Monetary and Financial Problems of Certain New Countries in Africa

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Introduction

It is only with the political independence of the new countries of Africa that real problems of a monetary or financial nature have arisen in this continent. Early in the 1950's the most liberal and farsighted experts thought that the future monetary needs of these areas would be comparatively limited. They would have to allow the natural development of the internal economy, the growth of trade with the rest of the world and its gradual extension to the various parts of the interior of the continent. The modification of the policy of the Currency Boards of that time was recommended as an adequate method of meeting the future monetary needs even if the future development was foreseen.

The obtention of political sovereignty by a large number of African States has, however, radically changed the situation. Not only did the individual countries acquire full discretion over their Ministries of Finance, but very soon they were establishing Central Banks of their own. To some extent these were seen as the outward and visible sign of economic independence to which belonged the management of the foreign reserves and the issuing of an individual currency. But very soon, sometimes already at their establishment, it was

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1 This survey article is based on studies of Nigeria, Ghana, Morocco, Tunisia, the Sudan and the Federation of Rhodesia, which have been made at the Basle Centre for Economic and Financial Research. Thanks are due to the Ford Foundation whose generosity has made possible both the journeys and the research required.

realised that the new Central Banks could and should help to formulate and execute a monetary and financial policy such that it would facilitate the economic development desired.

These new Central Banks have therefore to operate in consciously growing economies where the ultimate objective is a higher national income per head. As Africa as a whole is still under-populated and the natural rate of growth is around 2 per cent. per annum, the future prospects of this continent are completely different to those of, for instance, Asia.

In the future, however, much larger expenditures especially for development purposes can be expected. These will bring problems which can be prevented or mitigated by well planned monetary and financial policies. Naturally, however, such measures cannot on their own achieve everything; they are only effective if neither trade- and investment policy nor the general political policy of the country in question counteracts them.

The monetary and financial problems of the new countries in Africa fall into three broad categories:

I These countries are still, compared to western countries of the same size and importance, undersupplied with the necessary financial institutions of all types. These have to be built out in a manner adapted to the needs of the country in question. And information about them must be spread among the population.

II The monetary and financial authorities have to create within the country an atmosphere which furthers economic development while maintaining control of the situation so that neither inflation nor deflation can upset the growth of these often delicately poised economies.

III The monetary authorities have to manage the foreign monetary and financial relations of the country so that no balance of payments crisis can occur while at the same time encouraging the import of capital and trained personnel for development purposes.

These three aims have to be pursued all at the same time and are inevitably inter-related. Moreover, they are at times closely connected with the political attitudes of the countries concerned and cannot, therefore, be dealt with exclusively as technical questions.

It is, of course, impossible to study all the new countries in Africa! A certain selection based on political stability and availability of material has been made. Thus the following discussion will draw on studies of chiefly Nigeria, Ghana, Morocco, Tunisia, the (ex British) Sudan, and some examples will be brought from French West and Equatorial Africa. Moreover, I intend to mention the Federation of Rhodesia. There there is a, for Africa, very sophisticated monetary system with discount houses, money and capital markets as well as stock ex-
changes. Rhodesia could therefore be an example for the future development of African countries. Its system has, however, been developed by Europeans for Europeans while in the other countries the system, though patterned on that of the West, is being developed for usage by Africans. It is therefore possible that in the future it will acquire characteristics of its own. These will be adapted to the internal conditions and be typically nationalistic. Such differences are today apparent between the continental, the British and the American systems.

Before dealing with the monetary problems a thumbnail sketch of the countries in question would probably be appropriate.

All these countries are dependent on their raw material exports for financing the major part of their imports. The main raw materials in question are: copper (Rhodesia), cocoa (Ghana), cotton, tobacco, lead, zinc, palm oil and in the future oil (Nigeria), cotton and gummi arabicum (Sudan), phosphates, grain, wine, vegetables and fish (Tunisia and Morocco). Of these cocoa, gummi arabicum and copper have been good foreign exchange earners during the last few years; other raw materials have been less consistently valuable on the world market. All the countries depend on imports for both capital and consumer goods. The propensity to consume is high everywhere – though somewhat lower in Morocco and Tunisia – a factor which places an often heavy and increasing strain on the balance of payments.

In spite of these similarities the countries show large variations and that mainly because there is no single “African”. There are quite distinct and important differences in character and temperament, a fact which is often neglected. Moreover, they have received their intellectual heritage from two different countries, France and Great Britain, which has also hallmarked their monetary systems.

I. The Building up of a Financial System

The first task of the new Central Banks was the securing of their own staffs, a task doubly difficult because of the very real lack of experts in Africa and not least in the financial field. Four different methods have been used – and these, or

1 The study of the Federation of Rhodesia which is being used here has been made by Jean-Pierre Gern, a research assistant of the Basle Centre.
2 With the exception of Nigeria and the Federation of Rhodesia, which both have reasonably well differentiated exports, these countries depend to 40 per cent. or more on one (e.g. cocoa) or one type (e.g. vegetables) of export. While the Basle Centre figures have been taken from the individual countries’ trading returns, a good survey of the situation is found in: United Nations, Department of Economic and Social Affairs, Economic Survey of Africa since 1950, New York 1950, p. 149–185.
3 The information on the methods used has been collected by field research – it is all so new a development that there is no supporting literature.
hybrids of these, are contemplated for the new countries acquiring Central Banks.

1. One set of countries, of which Ghana and Nigeria\(^1\) are examples, appointed expatriates, Bank of England, Deutsche Bundesbank or Commercial Bank men to senior positions. Part of their technical staffs they were able to obtain locally, the two long established Commercial Banks, Barclays D.C.O. and Bank of West Africa generously putting some of their best African employees at the disposal of the new Central Banks – a debt which is gratefully acknowledged. The gaps were filled by on the job training. – But more than once senior officials, Governors or Deputy Governors found themselves at the cash desk, explaining, teaching and generally expediting matters. – The senior expatriate officials are all trying to train hand picked Africans for the senior positions. They hope to have made themselves superfluous in 5 years’ time or less after the founding of the Central Banks\(^2\).

2. When the Tunisians created their Central Bank, they immediately appointed Tunisians to senior positions. These men at first had a few French technical advisers. But by agreement with the Banque de France, Tunisians were trained in Tunisia for the technical jobs and in France for more senior jobs. This intensive programme worked well enough to allow the last Frenchman to leave the Central Bank of Tunisia some two years after its establishment.

5. In the Sudan, more preparation and patience was shown. On political independence, a Currency Board was set up with British, Swedish and Egyptian advisers under the presidency of a Sudanese, Mr. Mamoun Beheiry, then of the Ministry of Finance, now Governor of the Central Bank\(^3\). This Currency Board not only ran the monetary affairs of the country but prepared the way of the Central Bank by assuring the formation of suitable officers of senior and middle ranks. They were sent to Central Banks and Universities abroad for training. It was arranged that the former local branch of the Bank of Egypt should let its technical staff (partly Sudanese) be taken over. Gaps are filled by a policy of „secondment”. The foreign Central Banks with which the Sudanese Central Bank has close contacts are asked to lend senior officials, mostly technical, for a period of approximately two years.

\(^1\) Morocco falls partly into this group too.

\(^2\) The first Central Bank to be founded was that in Rhodesia in 1956, then came one a year in the order: Ghana, Tunisia, Nigeria, Sudan. The Central Bank of Morocco is older, its precursor having been established in 1909, but the new Statutes entered into force at the end of June, 1959.

\(^3\) In 1956–1957 the Federal Reserve System had a Central Banking Mission in the Sudan which explains the American influence there has been on the structure of the Sudanese Banking system.
These men are not only highly qualified but chosen for their capacity to explain and teach their own speciality. This system, which promises to be very efficient, is liked by the Sudanese because the individual in question, knowing his career is in his own bank (and arrangements have been made that his promotion is not retarded by his foreign assignment) will have no incentive to remain once his contract is over.

4. The fourth method, found in Rhodesia, is a completely European Bank.

The first three methods are all attempts to make the new Central Banks fully African as quickly as possible while assuring that the people taking over have sufficient knowledge of Central Banking practice and policy to assure that these new countries will have some sort of monetary order.

It is still too early to know how well this policy will succeed in practice. Few African senior officials have yet been in their positions long enough to have had time to show their capacities, nor have they yet had to face any very grim problems. At technical level (which is already largely African) the work is done—if more slowly and with relatively more checking staff than in Europe—to try to avoid “mistakes” of all kinds.

Unfortunately the policy of “Africanisation”, which in some countries has recently been accelerated, has led to the premature removal of highly qualified and leading expatriate personnel from Central Banks and Ministries of Finance—as well as else where. Moreover, a more than acceptable number of the new African appointees have been chosen for their political and not their technical qualifications. It therefore remains to be seen how far the new appointees, both at technical and policy making level, are going to be able to handle the task ahead of them.

Though still building up their staffs, the new Central Banks had to take up their duties immediately.

The first step was to receive the countries’ foreign exchange reserves which in West Africa came from the former Currency Boards, (the Government and the Government Agencies Marketing Boards etc.). The new Central Banks in West Africa received at pounds Sterling 1:1 value for each of the West African Boards’ pounds handed in, an exchange which has now almost been fully effected. This Currency Board origin of the foreign exchange reserve explains why such a large proportion is in pounds Sterling, quite apart from the results given by the pattern of trade. The fact, however, that the Nigerian and Ghanese trade balance was and had been in surplus against the rest of the world allowed such a comparatively easy system to be followed. The Currency Boards’ policy of 100 per cent coverage of the currency issued was also an important contributing factor.

This manner of receiving foreign exchange from the Currency Board, will probably be a typical pattern also in East Africa if the single countries there
chose to have their own currencies. In French West and Equatorial Africa, which each have their own Central Bank (in place of Currency Boards), similar transactions may take place. The French authorities hope, however, that such a measure can be avoided as the patterns of trade, especially inside French West Africa, depend on the unity of the currency — and would be impeded by the necessity of changing currency at the often unmarked and unchecked borders. However, the nationalistic sentiment is so great that the monetary fragmentation of the area may well follow the acquisition of political independence.

Countries which normally show a deficit, such as Tunisia, have a harder problem. In the case of Tunisia, a monetary agreement was made between the Banque de France and the new Central Bank, the latter was given an ordinary French Franc account for her usual transactions and a dollar account, which is a statistical record of the purchases and sales in currencies other than FF. This latter account was at the start credited with $ 15 million as a compensation for Tunisia previously having turned in all her foreign currency to the Central Reserves (though unbalanced over-all certain branches of trade earned net hard — or at least foreign — currency). Whether such an arrangement could become typical for the newly independent countries in French West Africa and French Equatorial Africa, also deficit areas, remains to be seen.

Gold and Foreign Exchange Holdings
Monetary Authorities and Other Official
(End of Period; Millions of US Dollars)

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<td>532</td>
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<td>434</td>
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<tr>
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<td>69</td>
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<td>854</td>
<td>120</td>
<td>134</td>
<td>140</td>
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<td>559</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>48</td>
<td>87</td>
<td>95</td>
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</table>


1 Foreign Assets of Deposit Money Banks not included; for some countries, these amounts are important, but reflect the movement of the official holdings.

* June.

* March.

The foreign reserves of all the new countries are at present fairly substantial. In Tunisia and Morocco, this is unfortunately due to exchange control introduced to prevent French expatriates from exporting their capital, a monetary

1 The Bulletin de la Banque Centrale de Tunisie, No. 3, October 1959, p. 3, 4.
restriction made necessary by a political measure. In West Africa and the Sudan the strong balance of trade positions and the high prices received for their exports are mainly responsible. In the short run, foreign exchange is thus not a bottleneck but the position can change swiftly – a point which will be discussed later.

The new Central Banks had also to arrange a currency exchange. In Ghana, Nigeria and the Sudan this was doubly important because it was the sine qua non for obtaining part of the foreign reserves, as mentioned above. How complicated a currency exchange is in countries where the amount and structure of the currency in circulation is unknown and where a considerable portion of the money using public is illiterate, is almost incomprehensible. Thanks to careful preparation, good publicity and lots of work, the currency exchanges were effected smoothly and surprisingly quickly.

The third job was to establish a Clearing House at the Central Bank for the local banks, old and new, and the large customers such as the post office saving banks. This met with some conservative opposition which was quickly disposed of. A small number of banks can deal with each other – the larger number that full monetisation would imply could not. The Clearing House transactions are also a useful indication to the Central Bank of the state of business in the country and as such a normal part of Central Banking.

One of the most important tasks of the new Central Banks was the establishment of their own research departments. These were badly needed as the new Central Banks usually did not have even the most elementary statistical monetary and financial information on their own countries. The research departments had all to start by collecting statistical information on such things as the number of banks and their branches, till-money, deposits, advances, their distribution by branch and size, the asset holdings and the many other series necessary for formulating the policy making of the Central Banks. The practical statistical problems have often been enormous – the Central Banks departments have, however, succeeded in establishing surprisingly reliable series, even if their scope and detail still need to be enlarged. Naturally, the most modern break-downs have, where possible, been used and often the most modern mechanical aids – by elimination of the human factor accuracy is much higher. Without such material no firm basis for either monetary or financial policy would be available – nor would this article be possible.

The Central Banks also contributed to the issuing of Treasury Bills and government bonds, the importance of which will be discussed below. The only comment to be made here, is that whatever the new measure that is introduced

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1 I am trying to persuade a former Central Banker who has really been responsible for a currency exchange to write about it and to include some of the stories.
may be, it must be so well prepared and so carefully considered that failure is out of the question. Otherwise the progress it represents may be retarded for years – which is the time it takes to reestablish the necessary confidence.

In all the countries the new Central Banks found older and newer commercial banks and at least post office saving banks operating.

These mainly expatriate banks, some of which have been 60 years and more in Africa, have not only made an enormous contribution to the economic development of the country but have won the confidence of the people – a fact acknowledged recently in a parliamentary debate in Ghana. The banks have not only been at pains to train Africans in banking – difficult because often the native has a quite different system of counting – but have greatly expanded the number of branch offices throughout the country.

### Increase in Commercial Bank Deposits

<table>
<thead>
<tr>
<th>Year</th>
<th>Ghana</th>
<th>Morocco</th>
<th>Nigeria</th>
<th>Sudan</th>
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<tr>
<td>1951</td>
<td>8</td>
<td>–</td>
<td>37</td>
<td>471</td>
</tr>
<tr>
<td>1952</td>
<td>4</td>
<td>–</td>
<td>24</td>
<td>–24</td>
</tr>
<tr>
<td>1953</td>
<td>50</td>
<td>–</td>
<td>12</td>
<td>–24</td>
</tr>
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<td>12</td>
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<td>–</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>1957</td>
<td>7</td>
<td>–</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>1959</td>
<td>n.a.</td>
<td>–</td>
<td>12</td>
<td>17</td>
</tr>
</tbody>
</table>

Sources:
- Nigeria: Digest of Statistics.
- Sudan: International Financial Statistics.

Apart from the establishment of branch banks the expatriate banks, especially in West Africa, have really tried to spread among people a knowledge of banks and their ways. Advertisements in newspapers and weeklies, mostly pictorial, explain that the banks will keep your money safe for you. “Illiterate ledgers” – accounts, where identification is effected by finger- or hand prints, make the banks accessible to illiterates. The result is that the banks can show a most gratifying increase in deposits during the last few years, deposits which to a very large extent come from the common man. The prospects of these new countries are judged so optimistically that not only African but foreign Banks – such as the Bank of America – have opened or are about to open in Africa.

1 Parliamentary Debates, Vol. 20, No. 25; Mr. J.E. Appiah, col. 871 ff. and Mr. F.K.D. Goka (Minister responsible for Finance), col. 875 ff.
2 The number of branch offices of commercial banks changed as follows:
   - In the Federation of Rhodesia and Nyasaland: In 1959 app. 8 offices, in 1959 app. 186 offices and truck service.
   - In the Sudan: In 1947 11 offices, in 1960 54 offices.
   - In Ghana: One bank alone (Barclays Bank D.C.O.), 1956 15 offices, 1960 54 offices.
In Morocco and Tunisia the older established banks have not had the same success. The economic recession which has lasted since 1953 hit them and, as is the case in Tunisia, what recovery there has been has largely given business to the new State Banks – which being national banks are favoured. For similar reasons non-French expatriate banks, Italian for instance, are doing much better than the French banks. These latter have followed a very cautious policy maintaining what positions they could but not exactly going out to seek new business. Aggressive activity was expected to cause more trouble than it was worth.

How important nationality and the names which go with it are in Africa is shown by an example from Rhodesia. The Standard Bank of South Africa, which is a British bank with its main office in London, has been losing African customers. The bank was originally started for business in South Africa and gradually spread up the east coast. The African believes it to be, because of the name, a South African bank. The loss is so important that the name is to be changed to Standard Bank. The Federation of Rhodesia has a much more sophisticated institutional monetary framework than any other country discussed here. It is still, however, only little used by the Africans themselves and the mass of the population probably does not have more knowledge of the monetary system and its manner of working than in West or North Africa.

The expatriate commercial banks have, however, always been subjected to criticism on two counts. Firstly they were supposed to rob the country of their location of capital because they invested their reserves in international centers. The recent issue of local Treasury Bills and government bonds has finally enabled them to keep part of their funds in the country. Secondly they were not liberal enough to Africans in their lending policies. In countries where few people have loanable assets – where titles to land are far from clear – and where suitable projects are few and far between, this was not surprising. Exactly the same criticisms are now made of the African banks – and even the State Commercial Bank of Ghana.

However, none of these countries can yet be considered to be fully monetised. The field studies of anthropologists and sociologists show, that in West Africa, French West Africa, North Africa and in the Federation of Rhodesia, practically all people, when dealing with traders or peoples coming, from outside their own communities, use money. Inside the local community, however, certain tribes still deal largely in barter, equilibrating differences in cowrie shells – as shown

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1 Parliamentary Debates, loc. cit. Mr. C. C. K. Baah’s remarks, col. 853 ff.
in the composition of the “brideprice”. But everywhere the degree to which money is used is increasing rapidly\(^1\).

This has some important consequences for the policy of the new Central Banks. When calculating the money supply, which will be necessary for a given rate of growth at a stable price level, the additional amounts, needed for the increasing monetisation of the country, must be issued over and above the amounts of money needed for the growth and development of the economy. Judging the amounts required is tricky because there is also a process of substitution of the type of money used. Coins predominate at the first stage, then notes – with differences according to denominations – then deposits. Moreover, this substitution process varies both through time and geographically as always new territories become more and more assimilated into the monetary system. In French Equatorial Africa, however, the Governor of the Central Bank – who has one of the longest and most detailed statistics of the variation of the money supply – estimates that an 8 per cent. increase in the money supply per annum is approximately right for his territories. Other Central Bankers are still trying to establish their norms\(^2\).

The prospects of having to maintain a constantly increasing money supply over a long period of years to allow for monetisation is one of the reasons why the new countries of Africa maintain for the moment in practice very high note coverages. The Central Bank statutes do not require more than 25–40 per cent. coverage of the note supply. In practice they are throughout nearly 100 per cent., though there is a certain movement to let them drop to 80 per cent. in the near future.

II. Domestic Monetary and Financial Policy

Not only agreement on the aims of monetary and financial policy but coordination between the Central Bank and the Ministry of Finance for the practical execution thereof, is just as important in the new countries of Africa as it is in those of Europe and America. So far, the new African countries have been lucky in this respect. Relations between the Governors of the Central Banks and the Ministers of Finance have been quite good. It would be unrealistic to expect that such ideal conditions will always exist; this should not, however, decrease ones pleasure that the all important start has set such a good precedent.

No attempt has, for instance, been made to use Central Bank credit for current expenditure. Where the Central Banks have advanced funds, these have been

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\(^1\) Interesting new information was brought back from West Africa on these points by E.J. Taylor, a research assistant of the Basle Centre.

\(^2\) Erin E. Jucker-Fleetwood, The Money Supply in Mature and in Developing Countries. To be published in The Irish Banking Review.
purely temporary and well within the very strict limits set by the Statutes\textsuperscript{1}. Even these small advances have been few.

The African Ministers of Finance I have dealt with – and others from other countries of whom I have information – have all a marked fear of doing anything that would lead to inflation. Often, the foreign advisers are astounded at the conservatism shown. So far, this has been all to the good. Avoidance of inflation – even a creeping inflation – must be and is one of the main aims of those who understand enough to grasp the problems involved.

The three main reasons given for a non-inflationary development are all connected with the desire for fast economic progress:

1. These countries need – they must have – foreign loans both public, semi-public and private, and a precondition is no inflation.
2. They need to build up an internal capital market – true savings would easily vanish if inflation were allowed.
3. They do not want to price themselves out of the international market.

It is excellent that there are reasons as strong as the above mentioned to prevent fatal inattention to the financial development. These countries also know that they do not all have the politically strategic position of India or Turkey; and even these countries have to undertake to follow a code of sound finance before they receive the help their too ambitious development plans caused them to need.

In spite of the above, it is sometimes suggested that these new countries should use credit injections (an euphemism for inflation) in order to spur economic – and especially industrial – development. These suggestions usually emanate from western desk economists who have never been in African countries. It is certainly not based on knowledge of the countries concerned.

Apart from the general arguments given above against such a procedure there are other specific ones:

1. There is no general lack of liquidity either at government or banking level. That the distribution of existing liquidity could be improved (manner in which bank loans are given) is another matter.
2. No increase in liquidity will produce more technically trained people. – This difficult problem must be solved by intelligent international cooperation – and even then it will take time.
3. No increase in liquidity will produce Schumpetrian entrepreneurship – where this basic characteristic is lacking. There are Africans – especially in the north but also elsewhere – who prefer to hold liquid assets than to use them, if the latter requires a personal effort.

\textsuperscript{1} 5\% (Tunisia), 10\% (Morocco, Ghana), 12\frac{1}{2}\% (Nigeria), 15\% (Sudan), 20\% (Rhodesia), of budget revenue for usually 3–6 months per financial year.
The above reasons should dispose of the argument that an inflationary credit injection can help these countries. The problems in Africa are not business cycle problems but structural ones; these can only be overcome by better utilisation of existing resources and their real, not fictitious, increase in value through investment of work and capital.

The main problem will, on the contrary, be to avoid inflation.

Not least among the inflationary possibilities are the Trade Unions’ desire to increase basic (minimum) wages as fast as possible – irrespective of productivity or unemployment. But even the Trade Unions do not wish such a wage increase to affect prices and often hope that price control will look after matters. That this is completely out of the question is, of course, to us very clear. In these African countries, where the administrative apparatus is usually hardly able to carry the burden of its ordinary duties, price control will never work (in Europe it does not work – even in wartime – without its counterpart, rationing, which is doubly inconceivable in Africa). Thus any unjustified increase in basic wages is bound to have a price-increasing effect.

Another aspect of wage policy is that there are large differences in pay rates between qualified and non-qualified workers. These often amount to 4–6 times as much and, as an incentive to qualify oneself, are excellent. Theoretically, these differences in wage rates should be completely neutral from the monetary point of view, because they stem from greater productivity. But, unfortunately, a not inconsiderable number of these qualified workers are to be found in relatively unproductive branches, administration and services, and not exactly in industry or agriculture. It is a moot point, as to whether these high wages do not increase the monetary pressure in the country. This is unquestionably the case when promotion has been obtained by favouritism and not qualification. Personally, while not wishing to change the wage structure – which in itself is the only possible one for a country lacking technically trained and skilled workers – I would endeavour to make productive employment fashionable.

The financial problems of these countries lie all in the future – as one Central Banker put it. So far they have since independence been able to more than balance their current budgets and pay themselves for the greater part of their development plans, even if in some cases capital has been imported both from Great Britain and France – and to some smaller extent from the US. In the future the demands of development plans and those resulting from the high propensity to consume will make the meeting of future expenditure difficult.

Thus in order to be able to meet future expenditure it will also be necessary to have increased government receipts.

As in all developing countries, the greater part of Government current revenue comes from indirect taxation, customs (export and import) and excise, and only a minor part from direct taxation. Company taxation is often fairly high,
circa 40 per cent., though special tax concessions are made for limited periods (often 5 years) to newly established undertakings\(^1\). Personal income tax is progressive and usually, for higher incomes, not negligible\(^2\). It is, therefore, important that when new direct taxation becomes necessary, it should be based not on higher rates, which would penalise those who have most initiative, but on better methods of assessment and collection. This would include the obligation to keep accounts, a measure difficult to enforce in countries, where elementary bookkeeping is an almost unknown art. However, in East Nigeria, a revolutionary experiment in the shape of PAYE collection system was recently introduced. It had a most beneficial effect on revenue which increased by 62 per cent. in one year. The only comment I have received about it is that it proved popular with the people, who thought it a most easy method of paying taxes! That it requires organisation, control and a high degree of honesty on the part of the employers – as well as extra work – should not prevent such and similar imaginative solutions from being tried.

With regard to increases in indirect taxes, outside of petrol, vehicle and other typical western items, higher import duties on consumer goods will be introduced. Such duties have the advantage of securing revenue for the government, slowing down the rate of growth of consumer good imports and furthermore creating more room for domestic production. The international implications of such a policy will be discussed below. From the domestic point of view, provided that the industry for the internal market becomes a reality – so that there are always sufficient goods on the market – it should do more good than harm at any rate for the next few years.

With regard to expenditure, these countries have not before this year succeeded in spending the total of their sanctioned current budgets – or of their development plan budgets, however financed. The bottleneck is the lack of school teachers, doctors, nurses, engineers, administrators and all other types of technically trained people. Thus the Central Bankers and the foreign experts were not worrying about too much spending even if they did not always approve of certain luxury expenditures. In the meantime, however, some countries have discovered that they can use their apparent surpluses for arms, aeroplanes and naval units. Such expenditures are not only politically dangerous and economically unproductive but tend to be financially ruinous. The upkeep of naval units, military aerodromes is very costly; the buying abroad of expensive military equipment can make sizable foreign exchange reserves evaporate. Such a spending policy can only be deplored by the economist who has some idea of the

\(^1\) Typical of the type of concessions given are the details in Economic Survey of Nigeria 1959, Lagos 1959, p. 66–67.

\(^2\) There is no personal income tax yet in the Sudan.
amount of economic development that is needed, its possible costs and the limited resources available for financing it.

The development plans of the countries in question have already been briefly referred to above. They all on paper put agricultural raw material production first, then give attention to infrastructure and only in the third place does industrial production follow – primarily for the internal market. It is, of course, possible that the politicians, in their secret dreams, would like industrial production to be given preference. The difficulties industrialisation encounters in African developing countries, however, are such that even the politicians have to be realistic. Thus, the general structure of the plans, as they exist today, are on the whole above reproach – their financial size is another problem.

The total expenditure foreseen for each single development plan far exceeds the internal and external capital available at present. The external problem will be dealt with below. It is the internal one which is of immediate interest here.

All the development plans foresee expenditure which falls into two parts. That part which comes from abroad, appears directly in the shape of machines etc. and usually does not affect the internal monetary mechanism. Some part may finance technical help but it is minor and does not have an impact so large that it needs special consideration. On the other hand the specific internal expenditure such as the buildings to house the machinery, or the wages of the builders, should be paid for by internally raised capital. To the extent external capital is used for internal purposes the real counterpart must be either saved internally or imported as consumer goods.

Part of this capital can come from the budget, and the means of increasing revenue have been discussed above. The remainder should only come from internal savings. The formation of an internal capital market so as to have the means of collecting real monetary savings becomes one of the key factors in the monetary spectrum.

An internal capital market does not mean the immediate creation of stock exchanges. Unfortunately, the possession of a stock exchange has become in some countries the same status symbol of economic independence as having a Central Bank has been¹.

Few of these countries have a reasonable number of flourishing share companies, a sine qua non for a stock exchange. However, the Federation of Rhodesia has well run but small stock exchanges, Nigeria and Ghana hope to have them soon – perhaps too soon. In fact, there is no reason why some bank – say the State Commercial Bank – or an especially licensed broker should not act

¹ This is unfortunate because unsuccessful stock exchanges – as shown by the Latin American experience – are apt to give the tone to the economy – even if they are not really reflecting the situation.
as a place of sale and purchase of stocks and shares till the country in question has a sufficient base for a real stock exchange.

The creation of an internal capital market requires in the first place the accumulation of money savings. In Africa the traditional means of saving are proving useful accumulators, increasing, where they exist and have been properly publicised, faster, sometimes much faster than the rate of growth of the country; they include:

1. *Saving accounts* at banks of all types (including post office saving banks).
   A start has been made in this direction, and it is still probably the most promising for the time being. It is within reach of the smaller saver, who typically saves for an objective — in order to have a bicycle, to educate his children, to buy a house. While this money is accumulating, it is at the disposal of the bank, which, if its lending policy is imaginative, could make good use of it. Moreover, as is often neglected in the current discussion, the holding of cash balances really does mean a non-consumption, which in itself releases real assets for capital investment.

2. *Football pools* — a very important source.
   They have now been nationalised — (one country alone calculated that £3 million per annum minimum were going abroad in this way). They are expected to bring in a steady yearly income from penny savings. — From the monetary point of view they are probably the only way to skim off purchasing power from the lowest income groups.

3. *Life insurance companies and pension schemes.*
   These are now gradually being introduced (often with the help of the "Schweizerische Rückversicherungs-Gesellschaft") in most countries. They have had a surprisingly fast success, considering how short a time they have been functioning.

   The takers are chiefly commercial banks, insurance companies, large expatriate companies, but only a few local enterprises are large enough to be able to carry bonds. However, most bond issues have hitherto been oversubscribed, and have been repeated within a shorter period than originally foreseen. Though interest rates on bond issues, circa 5–6 per cent. are very low, the desirability of a diversification of investments plus a patriotic appeal for capital has had gratifying results. — The issue of Government bonds has also served another purpose. Expatriate banks and companies were always under criticism that they kept their reserves abroad, the City of London, Switzer-
land, New York etc., instead of putting them at the disposal of the country. Hitherto, they were able to answer that there were no suitable means of placing their funds in the country. The issue of government bonds and Treasury Bills has removed the validity of this argument; and the expatriate companies and banks have loyally invested part of their reserves. This implies a break with a long standing tradition of maintaining all reserves at the head office; it will have important implications on the future central financial policy of the companies in question.

5. **Treasury Bills.**

They have also started to be issued in many countries. It is only the very largest companies, banks, insurance companies and Marketing Boards which subscribe, though more subscribers appeared than were expected. The issues of Treasury Bills, as well as bonds, were very well planned, the latter in Ghana and Nigeria to coincide with the low in government revenue, which is also the period of high liquidity at the banks. This rhythm in the liquidity of the banks is found in all these countries and corresponds to the in and out of cash crops i.e. to the harvest seasons variations. Where there is only one major crop this is very marked – where there are several crops or a strong permanent mining base, less so. It also presents a statistical trap in many series for the unwary research worker.

6. **Share issues.**

This is a tricky question because its success depends in Africa on the existence of sufficient successful domestic share companies. It is absolutely no use trying to sell shares of companies that are not good investment propositions. These are few and far between (or they are family owned). Most Government industrialisation plans foresee that the Government should (with or without foreign financial help) start and bring to a given level the new industrial undertakings; then sell the shares to the general public and use the released capital for starting other new enterprises – on a revolving fund principle. The plan in itself is good; but a major effort will be needed to make these industries competitive enough to sell their shares successfully.

In view of the Africans’ love of speculation, the issue of premium bonds should probably be considered. These would, of course, have to be issued at rather high denominations, £ 1–5 in order not to compete with the football pools. The advantage would be that the owner would not lose his capital. Apart from the technical difficulties of running such a system at the moment (the lack of qualified people) one country tried unsuccessfully to issue premium bonds some 8 years ago. It was certainly then a premature measure and was moreover, it is
now generally conceded, badly prepared. It will therefore take time before the measure can be tried again. But it should be a successful saving measure because it would beat the low interest rates government bonds otherwise carry\(^1\).

The issues of government bonds and Treasury Bills, which have recently started must be seen not merely as one of the means to secure savings from the public. They are also future instruments of monetary policy.

The whole question of saving in developing countries is a difficult one and it is easy to be pessimistic about it. The high propensity to consume, the tendency to save in gold, precious stones or “unnecessary” durable consumer goods is always mentioned in the discussion. So is the drain of capital towards trade and speculation in real estate. In many countries, however, the real return on such investment is anything between 15–45 per cent. per annum. Returns of 20–33\(\frac{1}{3}\) per cent. are, in some countries, common-place. And on top of that, investment in real estate need not require any personal effort – while trading is to some people pleasure, not work. It is therefore not surprising that, when inclination and the laws of economics coincide, a considerable proportion of the capital sums available should be invested in these two lines. The reinvestment of the profits, however, does increase the capital formation. Naturally bank accounts and government bonds offering returns of 4–6 per cent. per annum are poor competitors for loose cash in any larger quantities i.e. amounts large enough to be invested successfully in, say, real estate. On the other hand, for anyone who can qualify for a bank loan, the real return on his investment may be large.

As will be clear from the interest rate structure discussed above, the monetary authorities and especially the Central Bank have some problems when trying to control the internal market. The discount rate is naturally ineffective. The commercial banks hardly use the rediscount facilities. Most of them have large reserves anyway either abroad or as high internal liquidity. Open market operations do not work, though the issue of government bonds and Treasury Bills will gradually create an area of operations. All the new Central Banks have the possibility of requiring commercial banks to hold “special deposits”, when they consider this necessary. This “revolutionary” introduction of the Radcliffe Report was a common-place in Commonwealth Central Banking since the second world war (e.g. Australia\(^2\)). So far the African countries, with the exception of Rhodesia, have not made use of this monetary weapon.

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1 A Government loan of £ 10 million at, say, 5 per cent. can only pay £ 500000 in interest rate. But this sum distributed in larger prizes can make the loan much more attractive.

The Central Bank is therefore reduced, at the moment, to control through the absolute amount of money issued. Here, apart from equilibrium in the Government financial situation, two factors emerge:

1. As cash crops are the main utilisers of newly issued money, the size of the crop and the internal price are very important monetary factors. Some countries, like Ghana, maintain that a stable internal price is the important factor as this price is decisive for the setting of all other prices. Other countries, aiming at income stabilisation, prefer low prices for large crops and high prices for smaller ones. There are many other aspects of this price discussion which cannot be entered into here. Its monetary aspect, however, is often overlooked by Western economists.

2. The second factor is that all monetary saving that is secured in these countries even on bank accounts, and this also applies to hoarding, immobilises purchasing power—it is a non-consumption—and leaves room for extra capital investment. The new Central Banks, therefore, keep a close eye on all kinds of monetary savings and their utilisation, in order to be able to advise for or against increased investment.

From the above it will be seen that the key factors in internal monetary and financial policy are:

i) a reasonable wage policy,
ii) sound Government Finances,
iii) the creation of internal savings,
iv) control of the money supply,
v) collaboration between all the financial and monetary bodies with the Central Bank; the knowledge that the latter already has some monetary weapons and that these are being increased puts the necessary edge on its authority.

III. External Monetary and Financial Policy

As has been repeatedly pointed out by the valuable annual reports of GATT, the terms of trade have during the last few years been turning against the developing countries because of the relative change in prices between raw material and manufactures. African countries have suffered proportionally less than other developing countries because, on the whole, they have been able to increase their export earnings¹. Their imports have, however, grown even faster and the difference has had to be made up from luckily available foreign exchange reserves.

The two fundamental external problems are to keep ordinary items of the balance of trade at least in equilibrium and to see that extra expenditure for economic development is covered by external loans – at least to such an extent that the present foreign exchange reserves are not drawn down beyond the planned minimum.

The main weak points in the balance of trade are:

1. The often onesided export structure; the high dependence on one product. Efforts are being made to increase the variety of exportable products both agricultural and mineral.

2. The fluctuations in raw material prices. Inspite of many proposals, no suitable plans have yet been developed for their stabilisation. Flourishing economies in Europe, America and the often forgotten developing countries themselves, are the best guarantee for stable and high prices – and with the present world population increase we have no long term raw material surplus problem. The medium run problem is being investigated. Where they can, the industrialised countries should at least cooperate by duty free imports of raw materials and, if possible, by no internal luxury taxes on items such as cocoa and coffee.

Moreover, raw material producing countries know that they can have recourse to the International Monetary Fund for temporary help with balance of payments problems due to fluctuations in raw material prices¹. While this is not the whole answer, it is a very useful assistance. However, when raw materials have inelastic demand curves or where structural changes in demand – nylon tending to replace cotton – take place, the longterm price changes should produce changes in production.

3. The third weak point are the growing imports of consumer goods. The propensity to consume is high and the internal production of consumer goods small. The latter should be encouraged by all means available. This includes industrial countries accepting for a limited period of time relatively high import duties on their exports to certain developing countries. Such a measure is greatly to be preferred to its alternative, foreign trade control – which in a few African countries in fact exists. While comparative costs should basically determine the pattern of world trade², the industrial capacity of, at least, the African countries is so far behind that of the industrialised countries that they are prime examples for the infant industry argument. Naturally such a protection should be temporary only, lasting


till productivity in the branch in question has reached – or nearly reached – international standard. It is also in the interest of the developing countries themselves to make sure that the protection is not too high. They cannot allow a scarcity of goods to arise on the internal market because it would cause a price increase. They also do not want to produce manufactures only for their internal markets but also for export. Unless they ascertain that their own internal price and wage structure (taking productivity into consideration) remains comparable to the world level and is not artificially raised behind protective barriers, they will never become internationally competitive. On the other hand the industrialised countries will certainly have to “surrender some sectors of light manufacturing to the new industries in developing countries”1. If they maintain their flexibility the resulting changes in production and trade should be relatively painlessly achieved.

The formerly difficult problem of the direction of trade which gave the composition of the currencies earned by the developing countries, hard, soft etc., has, thanks to the convertibility of currencies, now been solved. Several African countries, however, are trying to secure a geographically more differentiated export structure in the hope of not being so dependent on the internal economic position of their traditional trading partners. These efforts have caused them in some cases to arrange bilateral trading agreements with Eastern European and other countries2. Sometimes these worked well; sometimes the exporting countries have the unpleasant experience of finding their raw materials offered on the world market. These bilateral trading agreements are, therefore, not unduly popular and it is to be hoped that they can, at some future date, be multilateralised. There are other arguments against them too, too well known to have to be discussed here. The best way to make sure they do not reach important proportions is to assure the exporting countries of good markets elsewhere. A still large, and almost completely undeveloped field, at least in Africa, is that of trade between the developing countries, as suggested by Per Jacobsson at the recent Annual Meeting of the International Monetary Fund3.

Another important trade aspect, is the unfortunate split in Europe between the EWG and the EFTA. Seen from Africa, it looks just horrible. It must be

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2 The Sudan, for instance, has bilateral agreements with Czechoslovakia, East Germany, Egypt, Hungary, Poland, Jugoslavia; Economic and Financial Bulletin, Bank of Sudan, January–March, 1960, pp. 8–10.
hoped that the present efforts to find a basis of union will succeed, at least so far, that Europe to the world will present a unified aspect. And this should be achieved quickly enough to prevent otherwise unnatural structural changes in trade with non-European countries from taking place.

As should be clear from the above discussion, the problems of the current ordinary balance of trade in African countries are not at the moment directly monetary. This is due to the existence of foreign reserves and the careful avoidance of internal domestic inflation. The multiplier effect of the investment for the development plans – by experience the most difficult item to evaluate both as to its size and timing – can however always lead to a mounting pressure on the balance of trade. Then the monetary and financial weapons (elimination of government deficits, special deposits, taxation reform) would have to be brought into play, as they were successfully in 1958–1959 in the Sudan, at so early a stage that a balance of payment crisis can be avoided. It is therefore the internal monetary policy which finally is decisive for the avoidance of the very unpleasant external balance of payments crisis due to too great a domestic demand.

The question of securing external capital and therefore the foreign exchange for development plans and industrialisation is in a completely different category – as many a Minister of Finance who has gone abroad seeking loans has discovered.

The obtention of official loans from the IBRD, the governments of other countries or their agencies (ICA, DLF) is, however, comparatively easy. Certain conditions as to the suitability of the project for which the loan is applied must be met. Its position in the investment structure of the country must be a key one, it must be expected to reach a certain standard of profitability etc. The loan applications, after careful examination, are granted or rejected. If they are larger, conditions might be attached to them. The World Bank loan to Ghana, $ 40 million, is conditional on the successful conclusion of a contract with the companies which are assisting in the Volta project.

The securing of the semi-official and private loans is a much more difficult matter. Here, the legal security of foreign investments is the prime consideration. What are their prospects of not being appropriated by nationalisation or their capital repayment and service being hindered by such things as exchange control? Even the most sincere personal assurances of the Ministers of Finance or the most emphatic statements by Heads of State carry little weight when it is known that a section of the politicians of the country have other ideas. It is, therefore, imperative that the developing countries realise that if they really want foreign capital, they must wholeheartedly accept the conditions on which it can be obtained. Their agreement to a universal code for International Invest-

\footnote{Eugene R. Black, The Diplomacy of Economic Development, Harvard 1960, p.29 ff. and p.65 ff.}
ment, such as has been worked out at the OEEC in Paris, would be a helpful step. It would give them more foreign capital, especially of the semiprivate and private kind, which particularly for the later stages of economic development is very valuable because it helps to assure the necessary differentiation of the investment structure.

If the developing countries do not individually manage to secure the amounts of foreign capital, and thereby foreign exchange, they hope for, they will have to slow down the speed at which they fulfil their development plans.

This is likely to be the fate of many of the developing countries, not only the African ones. The resources of the whole industrialised world are, namely, limited at any given point in time and it is only over a period of years that anything like the demands can be met. A slightly slower rate of economic growth than the one the developing countries would now like to have, would, if it proves to be necessary, be preferable to a long series of exchange crisis, internal inflations, depreciations of the foreign exchange rates, which all have an upsetting, and therefore restrictive, effect on world trade. This would be so shattering to international cooperation that the economic rates of growth might easily become negative and to no country's advantage.

The developing countries are all highly dependent upon being part of the world system of trade and commerce and payment; if they themselves want therefore to obtain the maximum benefit from the possibilities open to them, it is essential that they should, internally and externally, confirm to the rules of the market system. It is in their own interest, for instance, to see that their prices correspond with the world market level. They should therefore try to avoid all restrictive measures such as quotas, foreign exchange control, internal artificial price setting, propped wage rates, all of which would falsify their price structure. Such measures are also abhorrent to foreign capital. Thus not only would they lose by such a policy their export markets and aid internal inflation, but they would drive away the help they so badly need.

Concluding Remark

The African countries have, as I have tried to show, the prospect of having to meet some difficult problems in the future. These will present themselves largely — though not exclusively — as monetary and financial ones. If, within the framework of a generally suitable political policy, the means of control that the authorities have at their disposal are used in time, no major crisis caused by incorrect internal policies would need to arise. Then the capital and technical assistance from abroad and the African countries' own growing resources can be devoted exclusively to achieving their sound economic growth, which will benefit not only them but the whole world.