we see that in 1954/55 7.9 per cent of the country's national income was saved, out of which 6.4 per cent came from private households; in 1963/64 the figures were 11.7 and 7.8 and the provisional figures for 1967/68 were 7.6 and 6.2 respectively. The two other components of Indian savings were government surplus of current receipts over current expenditure (these savings accounted for about 1 per cent in the first and the last year, but for 3 per cent of national income in 1963/64) and corporate savings, whose contribution so far never reached one



per cent of national income. Savings by other countries were made available at the percentages of 0.5, 2.8 and 3.2 per cent of India's national income in the three years quoted.

Household savings themselves can be divided up into savings in the form of acquiring financial assets, and the other form of increasing physical forms of wealth. An important example of the latter type is the construction of houses of other assets, including improvements of land by the digging of drainage or irrigation canals or the construction of dikes etc. In low-income countries such self-financed investment may attain important levels, as is brought out by the Indian figures. In all three years mentioned about one-half of household savings were of this physical nature.

For families with relatively low incomes financial savings will be to a large extent deposits into savings banks. It is well known that in the developed countries the process of saving has been encouraged a good deal by the creation of savings banks, especially by bringing bank branches as close as possible to the potential saver. This is also emphasized by Recommendation 4 of the Stockholm Conference on Saving, 1971.

Because of the continuous competition between saving and consuming, not only the shops but also savings bank branches should be close to the family. The creation of widespread networks of branches by both the postal service and private banks is assumed to have been a stimulus to the process of saving. Sometimes an amalgamation of several institutions enables them to save on the costs of having the required network of branches.

A further stimulus to saving will be a rate of interest which reflects the true scarcity of capital and hence also forms an incentive for investor to use relatively more labour. Still another stimulus to saving is to formulate an objective for the destination of possible savings. This is true particularly of savings in kind, as mentioned already, where the objective of having a house can be a powerful stimulus.

In wealthier strata savings may be enhanced by the opportunity to buy another durable consumer goods, such as a bicycle; often using a system of instalment payments. Once the down payment has been made, the buyer is forced to put aside each week or each month the money needed for the instalments due. Now one may doubt whether the purchase of a bicycle constitutes an investment and hence whether payments for this purpose

should be counted as savings. In the particular example mentioned, I am in favour of doing so; but doubt may arise when durables of a different character, more consumptive than productive in nature, are considered. Difference of opinion even exists in the case of building a house; some economists would call also a house a consumer goods. Since we have learned, however, that better housing works out also in the sphere of production, a good case can be made for counting a house as an investment goods [2, 3].

Because more building represents probably one of the best ways of reducing mass poverty, it seems worth while to go into this subject a bit more deeply. One experience of developed countries may be of some value here, namely the experience of building co-operatives. A number of savers decide to pay in their savings into a common fund and this fund is used to finance building, or at least those costs of it which have to be made for parts or elements to be supplied from outside. A construction process is set into motion in this way and the houses are made available to the savers in some predetermined order; this may be a random order, determined by a lottery; or it may be in the order in which the individual has joined the group, or on still other criteria, such as the needs of the families concerned. The interesting questions behind this experience are: (i) can this be done in your own country or region? and (ii) to what extent can savings banks of the traditional type help?

The importance of massive low-cost housing is so large that I am inclined also to ask whether a number of non-profit organizations of Western countries could be drawn into financing such schemes. I am presently in contact with some of these bodies, in order to find out what contribution they are able and willing to make. In all probability their contributions cannot by themselves be large enough to support a really massive effort; for this to happen, also government contributions, and preferably gifts of interest-free loans, will have to be mobilized.

#### BALANCE OF PAYMENTS ASPECTS OF A LARGE-SCALE CONSTRUCTION PROGRAMME; FINAL REMARKS

The reason why a programme of the kind indicated needs foreign co-operation is that by itself a building programme increases the country's balance

of payments deficit. Clearly the products created: buildings, highways, dikes and so on cannot be exported. The programme does, however, raise the demand for imports. Individuals involved in the construction process, and unemployed before, will consume more and part of the materials for both building and consumption has to be imported. Hence there is a negative effect on the balance of payments. This bottleneck can be widened in one or both of two ways: by gifts or loans or by admitting larger quantities of the products of developing countries as imports into developed countries.

For really massive programmes the amounts and quantities needed will be considerable. Since all forces have to be mobilized, the question may well be put to this audience: could not also some contribution be made by savings banks or their organizations in Western countries? I think the subject is of sufficient importance to be discussed at home and I warmly recommend that this be done. The underlying philosophy clearly is that the struggle against mass poverty in this world is a struggle not only in the immediate interest of the victims themselves, but just as much in the longer-term interest of all of us.

The question raised illustrate the interdependence of the many elements of the Strategy. This is why the Strategy has to be seen as one large interconnected set of proposals, in which every person and every institution is involved. As a consequence, everybody involved should have some understanding for the interconnections between the elements of the Strategy. This interdependence also made it worth while for you, I hope, to hear about some of the other targets and conditions to be met, in order that the Strategy become a success.

I hope you will permit me a last remark on this Conference's subject, that is saving. Saving is *being thrifty* and each of us can also apply the idea of thrift in his own environment. For those of us coming from more prosperous countries sometimes the difficulty exists that unconsciously we take for granted a number of habits, which to somebody from a developing country are experienced as luxurious or even too luxurious. Once we try to look at our own organization from this point of view we will be able to save also on our own activities. By so doing we may contribute to the aims of development; for instance by giving more assistance to similar organizations in poor countries.

As a matter, of course, relatively important, savings will become possible if your member banks follow a *sophisticated policy of investing* the amounts made available to them by their customers. This is not a subject in which I am an expert, but I want to express my understanding for its relevance.

For me, certainly, it is useful to be confronted with your activities and to listen to speakers from your organization. I can assure you that I am highly interested in these types of discussions.

#### References

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- [2] L.S. Burns, "Cost-Benefit Analysis of Improved Housing: a Case Study", in United Nations Research Institute for Social Development, *Cost-Benefit Analysis of Social Projects*, Geneva 1966, p. 88.
- [3] L.S. Burns and B. Khing Tjioe, "Housing and Productivity: Causality and Measurement", *International Housing Productivity Study*, Graduate School of Business Administration, University of California, Reprint Number IHPS-8, *Proceedings of the American Statistical Association*, 1966, p. 155.
- [4] E.F. Denison and J.P. Poullier, "Why Growth Rates Differ", Washington 1967.
- [5] N.V.A. Narasimham, "A Short Term Planning Model for India", Amsterdam 1956, p. 19, finds a marginal rate of savings of 10%, whereas in our case the marginal rate has to be 24%.
- [6] United Nations, *International Development Strategy*, New York 1971.
- [7] World Bank Atlas, Population, "Per Capita Product and Growth Rates", Washington 1970.



ularly on concrete progress towards general and complete disarmament under effective international control, on the elimination of colonialism, racial discrimination, *apartheid* and occupation of territories of any state and on the promotion of equal political, economic, social and cultural rights for all members of society. Progress towards general and complete disarmament should release substantial additional resources which could be utilized for the purpose of economic and social development, in particular that of developing countries. There should, therefore, be a close link between the Second United Nations Development Decade and the Disarmament Decade.

6) In the conviction that development is the essential path to peace and justice, governments reaffirm their common and unswerving resolve to seek a better and more effective system of international co-operation whereby the prevailing disparities in the world may be banished and prosperity secured for all.

7) The ultimate objective of development must be to bring about sustained improvement in the well-being of the individual and bestow benefits on all. If undue privileges, extremes of wealth and social injustices persist, then development fails in its essential purpose. This calls for a global development strategy based on joint and concentrated action by developing and developed countries in all spheres of economic and social life: in industry and agriculture, in trade and finance, in employment and education, in health and housing, in science and technology.

8) The international community must rise to the challenge of the present age of unprecedented opportunities offered by science and technology in order that the scientific and technological advances may be equitably shared by developed and developing countries, thus contributing to accelerated economic development throughout the world.

9) International co-operation for development must be on a scale commensurate with that of the problem itself. Partial, sporadic and half-hearted gestures, howsoever well intentioned, will not suffice.

10) Economic and social progress is the common and shared responsibility of the entire international community. It is also a process in which the benefits derived by the developing countries from the developed countries are shared by the world as a whole. Every country has the right and duty to develop its human and natural resources, but the full benefit of its efforts can be realized only with concomitant and effective international action.



11) The primary responsibility for the development of developing countries rests upon themselves, as stressed in the Charter of Algiers<sup>1</sup>; but however great their own efforts, these will not be sufficient to enable them to achieve the desired development goals as expeditiously as they must unless they are assisted through increased financial resources and more favourable economic and commercial policies on the part of developed countries.

12) Governments designate the 1970s as the Second United Nations Development Decade and pledge themselves, individually and collectively, to pursue policies designed to create a more just and rational world economic and social order in which equality of opportunities should be as much a prerogative of nations as of individuals within a nation. They subscribe to the goals and objectives of the Decade and resolve to take the measures to translate them into reality. These aims and measures are set out in the following paragraphs.

#### GOALS AND OBJECTIVES

13) The average annual rate of growth in the gross product of the developing countries as a whole during the Second United Nations Development Decade should be at least 6 per cent, with the possibility of attaining a higher rate in the second half of the Decade to be specified on the basis of a comprehensive mid-term review. This target and those derived from it are a broad indication of the scope of convergent efforts to be made during the Decade at the national and international levels; it should be the responsibility of each developing country to set its own target for growth in the light of its own circumstances.

14) The average annual rate of growth of gross product per head in developing countries as a whole during the Decade should be about 3.5 per cent with the possibility of accelerating it during the second half of the Decade in order at least to make a modest beginning towards narrowing the gap in living standards between developed and developing countries. An average annual growth rate of 3.5 per cent per head will represent a doubling

<sup>1</sup> *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. 1 and Corr. 1 and 3 and Add. 1 and 2, *Report and Annexes*, (United Nations publication, Sales No.: E.68.II.D.14), p. 431.

of average income per head in the course of two decades. In countries with very low incomes per head, efforts should be made to double such incomes within a shorter period.

15) The target for growth in average income per head is calculated on the basis of an average annual increase of 2.5 per cent in the population of developing countries, which is less than the average rate at present forecast for the 1970s. In this context, each developing country should formulate its own demographic objectives within the framework of its national development plan.

16) An average annual rate of growth of at least 6 per cent in the gross product of developing countries during the Decade will imply an average annual expansion of:

- a) 4 per cent in agricultural output;
- b) 8 per cent in manufacturing output.

17) For attaining the overall growth target of at least 6 per cent *per annum*, there should be an average annual expansion of:

- a) 0.5 per cent in the ratio of gross domestic savings to the gross product so that this ratio rises to around 20 per cent by 1980;
- b) Somewhat less than 7 per cent in imports and somewhat higher than 7 per cent in exports.

18) As the ultimate purpose of development is to provide increasing opportunities to all people for a better life, it is essential to bring about a more equitable distribution of income and wealth for promoting both social justice and efficiency of production, to raise substantially the level of employment, to achieve a greater degree of income security, to expand and improve facilities for education, health, nutrition, housing and social welfare, and to safeguard the environment. Thus, qualitative and structural changes in the society must go hand in hand with rapid economic growth, and existing disparities — regional, sectoral and social — should be substantially reduced. These objectives are both determining factors and end-results of development; they should therefore be viewed as integrated parts of the same dynamic process, and require a unified approach:

- a) Each developing country should formulate its national employment objectives so as to absorb an increasing proportion of its working population in modern-type activities and to reduce significantly unemployment and underemployment;

b) Particular attention should be paid to achieving enrolment of all children of primary school age, improvement in the quality of education at all levels, a substantial reduction in illiteracy, the reorientation of educational programmes to serve development needs, and, as appropriate, the establishment and expansion of scientific and technological institutions;

c) Each developing country should formulate a coherent health programme for the prevention and treatment of diseases and for raising general levels of health and sanitation;

d) Levels of nutrition should be improved in terms of the average calorie intake and the protein content, with special emphasis being placed on the needs of vulnerable groups of population;

e) Housing facilities should be expanded and improved, especially for the low-income groups and with a view to remedying the ills of unplanned urban growth and lagging rural areas;

f) The well-being of children should be fostered;

g) The full participation of youth in the development process should be ensured;

h) The full integration of women in the total development effort should be encouraged.

## POLICY MEASURES

19) The above goals and objectives call for a continuing effort by all peoples and governments to promote economic and social progress in developing countries by the formulation and implementation of a coherent set of policy measures. Animated by a spirit of constructive partnership and co-operation, based on the interdependence of their interests and designed to promote a rational system of international division of labour, and reflecting their political will and collective determination to achieve these goals and objectives, governments, individually and jointly, solemnly resolve to adopt and implement the policy measures set out below.

20) The policy measures should be viewed in a dynamic context, involving continuing review to ensure their effective implementation and adaptation in the light of new developments, including the far-reaching impact of rapid advance in technology, and to seek new areas of agreement and the

widening of the existing ones. Organizations of the United Nations system will appropriately assist in the implementation of these measures and in the search for new avenues of international co-operation for development.

### *International trade*

21) All efforts will be made to secure international action before 31 December 1972, including, where appropriate, the conclusion of international agreements or arrangements on commodities mentioned in the relevant resolution<sup>1</sup> adopted by the United Nations Conference on Trade and Development at its second session, in accordance with the procedure agreed upon at that session, and on the basis of a time-table for the consideration of those matters to be drawn up by the Conference.

22) Commodities already covered by international agreements or arrangements will be kept under review with a view to strengthening the working of such agreements or arrangements and to renewing, where appropriate, agreements or arrangements due to expire.

23) All possible resources for the pre-financing of buffer stocks, when necessary, will be considered while concluding or reviewing commodity agreements incorporating buffer stock mechanisms.

24) Efforts will be made to reach agreement, before the third session of the United Nations Conference on Trade and Development, on a set of general principles on pricing policy to serve as guidelines for consultations and actions on individual commodities. As one of the priority aims of pricing policy, particular attention will be paid to securing stable, remunerative and equitable prices with a view to increasing the foreign exchange earnings from exports of primary products from the developing countries.

25) No new tariff and non-tariff barriers will be raised nor will the existing ones be increased by developed countries against imports of primary products of particular interest to developing countries.

26) Developed countries will accord priority to reducing or eliminating duties and other barriers to imports of primary products, including those in processed or semi-processed form, of export interest to developing countries through international joint action or unilateral action with a view to ensuring

<sup>1</sup> *Ibid.*, p. 34, resolution 16 (II).



that developing countries have improved access to world markets and to market growth for products in which they are presently or potentially competitive. This objective will be sought to be achieved through the continuance and intensification of intergovernmental consultations with the aim of reaching concrete and significant results early in the Decade. Efforts will be made with a view to achieving these results before 31 December 1972.

27) Implementation of the provisions of paragraphs 25 and 26 above should take into account the resolutions, decisions and agreements which have been or may be reached in the United Nations Conference on Trade and Development or in other relevant intergovernmental bodies and organizations of the United Nations system.

28) Developed countries will give increased attention within the framework of bilateral and multilateral programmes to supplement the resources of the developing countries in their endeavour to accelerate the diversification of their economies with a view to the expansion of the production and exports of semi-manufactures and manufactures, as well as of semi-processed and processed commodities, broadening the patterns of exports in favour of commodities with relatively dynamic demand conditions and increasing food production in food-deficient countries. Specific funds for diversification will be one of the features of commodity arrangements wherever considered necessary.

29) Appropriate action, including the provision of finance, will be taken, as far as practicable, to initiate intensive research and development efforts designed to improve market conditions and cost efficiency and to diversify the end uses of natural products facing competition from synthetics and substitutes. In their financial and technical assistance programme, developed countries and the international organizations concerned will give sympathetic consideration to requests for assistance to developing countries producing natural products which suffer serious competition from synthetics and substitutes, in order to help them to diversify into other areas of production including processing of primary products. Where natural products are able to satisfy present and anticipated world market requirements, in the context of national policies no special encouragement will be given to the creation and utilization of new production, particularly in the developed countries, of directly competing synthetics.



30) The machinery for consultation on surplus disposal which existed during the 1960s will be widened and reinforced in order to avoid or minimize possible adverse effects of disposals of production surpluses or strategic reserves, including those of minerals, on normal commercial trade, and to take account of the interest of both surplus and deficit countries.

31) Special attention will be given to the expansion and diversification of the export trade of developing countries in manufactures and semi-manufactures, particularly for enabling them to attain increased participation, commensurate with the needs of development, in the growth of international trade in these commodities.

32) Arrangements concerning the establishment of generalized, non-discriminatory, non-reciprocal preferential treatment for exports of developing countries in the markets of developed countries have been drawn up in the United Nations Conference on Trade and Development and considered mutually acceptable to developed and developing countries. Preference-giving countries are determined to seek as rapidly as possible the necessary legislative or other sanction with the aim of implementing the preferential arrangements as early as possible in 1971. Efforts for further improvements of these preferential arrangements will be pursued in a dynamic context in the light of the objectives of resolution 21 (II) of 26 March 1968,<sup>1</sup> adopted by the United Nations Conference on Trade and Development at its second session.

33) Developed countries will not, ordinarily, raise existing tariff or non-tariff barriers to exports from developing countries, nor establish new tariff or non-tariff barriers or any discriminatory measures, where such action has the effect of rendering less favourable the conditions of access to the markets of manufactured and semi-manufactured products of export interest to developing countries.

34) Intergovernmental consultations will be continued and intensified with a view to giving effect early in the Decade to measures for the relaxation and progressive elimination of non-tariff barriers affecting trade in manufactures and semi-manufactures of interest to developing countries. Efforts will be made with a view to implementing such measures before 31 December 1972. These consultations will take into account all groups of processed and semi-processed products of export interest to developing countries.

<sup>1</sup> *Ibid.*, p. 38.

35) Developed countries, having in mind the importance of facilitating the expansion of their imports from developing countries, will consider adopting measures and where possible evolving a programme early in the Decade for assisting the adaptation and adjustment of industries and workers in situations where they are adversely affected or may be threatened to be adversely affected by increased imports of manufactures and semi-manufactures from developing countries.

36) Developing countries will intensify their efforts to make greater use of trade promotion as an instrument for the expansion of their exports both to developed countries and to other developing countries. For this purpose, effective international assistance will be provided.

37) Restrictive business practices particularly affecting the trade and development of the developing countries will be identified with a view to the consideration of appropriate remedial measures, the aim being to reach concrete and significant results early in the Decade. Efforts will be made with a view to achieving these results before 31 December 1972.

38) The socialist countries of Eastern Europe will take duly into consideration the trade needs of the developing countries, and in particular their production and export potential, when quantitative targets are fixed in their long-term economic plans, adopt appropriate measures designed to maximize and diversify imports of primary commodities from developing countries and undertake measures so that imports of manufactures and semi-manufactures from developing countries constitute a growing element in their total imports of manufactures and semi-manufactures. They will promote the diversification of the structure and geographical basis of their trade with developing countries in order that the largest possible number of developing countries derive the maximum benefit from this trade. Socialist countries of Eastern Europe will take the necessary action fully to implement, by the beginning of the Decade, and in any case not later than 1972, recommendations contained in section II of resolution 15 (II) of 25 March 1968<sup>1</sup> adopted by the United Nations Conference on Trade and Development at its second session. As no uniform method of introducing multilateralism in payment relations between developing countries and socialist countries is practical at this time, it is desirable that elements of flexibility and multilateralism be progressively

<sup>1</sup> *Ibid.*, p. 32.

introduced or extended in such payment arrangements by appropriate consultations among the countries concerned, taking into account specific circumstances and patterns of trade.

*Trade expansion, economic co-operation and regional integration among developing countries*

39) The developing countries will continue their efforts to negotiate and put into effect further commitments for instituting the schemes for regional and subregional integration or measures of trade expansion among themselves. They will, in particular, elaborate mutually beneficial and preferential trade arrangements which foster the rational and outward-looking expansion of production and trade, and avoid undue injury to the trading interests of third parties, including third developing countries.

40) The developed market-economy countries will, through the extension of financial and technical assistance or through action in the field of commercial policy, support initiatives in regional and subregional co-operation of developing countries. In this connexion, they will specifically consider what help can be given to any concrete proposals that may be put forward by developing countries. In the efforts of developing countries to carry out trade expansion, economic co-operation and regional integration among themselves, the socialist countries of Eastern Europe will extend their full support within the framework of their socio-economic system.

*Financial resources for development*

41) Developing countries must, and do, bear the main responsibility for financing their development. They will, therefore, continue to adopt vigorous measures for a fuller mobilization of the whole range of their domestic financial resources and for ensuring the most effective use of available resources, both internal and external. For this purpose, they will pursue sound fiscal and monetary policies and, as required, remove institutional obstacles through the adoption of appropriate legislative and administrative reforms. They will pay particular attention to taking, as appropriate, the necessary steps to streamline and strengthen their systems of tax administration and undertake the necessary tax reform measures. They will keep the increase in their current public expenditure under close scrutiny with a view to releasing maximum resources for investment. Efforts will be made to improve the



efficiency of public enterprises so that they make increasing contributions to investment resources. Every effort will be made to mobilize private savings through financial institutions, thrift societies, post office savings banks and other saving schemes and through expansion of opportunities for saving for specific purposes, such as education and housing. The available supply of savings will be channelled to investment projects in accordance with their development priorities.

42) Each economically advanced country should endeavour to provide by 1972 annually to developing countries financial resource transfers of a minimum net amount of 1 per cent of its gross national product at market prices in terms of actual disbursements, having regard to the special position of those countries which are net importers of capital. Those developed countries which have already met this target will endeavour to ensure that their net resource transfers are maintained and envisage, if possible, an increase in them. Those developed countries which are unable to achieve this target by 1972 will endeavour to attain it not later than 1975.

43) In recognition of the special importance of the role which can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade.

44) Developed countries members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development will exert best efforts to reach as soon as possible, and in any case before 31 December 1971, the norms set out in the Supplement to the 1965 Recommendation on Financial Terms and Conditions adopted by the Development Assistance Committee on 12 February 1969,<sup>1</sup> designed to soften and harmonize the terms and conditions of assistance to developing countries. Developed countries will consider measures aimed at the further softening of the terms and will endeavour to arrive at a more precise assessment of the cir-

<sup>1</sup> Organisation for Economic Co-operation and Development, *Development Assistance*, 1969 Review, annex III.



cumstances of the individual developing countries and at a greater harmonization of terms given by individual developed countries to individual developing countries. Developed countries will consider, in the further evolution of their assistance policy and with a view to attaining concrete and substantive results by the end of the Decade, the specific suggestions contained in decision 29 (II) of 28 March 1968,<sup>1</sup> adopted by the United Nations Conference on Trade and Development at its second session, and made in other international forums for further softening of the terms and conditions of aid.

45) In the light of the relevant decision of the Conference at its second session, financial assistance will, in principle, be untied. While it may not be possible to untie assistance in all cases, developed countries will rapidly and progressively take what measures they can in this respect both to reduce the extent of tying of assistance and to mitigate any harmful effects. Where loans are tied essentially to particular sources, developed countries will make, to the greatest extent possible, such loans available for utilization by the recipient countries for the purchase of goods and services from other developing countries.

46) Financial and technical assistance should be aimed exclusively at promoting the economic and social progress of developing countries and should not in any way be used by the developed countries to the detriment of the national sovereignty of recipient countries.

47) Developed countries will provide, to the greatest extent possible, an increased flow of aid on a long-term and continuing basis and by simplifying the procedure of the granting and effective and expeditious disbursement of aid.

48) Arrangements for forecasting and, if possible, forestalling debt crises will be improved. Developed countries will help in preventing such crises by providing assistance on appropriate terms and conditions, and developing countries by undertaking sound policies of debt management. Where difficulties do arise, the countries concerned will stand ready to deal reasonably with them within the framework of an appropriate forum in co-operation with the international institutions concerned, drawing upon the full range of

<sup>1</sup> *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr. 1 and 3 and Add. 1 and 2, *Report and Annexes* (United Nations publication, Sales No.: E.68.II.D.14), p. 40.

the available methods including, as may be required, measures such as arrangements for rescheduling and refinancing of existing debts on appropriate terms and conditions.

49) The volume of resources made available through multilateral institutions for financial and technical assistance will be increased to the fullest extent possible and techniques will be evolved to enable them to fulfil their role in the most effective manner.

50) Developing countries will adopt appropriate measures for inviting, stimulating and making effective use of foreign private capital, taking into account the areas in which such capital should be sought and bearing in mind the importance for its attraction of conditions conducive to sustained investment. Developed countries, on their part, will consider adopting further measures to encourage the flow of private capital to developing countries. Foreign private investment in developing countries should be undertaken in a manner consistent with the development objectives and priorities established in their national plans. Foreign private investors in developing countries should endeavour to provide for an increase in the local share in management and administration, employment and training of local labour, including personnel at the managerial and technical levels, participation of local capital and reinvestment of profits. Efforts will be made to foster better understanding of the rights and obligations of both host and capital-exporting countries, as well as of individual investors.

51) In the context of the search for appropriate means for dealing with the problem of disruption of development arising from adverse movements in the export proceeds of developing countries, the International Bank for Reconstruction and Development has been requested to pursue its efforts at working out a scheme of supplementary financing. The Bank is invited to give further consideration to the adoption of supplementary financial measures at the earliest practicable opportunity.

52) As soon as adequate experience is available on the working of the scheme of Special Drawing Rights, serious consideration will be given to the possibility of the establishment of a link between the allocation of new reserve assets under the scheme and the provision of additional development finance for the benefit of all developing countries. The question will, in any case, be examined before the allocation of Special Drawing Rights in 1972.

*Invisibles including shipping*

53) The objective is to promote, by national and international action, the earnings of developing countries from invisible trade and to minimize the net outflow of foreign exchange from those countries arising from invisible transactions, including shipping. In pursuance of the objective, action should be taken, *inter alia*, in the following areas, by governments and international organizations and, where necessary, appropriately involving liner conferences, shippers' councils and other relevant bodies:

a) The principle that the national shipping lines of developing countries should be admitted as full members of liner conferences operating in their national maritime trade and have an increasing and substantial participation in the carriage of cargoes generated by their foreign trade should be implemented in the Decade;

b) Further, governments should invite liner conferences to consider favourably, fairly and on equal terms applications of the national shipping lines, in particular of developing countries, for admission as full members to way-port trades related to these countries' own foreign trade, subject to the rights and obligations of conference membership, as provided in paragraph 4, section II, of resolution 12 (IV) of 4 May 1970<sup>1</sup> adopted by the Committee on Shipping;

c) In order that the developing countries have an increasing and substantial participation in the carriage of maritime cargoes, and recognizing the need to reverse the existing trend whereby the share of the developing countries in the world merchant fleet has been declining instead of increasing, developing countries should be enabled to expand their national and multi-national merchant marines through the adoption of such measures as may be appropriate to permit their shipowners to compete in the international freight market and thus contribute to a sound development of shipping;

d) It is also necessary that further improvements be made in the liner conference system, and all unfair practices and discrimination where such exist in liner conference practices should be eliminated;

<sup>1</sup> *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 5 (TD/B/301)*, p. 22.



e) In the determination and adjustment of liner freight rates, due consideration should be given, as is commercially possible and/or appropriate, to:

- I) The needs of developing countries, in particular their efforts to promote non-traditional exports;
- II) The special problems of the least developed among the developing countries, in order to encourage and promote the import and export interests in these countries;
- III) Port improvements leading to a reduction of the cost of shipping operations in ports;
- IV) Technological developments in maritime transport;
- V) Improvements in the organization of trade;

f) Governments of developed countries members of the United Nations Conference of Trade and Development should, upon request made by developing countries within the framework of their overall development priorities, duly consider extending, directly or through international institutions, financial and technical assistance, including training, to developing countries to establish and expand their national and multinational merchant marines, including tanker and bulk carrier fleets, and to develop and improve their port facilities. Within assistance programmes, special attention should be paid to projects, including training projects, for developing the shipping and ports of the least developed among the developing countries and for reducing their maritime transport costs;

g) The terms and conditions on which bilateral aid and commercial credit are available for the purchase of ships by developing countries should be kept under review in the light of relevant resolutions of the United Nations Conference on Trade and Development, namely, Conference resolution 12 (II) of 24 March 1968<sup>1</sup> and resolution 9 (IV) of 4 May 1970<sup>2</sup> adopted by the Committee on Shipping;

<sup>1</sup> *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr. 1 and 3 and Add. 1 and 2, *Report and Annexes* (United Nations publication, Sales No.: E.68.II.D.14), p. 49.

<sup>2</sup> *Official Records of the Trade and Development Board, Tenth Session, Supplement No. 5* (TD/B/301), p. 21.



h) Freight rates, conference practices, adequacy of shipping services and other matters of common interest to shippers and shipowners should be the subject of consultation between liner conferences and shippers and, where appropriate, shippers' councils or equivalent bodies and interested public authorities. Every effort should be made to encourage the institution and operation of shippers' councils, where appropriate, or equivalent bodies and the establishment of effective consultation machinery. Such machinery should provide for consultation by liner conferences well before publicly announcing changes in freight rates;

i) In view of the common interest of member countries of the United Nations Conference on Trade and Development, shippers and shipowners in improving ports, thus lowering the cost of maritime transport and permitting reductions in freight rates, a concerted national and international effort should be evolved in the course of the Decade to promote the development and improvement of port facilities of developing countries;

j) Maritime transport costs, the level and structure of freight rates, conference practices, adequacy of shipping services and related matters should continue to be kept under review within the United Nations Conference on Trade and Development, and additional measures to attain the objective set out in this field should be considered within the work programme of the permanent machinery of the Conference.

54) Reduction in the cost of insurance and reinsurance for developing countries, especially the foreign exchange cost, will be brought about by appropriate measures, bearing in mind the risks involved, to encourage and assist the growth of national insurance and reinsurance markets in developing countries and the establishment to this end, where appropriate, of institutions in these countries or at the regional level.

55) Developing countries will expand their tourist industry through the building of tourist infrastructure, adoption of promotional measures and relaxation of travel restrictions. Developed countries will assist in this endeavour. They will try to avoid exchange restrictions on the travel of their residents to developing countries and, where restrictions do exist, to remove them as soon as practicable and to facilitate such travel in other ways.

*Special measures in favour of the least developed among the developing countries*

56) While it is the objective of the Decade to achieve the rapid economic and social progress of all developing countries, special measures will be taken to enable the least developed among them to overcome their particular disabilities. Every possible effort will be made to ensure the sustained economic and social progress of these countries and to enhance their capacity to benefit fully and equitably from the policy measures for the Decade. Wherever necessary, supplementary measures will be devised and implemented at the national, subregional, regional and international levels. Organizations and bodies of the United Nations system will consider initiating early in the Decade special programmes to alleviate the critical development problems of the least developed among the developing countries; developed countries will assist in the implementation of these programmes.

57) Concerted efforts will be made early in the Decade by developed countries and international organizations through their programmes of technical assistance and through financial aid, including grants and/or exceptionally soft loans, to meet the needs of the least developed among the developing countries and designed to enhance absorptive capacity. In particular, attention will be paid to overcoming their problem of the scarcity of indigenous technical and managerial cadres, to building economic and social infrastructure, to the exploitation by these countries of their natural resources and to assisting them in the task of formulating and implementing national development plans.

58) Special measures will be taken early in the Decade by national and international organizations to improve the capacity of the least developed among the developing countries to expand and diversify their production structure so as to enable them to participate fully in international trade. Moreover, in the field of primary commodities, special consideration will be given to commodities of interest to these countries and, in concluding commodity agreements, the interest of these countries will receive due attention. In the field of manufactures and semi-manufactures, measures in favour of developing countries will be so devised as to allow the least developed among developing countries to be in a position to derive equitable benefits from such measures. Particular consideration will be given to the question

of including in the general system of preferences products of export interest to these countries. Special attention will also be paid by developed countries and international organizations to the need of these countries to improve the quality of their production for export as well as of marketing techniques in order to enhance their competitive position in world markets. These countries, in co-operation with other developing countries, will intensify their efforts for subregional and regional co-operation, and the developed countries will facilitate their task through technical assistance and favourable financial and trade policy measures.

*Special measures in favour of the land-locked developing countries*

59) National and international financial institutions will accord appropriate attention to the special needs of land-locked developing countries in extending adequate financial and technical assistance to projects designed for the development and improvement of the transport and communications infrastructure needed by these countries, in particular of the transport modes and facilities most convenient to them and mutually acceptable to the transit and land-locked developing countries concerned. All states invited to become parties to the Convention on Transit Trade of Land-Locked States of 8 July 1965<sup>1</sup> which have not already done so, will investigate the possibility of ratifying or acceding to it at the earliest possible date. Implementation of measures designed to assist the land-locked countries in overcoming the handicaps of their land-locked position should take into account the relevant decisions and resolutions which have been or may be adopted in the United Nations Conference on Trade and Development.

*Science and technology*

60) Concerted efforts will be made by the developing countries, with appropriate assistance from the rest of the world community, to expand their capability to apply science and technology for development so as to enable the technological gap to be significantly reduced.

61) Developing countries will continue to increase their expenditure on research and development and will endeavour to attain, by the end of the Decade, a minimum average level equivalent to 0.5 per cent of their

<sup>1</sup> United Nations, *Treaty Series*, vol. 597 (1967), No. 8641.



gross product. They will endeavour to inculcate, among their people, an appreciation of the scientific approach which will influence all their development policies. The research programme will be oriented to the development of technologies that are in line with the circumstances and requirements of individual countries and regions. They will put particular stress on applied research and seek to develop the basic infrastructure of science and technology.

62) Full international co-operation will be extended for the establishment, strengthening and promotion of scientific research and technological activities which have a bearing on the expansion and modernization of the economies of developing countries. Particular attention will be devoted to fostering technologies suitable for these countries. Concentrated research efforts will be made in relation to selected problems the solutions to which can have a catalytic effect in accelerating development. Assistance will also be provided for building up and, as appropriate, for expanding and improving research institutions in developing countries, especially on a regional or sub-regional basis. Efforts will be made to promote close co-operation between the scientific work and staff of the research centres in developing countries and between those in developed and developing countries.

63) Within the framework of their individual aid and technical assistance programmes, developed countries will substantially increase their aid for the direct support of science and technology in developing countries during the Decade. Consideration will be given to the question of setting a target equivalent to a specified percentage of the gross national product of developed countries at the time of the first biennial review, taking fully into account the relevant factors. Moreover the developed countries will, in their research and development programmes, assist in seeking solutions to the specific problems of developing countries and for this purpose will endeavour to provide adequate resources. Serious consideration will be given during the first biennial review to the question of setting a specified target in this field. Developed countries will make all efforts to incur in developing countries a significant proportion of their research and development expenditure on specific problems of developing countries. In co-operation with the developing countries, developed countries will continue to explore the possibility of locating some of their research and development projects in devel-



oping countries. Private foundations, institutions and organizations will be encouraged to provide further assistance for expanding and diversifying research activities of benefit to developing countries. In relation to their aid and investment policies, developed countries will assist developing countries in identifying technologies which are appropriate for their circumstances and in avoiding the utilization of scarce resources for inappropriate technologies.

64) Developed and developing countries and competent international organizations will draw up and implement a programme for promoting the transfer of technology to developing countries, which will include, *inter alia*, the review of international conventions on patents, the identification and reduction of obstacles to the transfer of technology to developing countries, facilitating access to patented and non-patented technology for developing countries under fair and reasonable terms and conditions, facilitating the utilization of technology transferred to developing countries in such a manner as to assist these countries in attaining their trade and development objectives, the development of technology suited to the productive structure of developing countries and measures to accelerate the development of indigenous technology.

### *Human development*

65) Those developing countries which consider that their rate of population growth hampers their development will adopt measures which they deem necessary in accordance with their concept of development. Developed countries, consistent with their national policies, will upon request provide support through the supply of means for family planning and further research. International organizations concerned will continue to provide, when appropriate, the assistance that may be requested by interested governments. Such support or assistance will not be a substitute for other forms of development assistance.

66) Developing countries will make vigorous efforts to improve labour force statistics in order to be able to formulate realistic quantitative targets for employment. They will scrutinize their fiscal, monetary, trade and other policies with a view to promoting both employment and growth. Moreover, for achieving these objectives they will expand their investment through a fuller mobilization of domestic resources and an increased flow of assistance

from abroad. Wherever a choice of technology is available, developing countries will seek to raise the level of employment by ensuring that capital-intensive technology is confined to uses in which it is clearly cheaper in real terms and more efficient. Developed countries will assist in this process by adopting measures to bring about appropriate changes in the structure of international trade. As part of their employment strategy, developing countries will put as much emphasis as possible on rural employment and will also consider undertaking public works that harness manpower which would otherwise remain unutilized. These countries will also strengthen institutions able to contribute to constructive industrial relation policies and appropriate labour standards. Developed countries and international organizations will assist developing countries in attaining their employment objectives.

67) Developing countries will formulate and implement educational programmes taking into account their development needs. Educational and training programmes will be so designed as to increase productivity substantially in the short run and to reduce waste. Particular emphasis will be placed on teacher-training programmes and on the development of curriculum materials to be used by teachers. As appropriate, curricula will be revised and new approaches initiated in order to ensure at all levels expansion of skills in line with the rising tempo of activities and the accelerating transformations brought about by technological progress. Increasing use will be made of modern equipment, mass media and new teaching methods to improve the efficiency of education. Particular attention will be devoted to technical training, vocational training and retraining. Necessary facilities will be provided for improving the literacy and technical competence of groups that are already productively engaged as well as for adult education. Developed countries and international institutions will assist in the task of extending and improving the systems of education of developing countries, especially by making available some of the educational inputs in short supply in many developing countries and by providing assistance to facilitate the flow of pedagogic resources among them.

68) Developing countries will establish at least a minimum programme of health facilities comprising an infrastructure of institutions, including those for medical training and research for bringing basic medical services within the reach of a specified proportion of their population by the end of the Decade. These will include basic health services for the prevention and

treatment of diseases and for the promotion of health. Each developing country will endeavour to provide an adequate supply of potable water to a specified proportion of its population, both urban and rural, with a view to reaching a minimum target by the end of the Decade. Efforts of the developing countries to raise their levels of health will be supported to the maximum feasible extent by developed countries, particularly through assistance in the planning of health promotion strategy and the implementation of some of its segments, including research, training of personnel at all levels and supply of equipment and medicines. A concerted international effort will be made to mount a world-wide campaign to eradicate by the end of the Decade, from as many countries as possible, one or more diseases that still seriously afflict people in many lands. Developed countries and international organizations will assist the developing countries in their health planning and in the establishment of health institutions.

69) Developing countries will adopt policies consistent with their agricultural and health programmes in an effort towards meeting their nutritional requirements. These will include development and production of high-protein foods and development and wider use of new forms of edible protein. Financial and technical assistance, including assistance for genetic research, will be extended to them by developed countries and international institutions.

70) Developing countries will adopt suitable national policies for involving children and youth in the development process and for ensuring that their needs are met in an integrated manner.

71) Developing countries will take steps to provide improved housing and related community facilities in both urban and rural areas, especially for low-income groups. They will also seek to remedy the ills of unplanned urbanization and to undertake necessary town planning. Particular effort will be made to expand low-cost housing through both public and private programmes and on a self-help basis, and also through co-operatives, utilizing as much as possible local raw materials and labour-intensive techniques. Appropriate international assistance will be provided for this purpose.

72) Governments will intensify national and international efforts to arrest the deterioration of the human environment and to take measures towards its improvement, and to promote activities that will help to maintain the ecological balance on which human survival depends.



*Expansion and diversification of production*

73) Developing countries will take specific steps to augment production and improve productivity in order to provide goods and services necessary for raising levels of living and improving economic viability. While this will be primarily their own responsibility, production policies will be carried out in a global context designed to achieve optimum utilization of world resources, benefiting both developed and developing countries. Further research will be undertaken, by the international organizations concerned, in the field of optimal international division of labour to assist individual countries or groups of countries in their choice of production and trading structures. Depending on the social and economic structure and particular characteristics of individual countries, consideration will be given to the role which the public sector and co-operatives might play in augmenting production.

74) Full exercise by developing countries of permanent sovereignty over their natural resources will play an important role in the achievement of the goals and objectives of the Second United Nations Development Decade. Developing countries will take steps to develop the full potential of their natural resources. Concerted efforts will be made, particularly through international assistance, to enable them to prepare an inventory of natural resources for their more rational utilization in all productive activities.

75) Developing countries will formulate, early in the Decade, appropriate strategies for agriculture (including animal husbandry, fisheries and forestry) designed to secure a more adequate food supply from both the quantitative and qualitative viewpoints, to meet their nutritional and industrial requirements, to expand rural employment and to increase export earnings. They will undertake, as appropriate, reform of land tenure systems for promoting both social justice and farm efficiency. They will adopt the necessary measures for providing adequate irrigation, fertilizers, improved varieties of seeds and suitable agricultural implements. They will also take steps to expand the infrastructure of marketing and storage facilities and the network of agricultural extension services. They will make increasing provision for the supply of rural credit to farmers. They will encourage co-operatives for the organization of many of these activities. They will adopt



appropriate agricultural strategies. Developed countries will support this endeavour by providing resources to developing countries for obtaining the essential inputs, through assistance in research and for the building of infrastructure and by taking into account in their trade policies the particular needs of developing countries. International organizations will also provide appropriate support.

76) Developing countries will take parallel steps to promote industry in order to achieve rapid expansion, modernization and diversification of their economies. They will devise measures to ensure adequate expansion of the industries that utilize domestic raw materials, that supply essential inputs to both agriculture and other industries, and that help to increase export earnings. They will seek to prevent the emergence of unutilized capacity in industries, especially through regional groupings wherever possible. Developed countries and international organizations will assist in the industrialization of developing countries through appropriate means.

77) Developing countries will ensure adequate expansion of their basic infrastructure by enlarging their transport and communication facilities and their supplies of energy. As appropriate, they will seek to achieve this purpose through regional and subregional groupings. International financial and technical assistance will be extended in support of their endeavour.

#### *Plan formulation and implementation*

78) Developing countries will, as appropriate, establish or strengthen their planning mechanisms, including statistical services, for formulating and implementing their national development plans during the Decade. They will ensure that their development plans are both realistic and ambitious enough to have an impact on the imagination of the people, internally consistent, and widely understood and accepted. Every effort will be made to secure the active support and participation of all segments of the population in the development process. They will pay special attention to the orientation and organization of their public administration at all levels for both the effective formulation and implementation of their development plans. Where necessary, they will seek international assistance in carrying out their planning tasks.

## REVIEW AND APPRAISAL OF BOTH OBJECTIVES AND POLICIES

79) Appropriate arrangements are necessary to keep under systematic scrutiny the progress towards achieving the goals and objectives of the Decade — to identify shortfalls in their achievement and the factors which account for them and to recommend positive measures, including new goals and policies as needed. Such reviews and appraisals will be carried out at various levels, involving both developing and developed countries, keeping in view the need for streamlining the existing machinery and avoiding unnecessary duplication or proliferation of review activities.

80) At the national level, each developing country will, where appropriate, establish evaluation machinery or strengthen the existing one and, whenever necessary, seek international assistance for this purpose. Particular attention will be devoted to improving and strengthening national programming and statistical services.

81) For appraisals at the regional level, regional economic commissions and the United Nations Economic and Social Office in Beirut, in co-operation with regional development banks and subregional groupings, and with the assistance of other organizations of the United Nations system, will assume the main responsibility.

82) The United Nations Conference on Trade and Development, the United Nations Industrial Development Organization and the specialized agencies of the United Nations will continue to review progress in their respective sectors according to the procedures already established and to be adapted as necessary.

83) An overall appraisal of the progress in implementing the International Development Strategy will be made by the General Assembly, through the Economic and Social Council, on the basis of the above-mentioned reviews and of comments and recommendations, within the framework of a specific mandate, by the Committee for Development Planning. In order to assist in this task, the Secretary-General will prepare and submit appropriate documentation and reports. The overall appraisal will be made biennially, the second biennial appraisal being in the nature of a mid-term review.

## MOBILIZATION OF PUBLIC OPINION

84) An essential part of the work during the Decade will consist of the mobilization of public opinion in both developing and developed countries in support of the objectives and policies for the Decade. Governments of the more advanced countries will continue and intensify their endeavour to deepen public understanding of the interdependent nature of the development efforts during the Decade — in particular of the benefits accruing to them from international co-operation for development — and of the need to assist the developing countries in accelerating their economic and social progress. The efforts which developing countries themselves are making to meet the requirements of their economic and social progress need to be more clearly and more generally made known in developed countries. Similarly, Governments of the developing countries will continue to make people at all levels aware of the benefits and sacrifices involved and to enlist their full participation in achieving the objectives of the Decade. The mobilization of public opinion has to be the responsibility mainly of national bodies. Governments may give consideration to the establishment of new national bodies or to strengthening the existing ones designed to mobilize public opinion, and, as a long-term measure, to give increasing development orientation to the educational curricula. Considering that leadership can make a significant contribution to the mobilization of public opinion, the formulation of concrete aims by the competent authorities is indispensable. The role of the organizations of the United Nations system will be to assist the various national information media, in particular by supplying adequate basic information from which these media may draw both substance and inspiration for their work. There is also an urgent need for increasingly co-ordinating the information activities already being undertaken by many organizations within the United Nations system. The information stemming from international sources will be aimed primarily at strengthening the sense of interdependence and partnership implicit in the concept of the Decade.

## HIKMAT SAID AHMED RIZK

### THE MOBILIZATION OF DOMESTIC SAVINGS IN THE U.A.R.

#### INTRODUCTION

Economic growth, viewed as an expansion in the production capabilities of an economy, is basically a function of the distribution of current resources between the satisfaction of present needs and the consideration of future needs. The economic decisions of individuals, groups, or public agencies as to the distribution of their current income between consumption and saving in a given period of time thus not only affects their level of welfare in the given period, but their level of welfare in succeeding periods as well.

A difficult choice facing the United Arab Republic, as well as other less developed countries, therefore, relates to the proportion of their current resources to be devoted to activities that produce for consumption as opposed to activities that expand the capacity of the system; a conflict which really boils down to a choice between present and future rates of consumption.<sup>1</sup>

As the decisions to save made by the present generation also necessarily affect the welfare of future generations, the determination of the saving rate on a national basis is often delegated to the central authority in less developed countries committed to economic development. Government authorities are regarded as better able to appreciate the needs of future generations than are individual decision-making units, i.e., governments do not have "pure" time preference. Thus individuals may prefer governmental action in this regard in the belief that this is the only means to achieve the

<sup>1</sup> See A.K. Sen, "On Optimising the Rate of Saving", *The Economic Journal*, Volume 71, September 1961, pp. 479-496. Henry J. Bruton, *Principles of Development Economics* (Prentice-Hall, Inc., N.J., 1965), pp. 123-128.



desired rate of savings. Using the fiscal and monetary weapons at its disposal the government in many developing countries thus acts to promote the level of domestic saving.<sup>1</sup>

#### THE GOVERNMENT'S COMMITMENT TO DEVELOPMENT IN THE U.A.R.

The U.A.R. government has been development-oriented since the year 1952. The government's commitment to economic development has been clearly demonstrated in political speeches, in legislative regulations and in implementing decisions. This dedication to transform the U.A.R. into a modern economy with an expanding industrial sector and an improving agricultural sector has meant major emphasis on the mobilization of domestic resources to achieve development goals.

As defined in the National Charter, the strategy for the realization of economic development in the U.A.R. may, in fact, be outlined as follows:

- 1) The mobilization of national savings;
- 2) The investment of these savings applying modern science and technology;
- 3) The comprehensive planning of national production.

#### SAVINGS BEHAVIOUR IN THE U.A.R. 1952/53-1968/69

The rate of saving in the U.A.R. compares rather favourably with that of many developing countries. According to a United Nations study, the percentage ratio of gross domestic savings to gross domestic product amounted to 14% for the U.A.R. and was 1% higher than the median for the developing countries. Table I below presents the savings rates in the U.A.R. and a number of other developing countries.

An analysis of savings in relation to gross national product and the financing of investment in the U.A.R. over the period 1952/53 - 1968/69<sup>2</sup>

<sup>1</sup> See A.K. Sen, *op. cit.*

<sup>2</sup> Based on data for the period 1952/53 - 1959/60 from Bent Hansen and Girgis Marzouk, *Development and Economic Policy in the U.A.R.*, (North Holland Publishing Co., 1965, Table A-5 Statistical Appendix, p. 322) and data for later years from Ministry of Planning, *Plan Follow-up Reports*.

TABLE 1

DEVELOPING COUNTRIES: LEVELS OF DOMESTIC SAVINGS AVERAGE 1962-1964 <sup>(1)</sup>  
(Percentage of Gross Domestic Product)

Country	Gross Domestic Savings	Country	Gross Domestic Savings
Tunisia	10	Bolivia	9
Thailand	18	Paraguay	14
China (Taiwan)	18	Sudan	12
Colombia	16	Uruguay	13
Jamaica	15	Mexico	13
Rhodesia & Nyasaland	18	Philippines	15
Mauritius	22	Ceylon	12
United Arab Republic	14	Iran	13
Burma	18	Iraq	15
Federation of Malaya	20	Chile	11
Ghana	13	Morocco	10
Panama	8	Tanganyika	12
India	10 (*)	El Salvador	10
Ecuador	14	Guatemala	8
Republic of Korea	6	Median (**)	13

(<sup>1</sup>) Somewhat different yearly averages have been used for some of the countries.

(\*) Net domestic savings.

(\*\*) The median applies to 36 developing countries appearing in the original table.

Source: U.N., *World Economic Survey: The Financing of Economic Development*, 1965, Table 1-2, p. 15.

enables us to draw a number of general conclusions regarding its pattern and behaviour:

1) The savings rate in the U.A.R. at the national level, averaging 12.5% over the entire seventeen-year period, was higher in the 1960's than in the 1950's, averaging almost 12% in the period 1952/53 - 1959/60 as compared to almost 13% in the period 1960/61 - 1968/69.

2) Starting with the first Five Year Plan (1960/61 - 1964/65), there has been a tendency towards a higher increase in gross investment. Gross

investment as a percentage of gross national product which had averaged almost 14% in the period 1952/53 - 1959/60 averaged 16% in the period 1960/61 - 1968/69.

3) By far the largest proportion of domestic investment was financed by means of domestically mobilized resources. On the average for the 17-year period, gross domestic savings covered 81% of gross domestic investment. In the pre-plan years, however, domestic financing of investment was somewhat higher than in the years 1960/61 - 1968/69 amounting to 83.5% for the former and 80.2% for the latter period respectively.

4) Foreign financing exhibited a higher degree of variability than either domestic investment or saving. Though on the whole averaging almost 3% of GNP in the period under review, foreign financing amounted to almost 19% of gross domestic investment for the same period.

5) We may, thus, point out that the concerted efforts in the U.A.R. since 1952 to promote domestic savings have on the whole been successful in keeping consumption from encroaching upon the increase in GNP.

The various savings promotion schemes which are currently underway in the U.A.R., in addition, have as their main objective the realization of an increase in domestic savings at a higher rate over the coming years.

## SAVINGS BY SECTOR AND INSTITUTION IN THE U.A.R.

Though gross savings at the national level have maintained an almost stable ratio to gross national product, the distribution of gross savings by sectors has undergone some changes in the period under review. An analysis of savings by sector first reflects the socialist developments which have taken place since 1952. The contribution of savings by the public sector has been especially marked in the 1960's on account of the launching of the First Five Year Plan (1960/61 - 1964/65) and the nationalization laws of 1961, resulting in a large expansion of the public sector. The share of savings by the public sector has, thus, risen from 20.5% in 1952/53 to 87.2% in 1968/69. Savings by the individual sector thus accounted for almost 13% of gross domestic savings in 1968/69.<sup>1</sup>

<sup>1</sup> See A.K. Sen, *op. cit.*

The two major processes of savings mobilization are via fiscal policy — by budgetary surpluses — and via concentration of private savings in financial institutions. In addition to possible resistance to increases in tax rates on political grounds, there is the danger that resort to compulsory saving via taxation may not result in an increase in aggregate savings. A notable development in this regard, however, has been the wide expansion in social security schemes. Social security contributions are a compulsory means for the mobilization of domestic savings and as such are viewed as taxes. They differ from ordinary taxes, though, by virtue of the fact that they entitle contributors to specific benefits at some time in the future.

The specific nature of social security schemes, as well as their growing importance as a means for the mobilization of domestic savings in developing countries in general and in the U.A.R. in particular, makes them a prominent savings institution which is to be discussed at length together with other financial institutions, namely banking and insurance.

An analysis of the contribution of the different economic sectors to gross domestic savings is possible on a comparable basis only for the years 1960/61 - 1968/69. Savings by the public non-financial business sector has been relatively stable around the 37% level, with the exception of the period 1965/66 - 1967/68 when savings by this sector recorded a higher share averaging 56%. The government non-business sector has been recording a deficit since 1962/63. Other savings resulting from the public sector have been decreasing as a proportion of gross domestic savings.

The share of social security savings rose faster than that of any other sector, from 13% in 1960/61 to almost 46% in 1968/69. The banking and insurance sector's share in gross savings has, on the other hand, been gradually declining since 1964/65.

#### MAJOR INSTITUTIONS FOR THE MOBILIZATION OF SAVINGS IN THE U.A.R.

The savings institutions will be discussed under the following three headings based on the nature, and obligations, of their operations:

- A. - Voluntary Savings Institutions;
- B. - Contractual Savings Institutions;
- C. - Contributory Savings Institutions.



#### A. - VOLUNTARY SAVINGS: BANKING INSTITUTIONS

Prior to 1957, the Egyptian banking system was predominantly foreign-owned. Following the 1956 Suez Crisis, however, the danger of leaving such a vital economic sector mainly subject to foreign policies was particularly felt. On 15 January 1957, a law was thus enacted which made all commercial banks in Egypt joint stock companies whose shares were to be owned solely by Egyptians.

On 11 February 1960, the National Bank of Egypt, which also functioned as the Central Bank at that time, and Bank Misr (the leading commercial bank at the time) were nationalized. On 1 January 1961, the law that created the Central Bank of Egypt as a separate institution came into force; and in line with the socialist developments and the economic needs of the U.A.R., all banks and insurance companies were nationalized on 20 July 1961.

##### *Savings in commercial banks*

The five commercial banks resulting from bank mergers since 1961 are the National Bank of Egypt, Bank Misr, the Bank of Alexandria, the Bank of Cairo and the Bank of Port Said. They constitute the major voluntary institutions for the mobilization of savings in the U.A.R. through time deposits, either fixed or at notice, and savings deposits.

Time deposits<sup>1</sup> have grown from the level of L.E.24.8m. in 1952 to L.E.301.3m. in 1970, recording an eleven-fold increase between these two years. The average rate of increase<sup>2</sup> between 1952 and 1961 has amounted to 12%, with deposits slackening in the 1956-57 years mainly on account of the 1956 Suez Crisis. The nationalization laws of 1961, the growth of the public sector and the financial improvements have together stimulated increases in savings with commercial banks. The rate of increase in time deposits was particularly high between 1962 and 1965.

The pattern of growth of savings deposits with commercial banks has in general been similar to that of time deposits. On average, however, the rate of growth of time deposits between 1952 and 1970 was higher than the rate of growth of savings deposits, amounting to 20% and 13% respectively.

<sup>1</sup> Including deposits at notice.

<sup>2</sup> Based on averaging the annual rates of increase for the period in question.

For time and savings deposits combined, the average annual increase between 1952 and 1970 amounted to 15%.

To encourage the growth in the commercial bank's time and savings deposits, thus mobilizing more funds for investment purposes, a number of measures were taken in 1962. These may be summarized under the following five headings:

1. *Change in interest rates*

As of 1 July 1962, the structure of interest rates on bank deposits has been changed as follows:

TABLE 2

## THE INTEREST RATE STRUCTURE IN COMMERCIAL BANKS

Type of Account	The former interest rate structure up to 1 July 1958	The present interest rate structure as of 1 July 1962
Current accounts	1.25	0.00
Deposit accounts (fixed or at notice)		
15 days to less than one month	1.50	2.00 (minimum L.E. 1,000)
One month to less than two months	2.00	2.50
Two months to less than three months	2.25	2.50
Three months to less than four months	2.50	3.00
Six months to less than one year	2.75	3.50
One year or more	3.00	4.00
Savings accounts	2.50	3.50 (*) (maximum L.E. 5,000)

(\*) Raised first to 3% on a maximum of L.E. 2,000.

The cancelling of interest rate payments on current accounts, as well as raising the interest rates on time and savings deposits have had the effect of increasing the latter type of deposits with commercial banks, as previously noted, in the years following these reforms. Depositors were thus induced to sacrifice complete liquidity for some of their bank holdings in favour of profitability. The increases in interest rates, though modest, have resulted in changes in the right direction.

## *2. Change in limits on deposits*

To attract large savings, the upper limit on savings accounts deposits per individual was raised first to L.E. 2,000 and then to L.E. 5,000.

Similarly, to induce a transfer of deposits in large amounts from current to deposit accounts, a L.E. 1,000 minimum deposit was required to entitle the earning of the 2% interest rate.

## *3. Special-benefit schemes*

Various incentives have been introduced by commercial banks to encourage savings. These have generally taken the form of promising depositors benefits extra to interest rate payments.

The Bank of Port Said entitled savers to enter an annual draw, the prizes in which may reach up to 100% of their deposits.

Bank Misr initiated a scheme for multiplying deposits, whereby the heirs of depositors are granted double the value of the actual deposits exempt from the inheritance tax. Depositors also receive a yearly interest rate of 3% together with the right to use their deposits as security for loans.

The savings scheme of the Bank of Alexandria also offers a right to enter draws. Prizes under this scheme take the form of monthly payments to depositors.

## *4. School banks*

With the aim of promoting banking habits from childhood, the National Bank of Egypt organized a school bank system in 1964. The system has been successful in attracting wide participation, whereby the number of participant schools rose from 6 at the end of the first year of operation to 430 by June 30, 1971. The number of student depositors increased from 249 in 1964 to 156,055 by mid-1971, with deposits consequently mounting from only L.E.33 in 1964 to about L.E.75,000 by June 1971.

## *5. Savings Certificates*

In addition to the above incentive schemes, the National Bank of Egypt has introduced the major innovation of the commercial banking system in the form of issuing savings certificates for sale to the public. The relative importance of this new savings medium merits its treatment in some detail.

Savings certificates were initiated in the U.A.R. on 3 January 1965 by the National Bank of Egypt. They were first introduced in the form of Group A and B in order to mobilize additional funds for the financing of the second Five Year Development Plan. The success achieved by these two groups of certificates encouraged the introduction of Group C Certificates on 4 February 1968. Below is a brief definition of the three groups of certificates:

I) *Group A: Appreciation Certificates*

The value of this type of certificates is marked up every six months. The value of a L.E.100 certificate, for example, would reach L.E.165 by the end of the 10-year maturity period.

II) *Group B: Current Income Certificates*

These certificates yield a current return of 5% annually, payable twice a year. They are redeemable at par after ten years from the date of purchase.

III) *Group C: Lottery Certificates*

Holders of these certificates have the chance to win prizes. This type of certificates appeals to individuals whose savings are too small to be attracted by the high interest yield of the other two types of certificates. For that purpose, Group C certificates are issued in small denominations starting with L.E.1. Prizes range between L.E.5,000 and L.E. 10. The number of draws has been raised from once a month to twice a month.

By December 1970, the value of holdings of savings certificates amounted to almost L.E.100m. as compared to L.E.13.6m. at the end of 1965, thus recording a sevenfold increase in the five-year period. The largest proportion of holdings are in the form of groups A and B certificates, with group B alone accounting for over two-thirds of total holdings.

The high growth of sales of these certificates attests to their attractiveness as a means for the mobilization of savings. The advantages enjoyed by these certificates are in fact varied. Groups A and B certificates are high-yielding relative to other types of savings. The rate of interest payable on these certificates amounts to 5% per annum provided they are kept for the full 10 years. This return is, furthermore, tax exempt (except from estate duty and inheritance tax). The graduation of benefits also induces investors to keep their certificates for as long a period as possible.



With respect to liquidity, Group C certificates can be sold any time after purchase, while Groups A and B can be redeemed any time after six months from the date of purchase in accordance with the redemption schedule. The ceilings on holdings have been removed with respect to Groups A and B certificates held by both individual and institutional investors. The ceiling on holdings of Group C certificates is L.E.1,000 per individual, while institutional investors are not permitted to hold them.

The prizes on each of the two monthly draws on Group C certificates are guaranteed by the National Bank of Egypt to be at least L.E.10,000. The value of savings certificates as well as the interest payments and prizes are, furthermore, not subject to legal distraint, and groups A and B certificates may, in addition, be used as security for loans.

#### *Post office savings banks*

Post office savings banks constitute a very important medium for the mobilization of domestic savings especially in developing countries. This is attributable to the fact that in those countries regular banking institutions are mainly located in large cities. Difficulties of transportation and the underdevelopment of banking habits discourage the expansion by commercial banks in other areas at the earlier stages of economic development. In the U.A.R., the number of post office savings offices exceeds that of commercial banks three times. These offices attend to the needs of small savers in suburbus and rural areas. Post office savings banks thus occupy a special position for the mobilization of national savings in the U.A.R.

A major characteristic of the post office savings system has been the relative flexibility in the rate of interest paid on deposits in its offices. The interest rate has been gradually raised from 1% in 1953 to 3.5% in 1969 and up to the present time. Another change was raising the upper limit on the value of deposits allowed per individual. This limit was gradually raised from L.E.200 in 1901 to L.E.5,000 at present, exclusive of interest payments. These two improvements were introduced in an effort to attract a higher proportion of the increases in income resulting from the development process. Raising the upper limit of deposits was also meant to attract the savings of higher income groups.

Savings in post office banks increased from L.E.25.5m. in 1952 to L.E.75.4m. in 1970, or by 174% in the period 1952-1970. The rate of

growth was on the whole higher in the first than in the second half of the period, averaging almost 9% for the former and 6% for the latter.

Negative rates of growth in 1967 and 1968 led to the introduction of a number of measures to encourage savings in Post Office banks. These measures may be summarized as follows:

*A - Lotteries*

As of September 1968 and in line with developments in other banking institutions, post office savings banks entitled deposits amounting to one or more Egyptian Pounds for inclusion in a monthly draw, provided this minimum had been deposited with a bank for at least two months. Thirty-three prizes ranging from L.E.1,000 to L.E.50 are distributed to winners.

*B - Savings by stamps*

To encourage even the smallest of savings, the post office savings authority decided on 31 October 1967 (The International Thrift Day) to accept deposits in the form of stamps in addition to cash. Special forms were prepared for this purpose and were given free.

The minimum stamp deposit acceptable was set at the low level of L.E.0.25. This savings scheme was also organized for encouraging savings by students and prizes were given to students and schools outstanding in this regard.

*C - Raising the interest rate*

The Ministerial Committee for Economic Affairs recommended on 5 October 1968 to raise the interest rate payable on post office savings deposits from 3% to 3.5% as of 1 July 1969, thus equating the interest on savings in these institutions with the interest rate payable on savings deposits in commercial banks. The taxes and charges due on this rate amount to 38%, the same as for savings in commercial banks<sup>1</sup>, leaving a net rate of 2.17% payable on these deposits.

*Local savings banks in the U.A.R.*

The establishment of local savings banks in Egypt materialized in response to governmental efforts to create specialized institutions for the mobilization of small savings and the encouragement of small industries.

<sup>1</sup> Savings Certificates are exempt from all taxes except estate duty and inheritance tax.

They were planned in co-operation with the Federal Republic of Germany and in accordance with the agreement concluded between the U.A.R. and the Federal Republic of Germany in December 1963.

The first local savings bank had been established at Mit-Ghamr, a small town 90 km. north-east of Cairo, in July 1963. The success achieved in Mit-Ghamr encouraged the establishment of eight more savings banks in 1966.

Initially, local savings banks were organized under the Egyptian Public Organization for Savings which became incorporated under the Egyptian Public Organization for Insurance. On February 15, 1966, the Ministry of Economics and Foreign Trade asked the Central Bank to assume supervision of local savings banks. On the recommendations of the Central Bank of Egypt, however, the supervision of local savings banks was later again entrusted to the Egyptian Public Organization for Insurance and Savings. Since the operation of the project, the government has also continued to allocate funds to help with the administrative outlays of local savings banks.

The initial success of local savings banks is mainly attributable to the enthusiasm of the leaders of the project, the intensive publicity which the project received, the government subsidizing operations, as well as the help in the form of expertise received from the Federal Republic of Germany. Much emphasis was put on the local character of the project, i.e. the mobilization of local savings for investment in the form of short- and medium-term loans to individuals and small businesses in the locality as well as for promoting local development. The project thus gained the co-operation of the local population.

The problem with local savings banks mainly stemmed from the lack of specific rules to determine their credit policies. The alternating of supervising authorities also prevented the development of such policies. Major difficulties, however, resulted from the decision of these banks to take over for operation a number of enterprises. Thus instead of concentrating on credit to local business, local savings banks went into direct investment operations which, in fact, they are equipped to handle.

Losses resulting from these enterprises led to entrusting the Central Bank of Egypt with their liquidation. The practical supervision of the savings banks' normal operations was in 1968 also entrusted to the National Bank of Egypt, which sent a number of its senior staff to help organize the local savings banks' activities, mainly setting rules for their credit policies.



The banks then resumed their original functions of receiving savings and lending to small businesses preferably in the locality.

The importance of savings deposited with local savings banks, amounting to almost one million Egyptian pounds by 1970, lies mostly in the fact that these deposits were mobilized from individuals in low-income localities whose savings would not otherwise have been forthcoming.

#### B. - CONTRACTUAL SAVINGS: INSURANCE COMPANIES

This type of savings should be distinguished from compulsory, or contributory savings, to which we shall turn next. In the case of contractual savings, the individual, assessing his expectation of risks, "voluntarily" chooses<sup>1</sup> to ensure himself against such risks, e.g. life insurance, fire insurance etc., choosing the package that best suits his needs and resources. In the case of compulsory, or contributory savings, by contrast, the individual is obliged to insure himself against the risk in question, e.g. social security insurance against disability, sickness, old age etc. Contractual savings also differ from ordinary voluntary savings (in banking institutions) because the insured individual, though he may withdraw or end the contract at any time, is subject to the penalty of some loss.

Savings through the insurance medium is also characterized by more stability than that in other voluntary savings institutions.<sup>2</sup> This quality makes the savings held by insurance companies an important source of investment funds, which can be used to finance medium- and long-term investment without as much concern over liquidity as in the case of banks.

As a major savings institution, insurance companies play an important role in the mobilization of individual savings and their investment for development purposes.

#### *The development of the insurance sector in the U.A.R.*

At the end of 1955, the number of Egyptian companies operating in the field of insurance was 13 as compared with 147 foreign agencies, all of

<sup>1</sup> With the exception of insurance against civil liability arising from ownership and use of motor vehicles.

<sup>2</sup> Though it is less stable than saving through compulsory social security schemes.



which were branches to foreign companies. In 1957, the insurance sector, along with the banking sector, was Egyptianized, and in 1961 insurance companies were nationalized.

To provide co-ordination among insurance companies and to channel their funds to purposes of economic development, the Egyptian Public Organization for Insurance was established towards the end of 1961. In 1965, the 12 insurance companies in operation were merged into three large companies, in addition to a company for reinsurance.

### *Savings of insurance companies*

The insurance sector in the U.A.R. aims to achieve the following three objectives:

- 1) Increasing the number of savers and insured.
- 2) Expanding the volume of insurance savings and adapting the value of individual life insurance policies to increases in income, as well as encouraging general insurance in its various types: fire, accidents, theft, transportation, aviation etc.
- 3) Increasing investment by the insurance sector in development projects.

To realize these objectives, new types of insurance policies with small premiums to suit the needs of the average income recipients have been introduced, which helped the mobilization of domestic savings.

Savings of the insurance sector mainly take the form of undistributed profits of insurance companies and annual additions to their financial reserves. Savings of insurance companies have multiplied since 1952 as a result of the increasing activities of insurance companies, on the one hand, and the general economic and social developments in the country on the other. The increase in the insurance companies' savings was reflected in the rise of their gross investments, which amounted to L.E.71.9m. in 1970 as compared to L.E.25.8m. in 1952.

### C. - CONTRIBUTORY SAVINGS: SOCIAL SECURITY SCHEMES

In addition to serving desirable social objectives, social security programmes, as we have previously pointed out, constitute a major medium for the

mobilization of funds to finance economic development. Up to 1952, the only type of social security compensation legislation in Egypt applied to occupational injuries and diseases. The U.A.R. government has, however, made it a goal to develop a comprehensive social security system. First applying to government employees and workers in the public sector, a comprehensive social insurance system has been gradually expanded to cover workers in both public and private sectors.

#### *Social insurance regulations since 1952*

The Social Insurance Scheme applies to all workers except those employed in the government and other public agencies and local government units who are beneficiaries of the "Insurance and Pensions" scheme. Contributions by workers covered under the Social Insurance Scheme are at the rate of 9% of their wages, and employers contribute 19 % of covered earnings.

In 1955, Law No 419 established a fund for insurance and another for savings to cover workers subject to Law No 317 of 1952 dealing with individual work contracts. Together, these two funds were considered as an independent legal person known as the Organization for Workers Savings and Insurance. The organization started to function on 1 April 1956, applying to establishments in Cairo and Alexandria with 50 or more workers. By 1 August 1961, a number of laws and decrees had extended social insurance coverage to all governorates, and applied to all establishments irrespective of the number of workers employed. In the same year, the Social Insurance Organization was transformed into a public organization with an economic orientation. A law was also promulgated in the year 1964 which stipulated complete social insurance coverage for workers in all sectors other than agriculture.

Thus expanded, social security insurance in the U.A.R. realizes the social objective of protection against old age, disability, death, injuries or death on the job for workers and their families. It also furnishes protection in cases of sickness and unemployment.

#### *Social security reserves and aggregate savings*

The increase in social security reserves, or gross savings of the social security sector, is measured by the difference between annual current receipts (in the form of premiums, government payments and returns on investment)

and annual current expenditures (in the form of benefit payments and operating expenses).

Studies show that increases in social security reserves have been accompanied by increases in the aggregate savings of the economy. In the case of the U.A.R., the growth of social security savings has, in general, been also accompanied by growth in the savings of other institutions<sup>1</sup>.

The U.A.R. social security system is also prominent among developing countries for its high degree of mobilization of domestic savings. A study of social security reserves, or gross savings, as a percentage of gross domestic investment shows this ratio to amount to 20.3% for the U.A.R. as compared to 13%, 1.5%, 10% and 9% for Chile, Ecuador, Malaysia and the Philippines respectively and much lower ratios for the majority of developing countries.<sup>2</sup>

#### *Surplus and investments of the Social Insurance Authority*

Contributions by employers and employees are the main source of funds for Public Authority for Social Insurance. Benefits in the form of compensations and pensions consume only a small proportion of the Authority's total resources, hence a large surplus exists for investment purposes.

In the early days of the social insurance system, surplus funds were mainly invested in securities, loans to businessmen and in current and savings accounts in banks. To stabilize and secure yields on these surplus resources, however, a Presidential Decree No 264 for the year 1962 defined the ways of investing social security funds. The largest proportion of these funds was to be invested with the Treasury at a rate of interest of 3 % per annum. These resources amounting to almost L.E.410m. by mid-1969 have, thus, been utilized to finance economic development programmes, at the same time realizing a secure and rewarding return.

#### *The Public Authority for Insurance and Pensions*

The importance of this institution for the mobilization of domestic savings has vastly increased since the year 1956 when Law No 394 was issued. In accordance with this law, a pension scheme for government and

<sup>1</sup> Franco Reviglio, "Social Security: a Means of Savings Mobilization for Economic Development", *IMF Staff Papers*, Vol. XIV, July 1967, pp. 340.343.

<sup>2</sup> Based on 2 years' averages for the early 1960's. *Ibid.*

public agencies' employees replaced the savings scheme which had been brought into operation by Law N° 316 of 1952. Under this scheme government employees pay 10% of their wages and the government contributes 12.5% of covered earnings.

In terms of accumulation of reserves, or gross savings, the Public Authority for Insurance and Pensions has on the whole contributed more funds for investment purposes than the Public Authority for Social Insurance. Its gross investment, which amounted to L.E.7.1m. in 1954 greatly multiplied to reach the level of L.E.609.3m. by 1970, increasing at an average annual rate of almost 34 % over the period 1956-1970.

## CONCLUSION

### FACTORS INFLUENCING THE SAVINGS PREFERENCE

A number of factors are known to influence the savings preference. In addition to the level and distribution of income, social, religious and institutional factors are instrumental in shaping the savings behaviour of a community at earlier stages of development.

In spite of the lower levels of income in underdeveloped economies, there is a tendency for whatever surpluses exist to be spent on ceremonial and ritual displays, in hoardings of gold, foreign exchange and jewelry, as well as on luxurious buildings. The underdevelopment of banking habits, the scarcity of financial institutions, and the concentration of those in existence in large cities also limit the receipt and channelling of individual savings for productive investment.

Once banking habits become diffused and savings institutions established on a large scale, however, factors of more economic orientation assume importance in influencing the preference for saving by individuals. Considerations such as liquidity, yield and type of financial assets are nowadays relevant in determining the level and distribution of savings in financial institutions.

Relative price stability, confidence regarding the security of savings and the political dedication to economic development are also conducive to the mobilization of domestic savings at all times.



## SUMMARY OF FINDINGS

As we have seen previously, the public sector contributes by far the largest proportion of national savings. It is, thus, necessary for us to emphasize that productivity improvements in the public business sector as well as fiscal improvements are of prime importance for an increase of the national saving rate in the U.A.R. Improvements in the machinery of tax assessment and collection currently underway in the U.A.R. as well as reductions in government administrative expenditures would help to increase government savings. Measures undertaken to increase productivity in the public enterprises are also essential for realizing an increasing surplus for reinvestment purposes.

Savings by the private sector still constitute an important proportion of gross domestic savings. Every effort should, therefore, be devoted to induce individuals to channel an increasing proportion of their current resources into activities that increase the economic potentialities of the economy.

Measures to stimulate saving by individuals have by no means been lacking in the U.A.R. Public support and publicity campaigns through the various media of communication undertaken by the government and the different savings institutions have been intensively utilized to promote saving by individuals. As we have seen, specific measures have also been introduced by the different savings institutions to encourage the mobilization of domestic savings in the U.A.R.

The most notable contribution to domestic savings has, in recent years, been recorded in the social security sector. The expansion in coverage of the social security schemes in the U.A.R. has led to the growth of savings in this sector. The share of the social security sector amounted to 45 % of gross domestic savings in 1968/69, as compared to 13 % in 1960/61. Though a form of compulsory savings, the expansion in social security schemes has been consistent with the expansion in savings in general.

Savings by insurance companies have been reflected in the growth of investment by this sector, at an average annual rate of 7 % over the period 1952-70. The major development in this sector has taken the form of the introduction of new insurance policies with lower premiums to cater to the needs of lower income groups. Certain tax exemptions have also been applied to insurance premiums to encourage the participation by individuals.

With regard to the banking system, banking institutions in general have extended over larger geographical areas. The spread of Post Office savings banks has been most rapid, however, with the number of its offices amounting to three times that of the commercial banks. Being the most voluntary savings institution, the banking system in the U.A.R. successfully resorted to a large variety of measures to encourage savings deposits by the different income groups.

The measures taken by commercial banks to promote the growth of time and savings deposits, have, as we have seen, mainly been in the form of an increase in the interest rates payable on deposits, raising the limits on deposits, as well as introducing other incentives offered by different commercial banks such as lotteries, multiplying deposits and allowing the use of deposits as security for loans.

The most notable development of the banking system, however, has been the introduction of savings certificates by the National Bank of Egypt in January 1965. The rapid expansion in the sale of savings certificates attests to the importance of such benefits as liquidity, higher yield and tax exemptions, which holdings of these certificates provide, for mobilizing domestic savings.

In contrast to commercial banks which are mainly concentrated in large cities, Post Office savings banks have extended over larger areas in the provinces for the purposes of mobilizing small savings. To stimulate the growth of deposits, various schemes in the form of lotteries, savings by stamps and rise in interest rate have been introduced by Post Office banks in recent years.

One basic shortcoming of the Post Office savings banks which local savings banks were meant to make good was the fact that savings in the former were not invested locally. The experience of operating independent local savings banks successfully demonstrated the importance of appealing to local needs in order to have small savers make significant contributions to national savings.

#### TOWARDS A HIGHER NATIONAL SAVINGS RATE

Studies on development strategy for the seventies by international committees, the Pearson Committee and the Tinbergen Committee, emphasize

the importance of increasing domestic savings. The Tinbergen Committee advocates a 20% savings rate for developing countries as a goal for the seventies. The realization of this goal would naturally involve great efforts to increase both public and individual savings in the majority of developing countries<sup>1</sup>.

These recommendations have great relevance to the U.A.R. As we have seen in our study, intensive efforts to increase the mobilization of domestic savings in the U.A.R., undertaken by the government and the different savings institutions, have been successful in realizing increased savings for investment in development projects. The national rate of saving has not much increased since 1952/53, however, mainly on account of the government's wish to maintain reasonable consumption levels for the majority of the population. The achievement of higher growth rates for the U.A.R. economy in the decade of the seventies would, as planned, require the channelling of a higher proportion of the increases in gross national product into savings. This is especially important in view of an increase in the absorptive capacity of the U.A.R. economy.

To achieve a higher savings rate in the U.A.R., wide publicity campaigns are being carried out all over the country with intensified efforts in the agricultural sector. Publicity campaigns are conducted by public organizations concerned with savings, as well as by the different savings institutions, through radio, television, newspapers and magazines, as well as through personal contacts. Government employees are increasingly being sent on publicity missions in the rural areas, gathering farmers in co-operatives and combined units and exhibiting films and pictures which emphasize the importance of savings for the improvement of the individual's welfare as well as for the economic development of the country in general.

Efforts are also being made to promote the establishment of new branches of commercial banks and post office savings units especially in the provinces.

Special attention is accorded to inculcating the saving habit and the banking tradition in the younger population through publicity campaigns in schools. Lessons and courses on the value of savings as well as school banks are being increasingly organized. The school banks set up by the

<sup>1</sup> David Wirmark, "Saving for Development", a Study for the Inter-regional Seminar on the Mobilization of Personal Savings in Developing Countries, Stockholm, 2-11 August 1971, p. 49.

National Bank of Egypt, as well as the local savings banks' experience, demonstrated the potential for mobilizing savings from students.

As success in increasing domestic savings depends also on monetary stability, all efforts are exerted in the U.A.R. to prevent high increases in prices.

Substantial increases in the savings of the social security sector are expected from expanding the range of compulsory social insurance to cover all remaining sectors. In addition to private businessmen and craftsmen, the proposed extension of coverage to the agricultural sector is expected to have a favourable effect on the national savings rate in the U.A.R. This is especially true in view of the economic importance of this sector.

It is important to note in conclusion that there is much room for international co-operation in the field of improving the mobilization of domestic savings in developing countries. As the experience of local savings banks in Egypt demonstrates, technical assistance may take the form of sending expertise to developing countries to help in establishing new savings institutions as well as the training of native personnel.





JOHN DAVID OWEN

## THE MOBILIZATION OF SAVINGS IN SWAZILAND

It seems desirable to commence this report with a brief description of Swaziland in order that its problems may be the better understood. Swaziland is a small land-locked country of 6,700 square miles, well watered, rich in certain minerals and ranging in altitude 100/150 metres above sea level to 1,500/2,000 metres above sea level. Average rainfall ranges from about 550 millimetres in the drier parts of the lowveld to about 1,400 millimetres in the highveld, with average temperatures ranging between 10 degrees C and 30 degrees C. The population was estimated at around 400,000 in 1969, of whom some 60,000 may be considered urban dwellers. This implies a rural population of the order of 350,000, the majority of whom, despite the vigorous expansion of the education system, are still illiterate. It is fairly safe to say that the problem of regular communication with this large section of the population is probably the major obstacle to be overcome in the widespread mobilization of savings in Swaziland. At the same time penetration of this market is not likely to produce any substantial result until agricultural development enhances peasant incomes. From the foregoing picture it is clear that sound money management by broad sections of the population is a target very much in the future as far as rural Swaziland is concerned. It is estimated that approximately 40,000 savings accounts are held by the commercial banks and the Swaziland Credit and Savings Bank. However this figure will include accounts throughout the country served from urban areas and a truer figure for genuinely rural accounts would probably be 20,000 to 22,000. Probably only a small part of these account holders are regular users of the facilities available. In general therefore, although it might not be true to say that it is not recognised that effective savings mobilisation depends on sound money management by broad sections of the population,

such recognition is at present largely academic and does not therefore receive the urgent and constant attention it will need.

Again, existing savings and credit facilities may be considered adequate in urban areas but they are certainly not so in rural areas. They need considerable modification and extension before they even begin to mobilize savings at grass roots level in these areas for effective use in the economy. I think it reasonable to say that the majority of the people regard cattle as their wealth and, when export and slaughter figures are consistently less than and sometimes only fifty per cent of the annual natural increase, it is clear that considerable wealth is being ploughed back into a largely non-productive form which is straining the country's grazing potential and posing the threat of serious erosion.

The total cattle population is around 540, 000 head and, valued conservatively at an average of R40 per head, represents over R20 million capital held in a hazardous, because of disease and climate, and, as indicated, largely unproductive form and indeed constituting, in present numbers, a danger to the country. Education in the economic management of cattle and in alternative forms of wealth could bring substantial benefits to Swaziland by the release of part of this wealth for developmental purposes.

So far such efforts as have been made to stimulate personal saving have been limited in extent — there always seem to be so many more concrete and urgent tasks to do. Nevertheless, the Government's Co-operative Department has set as its priority task the fostering of Savings and Credit Associations throughout the country. The Department is receiving valuable help from the Division of Extra-mural Studies of the University of Botswana, Lesotho and Swaziland, whilst the promise of help from the Africa Co-operative Savings and Credit Association (ACOSCA) has led to the setting up of a Swaziland Advisory Co-operative on Savings and Credit Associations (SACOSCA) — a purely advisory and liaison body. Although the work of the Co-operative Department is at present hampered by shortage of staff and continuous absence of a large proportion of its staff on training courses, it expects to have eight to ten officers in the field during the coming two years. Given that, it is not unreasonable to assume that in the same period some 80 to 100 Savings and Credit Associations can be brought into being and, more important, properly educated in the merits, principles and management of co-operative organisations as well as properly advised and guided into fruitful

growth. The essence of a successful co-operative movement is that it must spring from the wishes of the people and not be imposed. It is necessary therefore to identify a common need amongst a group, to stimulate that need and to convince them of their ability to meet it by co-operative methods. The Swaziland Credit and Savings Bank sees the establishment of a large number of Savings and Credit Associations as broadening the basis of its operations and as likely to assist it in its task of penetrating the potential of the rural market for both savings and credit requirements. It is therefore fully behind the Co-operative Department in its aims and is pleased to be a member of SACOSCA.

The need to mobilize internal savings has certainly been realised in Swaziland's National Development Plan, as also is the maxim that you are more likely to obtain help from others if you are seen to help yourself. The fourth main objective of the Development Plan reads: "The efforts to mobilize foreign capital resources will be supplemented by determined efforts to increase the internal resources of the country, in particular domestic savings". This aim is however unspecific, and apart from certain fiscal concessions in respect of income tax on Swaziland Credit and Savings Bank deposits and Swaziland Building Society shares, it cannot be claimed that anything specific has been done to further this objective. There is no National Savings Scheme, no deduction from salary savings system operative in government, nor is any form of savings or money management education included in even secondary school syllabi. No recent references have been made in important speeches to the necessity of mobilising personal savings for development. However, early in 1970 the Co-operative Department and the Division of Extra-mural Studies of the University of Botswana, Lesotho and Swaziland sponsored a series of local conferences on savings promotion at grass roots level. These culminated in a two-day National Conference on Savings for grass roots development in June 1970, which sixty or seventy representatives from many sectors of public and private life attended. This conference stressed the need for a National Co-operative Savings Campaign to capture the public imagination, but this has as yet not materialised. It did become clear during the conference that the concept of time being of value and hence the concept of interest are not understood by a large proportion of the population. It also became clear that the training of the rural population to so manage their cattle as to show a return on the investment in them,



as has been said, would release considerable wealth and could be a function which could well grow out of savings and credit societies. Nevertheless the results of a sound savings development policy in rural areas will only bear fruit when real development reaches those areas. Development in rural Swaziland today is hampered by traditional custom, usage and land tenure. Every adult male is entitled to an allocation of land by his local chief. The ability to allocate and re-allocate land gives chiefs considerable power and the possibility of loss of his land deprives the occupant of the incentive to develop it. The practice of throwing the arable lands open to communal grazing after harvest inhibits fencing and the establishment of more lucrative permanent crops. Finally the lack of assignable title prevents the peasant farmer using his land as a source of capital for development purposes. Not until a workable solution to these problems is devised will general widespread agricultural development forge ahead and produce the wealth a savings campaign is designed to tap for the nation's benefit.

Let us now look at the savings facilities available in Swaziland. Firstly we have two commercial banks, one with six branches and the other with two. In addition, these banks operate several agencies. Between them they are estimated to hold some 30,000 to 35,000 savings accounts with savings and time deposits of close on R11 million at 31st March 1971. There is next the Swaziland Credit and Savings Bank, a statutory corporation, with three branches, with some thirty money order post offices throughout the territory acting as its agents. As at 31st March 1971 this bank held nearly 9,000 accounts with balances totalling close on R1.69 million. There is a small building society with deposits at 31st March 1971 of R327,000 and shares (excluding founder's shares) of R365,000. Finally, as at 31st December 1970 there existed seven credit unions with a total membership of 362 and five savings and credit associations with 166 members. In statistical terms, savings, excluding current balances with the commercial banks, are slightly over 20% of the Gross Domestic Product. This is high for a country at Swaziland's state of development. It can probably be accounted for by the fact that for many years there has been a small but sophisticated economy superimposed on a large subsistence economy. As the latter develops it may well be that, initially at any rate, gross domestic product will increase at a rate which will result in a fall in the value of savings expressed as a percentage of gross domestic product.

That is the present picture. So far as it can be ascertained, the position and growth of these institutions is shown in tabular form as an appendix to this report. From a study of this can be seen that the banks and particularly the Credit and Savings Bank show a satisfactory growth over the period, but in judging this the inflationary trend in the rand currency area over the last few years must be borne in mind. The Building Society, in relation to its size, can also claim satisfactory growth. The credit union and savings and credit association movements are however still in their infancy and it would be injudicious to draw conclusions as to their rate of growth at this time. Basically it is broadly correct to say that the commercial banks and the Building Society operate in the urban areas whilst the Credit and Savings Bank through its Post office agencies has a wider coverage. Nevertheless none of these institutions really taps savings at grass roots level and we must look to the development of credit unions and savings and credit associations to do this. In this aim the Co-operative Department is working closely with the University of Botswana, Lesotho and Swaziland Division of Extra-mural Studies (formerly the School of Adult Learning) and it is hoped that a functional literacy campaign related to savings and credit can achieve substantial results over the next few years. In 1966 the percentage of adult illiteracy (aged 15 and over) was 70.6%. It is reasonable to suppose that expansion of the education system, death of older illiterates and the adult literacy campaign promoted by the Sebenta National Institute, have brought about an improvement of at least 10% in this figure. There remains however a problem of obvious scope in penetrating the rural market.

In my opinion the flow of personal savings can and indeed must be stimulated in Swaziland. With a high proportion of the population still at a largely subsistence level of production, publicity by conventional means reaches only a limited market. Savings education in schools is in my opinion of doubtful value at this stage, although there is possibly a certain scope and certainly some merit if this can be introduced at the secondary level. At present it is too hard a struggle in most cases to find school fees and money for books and uniforms for savings education at the primary level to strike any pupil as a practicality. "Sebenta" is already using in its campaign textbooks on savings and loans sponsored by the Credit and Savings Bank. There is always room for improvement in the efficiency and scope of savings institutions and I think a lot is needed. One has however to face the



problems of expertise, staff and cost. Co-operation between savings institutions within the concept of competition is generally good — we do not fight interest wars in this respect. Depositors with the Credit and Savings Bank and the Building Society already enjoy certain tax concessions. It is difficult to see what government measures other than a whole-hearted National Savings Campaign could be of any great effect in present conditions. It must be realised that there is duality of government in Swaziland. Traditional thought and customs find expression through the highly conservative Swazi National Council, whilst the country is governed by an elected democratic government aiming at modern development. In order to stimulate savings, therefore, all possible assistance is needed from all sources. At present ACO-SCA is planning help, and all help by way of field workers, financial support for local workers and low-interest seed capital to foster grass roots savings institutions is very welcome. Other methods of stimulating saving to which thought could well be given are the creation or identification of specific incentives — an approach much used by the credit union movement — and an appeal to the gambling instinct. The Credit and Savings Bank is at present studying the possibilities of a "Premium Savings Bond" issue which would combine both these approaches.

Of the various methods of stimulating saving those most likely to be particularly useful at present would be firstly a full scale national savings campaign vigorously organised by the government, and secondly education of adults and penetration of the illiterate market. The benefits of the last-mentioned might well, however, be deferred and wait on rural development. As has been indicated help in the mounting of campaigns of this nature and the provision of field workers and support for local workers would be invaluable. I think the Co-operative Department would welcome a feasibility study on ways and means of penetrating the rural market, provided it were followed up by practical help in implementation.

In conclusion therefore, I would say that there is a real need to awaken government to the need and urgency of a nation-wide campaign to foster saving, it is very necessary to penetrate the rural market as quickly as possible and all the practical help that can be given will be both welcome and invaluable. To adopt an agricultural simile it is, I think, correct to say that the soil is fertile, the seed is planted and what is needed is the stimulus of rain — rain in the form of practical help in rousing enthusiasm, enlarging

the scale of present achievement and carrying to all a conviction of the benefits of thrift and the need to develop. Given this help I am confident that the flow of personal savings in Swaziland can be greatly increased in the next few years, particularly if cheap funds can be made available for financing agricultural development.

#### GROWTH OF SAVINGS INSTITUTIONS IN SWAZILAND (R1 = U.S. \$1.40)

##### A. Commercial Banks (Balances in thousand rand)

Year ended 31st March	Current Accounts	Savings Accounts	Time Deposits	Total
1968	5,266	3,815	1,780	10,861
1969	4,729	4,731	3,211	12,671
1970	6,750	4,994	7,020	18,764
1971	7,500	5,700	6,000	19,200 (*)

(\*) The 1971 figures are rough approximations only.

##### B. Swaziland Credit and Savings Bank (Balances in thousand rand)

Year ended 31st March	Demand Savings	Notice Savings 6 & 12 Months	Call & Short Call	Total
1968	769		302	1,071
1969	514	210	431	1,155
1970	684	147	235	1,066
1971	710	516	465	1,691

##### C. Swaziland Building Society (Balances in thousand rand)

Year ended 31st March	Demand Savings and Deposits	Time Deposits (including fixed period and Subscription Shares)	Total
1968	74	272	346
1969	74	321	395
1970	82	400	482
1971	103	507	610



*D. Credit Unions and Savings and Credit Associations*

Year ended 31st Dec.	Credit Unions		Savings and Credit Associations	
	Number	Total Member- ship	Number	Total Member- ship
1969	4	152	1	49
1970	7	362	5	166

Total Shares, Reserves, Deposits and Surpluses of 28 Co-operatives of all types including the foregoing amounted as at 31 December 1970 to R103,305.

## HADJI DIARRA

### THE MOBILIZATION OF SAVINGS IN THE IVORY COAST

#### GENERAL REMARKS

The National Savings Bank was established on 1st January 1960 to take over from the local branch of the former *Caisse d'Epargne* of French West Africa, whose head office was at Dakar. It is a non-profit-making institution managed by a board of directors under the chairmanship of the Minister of Posts and Telecommunications.

The National Savings Bank of the Ivory Coast is still at an initial stage and limits itself to mopping up the savings of the working classes. It must be stressed that in our country the urban proletariat is relatively more numerous than in industrialized countries, and that the standard of living does not allow much saving on the part of these masses.

The rural population is just beginning to rise above the stage of subsistence economy, but the urban masses are much worse off. Their earnings are close to the guaranteed minimum wage, SMIG, which in the Ivory Coast is 8,000 CFA francs. As against that, average *per caput* income in the country as a whole was estimated at 30,700 CFA francs in 1960 and 52,100 CFA francs in 1968.

Savings and credit facilities need to be extended. To this end, it is necessary to make contact with the rural population and to educate all savers in the habit of regular and stable deposits. In addition, the rate of interest payable on deposits needs to be raised steadily.

The government has taken measures to encourage the mobilization of personal savings. Attention is drawn to:

a) A bond issue, in 1969 and 1970, by the Independent Sinking Fund, whose Management Council authorized a compulsory loan issue of premium bonds through the National Debt Management on the following terms:

I) 500 million CFA francs to be issued in bearer bonds of 5,000 CFA francs each;

II) Rate of interest 7 per cent;

III) Redemption over a 10-year period by annual drawings of 10,000 bonds;

IV) Prizes: among the bonds draw for redemption each year, 140 are drawn for prizes, as follows:

- 1 prize of 500,000 CFA francs
- 1 prize of 250,000 CFA francs
- 2 prizes of 100,000 CFA francs
- 11 prizes of 50,000 CFA francs
- 125 prizes of 10,000 CFA francs.

The loan issue was highly successful and subscriptions had to be closed well ahead of schedule.

b) The National Credit Council and its subcommittee specializing on savings problems.

c) The Independent Sinking Fund, whose premium bond issue was mentioned above.

d) The board of directors of the National Savings Bank.

e) The National Investment Fund financed by a 10 per cent tax on industrial, commercial and agricultural profit and by a 16 per cent tax on income from real estate property.

f) SONAFI, a company set up to handle certain banking operations from which government agencies such as the Treasury or the Independent Sinking Fund are barred. It is authorized to float loan issues at 6 and 7 per cent for the purpose of financing projects forming part of the National Plan in sectors where private enterprise is not forthcoming.

In June 1971, SONAFI put on sale to the public 30,000 shares, in denominations of 5,000 CFA francs, of the Ivory Coast tobacco company SITAB. The purpose was to encourage equity investment among the public in the Ivory Coast. Similar sales of shares are planned for the future.

In terms of the national economy, this company serves not only fiscal purposes, but is intended also to mobilize national savings.

The necessity to mobilize personal savings for development is mentioned in the Ivory Coast National Development Plan. At its last congress, the PDCI-RDA, the only political party of the Ivory Coast, discussed a radical

reorganization of the National Savings Bank with a view to improving the mobilization of household savings. The most recent development programmes worked out under the auspices of the Ministry of Planning place strong emphasis on the need to mobilize both public and private savings. The general aims are stated as follows: to reduce the economic dependence of the Ivory Coast on foreign countries by encouraging national saving; to increase the domestic share in financing economic development by the mobilization of savings at the level of government and individuals; to transfer gradually to national hands the control of production, by promoting and mobilizing savings; to exercise public powers in the economy in the direction of promoting domestic enterprise; to promote an investment change.

Finally, a government campaign called *Coupe Nationale du Progrès* bases its prize awards partly on the mobilization of savings.

The following institutions provide savings facilities in the Ivory Coast:

- a) The commercial banks;
- b) The Post Office Savings Bank;
- c) The *Banque Internationale pour l'Afrique Occidentale* offers its clients the facility to save for housing on special housing savings accounts;
- d) The National Lottery.

Growth figures of savings are shown in the two annexed tables, with reference, respectively, to the National Savings Bank and the monetary authorities and institutions of the Ivory Coast. The rise in bank deposits is explained by the high price of coffee and cocoa in recent years.

There are 23 banks and bank branches as well as 120 pay-desks spread throughout the country. A number of mobile bank trucks circulate in rural areas especially during the coffee and cocoa marketing season.

At present, the banks are concentrating their effort on attracting the rural population's hoarded cash into sight and time deposits. They have also started up the system of pass-book accounts.

The Post Office Savings Bank, in its turn, uses the country's 90 post offices plus 8 mobile trucks in rural areas. The volume of its business is illustrated by the following figures. Savings books numbered 79,258 on 31st December 1970, with 953,060,000 CFA francs to their credit at the same date. By 31st July 1971 the two figures had risen, respectively, to 424,102 and 1,088,176,000 CFA francs.



It should be possible to increase national saving by means of an intensive publicity campaign through broadcasting and the country-wide circulation of publicity trucks, and also by including the subject of savings and methods to stimulate savings in the educational programmes of schools. It is never too early to teach young children the concept and habit of saving.

The statisticians of the Ministry of Planning estimate that there are about 4,000 million CFA francs hoarded and lying idle in farming areas. Up to a point, of course, this figure is guesswork, since it is arbitrarily calculated on the basis of seasonal proceeds from the marketing of agricultural produce at the end of what we call the trading season. Given the low average *per caput* income above mentioned, large parts of these sums immediately find their way back into the commercial circuits which were the source of credit during the marketing season.

To sum up, the range of means used in the Ivory Coast for collecting savings seem to be suitably adapted to the different social classes of savers in accordance with a policy designed to mobilize all available resources for investment in the country's developing economy. Recourse to foreign loans widens the opportunities of such local capitalists as possess substantial capital resources of their own and have access to the rather flexible facilities offered by banks and state offices. As regards the poor working classes, the non-profit-making National Savings Bank gives them a chance of safekeeping their small savings for future use.

#### NATIONAL SAVINGS BANK

Items	1967	1968	1969	1970
Deposits received:				
number	37,109	46,042	51,259	57,265
amount	395,247,000	517,503,000	584,939,731	676,425,117
Reimbursements:				
number	23,468	30,545	35,700	39,122
amount	311,676,000	413,143,000	525,355,378	578,088,223
Net new deposits	83,571,000	104,360,000	59,584,353	98,336,894
Number of accounts	55,808	62,955	69,674	79,258
Total deposit at 31 December	637,699,543	764,278,632	854,723,884	953,060,078

Source: Board of Directors, Meeting of 8 April, 1971.

In this way it is possible to reconcile the requirements of a nascent capitalistic society with the need to educate the low-income masses of the population.

Net new deposits, that is the excess of deposits received over reimbursements during the year, rose in 1970 to 98,336,894 CFA francs, after a fall from 104,360,000 CFA francs in 1968 to 59,584,353 CFA francs in 1969.

The 1970 increase was due mainly to advertising and the Savings Bank's joining the Coupe Nationale du Progrès. Of the Savings Bank's 9,584 new clients in 1970, 1,103 live in the town of Bougouanou alone. This impressive figure is unfortunately counterbalanced by the low average amount standing to the credit of these accounts, which is no more than 625 CFA francs.

CONSOLIDATED SITUATION OF THE MONETARY AUTHORITIES AND INSTITUTIONS (in CFA francs '000)

Assets				Liabilities					
	Foreign (net)	Domestic	Total	Note and coin	Sight deposits	Time deposits	Government	Sundry creditors	Total
30/9/62	9,157	24,419	33,576	14,013	11,150	2,072	5,457	884	33,576
31/3/63	10,771	36,019	46,790	22,036	13,846	1,624	8,214	1,070	46,790
30/9/63	6,847	29,589	36,436	15,778	12,423	2,306	5,790	139	36,436
31/3/64	14,641	45,047	59,688	27,875	15,187	2,490	13,701	435	59,688
30/9/64	12,654	39,995	52,649	18,908	14,891	8,190	9,818	842	52,649
31/3/65	13,695	55,079	68,775	27,633	17,989	10,449	11,293	1,410	68,775
30/9/65	14,408	43,274	57,682	19,247	17,656	9,763	8,438	2,578	57,682
31/3/66	24,823	48,513	73,336	29,331	20,065	6,660	15,098	2,182	73,336
30/9/66	17,479	44,364	61,843	19,992	19,358	7,869	10,750	3,874	61,843
31/3/67	21,437	49,878	71,315	26,272	20,232	8,513	12,230	4,068	71,315
30/9/67	13,177	47,339	60,516	20,280	20,770	7,787	7,587	4,092	60,516
31/3/68	20,494	65,526	86,020	34,580	24,814	12,452	10,632	3,542	86,020
30/9/68	17,739	58,311	76,050	25,365	25,822	11,041	9,124	4,698	76,050
31/3/69	26,946	74,324	101,270	34,893	30,894	17,302	13,078	5,103	101,270
30/9/69	28,148	64,231	92,379	25,364	29,915	17,748	11,948	7,404	92,379
31/3/70	39,574	92,020	131,594	42,626	38,544	25,660	18,662	6,102	131,594
30/9/70	35,435	83,591	119,026	32,156	37,111	22,233	20,028	7,498	119,026
31/3/71	42,677	104,803	147,480	46,072	43,773	29,564	21,354	6,717	147,480



**SAMUEL OYEWOLE ASABIA**

## THE MOBILIZATION OF SAVINGS IN NIGERIA

It is recognized in Nigeria that effective mobilization of personal savings depends to a large extent on sound monetary management, and the regular and expanding use of facilities provided by the appropriate savings and credit institutions. Although the savings and credit facilities in the country have expanded substantially in recent years, they are still inadequate for the needs of the economy. For instance, commercial banks concentrate their operations in a few commercial cities and towns and neglect the rural areas. In many of these areas there are no financial institutions of any kind to serve as a channel for mobilizing savings or meet credit needs.

There is urgent need not only for the extension and improvement of the existing financial institutions, but also for the establishment of new ones like agricultural credit banks, mortgage banks, unit trusts, savings and loan associations and other specialised credit institutions which provide a variety of services to attract not only the big corporations or firms but also the individual upcountry saver.

In 1962 the Federal Government, through the Ministry of Finance, launched a nation-wide campaign (the National Savings Campaign) to mobilize personal savings, and simultaneously, savings instruments (savings certificates, savings stamps, and premium bonds) were introduced. Another measure designed to encourage personal saving is the exemption of life insurance premiums from personal income tax. The National Reconstruction and Development Savings Scheme of January 1968 was another measure designed to mobilize personal savings. The scheme embraced all Nigerian workers including pensioners. Under the scheme workers earning above £N50 per annum were required to save 5% of their gross monthly income for a period of twelve months while those whose annual incomes were £N50 or less were to save a flat rate of 10/- during the period. Both cap-



ital and interest at 3 per cent are repayable after ten years. The contributory period lasted only for one year.

The necessity to mobilize personal savings for development was emphasized in our First National Development Plan 1962-1968.

The launching of an intensive campaign to mobilize small savings was emphasized. So also was the development of the stock market and other private savings institutions for the purpose of increasing the flow of private savings. The Central Bank of Nigeria has recently shown active interest in fostering the proper development of the Nigerian capital market. In consultation with the Lagos Stock Exchange, recommendations were made to the Federal Government early this year which would ensure an adequate supply of securities in the market and maximise trading in stock and shares. These recommendations, when approved, will go a long way towards strengthening the saving habit.

Savings facilities in Nigeria are provided in the main by the following institutions:

- Commercial Banks
- National Provident Fund
- Post Office Savings Bank
- The Building Society
- Housing Corporations
- Life Assurance Companies
- Savings Co-operatives
- Indigenous "Cycle Saving (ESUSU) Schemes"
- Government Lottery Schemes.

The commercial banks, the Building Society and the housing corporations are showing satisfactory growth. The operations of all the institutions listed above (except ESUSU which is ubiquitous) are concentrated in the urban areas. However, the facilities provided by the commercial banks and the Post Office Savings Bank are more widespread. The table below (see Appendix) shows the growth of some of these institutions.

It will be possible to increase the flow of personal savings deposits in Nigeria. This increase could be stimulated by the various measures enumerated, but in particular the following would prove invaluable:

a) Extension of savings facilities, such as savings banks, savings co-operatives and mortgage banks to the rural areas of the country.

b) Publicity for saving, and campaigns against ostentatious living, squandermania, and costly ceremonies concerning burials, wake-keeping, etc.

c) Introduction of adult education, especially in the rural areas, to enable the people to take full advantage of savings facilities.

d) A feasibility study concerning the establishment of efficient savings and credit facilities might be useful.

#### Appendix

#### INSTITUTIONALISED SAVINGS (£N's 000)

Cumulative

Year	Commercial banks (savings and time deposits)	National Provident Fund	Post Office Savings Bank	Nigeria Building Society	Premium bonds, certifi- cates, savings stamps	National Reconstruc- tion and Develop- ment Savings Scheme	Total
1962	41,644	1,092	2,978	n.a.	8		45,742.0
1963	47,135	4,453	2,964	242	56		54,850.0
1964	54,214	8,893	2,949	387	88		66,531.0
1965	70,509	13,664	2,745	481	134		87,533.0
1966	81,258	18,556	2,657	587	183		103,241.0
1967	65,621	21,769	2,424	689	211		90,714.0
1968	91,776	25,442	2,465	883	94	3.4	120,663.4
1969	107,703	29,298	2,488	1,007	90	5.0	140,591.0
1970	168,359	33,690	2,481	1,320	67	5.3	205,922.3



PAOLO MOTTURA

PERSONNEL TRAINING FOR AFRICAN BANKS:  
PRINCIPLES AND ORGANIZATION

PERSONNEL TRAINING IN EUROPEAN BANKS

The problem of specialized training for bank personnel is one that has cropped up comparatively recently in Europe. It used to be common practice for banks to train their staff on the job, that is, to let them get experience by assigning them, in turn and in specified order, to work with the main departments at head office and branches. The staff members suitable for subsequent promotion to intermediate or managerial posts thus had an opportunity to get acquainted with a broad range of management problems, policies and techniques, as well as a chance to specialize in some particular aspect of the banking business, like loans, foreign transactions, etc. Until quite recently this system proved quite satisfactory, especially in large banks with an efficient internal organization and well-established traditions. But during the last ten years or so things changed, the banking business itself no less than the economic environment, and many technological innovations were introduced. In the new circumstances it became clear that the method of training personnel on the job and too exclusively in connection with the employer bank's own traditions has its drawbacks, in that it tends to perpetuate the management policies of the past and to discourage any effort to seek out and put into practice innovations in the field of administrative organization, working methods and market policies. While such an absence of innovating spirit may sometimes make for prudent management, it also retards the structural and functional adjustment of the banking system to changes in its surroundings, and thus impairs the banks' efficiency in terms of their own earnings capacity and in relation to economic development.



During the sixties, European banks had to cope with rapid changes both in their internal conditions and in outside market situations. At this critical point it became apparent how ill-trained most bank personnel really were and how few of the managers were capable of running a bank's business on modern principles and along new policy lines — witness the frequency with which experts from other fields or outside consultants had to be called in and part of bank staff retrained.

This growing need for skilled and specialized staff at all levels, not excluding management, is due to three main sets of causes. First of all bank clients have become more demanding and expect more and more diversified and functional financial services. Credit demand is more specific as regards the various short, medium and long maturities and also the various technical forms of lending. At the same time, growing trade and financial relations among firms as well as the increasing movements of capital across frontiers have created more exacting demand for deposit and cash transaction services. Many businessmen, moreover, turn to the banks for a wide range of collateral services, which require specialized staff and modern electronic equipment; I have in mind financial advice of all kinds, accounting and administrative services, data processing, trust management, and so on.

In addition to the new requirements of bank clients, there are those of communities and the economy as a whole. There can be no doubt that in present conditions, and even more so in the future, the banks will have to assume growing responsibilities in the field of public information, and hence will have to make their action more effective both in the economic and in the social field. It is easy enough to foresee that governments will tend to rely more heavily on the economy's financial infrastructures for the implementation of economic policy aims. To this purpose, individual banks and the banking system as a whole will have to do yet more to attract savings, expand credit and improve its distribution, make the mechanism of payments more and more efficient, gain a firm footing on the international market, facilitate capital movements across frontiers and thus even out balance-of-payments disequilibria, and contribute to the dampening of cyclical fluctuations, to the control of inflationary pressures and to orderly and quickened economic growth in conditions of intersectoral and interregional balance. If this is the prospect for the medium and long term, the global management

costs of the banking system will obviously have to be kept down to the extent possible. This whole set of aims and conditions presupposes that the banks possess modern equipment, an efficient internal organization and well-trained managers and employees. And it is precisely the shortage of such staff which has recently led European banks to tackle the problem of training and upgrading their personnel with a view to drastic renewal on modern, forward-looking principles.

The second set of causes which has brought this problem to the fore has to do with the changed market conditions in which banks have had to operate in recent years. Competition has become keener with the new international dimension which capital and credit markets have assumed. The United States have imported a huge volume of capital from the international market and thereby have exported their own credit strains to European economies, pushing up the banks' borrowing rates and depressing bond prices to quite exceptional levels. There can be no doubt that this has squeezed the profits of European banks. Their unenviable position was made even worse by the recession which followed, with its unfortunate combination of low credit demand, inflation and declining lending rates. On the cost side, banks in some European countries suffered not only from the high borrowing rates, but from rising personnel costs under widespread trade union pressure, and from the increasing incidence of defaulting loans. A final point to remember is that certain traditional fields of bank business have recently been invaded by financial intermediaries other than banks, such as investment trusts, leasing and factoring houses, and others. This has set up further competitive stresses. With bank profits thus undermined, most banks have looked for new factor combinations and new relations with the market, so as to get their costs and receipts back into better balance. These efforts have led the banks to make better use of disposable resources, to invest more in electronic equipment and to replace human work by computers in many work processes, to expand the scope of their activities and offer the public a broader range of services (economic and financial advice, data processing, insurance, information, new investment and loan facilities, etc.).

The third cause, finally, which lends urgency to the problem of personnel training for banks, is that the above-mentioned process of innovation has an important bearing on the internal organization of banks. The increasing use

of computers, the adoption of more sophisticated management techniques and the assumption of new tasks require of the human factor, working in combination with the other factors of production, more advanced skills and specialized knowledge, while management functions, though diversified, need to be broadened and strictly co-ordinated. The banks cannot achieve their aims without improving the productivity of their personnel and the innovation capacity of their management. This is a *conditio sine qua non* for better profits and a stronger competitive position for each individual bank, and, more generally, for more efficiency at a level transcending the individual firm.

This being so, most European banks quickly discovered that their staff did not measure up to the new requirements, from the point of view either of general knowledge in financial matters, or of specialized techniques or, finally, of managerial ability. For this reason many banks, and more especially the biggest ones, adopted programmes of staff training and specialization — and this, of course, means managerial staff as well.

Many different methods are in use. The biggest banks generally have become more selective in recruiting new personnel, see to it that newcomers are more carefully trained either before they start work or during the first few months in their new job, and arrange internal retraining and specialization courses for staff at all levels. These courses are usually run with the help of outside instructors, experts and lecturers, but the bank's own top executives also lend their help. In other cases, and this is the solution preferred by many smaller banks, seeing that it is much cheaper, employees are sent off to take part in refresher courses organized by appropriate agencies or banking associations. These courses are of varying length and use a variety of teaching methods. However, to conclude this brief survey, it must be stated that the problem of training top-level managerial staff has not been solved in this way. Banks generally try to encourage managerial talent at lower levels of staff training, or else, in an emergency, recruit managers from other banks or companies in related fields.

As regards savings banks, they certainly have not neglected the problem of personnel training. On the contrary, it is only right to say that their associations in various countries have made it their very special concern, and the International Savings Banks Institute, in its turn, regularly organizes refresher courses for the employees and managers of its member banks.



### THE PROBLEM OF PERSONNEL TRAINING IN AFRICAN BANKS

Similar difficulties have arisen in recent times for credit institutes in Africa, though in their case the problem is somewhat different. It may be useful, therefore, to look for the causes of these difficulties in the setting of African banking systems, and then to see whether and to what extent the methods of personnel training now current in Europe can be adopted also by African banks via a programme of collaboration and exchange of information.

Since the advent of political independence, all African states, however different their policies, have done their best to promote economic development and to this end have used various means, including the local banking system, for channelling available capital resources towards priority investment. Very often it did not take long to discover that the local banks, offshoots of European ones, were totally unfit for the task of financing economic development — partly because of their limited operational scope, and partly because inevitably conflicts arose with their parent banks. It was clearly necessary to make local banks serve their own country's needs, and at the same time European banks found it both troublesome, because of the conflicts mentioned, and less profitable to work in African countries along the lines laid down by these countries' governments. All this soon worked in the direction of the emancipation of African banking systems from their European ties, in two ways. On the one hand, many African states adopted more or less drastic measures to loosen these ties, which were regarded as harmful for independent national development. Sometimes foreign interests in local banks were put under official control, sometimes they were expropriated or "Africanized", that is, transferred into, public or private, national ownership, and sometimes governments adopted the most drastic method of all and nationalized the foreign banks or even the whole banking system, placing them under the authority of the Central Bank or the Finance Ministry. On the other hand, European banks generally adopted a policy of gradual disengagement from African countries to the extent this was possible without detriment to the survival of their own nationals' local interests, though they did keep up such relations as were judged indispensable for financing foreign trade and the connected settlement of payments.

This twin process of alienation and withdrawal of European banks had immediate and serious consequences for African bank cadres, because many



of the foreign staff, who generally occupied managerial or at any rate high-level executive posts, went home and left behind them a great vacuum. It was not possible, of course, to replace the outgoing European managers and officials by local bankers of corresponding calibre, because, when the banks came into African ownership, such staff of local origin as they had consisted almost entirely of people who, at best, had strictly administrative functions, and very few indeed had had the benefit of training abroad. Thus managerial functions had to be assigned to inexperienced men hardly prepared for them, drawn either from lower bank personnel or from some other field. To this day, the top cadres of African banking have not yet got over the shock of this sudden, but inevitable substitution of European personnel, and this has no doubt been one of the causes of delay in local economic development. But it had to happen, since the continued presence of European bankers representing their respective parent banks would probably have retarded the adjustment of the banking system to the financial requirements of local development. One can hardly avoid blaming the European banks for their failure to train local managerial personnel, but the fact remains that the emancipation of the African banks was a necessary move and one beneficial in the long run. Whatever the hardship it entailed for those concerned and however much disruption ensued at first, this emancipation was the condition for laying the groundwork for new financial infrastructures more appropriate to the growing requirements of African economic development. It seems right to conclude that in spite of all the upheaval, the errors and failures it caused, emancipation of the African banks eased their insertion into the local economy and made it possible for them to tailor their functions more closely to the conditions and aspects of local development.

In the meantime, the problem of getting trained bank personnel, especially at intermediate and managerial level, is not only far from its solution but tends to get more serious with alarming speed — and the local banks do not have the resources to redress the situation.

Political independence in Africa is barely a matter of ten years or so, and during this time efforts have been made everywhere to set in motion a process of economic development. Opinions are divided as to the success of these endeavours, but some important general considerations have emerged. First of all, Africa's financial problems have turned out to be a good deal more complex than expected. Secondly, experience has shown that any policy

of economic development achieves tangible results only if it is backed by capital accumulation resting on endogenous saving and an efficient system of intermediation by which such savings as are not used for self-financing are channelled towards investment in the form of money. It follows from the first two points that the importance of financial intermediaries in the development process was generally underestimated in the past. Finally, there is now general agreement to the effect that the structural and functional features of African banking systems must be shaped according to new principles and patterns, that the right approach is a pragmatic one of adjusting to local conditions, and that it is best to distrust theoretical solutions or models tried out in other contexts.

In other words, the conviction is gaining ground that the rationale of efficient integration of African banking systems into their respective economies is not yet fully understood, and that every effort must be made to find the right answer as soon as possible. However much scholars and experts of banking may disagree otherwise, they are unanimous in thinking that African banks will have to get yet further away from the classical European model if they are to find their own functions and equilibrium in relation to development needs. This is in fact happening, witness the recent creation of new types of financial intermediaries, such as development banks and some agricultural credit institutes, which are pioneering basically new forms of investment. And soon, too, specialized institutes for attracting savings will be springing up, to fill the ranks of the few and rather inefficient ones that Africa now possesses.

The present and future managerial staff of African banks will no doubt have to play an important part in defining the new lines along which banking activity in their respective countries is to develop and will be called upon to guide the financial system in the direction of greater structural efficiency and functional organization. Intermediate and lower staff, in their turn, will need to be adequately trained for their new functions. To put it in a nutshell, the banking business in Africa must not be modelled on the traditional pattern, but must be thought out anew on the basis of experience, keeping what has proved valuable and discarding past errors.

All this will obviously require a considerable supply of highly competent managerial staff and well-trained intermediate (administrative) staff capable of subsequent promotion to managerial level. African bank managers



will probably need general economic and financial knowledge over a wider range and in greater depth than their European counterparts, but less specialization. The reason is that African banks will, for some time to come, remain by far predominant in the financial system and will represent one of the most important decision centres in the economy — and that means that they will have to rely on their own personnel for growth, in the absence of sufficient external economies. The problem of training bank personnel in Africa derives, therefore, from causes and situations which are very different from those which create the same problem for European banks. It is one of the utmost gravity and clearly must be given priority over all the banks' other problems, because without human resources of high managerial and administrative ability the banks' financial resources, whether they are scarce or abundant, will not be used to best purpose.

The monetary authorities and banks of Africa are well aware of the problem and of its importance, but, it must be frankly admitted, still far from its solution. In the first place, African banks, unlike European ones, cannot easily replenish their cadres by drawing on outside sources, that is, recruiting suitably qualified men from other economic or financial sectors or else from institutes of higher learning (universities, specialized schools). Nor are there any means of organizing internal or external training courses on the European model. Even assuming that the banks had the financial resources to do so, there remains the problem of finding enough qualified instructors. In some countries an attempt has been made to make good the shortage of managerial talent by centralizing decision and management functions to the extent possible, leaving only strictly administrative ones to branch and lower personnel. This may well have been one of the purposes African governments had in mind when they nationalized the banks. But such a system tends to curtail the flexibility and efficiency of decision-making in so far as it makes it specific to the financial needs of particular economic sectors or particular geographical regions.

Some banks in Africa have organized personnel training courses, but what little is known about them suggests that they follow a rather traditional pattern, in so far as they concentrate mainly on technical instruction which does little to develop the managerial potential of the trainees. Many individual banks have instead relied on collaboration with European banks, most often those with which they do most business, and have sent to them staff

members either to work there for a while or to attend courses. More will be said below about the value of these methods of personnel training.

Meanwhile, it seems a fitting conclusion to what I have said so far to point out that the technical assistance programmes sponsored in the field of banking either by international financial organizations or by individual European governments generally pay very little attention to cadre training. This lack of interest has no doubt played a part in retarding the development of African banking systems in the direction of better structural adaptation to local requirements, and has probably prevented financial resources of foreign origin from being used in the most rational and productive way.

#### A NEW APPROACH TO PERSONNEL TRAINING IN AFRICAN BANKS

The problem of training bank staff, then, is one common to all countries, but derives from different causes which are closely linked with each particular country's degree of economic development and reflect profoundly different needs. This means that it is not logically possible to find generally valid solutions and that the problem must be studied, assessed and solved in realistic and practical terms, with reference to the specific operational and environmental situation of the banks concerned. Clearly, therefore, the needs to be met are not the same either in all African or in all European countries; but to dwell on these differences would take me too far.

In recent times African banking systems have begun to assume and develop new features and functions more appropriate to the real financial needs of their respective economies. Once local banks had broken loose from foreign dominance, African governments made it their concern to alter their countries' banking systems in structural and functional terms. They direct the activities of commercial banks along the desired lines, or they create new credit institutes (development banks, agricultural credit institutes, etc.) for financing priority investment in spearhead sectors of economic development. They also often try to organize new lending systems and procedures, by integrating loans into a whole set of prior, simultaneous and subsequent measures designed to keep the capital invested under stricter control and enhance its productivity. But it would seem that less has been done so far to promote the formation and mobilization of savings. In other words, African



banking systems have come to assume wider and more important functions than many European ones, and work on entirely different principles.

This means that African bank personnel need to be trained for specific new functions and not for those typical of European banks. This may seem a glimpse of the obvious, but it is worth stressing all the same, because many African banks still turn to European banks in matters of staff training and specialization, in the belief that direct experience of bank business in a more advanced country must have educational value. Now, it is no doubt useful for any member of an African bank's staff to be sent abroad to do a *stage* with a European bank, where he gets to know different conditions, can see how efficient organizations work and learn new techniques and new operations, and in short can acquire a wide range of knowledge. But this experience obviously does nothing to fit the trainee for the specific functions required of a banker in relation to economic development in Africa. On the contrary, it may happen that a man trained at a foreign bank ends up with a mentality, with standards of judgement and with working methods not applicable in his country of origin because of its different environment. In that extreme case training abroad would not only be useless but positively harmful, because it would work against the desired emancipation of African banks, that is, against their endeavour to fit more efficiently and functionally into the reality which surrounds them. It follows that no European bank can give African bank personnel the sort of training they need either by giving them direct experience of its own working principles and methods, or by offering them the same sort of training courses it organizes for its own staff.

New methods of training must, therefore, be devised for the specific requirements of African bank personnel. The ideal solution would be for African banks themselves to train their own personnel in the light of their own requirements. But, as we have seen, this is not always possible, because African banks usually do not have resources for such a programme. The main difficulty is not money, but the problem of finding instructors with adequate knowledge and experience in the different departments of banking business. Local universities and higher schools cannot, for the time being, offer such instruction, and the managers of the banks themselves most often simply do not have the time to take care of training their own staff. Central Banks have similar difficulties.

In the short run, therefore, the solution must lie in taking advantage of technical assistance made available both by international financial and economic organizations and by the governments of more advanced countries. As things are at present, this seems the only way of efficiently co-ordinating means to the end. So far, however, technical assistance in the banking and financial field has unfortunately rather neglected the problems of personnel training and has concentrated largely on financing development plans with the help of foreign capital, or else has taken the form of high-level expert advice. It is common knowledge that the financial experts and technicians sent by international organizations and by governments of developed countries usually exercise advisory and supervisory functions, but have done nothing in any direct or concrete way so far to help African countries to financial independence, which presupposes not only sufficient internal capital formation, but the existence of men who can efficiently run the mechanism of financial intermediation. It was not until 1965 that the United Nations Commission for Africa took an interest in the problem, prepared a survey on methods and needs with respect to personnel training for African banks and submitted it in 1966 to the Conference of Governors of African Central Banks at Addis Ababa. To the best of my knowledge, nothing further has been done about it.

Any programme of economic and financial assistance should, therefore, aim in the first instance at creating the conditions most propitious for the process of development, once begun, to become self-sustained, that is, to generate enough resources for continuous advance. Only too often the word "resources" is mistakenly interpreted in a restrictive and exclusively material sense; experience proves, on the contrary, that human and intellectual resources play the decisive role in the productivity of each individual investment no less than of the economic system as a whole. It follows, for the financial field, that reliance on foreign capital and foreign experts should be transitory and, in the long run, play only a subsidiary part. In this light it is necessary that technical assistance should extend, in adequate measure, to the creation of an efficient financial infrastructure together with the technical and administrative ability to run it independently.

For these reasons the problem of training bank personnel in Africa deserves priority attention, and the organizations which provide technical



assistance in the financial field should help solve this problem so long as the countries concerned cannot do it by their own effort. Obviously, this will take some time and results can be expected only in the medium or long run. Actually, the African banks' needs of qualified personnel are growing fast, in step with their expanding activities and increasing specialization. But in any case, one will have to think in terms of the future rather than the present, and therefore arrange training mostly for younger staff likely to move up subsequently into managerial or administrative posts of top or intermediate level.

One solution that comes to mind is to set up special training centres in the countries concerned, to be run jointly by local bank authorities and some international financial organization. This would give the foreign instructors a chance to adapt their teaching to the specific conditions of banking in the country, and they could examine the local problems directly in collaboration with the banks concerned and their management. Courses might usefully be organized in the form of seminars, with all trainees taking an active part in the discussion of concrete cases and problems. This solution has never been tried out in practice. It sounds good, but there could be difficulties, say, in recruiting instructors willing to travel to far countries. The answer might be to enlist the help of foreign experts and technicians already on the spot as part of some other mission requested by the government concerned. A signal contribution to the establishment and working of such training centres for bank personnel might be made, for instance, by staff members and consultants of the International Bank for Reconstruction and Development and its associated agencies, of FAO, the International Monetary Fund and similar international or national organizations.

Alternatively, or in addition, such training centres might be set up at the headquarters of these international organizations, or of European central banks and other banks interested in this matter. This would certainly make it easier to find instructors and experts with the necessary specialized knowledge, and the centres themselves would be more international in character, since trainees from many countries would take part. But while this would no doubt be conducive to a useful exchange of views and to the establishment of no less useful personal contacts among trainees of many nationalities, the instructors themselves would then have neither a chance of adapting their teaching to the specific requirements of individual countries, nor any direct

check on its validity. Nevertheless, this too is a possible way of obtaining good results, witness the training courses which a few European banks organize for African bank personnel.

SAVINGS BANKS AND THE TRAINING OF PERSONNEL FOR AFRICAN BANKS:  
PAST EXPERIENCE AND OUTLOOK FOR THE FUTURE

In coming to the end of this report, I feel it might be useful to turn to a few concrete cases, so as to draw your attention to the principal problems of personnel training for African banks, and to guide your discussion in this direction.

For some time past, a number of European countries and institutions have been organizing courses designed to train intermediate and managerial staff for developing countries, with particular reference to those in Africa, our closest neighbours. I will mention only a few. The *Caisse Centrale de Coopération Economique*, in Paris, has set up and runs the *Centre d'Etudes Financières*, where the most modern methods are employed in training and advanced courses for managerial personnel from African financial institutions and banks. In Germany there are a number of similar organizations which, though not specializing on the training of bank personnel, offer hospitality to students from many developing countries and give them university-level instruction on a wide range of subjects, including monetary and financial matters and banking. Best known among them, perhaps, are the German Foundation for Developing Countries, which is in Bonn and has subsidiaries elsewhere, and the Institute for Co-operation in Developing Countries, in the University of Marburg.

In Italy, the *Cassa di Risparmio delle Provincie Lombarde* has, since 1967, been organizing an annual Training Course in the Economics of Banking for Intermediate and Executive Staff from African Countries. This course, which lasts about eight months, is now being held for the fifth time and can claim to have been successful — to judge, at least, by the growing number of applicants. If I mention this particular venture which is so close at hand here at this Conference, I am not doing it for reasons of publicity. But I do think it will be useful to tell you something about the principles on which this course is organized, the aims it pursues, the reasons which lead the *Cassa* to do this at all, and about the future development of the course



itself. Furthermore, this Conference offers a welcome opportunity for discussing with you your own ideas on the subject, soliciting your critical comments and your suggestions, and asking for your collaboration. This last point, collaboration, is one I want to stress more particularly, because our experience has shown that without it the course cannot hope to succeed. I have, unfortunately, not enough time here to explain in detail how the Course is organized, but anyone interested will gladly be handed all the relevant literature.

In the four Courses we have held so far, we have learnt that the most effective way to impart instruction to the trainees is to put them, first of all, through an intensive course in the Italian language. This makes it easier for them to feel at home here, to develop social contacts and to take an active part in the later stages of the Course. At the same time, students attend some ten or so basic lecture courses in the economics of banking, which are designed not only to add to the trainee's knowledge but to set it in an orderly pattern and bring it to uniform standard. These general introductory courses have proved necessary because not all trainees are advanced enough to follow the later, more specialized courses, and because in any case it is useful to establish among them a common basis of knowledge and thus to encourage group discussion. At the end of this general stage the trainees sit a written examination, which serves to assess their individual performance, and also as a check on the overall effectiveness of the teaching.

Every participant then has a choice between three specialized fields, as follows: 1) savings promotion, development financing, credit control and guidance; 2) administration and operational techniques of commercial banks; 3) administration and operational techniques of agricultural and of medium- and long-term credit institutes. At this stage, instruction assumes different and complementary forms. First of all, the trainees attend their respective specialization courses; these are predominantly theoretical, and are supplemented by exercises, in which concrete cases and problems are illustrated and explained, and theory is applied and discussed more in detail. Simultaneously, every participant has an opportunity of gaining first-hand working experience; he may choose, successively, two or three departments of the *Cassa* or its associates, and there can learn for himself how work is organized, how operations are carried out and how the concepts he has learnt are applied in practice. The trainees work about three hours a day in the department

of their choice, where they are under the supervision of the managers and officials concerned; their study and work programme is agreed in advance with the instructors, and they get practical help from some of the employees in the department. The trainees furthermore spend part of their time on group discussions of the financial problems of African economies. On these occasions, the discussion is opened by one or more of the trainees, in charge of preparing the meeting with the assistance of some of the instructors. Further opportunities for learning are offered the trainees in the arrangements made for them to visit the leading banks nearby. Every Course terminates with an examination in the subject concerned, and in addition marks are awarded for each trainee's performance while working in various departments of the *Cassa*.

The programme of the Courses is rather wide-ranging and diversified, because experience has shown that African bank personnel need not so much excessive specialization as a solid grounding in development financing and in various fields connected with, though not strictly speaking part of, the economics of banking. In an effort to adapt his teaching to the particular requirements of African economies, every lecturer prepares his course accordingly, and always with special reference to the financial problems of economic development. The instructors are carefully chosen in the light of their academic background, their interest in the study of developing economies and their teaching skill. In spite of all these precautions, it became clear in the first few years that the Course did not always meet the interests and requests of the participants. For this reason the directors of the Course began, two years ago, to develop collateral research on the financial and banking systems in African countries and to send out the instructors on study missions on the spot. This original work will enrich the teaching material and also the library attached to the Course and at the disposal of trainees. An appreciable number of instructors have in this way already made direct contact with the reality of African economies and the system has proved most useful in making the teaching more concrete and realistic. This aspect will be further developed in the future. In this connection the *Cassa di Risparmio delle Provincie Lombarde* recently concluded an agreement with FAO, the Food and Agriculture Organization of the United Nations, for a three-year research programme on agricultural credit. An active part will be taken in this programme by the instructors of the Course, and the results will be used for it. In the years

to come trainees will have access here to our far-ranging collection of literature on African economies, and will be asked to prepare, at the end of the Course, short reports on the chief financial problems of their own country; the library will also be used for the publication of a news and refresher bulletin, which should be useful to all the trainees who have ever attended the Course.

Some of the instructors, moreover, maintain frequent contacts with African economies, given that the International Savings Banks Institute, the Italian Association of Savings Banks and the *Cassa di Risparmio delle Provincie Lombarde* have for some time been rendering technical assistance to African countries in setting up banks which specialize in collecting and investing savings. As members of technical assistance teams, the instructors gather a lot of information which is very useful for the Course. In any case, personnel training and technical assistance are very closely connected. As an example, I would remind you that the savings bank which is now being set up in the Sudan was planned, and will be managed, by a committee which includes two former students of the *Cassa's* Course, alongside the experts appointed by the Italian savings banks. To sum up, it is our view that the close links of the Training Course with research and technical assistance in African countries is the best possible guarantee for its appropriateness, realism and future improvement.

Before the discussion on my report gets going, I want to address a plea to the representatives of African banks who are here with us. The Course needs your collaboration if our effort is to yield yet better results. Like all the other savings banks, the *Cassa di Risparmio delle Provincie Lombarde* does this sort of work as part of its institutional purposes, to which it devotes a large part of its operational profits. The aims of savings banks, by and large, are to promote saving and to employ the saved resources in the public interest. Given that it is one of the main problems of economic development to raise national savings and channel them to productive investment, it seems the natural thing for us to do is to ask you to take an interest in our programmes and to lend us every possible collaboration. As regards the Training Course for African bank personnel, we ask you to trust us. Send us your most competent men; put our graduates by and by into managerial posts so as to test the usefulness of our effort; and keep in close touch with those responsible for the Course, for a fruitful discussion and exchange of experiences.

With this plea I conclude my report. Thank you for listening to me.



**SIDNEY SHERWOOD**

**TECHNIQUES FOR THE MOBILIZATION OF DOMESTIC SAVINGS:  
WHY AND HOW UNITED NATIONS BODIES OFFER ASSISTANCE**

**INTRODUCTION**

The first development decade (1960-1970) revealed the basic fact that capital mobilized from their own resources constituted by far the largest input in investment in the developing countries. In fact, in the 1960's domestic savings financed 85 % of total investment.<sup>1</sup> This is indeed a notable achievement. Although much of this was accomplished through taxation, significant progress has been made in some countries in establishing savings institutions of various types. These include savings and loan associations, credit unions, co-operative banks, mutual funds, unit trusts, postal savings, provident funds, insurance companies and commercial and savings banks.

The establishment of savings institutions in the countries throughout the developing world has not been uniform. The type of savings institutions selected for a given country depends on the social and economic conditions and particularly on the stage of development of its agriculture, industry and education. Also there is a variance in the rate of savings from country to country. Nevertheless, as the following table indicates, there is a relatively even ratio among the developing countries, on a regional basis, of the per cent of savings and gross investment to the gross national product.

In this Report an attempt has been made to compile in a single document an inventory of the principal techniques for the mobilization of domestic savings and to set forth the general principles involved in the establishment of savings institutions. The necessary steps to be taken in setting them up

<sup>1</sup> « Partners in Development » - Report of the Commission on International Development, Lester B. Pearson, Chairman, p. 30.



SAVINGS AND GROSS INVESTMENT AS PER CENT OF GNP, AVERAGE FOR 1960-67  
(per cent)

Items	Savings	Gross Investment
Developing Countries	15.0	17.8
Africa	13.1	16.7
South Asia	11.3	13.9
East Asia	11.0	15.6
Southern Europe	21.5	24.9
Latin America	16.3	17.7
Middle East	14.8	19.8
Industrialized Countries	21.7	21.2

Source: World Bank

and the required inputs are indicated. The operating relationship of these institutions, particularly between those located in the urban and the rural areas, and also their connexion with national and international lending institutions is described. Annex I of this Report contains descriptions of those institutions which are most effective in the mobilization of domestic savings.

In the preparation of the Report great reliance has been placed on the numerous background papers and reports on mobilization of savings, taxation and capital flows prepared by the several United Nations Agencies. The United Nations Departments and Agencies have performed much valuable research and have prepared exhaustive reports on the mobilization and investment of domestic resources. Some of these have dealt with many subjects including the flow of capital, the development of capital markets, taxation as a means of public saving and the deterrent effect of inflation on accumulation of savings.

Over a period of years the Regional Commissions of the United Nations have studied these problems in depth. The Economic Commission for Asia and the Far East has issued annual bulletins reporting the results of such studies. Other reports were prepared such as the "Survey on New Home Financing Institutions in Latin America (the Savings and Loan experience)". These reports were prepared for the Centre for Housing, Building and Planning, Department of Economic and Social Affairs, United Nations. The World Bank likewise has prepared papers on capital flows and the relationship of

savings and taxation in developing countries; these deal with budgetary policy designed to discourage consumption through taxation while insuring that the increased revenue is channelled to public savings.

In addition, several institutions outside of the United Nations system, both public and private, both national and international, have not only prepared reports on ways and means of mobilizing savings, but some have assisted or sponsored direct action programmes in developing countries. Significant reports in this category dealing with the operation of savings and loan associations, credit unions, etc. are also listed in the bibliography.

It is the intention of the UNDP to place this report, which is an internal document, in the hands of the Resident Representatives who will make it available to any country interested in exploring techniques for the mobilization of domestic savings.

It is hoped that it will be of assistance to those countries seeking to determine the type of household savings institutions best suited to their conditions and stage of progress and will also serve as a guide in the establishment of such institutions or expanding savings programmes already established.

#### GENERAL PRINCIPLES

The basic purpose in all programmes for the mobilization of savings is twofold — first, to tap idle funds in order that they may be put to productive use; and secondly, to provide facilities which will stimulate the habit of saving. Savings institutions are merely vehicles for accumulating such funds so that they may be channelled into productive enterprise.

Difficulties are frequently encountered in accomplishing this, particularly in those countries where industry is in the form of family-owned firms. Such firms are reluctant to admit new investors, whether those investors are fellowcitizens or foreigners. Another difficulty which is encountered in many developing countries is a reluctance to exchange physical assets for financial assets. Gold and jewelry are hoarded in some countries often as a traditional custom and sometimes because of lack of confidence in the financial institutions and a feeling that security lies in keeping one's possession in physical assets. To overcome this type of reluctance, it is necessary to demonstrate that in depositing their savings in an institution, individuals are enabled to obtain, through loans or otherwise, articles which they desire.

Savings institutions appear in many forms. Differences in these institutions lie not so much in their organizational structure as in the categories of people they serve. It is well to keep this in mind in deciding on the type of institutions to establish.

Experience has demonstrated that savings and loan associations are most effective in accumulating the savings of middle and lower-middle income groups, but are not so suitable for low-income groups.

On the other hand credit unions, postal savings systems, and provident funds have been more successful in accumulating the savings from the low-income groups. Likewise, mutual funds are designed primarily for middle and lower-middle income groups, as are savings and loan associations. However, the mutual funds and unit trusts are more sophisticated institutions than the co-operative savings organizations. They are suitable for developing countries which have achieved a degree of industrial development, because their basic purpose is to accumulate savings for investment in new and expanding industries. In those developing countries which have a growing industry, mutual funds have been successful.

For predominantly agricultural communities, credit unions, farmers co-operatives and such organizations as rural electrification associations are the most suitable savings institutions, whereas the savings and loan associations, mutual funds and savings banks are more effective organizations for the mobilization of savings in urban communities.

In spite of the variety of organizations, experience has shown that adherence to certain ground rules underlies the successful operation of savings institutions:

1. Great care must be exercised in selecting the particular type of savings institution best suited to a given country.

2. The savings institutions must be suited to the particular social conditions, the stage of economic development, the character of the economy whether primarily agricultural, industrial or both, the general level of education and the availability of human and natural resources.

3. A pre-investment survey by experts experienced in the field is an essential prerequisite to making an intelligent selection.

4. The most important element in the operation of a savings institution is management. If the management is inexperienced, confidence will not be established.

5. Confidence is essential if members of a community are to be induced to deposit their savings.

6. Incentives must be provided. Individuals seldom save merely for the sake of saving. They will be induced to do so only if they feel that they will attain some desired end, such as the possibility of obtaining from the institution in which they have placed their savings a loan to build a home or acquire some needed articles. In agricultural communities the incentive may be the opportunity to purchase seeds and fertilizer, or some piece of equipment or product which they particularly desire. In countries where there is a capital market, the incentive may be a desire to participate by investing savings in new industrial enterprises.

7. In many countries there is chronic inflation. In such cases people are inclined to retain their savings in physical assets such as land or even jewelry, rather than take the risk of transferring them into financial assets which are likely to lose their value. In countries where this situation exists, it is essential that there be some government guarantee and provision for revaluing savings and mortgages from time to time in relation to a cost-of-living index or a wholesale price index. In such circumstances, without provision for monetary correction, savings programmes are not likely to be successful.

8. Procedure for the deposit of savings must be made easy. It should be simple and convenient. In this connexion the type and location of the savings institution in relation to the prospective *clientèle* is important.

9. In deference to this principle the co-operative type savings institution has in general been more successful than the commercial bank in attracting savings from low and middle income groups. In the small co-operative organization, it is possible for the members to know one another, thus creating a feeling of community security. In contrast the commercial bank often seems distant and impersonal.

10. An essential element in the success of a co-operative savings institution is a common interest; this common interest or bond may occur in several forms. It may be a company interest (a common employer), or a village farming community, or a rural electric association, or a church group or an educational institution.



### ESTABLISHING SAVINGS INSTITUTIONS

Experience, technical training, seed money and common interest are essential elements in the establishment of co-operative savings institutions. The sources of these essential inputs are varied:

1. Experience may be obtained from savings institutions which have been established and are operating successfully. Credit unions, savings and loan associations and savings banks can make experienced technicians available to survey the need for and determine the best type of savings institutions to suit the conditions in a particular country. They can also assist by providing experienced personnel to supervise the establishment of the institutions, to manage their early operation and to train local personnel to carry on once the operation is underway.

2. Such experts may be underwritten by the UNDP on the request of governments. When such a request is approved by UNDP, it may be assigned to one of the specialized agencies for execution. CUNA International Inc., Sherman Avenue, Madison, Wisconsin U.S.A., which is the international arm of the Credit Unions in the United States, has made experts available to carry out such projects. Likewise the International Savings Banks Institute in Geneva has provided experts through the United Nations system to survey the savings potential in a developing country and to recommend the most suitable type of institution. Other sources of experts for this purpose are the foreign aid agencies in some of the developed countries. The United States Agency for International Development has been instrumental in providing experts for the establishment of savings and loan associations in several countries in Latin America.

3. The experts provided, as indicated in the preceding paragraph, can conduct the training of local personnel, which is so essential, to ultimately manage the operation of the savings institutions. This training must begin immediately on an in-service basis. The local personnel should work with the experts in the organizational phases of setting up the institutions.

4. The seed money may be provided from a number of sources. It may come from the local government itself, or it may be received in the form of a loan or grant from a foreign aid agency in another country. It may

also come from an international institution. The Inter-American Development Bank has provided assistance of this nature particularly in connexion with accumulating savings for housing developments in Central and South America. Other potential sources of seed money are the National Savings and Loan Association of the United States and CUNA International. Credit unions and savings and loan associations are in some instances, through their national or international organizations, able to extend loans to similar institutions in other countries.

5. The fourth essential element in the establishment of co-operative savings institutions is a common interest. The most successful savings co-operatives are those where the members have a common interest. This basic foundation in the form of a common bond for a successful co-operative savings association must be carefully explored in the first instance and developed through demonstration that individuals, by depositing their savings in financial institutions, will enable themselves to obtain those things which they need and desire. Once this is successfully demonstrated the habit of saving can develop rapidly.

#### SOURCES OF SEED CAPITAL AND EXPERTISE

The United Nations Development Programme stands ready to assist any country desiring to explore ways and means to stimulate and encourage mobilization of domestic savings. This Report will be made available by Resident Representatives to interested governments in order to facilitate the preparation of their requests to the UNDP.

On approval of a request from a government either for a technical expert to make a survey to determine the most effective type of institution to be established or for experts to assist in establishing savings institutions, the UNDP can do one of two things. It can assign the task to an executing agency which in turn will contract with the desired experts, or the UNDP can enter into a direct contractual relationship with the experts. The latter may be supplied by existing savings institutions.

If the country's request is for a preliminary study to determine the type of savings institution, one expert will normally suffice for a period of six months. Projects of this nature are currently under way in some countries in Africa.

Once the institution or institutions have been decided upon, both experts and seed capital will be needed. The experts will not only organize the new institution, but they will train local personnel from the inception of organization through supervision and early operation.

The most effective experts are those supplied by similar institutions enjoying successful operation in other countries. The National Association of Savings and Loan Associations; CUNA International, which is the international association of American credit unions; the Universal Postal Savings Union of Berne, Switzerland; and the International Institute of Savings Banks in Geneva are all sources for experts who can be engaged under contract by UNDP or the executing agencies of the United Nations.

The sources of seed capital for initiating operations of savings institutions are several. The foreign aid institutions of some national governments such as the United States Agency for International Development have been instrumental in providing such assistance in the form both of grants and of loans.

Among the international agencies, the Inter-American Development Bank has extended lines of credit to financial institutions which have in turn supplied seed capital to institutions accumulating savings and extending long-term credit for financing housing developments. Likewise the World Bank and the International Finance Corporation are currently exploring ways and means to determine their role in encouraging institutions for the mobilization of domestic savings.

The national development banks as well as the regional development banks can play a role by supplying seed capital to savings and loan associations, credit unions and co-operative associations such as rural electric associations.

Where there is a federation of credit unions in a country or a region, as in parts of Latin America and in Africa, successfully operating credit unions can sometimes provide the seed capital to new credit unions being established in the region.

Because savings and loan associations and credit unions become self-sustaining with their own capital once they are operating successfully, they can often accept the seed money as a loan paying it back out of their earnings.



## ANNEX I

### SAVINGS AND LOAN ASSOCIATIONS

#### *Purpose*

These institutions are designed for the receipt of deposits of savings by individuals. The funds of these associations are invested in mortgages on houses. The basic purpose of savings and loan associations is to promote the building of homes. Depositors are entitled to borrow from the associations for the building of new homes or altering or expanding existing ones.

In addition, depositors receive interest on their savings which is usually somewhat in excess of that paid on savings accounts with commercial banks but equal to that paid by savings banks. This interest is compounded on a quarterly basis.

#### *Seed capital*

Normally seed capital is obtained when the savings and loan associations are established. This greatly facilitates initial operation. Experience has proven that once an association is well started, it is usual for it to operate entirely on its own capital.

The seed capital may be obtained on a loan or grant basis from various sources. The local government may provide this or an international lending institution or the foreign aid department of a national government may make it available as a loan or a grant. Seed capital may also be obtained from private savings institutions in other countries such as savings banks, savings and loan associations, credit unions and co-operative banks. The United States Agency for International Development has during the past decade provided seed capital for the establishment of savings and loan associations in 16 Latin American countries. Likewise the Inter-American Development Bank has extended credit for this purpose.

#### *Organization*

Expertise is needed in establishing savings and loan associations, in training supervisors and in managing the early operation. It is possible for such experts to be made available from similar associations in other countries through the assistance of either international or national foreign lending institutions. The manager of a savings and loan association operates under



the general policy guidance of a board of directors which should consist of respected and responsible members of the community which the association serves.

It is incumbent on the manager during the period of establishment and early operation of the association to train selected local individuals in the technical and managerial responsibilities of supervising such a savings institution.

### *Guarantees*

In most countries the government guarantees or insures savings up to a specified amount. In the United States the Federal Deposit Insurance Corporation has just recently increased its insurances on savings and loan association accounts from \$ 10,000 to \$ 20,000. This acts as an incentive as it gives the potential depositor a certain security.

There is another factor which must be kept clearly in mind in those countries in which there is chronic inflation. In one developing country the average inflation rate during recent years has been approximately 20% annually. Nevertheless, savings and loan associations have proven successful because the government has taken steps to revalue savings and mortgages periodically in relation to the retail or wholesale price indices. With this maintenance-of-value protection depositors have been willing to transfer their savings from physical to financial assets.

### *Advantages*

Since the savings and loan associations are oriented to housing construction, they provide a stimulus to the economy because of the multiplier effect. A programme for housing construction requires the building of roads to make the new houses accessible. Utilities such as water, sewers, electric power must be provided. Furthermore, a housing programme stimulates the local building material industries including manufacture of lumber, cement, etc., as well as sanitary ware, plumbing, electric wiring and fixtures, etc.

In addition, a need for the creation of insurance and title companies is created. Where new communities are included in a housing programme, schools and hospitals must be provided. In other words, savings institutions which are established for the purpose of making it possible for individuals to build their own homes can have a significant effect as a catalytic agent on the economic development of a country.

*Middle income institutions*

Although savings and loan associations have been established in many developing countries in both Latin America and Africa, they are not always the most suitable savings institutions—depending, of course, on the social and economic conditions of any given country. Experience has proven that the savings and loan associations are most effective in mobilizing the savings of the middle or lower middle income group in a society. They are not effective with the lower income group primarily because housing programmes for this group normally require a subsidy.

*The record*<sup>1</sup>

It is interesting to note that in 1960 there were but two savings and loan associations in Latin America. In 1969 there were 100 in 16 countries, with total savings approximating \$ 300,000,000. The total assets of these associations are estimated by the United Nations at approximately \$ 534,000,000. The total membership in all the associations in Latin America at the end of 1968 was 6,000 members, and loan financing had gone into 60,000 new homes.

Likewise savings and loan associations have been established in several African countries including Sierra Leone, Libya, Nigeria, Ethiopia and Tunisia.

One final advantage of these associations as well as other types of savings institutions is that they serve as a deterrent to capital flight by helping to keep local capital in the country and to channel it into tangible assets in the form of individually owned homes which has a definite stabilizing influence.

## COMMERCIAL BANKS

Most commercial banks have a savings department which provides a depository for savings of individuals. However, the commercial bank has limited use as an instrument for mobilizing the savings of individuals in many developing countries. This is so primarily because the commercial banks are usually located in urban centres and are not convenient or accessible to the

<sup>1</sup> For details see "Survey of New Home Financing in Latin America" prepared for the Centre for Housing, Building and Planning. Department of Economic and Social Affairs, United Nations, New York, April 1969.

rural population. Furthermore, the interest paid on savings deposits by commercial banks is relatively low. The usefulness of the commercial banks would vary from country to country depending on the character of the economy and in particular on the degree of its economic development. In any event, savings accounts are not the main business of commercial banks.

A)<sup>1</sup> The main business is done with current accounts and time deposits with high balances. The commercial bank is traditionally reluctant to accept small savings accounts subject to frequent turnover and small average balances. The commercial bank is primarily business-oriented, offering short-term commercial credit for working capital and inventory purposes. B)<sup>2</sup> The commercial banks are seldom geared to meeting either the long-term credit needs of a developing country or the economic and social needs for housing and urban development.

However, there is some evidence of a recently awakened interest of commercial banks in savings accounts. In the United States some commercial banks offer an employer the service of preparing his payroll on the bank's electronic data-processing equipment. The bank then suggests that the employer urge his employees to authorize deductions from their wages to be automatically transferred to the commercial bank's savings account.

Furthermore, many commercial banks in developing countries are structured and operated on the pattern of commercial banks of an earlier era in developed countries concentrating on prime risks and large accounts.

The situation is somewhat different in the case of savings banks as distinguished from commercial banks. The primary purpose of the former is to mobilize savings from individuals in order to accumulate capital for investment in productive enterprises. Savings banks usually pay higher interest rates particularly on time deposits. In one developed country the deposits in savings banks exceed those in the commercial banks.

However, both types of banks, particularly where deposits are guaranteed by the government up to a certain amount, can provide a degree of security often greater than less well-established institutions.

<sup>1</sup> For fuller discussion see paper presented by Professor Arnaldo Mauri at the 9th International Savings Bank Congress, Rome, May 1969: "Promotion of Thrift and Savings Banks in Developing Countries".

<sup>2</sup> World Thrift International Savings Banks Institute, Geneva, p. 265.

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## CREDIT UNIONS<sup>1</sup>

The credit union may be described as a thrift association or a finance co-operative. It is organized by a group which has some common bond such as the members of the village community or the employees of an industrial plant or a group of farmers or members of a church.

### *Basis*

A common bond of interest is an essential element in order to produce a cohesive effort. In other words, the organization is the result of group action. In operation the members of a credit union work together for their own benefit and for the good of the community.

Some of the most effective credit unions are small ones where character-loans have meaning because the credit worthiness of the borrowers is known to the members. Thus, the credit union type of savings institution can serve as a more effective instrument for mobilizing the savings of the lower income group than the savings and loan associations or commercial banks which are designed more for the use of the middle income groups. In other words the credit union is an instrument for accumulating the savings of those who could not obtain credit from other institutions.

### *Organization and operation*

Depositors automatically become members by depositing their savings. With these pooled savings the credit union makes loans to its members for urgent needs, to meet emergencies and for productive purposes such as purchasing of seed and fertilizer in the rural community. These loans are short-term and are extended at reasonable rates. The borrower must agree, as a condition for obtaining a loan, to increase his savings during the life of the loan by specified deposits in his savings account. In this manner the borrower through his own self-help efforts is induced to save and extract himself from debt. This is a particularly helpful device in those countries where the low-income people are victimized by loans from usurious money lenders. Once set in motion, the credit union becomes self-perpetuating, raising its capital by pooling the small savings of many people.

<sup>1</sup> See "Mobilizing Savings through Credit Unions" by Harry W. Culbreth, Director CUNA International, Inc., Sherman Avenue, Madison, Wisconsin, 1968.

*National federation*

In several developing countries a credit union federation has been organized at the national level with membership opened to all credit unions in the country. Not only does the federation help member credit unions with training of local officers, but sometimes furnishes such services as bonding and insurance.

The federation performs a most useful operating function in the field of inter-lending. Very often one credit union will accumulate more savings than it needs for lending, while another credit union in the same country lacks capital to meet the demand of its members for loans. Frequently it is the rural credit union which is short of capital, while the urban credit unions may have an excess. If there is a federation in the country, transfer of capital can be made by loans from the surplus credit union to the one where there is an excess of demand for loans. This function of the federation operates somewhat like the grid system in the utility field, where surplus electric energy can be transferred from one community to another.

*The record*<sup>1</sup>

On world-wide basis it is estimated that there are more than 51,000 credit unions in 70 countries. Total membership at the end of 1968 was 36 million and total savings \$ 16 billion. In 12 Latin American countries 2,651 credit unions have been established with a total membership of 745,000 and total savings of more than \$ 60 million. The average of per capital savings is as low as \$ 80. It is anticipated that total savings in credit unions in Latin America will exceed \$ 100 million by the end of 1970.

In Africa credit unions have been established in several countries including Tanzania, Kenya and Uganda. Plans are under way to establish a federation of credit unions in Africa on a regional basis, which would facilitate the establishment of credit unions in other African countries. CUNA International Inc. of Madison, Wisconsin, is instrumental in this movement and has sponsored seven African conferences in co-operation with African governments. The reports of the 6th and 7th Conference contain detailed progress reports from the participating countries and are mentioned in the bibliography Annex II of this report.

<sup>1</sup> See "International Credit Union Yearbook 1969" CUNA International, Madison, Wisconsin.

INTERNATIONAL BASIC ECONOMY CORPORATION<sup>1</sup>

IBEC was established by the Rockefeller brothers. As an instrument for assisting economic development in the developing countries by providing funds for the establishment of industries, it has been successful in launching many enterprises in developing countries. Once these projects are in operation, domestic capital is given the opportunity to take over IBEC's equity investment.

Perhaps one of the most effective types of institution which IBEC has established is the mutual fund. Its purpose in acting as a pioneer in establishing mutual funds was to provide a basis for the development of a capital market to facilitate industrial development in developing countries.

In the mid-1950's IBEC established its first mutual fund in Brazil FUNDO CRESCINCO. This capital accumulation institution was established on the lines of the first open-end mutual funds set up in the United States in the 1920's. IBEC established several other mutual funds in Latin America, one in Colombia in 1959, another in Argentina in 1960 and in Chile in 1961. IBEC also established the Thai Investment Fund in Thailand in 1963. In 1966 a highly successful mutual fund was established in Spain which has accumulated share capital of approximately \$ 300 million.

In all of these countries IBEC has provided the seed capital for the initial operation. Once established these mutual funds become self-perpetuating on their own capital. As explained elsewhere in this report the mutual fund type of savings institution is designed for a relatively sophisticated economy where existing and potential new enterprises are available for investment of the capital accumulated by the mutual fund.

Perhaps the most valuable service of the mutual fund is the diversification of investment which it provides to the small investors. The individual with limited funds to invest cannot on his own protect himself with diversified investment. However, when he purchases shares of the mutual fund, he automatically participates in the equity investment in all of the enterprises in the fund's portfolio.

<sup>1</sup> International Basic Economy Corporation, Rockefeller Plaza, New York, N.Y.



### POSTAL SAVINGS<sup>1</sup>

These institutions were established in many developing countries prior to independence and have proven successful in varying degrees from country to country. They are not independent savings institutions, but extensions of the postal systems. They have not been adapted to current conditions in some instances. The savings collected are in some cases invested abroad, transferred to the Treasury to cover current expenditure or transferred to commercial banks.

Postal savings institutions are designed for the low-income groups. They have the advantage of convenient locations in the post-offices where all of the people of the community come. Furthermore, their procedures are simple. They are designed primarily for collecting small savings in order that the individual may have a nest-egg for a rainy day. They do not attempt to serve as a channel for savings to flow into equity investment. Postal savings institutions are less attractive from the point of view of yield because they pay very low interest on deposits. In some African countries in early 1969 interest rates ranged from  $2\frac{1}{2}\%$  to  $3\frac{1}{4}\%$ . Their convenience and their security are their greatest assets.

The Universal Postal Union in Berne, Switzerland, is actively undertaking to extend the postal services not only in mobilization of household savings, but in other financial services such as bills collection, transfer through money orders and chequing services, whereby sums collected can be credited directly to the creditor's current account.

### MUTUAL FUNDS

This form of savings institutions was first initiated in the United States in the 1920's. It is known as the open-end mutual fund and is more than a savings institution in that it provides a direct channel for diversified investment.

The individual saver purchases shares in the fund. The price he pays is equivalent to the net asset value which is established by dividing the value of the net assets of the fund by the number of shares outstanding.

<sup>1</sup> Postal Communications and Postal Financial Services in the Context of the Second Development Decade. See Bibliography No. 24, published by Universal Postal Union, Berne, Switzerland.

It is the current average market price of the shares of stock held in the fund's portfolio. This net asset value is computed by the fund on a daily basis.

The managers of the fund put the savings deposited by individuals to work by purchasing shares in industries in such a manner as to create a balanced portfolio providing both security and income.

Some funds emphasize the growth factor of the companies in which they invest rather than the dividend yield. Other funds emphasize income by investing in stocks which provide both security and good yield.

The emphasis in investing the proceeds of the fund depends on the philosophy of the management. Some are more speculative and, whether the purpose is long-term capital gain or current income, they consequently provide more possibility of gain or loss, while others are more conservative and regard security as the first priority.

Most mutual funds assess a loading charge often as high as 8.5 % to offset overhead. With such funds the growth factor becomes much more important in order to offset this loading charge.

Some mutual funds require no loading charge, but impose a redemption charge when the investor desires to sell his stock in the fund.

A third type charges neither a loading nor a terminal charge, but charges a minimal brokerage commission on transactions, which is pro-rated equitably.

The mutual fund is suitable for a relatively sophisticated economy, and can be helpful in developing and expanding an incipient capital market. It would not be suitable for a developing country in which there was little or no industry in which it might invest. The mutual fund is a particularly effective vehicle for tapping funds which are held in free reserves, hoards, foreign depositories, time deposits and savings banks and transferring them to investment in new or expanding industrial enterprises.

### SAVINGS BANKS <sup>1</sup>

The principal objective of savings banks is to encourage and collect household savings, usually for investment in mortgages. There are many

<sup>1</sup> Mobilization of Domestic Savings Reports for ECA, 6 Nov. 1968; 27 August 1969 (Central Africa and West Africa); International Savings Banks Institute, 18 rue du Marché, Geneva, Switzerland.

types of savings banks. In some countries, they are pure savings institutions restricted to accepting savings deposits for re-investment. In the developed countries of Europe the savings banks are very similar to the commercial banks. In fact, there is often sharp competition between the two types of institutions.

In the developing countries they serve as instruments for the accumulation of savings and the creation of capital. Some savings banks specialize in financing housing in low-income areas. In fact, savings banks have built up a tradition of financing housing with mortgage loans constituting their principal business.

Some are public institutions having been established by government while others are chartered by private organizations.

Some savings banks offer savings bank life insurance, the premiums on which are usually somewhat lower than those charged by regular life insurance companies. This function has proved to be a very effective method of accumulating savings through insurance.

In many countries the government guarantees deposits up to a certain amount ranging from \$ 10,000 to \$ 20,000. Such guarantees have created confidence among potential savers and have been instrumental in increasing savings deposits.

Savings banks have been more successful in urban areas where they are accessible. In the rural areas of many developing countries there are seldom sufficient branch offices and the people do not find it convenient to invest their savings with the banks. In such areas co-operative savings institutions such as credit unions are generally more practicable.

The competition arising from the newly awakened interest of commercial banks in the mobilization of domestic savings has stimulated savings banks to expand their services beyond accepting deposits and making mortgage loans. In addition to offering life insurance, some savings banks are making "character" loans (unsecured consumer loans) and education loans.<sup>1</sup> Furthermore, in the United States there is widespread support for combining the best features of both the savings banks and the savings and loan associations in a unified national thrift system.

<sup>1</sup> World Thrift - International Savings Banks Institute. Summary of Address of Dr. Gover W. Ensley Executive Vice-President of National Association of Mutual Savings Banks, New York.

## UNIT TRUSTS

These institutions are very similar to the mutual funds. However, whereas the mutual fund is a private institution, the unit trust may be established by government for the purpose of getting savings out of hiding thereby accumulating capital for investment in new enterprises.

A unit trust is a financial institution which pools savings and invests them in various types of securities in a manner which offers to the individual saver advantages of a reasonable return on his savings and expert management of the portfolio of investment. To accumulate the savings, a unit trust sells to the public "units" which confer on the buyer an equal right in the beneficial ownership of the assets of the trust. The buyer is able, at all times, to redeem his units at stated prices. The basic advantage of the unit trust is that it spreads the risk for the small or medium investor. Furthermore, he secures a diversity in his investment which would not otherwise be possible. This is so because the unit trust invests its funds in a balanced portfolio consisting of government securities, industrial debentures, preferred stocks and company equities. In other words the well-managed unit trust, as in the case of the mutual fund, maintains a portfolio with a proper balance of fixed income, growth stocks and income shares.

Two examples of such institutions are the National Investment Trust of Pakistan and the Unit Trust of India.<sup>1</sup> The latter was established under the Unit Trust of India Act in 1963 and is a good example of a successful unit trust in a developing country. It was promoted by the government and was provided with initial capital contributed by the Reserve Bank of India, the Government Life Insurance Corporation, the State Bank and its subsidiary banks. Management of the affairs of the unit trust is vested in a board of trustees, the chairman of which is appointed by the Reserve Bank of India. Four other trustees are nominated by the Reserve Bank from individuals having special knowledge or experience in commerce, industry, banking, finance or investment. One trustee is nominated by the Life Insurance Corporation and another by the State Bank. There is an executive committee consisting of the chairman of the board and three trustees. The active day-to-day management is carried out by this executive committee.

<sup>1</sup> See "Unit Trust of India - Unit Scheme 1964" Sir P.M. Road, Bombay 1 - India.



The underlying policy of the unit trust is to insure that the funds be so invested as to provide security of capital, reasonable return, and capital appreciation.

Like the mutual fund, the unit trust is designed for countries whose industrial development is well-advanced. In such countries, it is a useful instrument for developing capital markets.

### LIFE INSURANCE

Intrinsically life insurance is a form of saving. Once an individual purchases a life insurance policy, he commits himself to make regular premium payments over a period of years depending on the type of policy.

Thus, the straight life policy acquires a certain cash-surrender value which represents a specific amount of saving. However, this cash-surrender value will never equal the total of the premiums which the insured has paid in. This is explained by the fact that he has entered into this contract for the primary purpose of acquiring protection. The saving element is secondary. Consequently, it may be said that insurance is the most expensive form of saving.

Nevertheless, there are many types of insurance policies, some of which have saving as their basic objective. Life insurance companies sell annuities to individuals during their active earning years which guarantee them a certain income for life after a specified date. There are other life insurance policies which are limited to a specific period of years. Such policies are useful for parents who wish to save methodically for their children's education. In Thailand, life insurance savings, including educational annuity insurance, constitutes part of the operations of the Government Savings Bank.

WALTER SADLEDER

## HOW CAN THE SAVINGS BANKS OF INDUSTRIAL COUNTRIES HELP THEIR COUNTERPARTS IN DEVELOPING COUNTRIES?

The subject on which I am to speak allows no room for the expression of lofty ideas, or even for the analysis of practical experience. This speech, therefore, will certainly be less interesting than the majority of the others that you will hear during this Conference.

It would appear to be a good idea, therefore, to make a more or less theoretical attempt to enumerate the possibilities offered by savings banks in the industrialized countries for the development of savings in the developing countries. A list of practical applications of the project which I intend to outline can then be drawn up, particularly when the project has been amplified by discussions.

### MOTIVATION

The *rapprochement* of the standard of living in the developing countries to that in the industrialized ones is an absolute prerequisite for lasting peace in the world. The wealthier nations must make an appropriate contribution towards this end. In particular, they must assist in the creation of centres of production and other institutions, which are indispensable to the expansion of national economy.

Savings banks, not least, must form part of such an economy. Savings banks enable the consumer to accumulate money for the acquisition of high-grade consumer goods and to serve as an emergency reserve. The transition from a barter economy to a monetary economy, which industrialization entails, does not only bring opportunities for the individual with it, but also dangers. The individual is drawn away from the traditional protection of the agrarian family which has always guaranteed him the basic necessities of

food and shelter. He now has to support himself, not only by means of remunerated work, but also through saving. Institutionalized saving protects him against the impulse to spend his income instead of providing for old age.

Savings accumulated in savings banks are channelled towards the financing of economic investment in the country, in accordance with liquidity requirements.

It is one of the features of the savings bank that profit-making is excluded from these transactions. The interest received from credit transactions are used exclusively for paying interest on deposits, for offsetting administrative expenses and establishing reserves.

#### ASSIGNMENT OF EXPERTS

No doubt the developing countries also have their experts in the banking and financing sectors, as well as a relatively well constructed financing system. As a rule, however, this is not an adequate basis on which to found a savings system designed to serve all sections of the population in a complete manner. The savings banks in the industrialized countries, on the other hand, have a long experience behind them in the methods and techniques of caring for the deposits of the less wealthy sections of the population in particular, as well as with the legal, social and economic incorporation of organized saving within the community as a whole. They could provide experts in both the planning of new savings banks and the development of existing ones and similar institutions. They could do so on a temporary basis, in close co-operation with the authorities of the developing countries.

The tasks to be undertaken by such experts could be separated into the following stages:

1. The carrying out of surveys and the submission of reports on the economic prerequisites for saving and savings bank activities (assessment of the monetary system statistics, forecasts of the national income and its distribution, main areas of financing requirements, etc.).
2. Concrete recommendations on the promotion of savings and the operation of savings banks (overall development opportunities, preferred organizational structure of the whole savings system, state savings promotion, savings "education").

3. Co-operation in the preparation and planning of draft proposals for legislation for the savings bank sector in particular and the promotion of savings in general.
4. The planning and establishment of savings banks (preparation of the legal basis, financing, selection of locality, planning of business, selection and recruitment of staff, building and equipping of business premises, management methods, settlement of individual business matters, publicity).
5. Instruction and training of locally recruited staff.
6. Co-operation and management counselling during the starting period.  
The success of such a scheme of assigning experts depends entirely on the fulfilment of numerous conditions. The most important of these are:
  1. The unhindered opportunity of verbal communication between the experts and their contacts in the developing countries must be assured at every stage.
  2. In the primary stages, at any rate, highly placed persons must be used, i.e. those who not only have wide professional and business experience, but considerable knowledge of economics and law as well.
  3. Such activities in the developing countries must be officially authorized by the competent authorities and protection and help must be guaranteed to experts who work there, at every level.
  4. The experts must be allowed unrestricted access to savings institutions at any time and have the right to inspect any document necessary for the proper exercise of their functions; furthermore, they must be provided with suitable working facilities as well as assistants where needed.
  5. Collaboration must be undertaken by both sides in a spirit of absolute trust and in the conviction that mutual interests are being served.

All the above prerequisites seem to be obvious at first sight, but I have learned from various reports that on each one of the points mentioned there are frequently shortcomings which either prevent the achievement of profitable results or, at least, considerably delay them. The causes of such occurrences are not to be found, as a general rule, in any lack of goodwill on the part of the collaborators, but rather in the imprecise description of the task to be undertaken and in failure to obtain full and effective support of the leading authorities.



A thorough discussion should precede the appointment of any expert, in which the important features of a project should be made clear and its execution in the direction indicated ensured.

Unfortunately, I have to say at this point that the savings banks organizations in the industrialized countries have, up to now, shown only a very slow willingness to appoint suitable experts. This is partly due to the lack of widespread conviction of the need for the appointment of such experts, but it is also due to the difficulty of releasing high-ranking experts — who must also possess the necessary knowledge of language — for long periods.

Thus, for both sides, the first requirement in the apparently so simple but in reality so difficult problem of introducing an expert into a developing country, is the need for considerable personal initiative.

#### ADDITIONAL COLLABORATION

With regard to the further expansion of newly created savings institutions or the development or reorganization of existing ones, savings banks in the industrialized countries can provide help in many ways, either individually or through their associations. I am thinking particularly of the following possibilities:

1. Information on new measures and techniques in the fields of savings promotion and savings bank business; the simplest way is in giving written information by sending the particular organization's own publications either on a regular or occasional basis. This method is only practicable, however, if the contact in the country of destination is fully conversant with the language of the country of origin or, at least, provided the organization sending the information supplies appropriate translations.
2. Instruction and training of savings bank staff:  
Nowadays, savings banks in the industrialized countries offer foreigners the opportunity of temporary employment for training purposes, language training being the most important consideration. For example, my own country has opened the way for savings bank personnel from the developing countries to learn their trade.

A knowledge of the colloquial language of the country in which training is given, at least the basic elements thereof, is a prerequisite

for thorough vocational training. The language difficulty reduces the scope for training schemes of this particular kind, which are only really worthwhile when the organizational structure and the business activity in the sending and receiving savings bank more or less conform. However, study periods can always be arranged for highranking personnel for whom it is not so necessary to obtain specialized knowledge as to gain a general idea or to acquire all-round experience.

3. Courses and seminars:

The organization of special courses or seminars by savings banks in the industrialized countries, especially for specific groups of employees of savings banks in the developing countries, could be very promising. For instance, group instruction could be organized in the German-speaking countries or in Scandinavia using English or French as the common language. The combination of theoretical instruction and practical savings bank work should also be possible.

Managing staff from the developing countries could, moreover, participate in domestic meetings held by savings banks organizations in the industrialized countries, provided this is feasible from the point of view of language comprehension.

4. Study tours:

Invitations to managing staff or specialists from the developing countries to undertake study tours of savings banks in the industrialized countries, would seem to be another obvious possibility. The difference between this scheme and those mentioned above is in the arrangements, which are intended only for the individuals concerned or a small group; moreover, they can be organized more easily as regards both form and duration. For such study tours, there are no doubt many possibilities by which even the language barrier can be removed — English and French being sufficient, as a rule.

5. Special advice either in writing or on the spot:

The bigger savings banks in the industrialized countries have long fostered international contacts through sending managing personnel or specialists to sister institutions abroad, so far mainly for the purpose of broadening their own experience.

It is quite reasonable to give such visits a wider scope, namely by undertaking the task of advising savings banks in the developing coun-

tries on a short-term basis. In these cases, too, the rule must be short visits and sharply defined terms of reference.

All the possibilities for co-operation set out above would appear to be feasible without any special difficulties and far too little use has been made of them up to now. These methods also would appear to be considerably less problematical with regard to financing than the assignment of experts, the financial aspect of which I have preferred not to comment on in this survey.

### THE ROLE OF THE INSTITUTE

The International Savings Banks Institute, through the organization of this conference, has not only shown its interest in the development of the savings sector in the developing countries, but has also underscored the role it is to play in this task, namely that of acting as intermediary and co-ordinator between the savings banks in its own member countries, in so far as these latter are prepared to lend their help in development or can be encouraged to do so. The intention to mobilize forces in this direction is also one of the reasons for this meeting.

The savings bank and their international institute do not stand alone in their efforts to organize the savings sectors of other countries. Here, as in the other sectors of economic life, the bigger international organizations make great efforts to help in the mighty development task which I described at the beginning of my address. These organizations, especially the United Nations, are, under specific conditions, also ready to give administrative and financial support to development projects. It is the role of the International Savings Banks Institute, above all, to promote contacts towards this end and help realize the proposals submitted by the developing countries as well as further the projects of its own member countries.

The Institute is also ready at any time to make contact with national governments having the same objective, when there is any possibility at all of contributing to the launching of a development project by acting as intermediary for its member savings banks. Indeed, during the last few years it has repeatedly taken initiatives, particularly in Africa, to discover where and how it could contribute to expand any useful potential.

As a general rule, the Institute will restrict itself, according to the particular case, to approaching the most appropriate savings bank or savings bank organization with a view to taking an interest in an individual project. In case of a positive reaction it will organize the necessary contacts between the parties concerned. Whether and how far the Institute will continue to act as a permanent intermediary in these matters will depend on considerations of efficiency.

Apart from the comprehensive programmes already described, oriented towards the establishment of new savings banks or the adaptation of existing savings and financing systems for the purpose of expanding and strengthening institutionalized individual saving throughout all sections of the population, there are also individual projects for the improvement of technical procedures and the expansion of business activities to be taken into consideration.

Direct provision of technical or financial help by the Institute is not being envisaged. The Institute does, however, issue periodicals published in French, English and German which contain information on the latest developments in the savings sectors of the world. These publications can, doubtless, be very useful to savings institutions in the developing countries.

This Conference serves as a good example of how, through the organization of pioneer meetings, the Institute is concerned to promote collective measures for clarification, for the creation of contacts and for the development of savings promotion programmes in the developing countries.



