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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

MOBILIZATION OF DOMESTIC FINANCIAL RESOURCES FOR INDUSTRIAL DEVELOPMENT IN AFRICAN COUNTRIES 1/

by

G. [illegible] */

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*/ Head of Economic Department, Association of Austrian Savings Banks, Vienna, Austria.

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CONTENTS

Chapter		Page
	Introduction	1
I.	Savings Mobilization in General	3
II.	Savings Instruments	7
III.	Savings Institutions	12
IV.	Transformation Problems in Industrial Financing	17
V.	Case Studies	20
	Kenya	20
	Sudan	24
	Botswana	27
	Tanzania	31
	Zambia	35
	Summary	39
	References	41
	Table 1	44
	Table 2	45

I N T R O D U C T I O N

1. In recent years it has been [illegible] economic development in the [illegible] depend[s] to a consid-erable extent on how well the developing countries [illegible] their national savings [illegible] how effectively these savings are channelled into productive investments. This is also reflected in paragraph [illegible] of the International Development Strategy of the Second United Nations Develop-ment Decade which states inter alia: "Developing countries must and do bear the main responsibility for financing their development.... Every effort will be made to mobilize private savings...."

2. Against this background the United Nations Industrial Devel-opment Organization inaugurated in 1971 a programme which is aimed at developing new methods and techniques to mobilize domestic savings and to channel them into industrial develop-ment. In line with the terms of reference UNIDO undertook a survey mission with a duration of four weeks to five se-lected African countries in order to explore the various possibilities of mobilizing domestic financial resources for industrial development and, as a result, prepare recommenda-tions which would enable developing countries to finance indus-trial projects through a mobilization of their capital re-sources and in this connexion to assess the need of related technical assistance to be provided by UNIDO. Emphasis was placed on an examination of existing institutions with the view toward providing technical assistance to strengthen their organization structures, management, staffing and opera-tional procedures. For this purpose Mr. [illegible], international [illegible] bank expert and [illegible] a UNIDO staff member visited the follo[wing] countries: [illegible] Botswana, [illegible] Kenya, [illegible] Sudan, United Republic of Tanzania and [illegible] Zambia.

3. The following report is not intended to offer a comprehen-sive account of the various financing schemes or the differ-ent prerequisites for investments, as there exist a great

number of excellent studies on these topics (some of which are listed in the bibliography). It should, however, present specific points of view on the above mentioned issues as well as supply concrete recommendations for follow-up action by UNIDO in the case of the individually-examined countries.

I. SAVINGS MOBILIZATION IN GENERAL

1. It is an undisputed fact that financial resources, the essential requirement of any investment and/or day-to-day operation of an enterprise, are the accompanying as well as the limiting factors to further industrial and economic development, although the causal and interdependent relationships between financial development and economic growth may not always be exactly known.

2. Different opinions and conceptions exist with regard to the financial policies and targets pursued by industrial enterprises and financing institutions and from the point of view of national economies, in particular, as generalizations in this respect can only be made under certain assumptions because of the differentiated pre-conditions. However, it is still widely accepted that:

3. The financial structure (in particular the relation of equity to loan capital and the interaction of short-term and long-term financing), the cost of financing (interest and auxiliary costs), the suitability and flexibility of the intermediary financial instruments (forms of savings and credit, collateral instruments, etc.) are important factors which have a direct bearing on the growth of industry and that,

4. it is desirable, if not mandatory, to finance at least a certain proportion of total investments from domestic sources for reasons of maintaining control over the national economic development and to participate in the revenues derived from such investments.

5. At present, public savings, vis-à-vis private savings, play a decisive role in the developing countries. The measures taken to introduce or to strengthen income taxes, to improve

the incidents of import [illegible] higher rates on luxury [illegible] rather successful from the point of [illegible]. Nevertheless revenues could [illegible] through a reform of the tax [illegible] for instance through a more effective and [illegible] levied taxes, the control of tax evasion, etc. It is important to note, however, that [illegible] public savings from taxable income, property [illegible], etc., are subject to certain [illegible] and that fiscal policies should not be merely [illegible] rates. A taxation which is too high and too [illegible] could interfere with economic growth and [illegible] of the population to work and invest. On the other hand, a sound tax system can encourage the conversion of production for subsistence into a production for money income. Another important target of fiscal policy which may ultimately result in a higher volume of revenues is to help to achieve a more even distribution of income and wealth.

6. Deficit spending and the creation of money are short-term alternatives to making resources available for investment. They act, however, as medium- to long-term growth inhibitors because of their detrimental effect on the value of money and the distribution of income and wealth.

7. Self-financing is another important source of savings. However, developing countries should consider:

   a) that in the case of an enterprise which has (partially) foreign equity participation profits should remain and be invested mainly in the developing country. Although a certain proportion of profits will need to be repatriated to the investor,

   b) that tax laws will show preference to those parts of the profit that are re-invested as compared to those which will be paid out,

e) that self-financing will not be done for its own sake, especially in the case of enterprises with [illegible] markets, resulting in large financial resources being always re-invested in the same enterprise without the control and steering function of the capital market or without consideration to the national development plan.

8. Aside from foreign financing which was not investigated during this mission, household savings remain as an important source of financing. These savings are needed, in particular, to cover the difference between the level of total investments and the resources accumulated through taxation (in the case of public investments) and/or through self-financing.

9. However, voluntary household savings have so far remained disproportionaly dormant. The overall investment activity in developing countries was gradually raised in the Sixties; a case in point is, for instance, the annual rate of growth of gross investments in real terms which is usually higher than in developed countries, or the ratio of gross investments to the gross national product which is now not much lower than in developed countries. Private savings on the contrary, have, relative to the gross national product in developing countries as for example in Africa, shown merely a negligible increase in the period 1961 to 1971 and in relation to the industrialized countries have remained on the average substantially lower (please refer to Table [illegible]).

10. Among the various reasons which cause the low propensity to save, in absolute and relative terms in (African) developing countries, the low level of per capita income is often mentioned. It stands to reason that the moderate income and in general, the low level of monetization in rural areas continue to impede savings. However, on the basis of various

observations and st[illegible] [illegible] that the progressing monetization [illegible] from a subsist-ence economy to a barter [illegible] market [illegible] and the constantly increasing incomes in absolute terms in combination with the expectation in a rising [illegible] have raised the sav-ings capacity significantly and that in those countries where major political and economic efforts were devoted to an in-crease in the savings [illegible] be measured. It is frequently surprising how much money can be saved in form of hoarding when only moderate incomes are prevailing.

11. In order to organize an effective mobilization of domestic savings, a concentrated, well-planned effort is needed on the part of the appropriate Government authorities, the ad-ministration and the institutions involved. A national sav-ings programme has to encompass the three above-mentioned sources of savings and co-ordinate them because only a well-balanced relationship between public and private savings will lead eventually to a potentially optimal instrument of the capital market and to a stabilization of social and political conditions. Many of the Governmental attempts to organize a mobilization of savings are only partial (i.e. they concentrate only on urban agglomerations, on specific institutions or instruments, etc.) or they are short-term conceptions and are poorly conceived or executed in terms of their organization so that visible successes can be only partially achieved.

12. A long-term savings programme is to be integrated into the national development plan, in particular, from the point of view of industrial and fiscal policies and should be co-ordinated with these. As long as the bulk of savings con-sists of nominally fixed deposits, it will be necessary for a successful execution of a long-term savings policy to pro-vide for the highest possible degree of stabilization in domestic price levels.

II. SAVINGS INSTRUMENTS

13. In the first place savings instruments should meet the requirements of savers, and secondly they should provide fully the possibilities of transformation into productive investments. In developing countries savings habits are mainly influenced by social and tribal traditions. Consequently, savings and credit instruments must take these deep-rooted habits and traditions into account.

14. Jewelry, cattle, land and hoarding of cash are even in highly developed money economies alternative means of investment. In the developing countries, a high percentage of savings is accumulated in this manner. The confidence in monetized savings can be only gradually stimulated or augmented by educational campaigns, the creation of simple savings instruments and dependable savings institutions.

15. A transition to "higher" forms of savings should be recommended only as a step-wise progression. In other words, it appears absolutely necessary that prior to introducing a massive savings campaign, for example, to promote securities, particularly those with equity characteristics or life insurances with a complicated stipulation, a creditor/debtor relationship with the credit institution for instance in the form of a savings account which offers liquidity as well as security should proceed. In introducing any new form of savings or in the mobilization of savings in general, the confidence of the saver in the new scheme is the most important contributor to its success. It is, however, difficult to build up confidence without the benefit of positive experiences.

16. The urge to gamble is present in many people. A combination of savings schemes with various types of lottery can produce good results in certain social groupings. Under this system,

part of the [illegible] credited to the savers but is used for the [illegible] of [illegible] which are distributed by chance. Savings lottery systems of this type can be developed for savings accounts as well as (on a higher level) for insurance contracts and funds. In some cases, however, the Government receives considerable fiscal revenues through its gambling monopoly and may, therefore, have some misgivings about letting a savings lottery system compete with the state lottery. This competition should in many cases not be considered a real one, as the state lottery compared to the savings lottery pursues a different motivation. At least in their attitude towards these two systems people react differently.

17. For people who earn a constant income on a regular basis, a type of wage deduction could be introduced. Under this system the company will transfer monthly savings rates to the savings accounts of their employees in a savings institution. These amounts can have a lower limit either in terms of a percentage and/or an absolute limit and be possibly committed within this lower limit for a certain maturity of approximately two to three years. The transfer of savings could go hand-in-hand with the transfer of wages into an account in a credit institution and, in this case, the relationship of a steady wage earner with a credit institute could be established on a rather permanent basis. Consideration could also be given to a scheme under which a company would add a premium of about 10 % to those savings that were deposited along with the wage transfers. This would raise the attractiveness of saving for the employees. Savings institutions, on the other hand, could pay a higher rate of interest for long-term savings as compared to demand deposits.

18. The motivation to save is often associated with (1) the expectation that financial assistance will be extended in cases of emergencies or (2) a possibility for obtaining credit (as

for example the savings associations which are rather frequent in Africa) or (3) the motivation may be connected with specific reasons to save for a delayed consumption or for investment purposes. In order to meet these above-listed motivations special savings & credit systems could be designed for instance, for the purchase of housing, savings for marriages and the establishment of businesses. Conceivably, the savings & credit system would provide for a follow-up credit at preferential conditions with respect to maturity, security and cost after a certain minimum period of time, e.g. two to three years, has elapsed and a certain minimum amount of savings (in relative and/or absolute terms) has been generated.

19. The promotion of savings must go hand-in-hand with an education and information programme on financial planning and budgeting conducted by the appropriate financial institution for the population in general.This programme should not be limited to private savings but should include as part of the social and political education the basic elements of proper utilization of income and how to provide for the future. In addition to the information given on the utilization of savings, advice should be given on a multitude of questions concerning savings targets such as the legal, technical and financial terms and conditions of constructing a house, the advantage of saving for educational purposes and their costs. In these cases a close co-operation of the financial institution and other available information media is to be recommended.

20. The facets of savings should be extensive enough by variation and degree to meet the most important motivations such as liquidity, security and profitability in the most extensive manner. By combining the basic types of savings, i.e. savings accounts, securities and insurance savings, additional incentives can be created, as for example, through savings accounts

security by [illegible] a permanent remittance order whereby savings are automatically distributed to various savings accounts, securities and insurance premiums. Types of savings which carry a high risk and long commitment (maturity) can only be successful in cases in which the saver disposes of sufficient capital with a high degree of liquidity and security. In these cases the savings account with a financing institution will be the most appropriate instrument. Differentiating the rates of interest according to the maturity and risks involved will facilitate the transformation mechanism and expand the services offered by the capital market.

21. Savings instruments which guarantee a more or less automatic adjustment to the deteriorating value of money, for instance, by using index clauses, tend to increase the inflationary pressure.Although they may boost voluntary household savings on a short-term and transitionary basis; in the case of long-term savings such as life insurance or bonds, however,no significant losses should be incurred through price increases as they should be off-set by the compounded interest and possible revenues. A short-term deterioriation of the value of money could exceed the interest accumulated from savings, in order to avoid irratic or frequent interest fluctuations. However, as long as this is on a transitionary basis it should not lead to a long-term weakening of savings habits. In Item 18 it has already been stated that voluntary private savings require, as a general precondition, a stabilised level of prices.

22. In order to strengthen the savings propensity particularly of small to medium wage earners, governments should develop savings incentives for this target group. On the basis of past experience it can be stated that the accumulation of initial savings have a strong impact on a further motivation to save and that especially small wage earners are influenced

on a long-term basis by governmental savings promotion campaigns. This is the reason why attention should be given to the widest possible distribution of savers and less to the highest possible savings volume. From the sociological points of view, a broad distribution of capital holdings appears also advantageous. Aside from these considerations, owners of savings accounts are certainly, in the political sense, more stable as they do not tend to show any extreme political views which could endanger their savings. Premiums for long-term deposits (with a ceiling in relation to accumulated savings) and tax holidays on savings including the accumulated interest (with an upper limit) are examples of savings instruments which are utilized to foster private savings. However, it has to be borne in mind that tax holidays favour the higher income categories because of the tax progression and although it may appear advantageous from the point of view of a high savings volume, it still remains dubious whether this incentive should be used from the point of view of the above-mentioned sociological and educational aspects. In the case of high income groups, governmental savings incentives are frequently not likely to induce additional savings but will have the effect of restructuring national savings from non-supported types into government-supported savings forms. The promotion of contractual savings instruments should be given priority because of their positive influence on regularity and longevity as compared to the promotion of other types of savings.

III. SAVINGS INSTITUTIONS

24. It is safe to assume that the number of bank branch offices per capita, their efficiency and their banking policies exercise a great influence on the level of private savings in developing countries. As U Tun Wai observed: "a multitude of differentiated and complementary financial intermediaries and financing instruments tends to raise the efficiency of the allocation mechanism of the capital market".

25. Nevertheless, the role of institutions should not be overemphasized. A newly created institution or conversion of an existing institution by itself does not guarantee eo ipso an improvement of financing of industrial development (in a developing country). Complementary efforts must be taken with regard to financing techniques, the creation of new projects, their evaluation and control as well as, in general, in the conception of a banking philosophy of a new or converted financing institution.

26. Although different preconditions prevail in many countries because of the historically different development of the banking system which may have lead to an abundance of different banking institutions competing with each other which again may have resulted in certain diseconomies, at least two major types of savings and credit institutions appear to be advantageous:

   (1) the profit-oriented commercial banks which operate within the legal framework to deal primarily with short-term financing; and
   (2) non-profit financial institutions similar to the European savings banks which are primarily geared towards mobilizing private savings.

In addition, insurance companies will play an increasing role in the future in mobilizing domestic savings in developing countries.

27. Turning to the precept of profit maximization in the mobilization of domestic resources, its possibilities appear rather limited for the following reasons:

a) Commercial financing institutions hesitate to establish branch offices in rural areas or to service these with moving vans because of the cost of collecting the short- to medium-term savings.

b) Particularly, savings from low to medium income earners tend to be very small amounts and cause disproportionately high acquisition and administrative costs.

For this reason commercial banks in a number of African countries have introduced a minimum for savings deposits which, on the other hand, appears to be prohibitively high for the above-mentioned income groups. The alternatives for these income earners are consequently consumption or hoarding. A non-profit-oriented financial intermediary, however, should be capable of overcoming these two obstacles and raise their overall savings mobilization.

28. A savings mobilization institution should be an entity having its own responsibility in order to achieve a high rate of efficiency. This economic autonomy improves the performance of management and staff and creates clear areas of responsibility. This independence can be combined with legal or statutory regulations aimed at specific points to be emphasized, e.g. the mobilization of savings with particular reference to low income earners including those in rural areas, diversification in investment, regulations to guarantee the advisory function of regional or central development planners or administrative bodies in the case of financing projects for the common benefit, i.e. a catalogue of prescribed investments, the placement of public officials within boards and administrations of savings institutions and others. This type of non-profit institution is usually represented by a savings bank and partially also by the credit co-operatives.

29. Due to an investment policy centered on public and national goals, a non-profit savings institution is capable to support attempts to Africanise on the part of some countries particularily in the case of small and medium scaled enterprises.

30. As a rule, commercial banks provide short-term credit which usually carries a relatively high rate of interest. Long-term credit on the other hand is rarely extended for investment purposes by commercial banks and it is usually against a high collateral. The channelling of domestic savings into industrial projects often fails because of this traditional security-mindedness on the part of these institutions. New industrial projects or extensive expansions of existing industrial enterprises involve high risks for which the required security is generally not available. Consequently, industrial projects have to compete with other sectors of the economy, such as housing or agriculture, which appear to be better suited to the security-mindedness of these banking institutions.

31. In most of the developing countries of Africa the post office savings system still exists which was established during the colonial period. The wide network of post offices which function as collection points for the post office savings bank and the government-backed guarantee for savings deposits and other related reasons give the post office savings system the image of a safe but frequently cumbersome financial institution. A revamping of functional and organizational aspects of the post office savings system could, in many countries, increase the savings volume and strengthen the capital market at much less cost as compared to the establishment of new financial institutions. However, the post office savings system has frequently no *de jure* and as a rule no *de facto* independence concerning their investment policies. In other words, savings which have been accumulated by the post office

savings system are frequently not channelled into investments but (on the request of the government) utilized for current expenditures, i.e. the savings are used to bridge budget deficits. Other typical investments for the post office savings systems are the frequently low interest bearing government bonds or the refinancing of private credit institutions; however, savings are hardly ever used for industrial financing. A restructuring of the post office savings system into a national non-profit savings and credit institution which enjoys economic as well as legal independence and follows (at least partially) an autonomous investment policy would increase the channelling of domestic savings into the industrial sector considerably. A conversion of the post office savings bank into an institution similar to European savings banks by adding the credit function to this system on the local as well as the regional level would clearly demonstrate to the savers how their savings are being used by the institution to finance concrete objects. Past experience has shown that this conversion can be undertaken in a variety of ways and in a number of steps which are not tied to any chronological sequence. The post office savings and credit bank may decide, for example, to invest a certain proportion of its deposits directly in industrial projects and use the remainder to refinance developing banks or to finance a group of finance intermediaries such as insurance companies, commercial banks and development banks. An example of a conversion of a post office savings bank into a national savings and credit bank (NSCB) can be found in Zambia, but also in some European countries.

32. The scarcity of domestic resources in developing countries, the limited investment opportunities, the limited number of trained savings and credit experts and the possibility of misallocating domestic resources and other related factors give emphasis to the need for close co-operation between institutions specializing in long-term and high risk industrial

financing to avoid unnecessary parallel development of different institutions. A case in point would be a close co-operation between local development banks and the post office savings system which would facilitate the transformation of maturities and risks. This should be possible without a loss of the economic and legal independence of the concerned institutions and connected with that a loss of their individual impact on the market.

33. Banking legislation with regard to lenders' protection and disclosure obligation is in many of the developing countries rather incomplete and needs improvement. Improvements in this respect would raise the confidence of the population in the banking apparatus and, along with that, strengthen the savings mobilization.

34. The strengthening of the money market and of the refinancing possibilities for the banks at the central bank could greatly facilitate the transformation of maturities among credit institutions and redress their preference for liquidity and, combined with that, foster investment financing.

IV. TRANSFORMATION PROBLEMS IN INDUSTRIAL FINANCING

35. Investment financing has quantitative as well as qualitative aspects. This becomes evident particularly in the case of industrial financing. Incongruity between capital supply and demand leads to financial transformation problems. In addition, the need to accept risks in financing amounts to a personal (if not psychological) problem of assuming responsibilities for which attempts are frequently made to avoid these by redelegating them or postponing the decision process.

36. Industrial financing cannot be divorced from the questions arising from the technical know-how of industrial production and marketing. Subsequent industrial expansion often fails not only because of the lack of capital but because of the lack of knowledge and experience of the entrepreneur and/or managers who may not be willing to take the risks inherent in industrial investments. This is the main reason why the training of industrial management in developing countries is of such importance as otherwise domestic savings will lay idle, be misallocated or be siphoned off into long-term foreign investments.

37. Industrial financing can also be used as an instrument to influence regional development. When rural savings are invested together with other sources of financing in rural development centers, the growing migration of the agricultural population could be avoided and, at the same time, development of industrial/trade production units will be facilitated in particularly poorly-populated areas.

38. Particularly in the case of small- and medium-scale industries a package consisting of capital combined with information on financing problems and administrative matters is

required whenever a production unit is established or an expansion is contemplated because the know-how on these matters is very often lacking in developing countries. Technical assistance in such matters as accounting, cost accounting and taxation will often be a prerequisite for a self-sustaining development of an industrial unit. Common organization and administration of industrial production units which include the development of infrastructure and common training facilities have been proven successful together with the financial support and initiative of foreign investors as for instance shown in the industrial estates in various developing countries.

39. Arrangements for a collective collateral could better meet the security-mindedness of credit institutions. The collateral should cover not more than 80 - 90 % of the credit amount. The remainder should be the responsibility of the creditors or the co-signer. A collateral fund of this type should be strengthened by governmental co-signers. By using this method, a certain risks selection would be guaranteed through the deductible; risks that would exceed the coverage of an individual entrepreneur or a credit institution that should be taken within the interest of the national development would thus be covered. The cost of such a collateral system would not bring about a substantial increase in the cost of the total financing.

40. In the case of defaulted industrial credits, it has been observed that in many cases the reason can be found in the lack of efficient credit control on the part of the credit institution. Especially in connexion with inventory sales volume and price fluctuations, financial decisions made by the borrower are often detected too late by the lender and consequently, the latter cannot advise the borrower in time on these matters.

41. Financing could be accelerated to a certain degree through decentralization by delegating the credit decision to branch offices of the savings and credit banks. However, this limited credit autonomy of branch offices often fails because of the lack of trained credit officers in these branches. The training of bank staff is often insufficient, particularly in fields such as project identification, project evaluation and banking techniques and could be improved through workshops and seminars similar to those that UNIDO and other international financing institutions have been conducting.

42. Past experience has shown that financial and/or operational leasing offers in the case of certain capital goods financing as well as technical know how and thereby improves to some degree the overall industrial financing.

V. CASE STUDIES

KENYA

1. Despite a relatively high rate of economic growth and considerable investment activity, in relation to the gross national product, total national savings have shown any net increase in the Sixties. All efforts to mobilize domestic savings have been concentrated by the Government on public savings, whereas private savings, especially those of small to medium wage earners, have been rather neglected.

2. Although Kenya is in a position of having a relatively intense network of various capital market institutions, including a stock market, the existing institutions, policies and savings instruments appear only partially appropriate for an effective mobilization and channelling of savings into industrial investments.

3. With regard to the mobilization of savings, two observations were made:
   a) The existing Post Office Savings System suffered until the very recent past from their very complicated method of crediting annual interest in the savings books. Under this system, the savings books had to be forwarded to the central office in Nairobi and it frequently required up to half a year to enter the interest and remit the book. During this period, savers could not deposit or withdraw their savings. During the visit of the UNIDO mission in Nairobi efforts were just being made to facilitate this procedure and to raise the efficiency of the savings books by adding a photograph of the saver and to provide the possibility of using the savings book in all post offices for deposits and withdrawals. This will indeed increase the attractiveness of this savings instrument. In addition, however, the Post Office Savings System can

only be successful in competing with other savings institutions when similar services are being provided. As other financial institutions have started competing for savers and these institutions are able to offer more services than the Post Office Savings Bank, the market share of the latter is declining as has been noted in many other developing countries. This applies also to Kenya (note the latest World Bank Report on Kenya).

Consequently, a co-ordination of services of the Post Office Savings Banks in many developing and developed countries appears necessary with particular reference to checking accounts, overdrafts on checking accounts, a partially independent investment policy (in line with public purposes and national development plans) more and improved means of information concerning savings, etc. This may also entail, in some cases (i.e. Zambia), a change of the institution's name and title from Post Office Savings Bank to (National) Savings and Credit Bank.

Since its establishment in 1965 (KSh[1/] 96.2 million depositors' accounts) the Post Office Savings System in Kenya shows a rising volume of deposits (KSh 118.1 million until the end of 1971 distributed among more than 617,000 single depositors) although it has a slower rate of growth than, for instance, commercial banks or building associations. In comparison, the total savings and deposits of commercial banks amounted to KSh 1.143 million at the middle of 1971. The market share of the Post Office Savings System in the case of savings deposits, fell from 60 % in 1960 to 10 % in 1970. The assets of the system were KSh 68.0 million, a considerable proportion of which consisted of loans to foreign borrowers such as British and Australian firms, as well as Government loans. An

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1/ KSh = shilling.

additional KSh 17.0 million were cash deposits with the Treasury and KSh 6.0 million were held as cash on hand. The present contribution of the Post Office Savings System to the national industrial development is consequently negligible.

b) In Kenya the rate of interest has been held constant and low for a number of years, which is advantageous from the point of view of financing costs. With regard to mobilizing savings, however, especially those with a longer maturity, this policy has not proven adequate. At present, the banking community does not only dispose of a high degree of liquidity but finds only very few acceptable projects. Another reason why savings have declined can be seen in a minimum requirement to open savings accounts which appears too high (KSh 400 - 500) which prevents a great number of small savers from depositing savings in the organized capital market.

4. The credit policy of the majority of credit institutions in Kenya is geared towards investments and capital-intensive large-scale industrial projects. In comparison, labour-intensive artisan-industrial medium-scale enterprises have been rather insufficiently supplied by the capital market. In general, it can be stated that initial capital and long-term credit requirements are not sufficiently supplied by the traditional banking apparatus. This deficiency could easily present serious problems in the future, particularly with a view to the ever-increasing unemployment situation. In general, credit institutions are reluctant to take on risks other than those that have been traditionally absorbed. This obstacle could be overcome through a guaranteed fund for bank credits which the Government is at present contemplating. On the other hand, there appears to be a lack of bankable projects and, in general, the investment climate is low. This in turn has lead to a situation where the

banking community holds an abundance of idle funds, as a consequence of legislation and tax policies which make room for financing from foreign sources on the one hand and, on the other, existing large scale enterprises finance their new investments mainly out of accumulated profits. In view of the attempts to Africanize the Kenyan economy, a closer co-operation between domestic credit institutions and foreign financiers would be advantageous.

5. The role of specialized industrial credit institutions, particularly the Development Finance Company, the Industrial and Commercial Industrial Development Corporation and the Kenya Tourist Development Corporation, but also the specialized financing institutions for agricultural development could be strengthened through an increased long-term refinancing of industrial securities by way of the traditional financing institutions. The Kenya Central Bank could make special provisions to aid the refinancing of such securities and modify the reserve requirements for financing institutions. This should also attract the Post Office Savings Bank, which now has added new functions.

6. Special emphasis should be given the training of banking staff involved in granting credit and loans, project evaluation, credit management, etc. A particular need for this type of training was found in the credit co-operatives, the Central Bank for Agricultural Credit Co-operatives and the Co-operative Bank of Kenya. The agro-based industry and related branches could take advantage of the training facilities of this specialised credit institution. A seminar for industrial financing should, of course, be open to other interested financing institutions and government officials. A participation of the Industrial Survey and Promotion Centre of the Ministry of Commerce and Industry in such a financing workshop would be logical.

SUDAN

1. The industrial development in the Sudan appears insufficient. More than 80 % of the population received income from agriculture and 96 % of the export revenues are derived from agricultural products. In addition, an increase of the per capita income has been stifled by the rapid population growth (an additional 50 % in the past 15 years).

2. The development of a modern Sudanese banking system stands also at its beginning. The inflow of foreign capital (particularly to the former foreign-owned credit institutions), a geopgraphically imbalanced distribution of bank branch offices, low investment activities combined with a more or less stagnating savings climate have made noticeable advances in the development difficult. The political insecurity, the conflict in the south of the country which absorbed considerable resources, a certain reservation towards money and banking caused by religious and sociological reasons, growing demands on the economy to service foreign debts and the progressing inflation together with the low per capita income and a lacking confidence of the population in financial institutions have contributed to a low domestic mobilization of savings.

3. In the wake of the 1969 revolution, credit institutions were nationalised and with initial success an attempt was made to improve the credit apparatus through reorganisation and by placing emphasis on certain function with a view to achieving the goals of the new Five Year Plan. Another attempt to improve the financing of investments can be seen in the development and promotion of the Industrial Investment Act (passed in 1972) which provides generous tax and capital repatriation opportunities for (foreign) investors.

4. A starting point for the development of domestic savings

should primarily be seen in the substantial hoarding of cash. These savings cannot as easily be redirected into the organized capital market through an increase in the rate of interest as through a build-up of confidence in the banking institutions. The Post Office Savings System is not among the institutions which enjoy a relatively high reputation in the population with respect to security and liquidity of savings. In addition to an organizational revamping (for instance, by introducing EDP) the Post Office Savings System has at present taken the initiative to promote savings in schools and by offering lottery bonds. The utilization of collected funds from the Post Office Savings Bank is done exclusively through the Ministry of the Treasury which also guarantees the deposits. Persistent budgetary demands have up to now prevented a (partial) independence in the investment policy of the Post Office Savings Bank. Most of the savings were not even used for investments but in financing recurrent budgets. Through its 218 branches the Post Office Savings Bank collects at present over LSd 1/ 13 million deposited in 200,000 savings accounts. During the last few years the number of newly-opened savings accounts in the Post Office Savings Bank exceeded the number of closed accounts at about 10,000 per annum. In comparison, the commercial banks with their 70 branch offices collected approximately the same volume of savings deposit as the Post Office Savings Bank.

By providing technical assistance in the development of promotional schemes and the reorganization, the volume of savings of the Post Office Savings Bank could be increased. In addition it should be recommended to have an international expert examine the pros and cons of converting the Post Office Savings Bank into an independent financing institution. An objective investigation would facilitate this decision for the Government. Presently, the Post Office Savings Bank has no independent status and its administration falls within the jurisdiction and control of the Department of Post and Telegraphs of the

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1/ LSd = Sudanese pound.

Ministry of Communication. Part of its reorganization and the expansion of functions would have to be seen in a partial financing of public and private industries, preferably in consortia with foreign financiers or with the Industrial Bank of the Sudan and other capital market institutions. It goes without saying that such an expansion of functions would necessitate the development of a staff of industrial credit experts for the converted Bank.

5. Through the initiative of the Cassa di Risparmio delle Provincia Lombarde and the Association of Italian Savings Banks in co-operation with the Sudanese authorities, in particular the Bank of Sudan (the National Bank), legislation was passed for the establishment of a savings bank in the southern Sudan. This institution will soon be established and its experiences could be utilized as a model for similar establishments.

6. The assignment of an expert in industrial financing to the newly established Savings and Investment Board appears to be of immediate importance. This Board, which operates under Government auspices, has the task of determining the general targets of a savings and investment policy for the Sudan with particular reference to the possibility of mobilizing small savings.

BOTSWANA

1. Although the savings volume in Botswana was found to be satisfactory, the national development and transformation planning of these resources remains problematic. In 1971/72 the ratio of capital formation to GDP (at current prices) was 56 % as compared to 28 % in 1967/68. The recently commenced exploitation of mineral resources will increase the gross national product rapidly. High rates of growth have already been observed, as for instance the per capita GDP (at market prices) which has doubled in spite of an annual population increase of 2 - 3 % and a high proportion of subsistence agriculture during the last four years.

2. The revised Customs Union Agreement with South Africa, which was reformulated at the end of 1969, has resulted in higher revenues for Botswana. Efforts are continuing to increase revenues from this common source. As in the case of Lesotho and Swaziland, Botswana has no Central Bank of its own, but all three countries use the South African Rand as their currency and legal tender. The two commercial banks which operate in Botswana report directly to their head offices in London and work in close co-operation with their branch offices in South Africa. Building societies, insurance companies and other financial institutions are also under the strong influence of their offices in South Africa.

3. Industrial development in Botswana is not so much limited due to the lack of financing but because of the lack of entrepreneurial initiative. Aside from this aspect, the alternative whether to use domestic or foreign financing for industrial projects is a cost and security problem, i.e. foreign soft loans include technical know-how whereas domestic credit is generally more expensive, short-term and tied to

stricter security conditions. Due to the lack of well-formu-
lated project ideas which would meet the security conditions
of domestic credit institutions, substantial domestic sav-
ings, especially those that are collected in the two com-
mercial banks, are being channelled to South Africa and in-
vested either in South Africa or through the banking system
abroad.

4. 85 % of the population live in rural areas with little or
no cash income. Their most important store of savings lies
in cattle. An increased monetization of this population
group could mobilize potential savers.

In addition to the existing commercial banks with their
branch offices in a few urban concentrations and the small
number of credit societies, the Post Office Savings Bank
with 73 branch offices appears to be predestined to serve
this potential group of savers. As of 31 March 1972 the Post
Office Savings Bank held approximately R[1] 500,000 balance due
to depositors (as compared to five years earlier - R 226,000)
which were distributed over 12,000 accounts. The two commer-
cial banks with thirty-four branch offices held, at the end
of 1971, R 20.61 million in deposits of which R 8.83 million
were considered demand deposits.

The Post Office Savings Bank could improve its mobilization
of savings through:

a) an alleviation of their manpower constraints; and
b) by making provisions for a more streamlined banking
service to their customers and working towards a more
independent investment policy.

As point a) is a prerequisite for point b) and a solution
to the manpower problem depends very much on an improved
image of the bank, a certain vicious circle exists. For
some time the Government had been contemplating whether to
transform the Post Office Savings Bank into a para-statal

1/ R = rand.

body within the Government. In addition the co-operation between the Post Office Savings Bank and the National Development Bank (NDB) could be expanded. At present, the main proportion of savings collected in the Post Office Savings-Banks are channelled into the National Development Bank as deposits; the remainder being claims on the Government are invested in water development and electricity.

5. The National Development Bank (established in 1964) and the Development Corporation (established in 1970) are para-statal companies which extend long- to medium-term credits. Of the R 1.283 million loans at the end of 1971, more than one-fourth went into housing as the most important credit category. The co-operation of these two specialized institutions with the commercial banks should be expanded. In this connexion it was observed that the development bonds which have been issued since 1970 have not been utilized sufficiently. However, extending the National Development Bank's functions to accept savings deposits would only mobilize marginal savings because of the lack of branch offices. The savings schemes provided for in the Enactment Law for the National Development Bank have not been realized to-date. Their realization (in co-operation with the Post Office Savings Bank, building societies and other credit institutions) should take place as soon as possible to offer a more attractive contractual savings package especially designed for employees and cattle-breeders. The establishment of a leasing and an insurance company by the National Development Bank will result in the expansion of its institutional network.

6. Serious consideration should be given to the realization of the Banking Act which was drafted two years ago in co-operation with the IMF as there are at present neither independent monetary and credit policies nor regulations governing such aspects as disclosure obligations, statistics, etc. for the

financing institutions in Botswana. Banking and monetary legislation touches the sensitive question of overall relations with the Union of South Africa. Certain national (industrial-) investment guidelines for the domestic commercial banks and partially also for building societies could also be developed without legislation by way of negotiations. A system of guarantees for industrial investments which have been given priority by the Government and for those that serve rural development would support a stronger engagement of commercial banks in the financing of industrial development in Botswana. In addition, the minimum savings requirements at thrift and loan associations could be simplified and the co-operative development trust should be given more of a Central Bank function in its relationship with the credit societies.

UNITED REPUBLIC OF TANZANIA

1. As is the case in many of the other developing countries, a mobilization of domestic resources has to begin with an educational process with particular reference to money, income and savings habits. At present one-third of the total money supply in Tanzania is not cycled through the banking system, but is hoarded instead. In addition to an educational and informational programme, the banking system needs to adjust its services to the particular needs of (potential) savers, carry forward internal rationalization methods and expand its branch office network into the rural areas.

2. It was observed that the institutional framework is fairly well organized in Tanzania for a mobilization of financial resources. The National Bank of Commerce is the largest financial institution in the country. In March 1973, the number of accounts reached a total of 280,000 with deposits of TSh[1/] 2,000 million. Forty-eight branch offices and 147 agencies provide banking services in most of the important settlements of the country.

The National Insurance Company has sold to-date only 20,000 life insurance policies. Its marketing system could be improved by using certain financial institutions with a decentralized branch system to act as agents for the insurance company. By offering insurance policies and advice through these outlets, expensive branch establishments of the insurance company could be held within limits.

3. The Tanzania Housing Bank (which started operations on 1 January 1973) was established primarily to collect savings for the improvement of the housing sitation in the country. From the industrial development point of view, this bank cannot be utilised. The Tanzania Rural Development Bank and the Tanzania Investment Bank, on the other hand, constitute

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1/ TSh = shilling.

important financing institutions particularly for agricultural and industrial large-scale projects. Their refinancing is based to a considerable extent on international soft loans.

4. An important institution for the mobilization of domestic savings to be channelled into industrial development is the Post Office Savings Bank. Towards the middle of 1973 this institution held more than 300,000 depositors with deposits of about TSh 60,000 million.

The Tanganyika Post Office Savings Bank plays an active part in mobilizing domestic savings through a nation-wide network of some 185 branches. The Government of the United Republic of Tanzania now wishes to transform the Post Office Savings Bank into the People's Savings and Credit Bank. The objective is to provide the public with a banking institution capable of offering broader banking service combined with an investment policy which aims at channelling a substantial proportion of mobilized savings into the industrial sector in line with the targets set forth in the National Development Plan. In this context recommendations will be prepared to be acted upon by Parliament in May/June 1974. They will include inter alia a streamlined system of granting personal credit to depositors and a savings and credit information scheme for individuals as well as the public in general through savings education and campaigns.

The assistance requested should be provided in two consecutive phases as follows:

<u>Phase One:</u>
A study of the economic and legal aspects and conditions underlying a conversion of the institution with particular emphasis on:

(1) recommendations for savings and credit mobilization in Tanzania, concentrating on the rural areas and the low income groups;

(2) proposals on how this can be achieved effectively and expanded to reach the majority of the potential clients in Tanzania; and

(3) advice, in consultation with the Attorney-General's Chambers, on the draft law to regulate this programme.

The resulting paper will serve the Government as the basis in deciding upon the viability of converting the present Post Office Savings System into an institution with broader functions. It is envisaged to provide the assistance which will consist of the services of one expert for a period of three months (Nov. 1973 - Feb. 1974) on a bilateral basis (Republic of Austria in co-operation with the Austrian Savings Banks Association).

Phase Two:

One acceptance of the People's Savings and Credit Bank Act by Parliament, a second phase of assistance should be required to realize the new functions of the bank as stipulated in the Act. The objectives of this part of the assistance will be:

(1) to advise on the capital and financial structure of the People's Savings and Credit Bank;

(2) to assist in the establishment of a Credit and Loan Department with particular reference to:
- the formulation of appropriate investment policies including recommendations regarding co-operation with other financial intermediaries;
- providing guidance for debtors to assure proper utilization of credit; and
- establishing a cadre of loan officers, especially for expanding services in rural areas.

(3) to advise management in the overall organization, particularly in the design of organizational charts including the definition of work-flow and areas of responsibility;

(4) to advise on appropriate technical equipment; and

(5) to instruct the public at large in matters concerning money and savings through such means as advertisement, savings education, savings campaigns, etc.

It is anticipated that the above-listed (second phase) assistance may be obtained through UNIDO in co-operation with the International Savings Banks Institute. It will consist of the services of two experts for a period of 9 - 12 months each, one expert concentrating on points 1 - 4 and the other on point 5.

5. Along with this conversion it appears advisable to integrate the system of credit societies which have not shown a satisfactory performance during the last few years into the People's Savings and Credit Bank. Through this incorporation such matters as organization, liquidity position and credit volume, which have been constant constraints for the small individual credit societies, could be improved and, as a result, the overall savings mobilization would be strengthened. Particular emphasis should be given to the mobilization of group savings schemes for small savers. A concerted effort in this direction promises success because, out of a total of 600,000 wage earners, 70 % have monthly incomes not exceeding TSh 350; in the case of farmers only about 1 million, or approximately one-half of the population have cash or non-cash earnings valued at about TSh 3,000 annually. 1/

1/ The United Republic of Tanzania: Speech by the Honourable the Minister for Finance, Introducing the Estimates of Revenue and Expenditure 1973/74 to the National Assembly on 14th June 1973, Dar es Salaam, Printed by the Government Printer, 1973, Page 8.

ZAMBIA

1. The per capita income in Zambia stands at $US 360, which appears relatively high for a developing country. However, if it is adjusted for distribution, it is found that the majority of wage-earners receive less than $US 80. In addition, a relatively high consumption of luxury items such as alcohol, automobiles, etc., have a negative influence on the private savings ratio.

2. The number of banking offices is sufficient in relation to the size of the population. In examining the credit mechanism, however, it was observed that the banking system should become more involved in the planning and financing of the intensive development zones currently being conceived for the development of rural areas in which a basis is being established for small-scale industry and handicraft. Generally speaking, a package should be developed by the credit institutions which would include not only the financing but also advisory services as well as internal auditing for the investors.

3. The banking system has been undergoing a reform in line with the nationalization and Africanization movement as well as from the point of view of a better division of labour and objectives. This process, which started in 1970, has not yet been completed. Although para-statal large-scale projects appear to be fairly well supplied with financing the credit supply for medium-scale artisan-industrial entrepreneurs is not sufficient as yet. Particularly the commercial banks, which are strongly oriented in their business policies towards European banks, have shown a reluctance to provide long-term investments and a very limited interest in requirements of small savers. As about 70 % of the demand, time and savings deposits of the private sector are channelled into these

commercial banks, their contribution to the financing of the development plan has not been adequate.

4. Among savings mobilization institutions, the importance of the building societies stands out. This can be traced essentially to the higher rate of interest which this institution is able and willing to pay as compared to other financial institutions. Their investments flow mainly into construction in urban areas which often has only a marginal economic value resulting in a certain misallocation of domestic savings. Savers should, therefore, be offered either similar conditions at other institutions (in order to establish a fair competition) or at least a certain proportion of the resources of this institution should be rechannelled into development projects in line with the National Development Plan.

5. The Development Bank of Zambia, which was established in 1973, could be refinanced at least partially through the existing banking system. Proper means for this purpose would be, for instance, the acceptance of medium- and long-term securities through certain credit institutions, consortial financing in which the long-term follow up financing could be undertaken by the Development Bank. A more clearly defined distinction between the financial functions of the Development Bank and other financial institutions, particularly the Industrial Finance Company, the Industrial Development Corporation (INDECO), and to a certain degree, the National Savings and Credit Bank would be desirable.

6. The National Savings and Credit Bank should make a serious attempt to provide better banking services for their customers on one hand, and on the other, open avenues for investing their funds which are now predominantly used for budgetary purposes in industrial projects.

The National Savings and Credit Bank (NSCB) was created by Act of Parliament on 1[illegible] August, [illegible], in order to transform the former Post Office Savings Bank into a bank and institution capable of providing broader banking services to the public and offering [illegible] policy which is geared towards channelling a substantial proportion of [illegible] savings into the industrial sector in line with the targets set forth in the National Development Plan. Other important provisions envisaged in the NSCB Act include a streamlined system of granting personal credit to depositors and a savings and credit information scheme for individuals as well as the public in general through savings campaigns.

The recently completed UNDP assistance
←——————————→ has brought about definite improvements of the institutional set-up through a fundamental legal and internal reorganisation of the system which in turn resulted in off-setting losses of the former Post Office Savings Bank. However, due to the limited time available and the lack of a suitable counterpartner, it was impossible to implement a credit system which aims at a regional and sectoral diversification of borrowers.

It should be emphasized that without full application of the credit function as stipulated in the NSCB Act the National Savings and Credit Bank will not be in the position to fulfil its role as a major resource mobilization institution and will fail to realise the above-listed services. In fact, future deficits can hardly be avoided by the institution without proper utilization of its investment potential.

It appears imperative, therefore, that the credit function which constitutes an essential component of the overall banking activity be made operational by establishing a Credit Department in the National Savings and Credit Bank. The urgency of the matter becomes apparent in view of the fact that the number of industrial credit applicants is steadily increasing. To this purpose, a Zambian national with sufficient loan and accounting experience should be employed by the National Savings and Credit Bank without further delay. It appears necessary that this officer should be assisted in the initial stages by an expert having a broad background in all phases of lending activity.

Objectives of the Project:

(a) Long-range objectives: to assist the National Savings and Credit Bank in fulfilling it's role as a major public institution in the overall effort of mobilizing financial domestic resources for industrial development.

(b) Immediate objectives:

- to establish and organize a Credit Department in the National Savings and Credit Bank;
- to establish a cadre of loan officers for expanding services in rural areas;
- to formulate sound credit policies in order to increase earnings through more profitable investment of deposits;
- to formulate a set of credit criteria with regard to security;
- to establish policies with regard to portfolio mix and management;
- to establish a credit supervision scheme;
- to organize a debt collection system;
- to establish a system for liquidity and profit forecasts;
- to establish methods for up-dating statistical material;
- to conduct market research with a view to potential borrowers;
- to provide tabulations for the computation of repayment schedules, scales of interest, etc.

Assistance requested:

For a period of 3 - 6 months one expert with an academic background in financing and/or accounting and at least five years of experience as Credit Manager in a leading credit institution. Experience in dealing with small- and large-scale industrial loans would be an asset.

SUMMARY

The mobilization of domestic financial resources has become an essential prerequisite for the development of the Third World. Although the savings capacity of a large portion of the population in developing countries appears to be comparatively low due to low incomes, the hoarding of cash, gold, jewelry and cattle proves that there basically exists a form of capital which seeks investment and that frequently it is the lack of attractive investment possibilities and/or suitable financial institutions which prevent this capital from flowing into productive utilization. This seems to be especially true for rural areas where there is not only a lack of appropriate savings possibilities but frequently the existing financial institutions do not enjoy the confidence of the population. Aside from these deficiencies, the interest policy has been rather neglected in some developing countries from the point of view of a credit financing which was geared to be as inexpensive as possible and the aspect of interest in view of the increasing world-wide price level has been under-valued as a savings incentive.

Another starting point for the improvement of the mobilization of domestic savings for industrial financing could be seen in the transformation mechanism of the capital market and here with particular reference to the security-mindedness prevalent in local banking institutions and their reluctance to enter into long-term financing on the one hand, and on the other, the limited number of local entrepreneurs, their lack of conception of modern management generally their difficulty in getting accustomed to the management of credit.

Among the recommendations to be made on the basis of the finding of this mission, particular emphasis should be given to the development of savings banks which serve a common interest and are geared towards the needs of small savers. These savings banks

could channel at least a part of their deposits into small- to large-scale industrial projects. A functional expansion of the existing Post Office Savings System, with its widely distributed network of post offices, the introduction of legal and economic independence, the development of a (limited) autonomous investment policy which includes the possibility of granting credit to industry, has been undertaken in two of the African countries. With reference to the existing credit societies, an attempt should be made to provide these institutions with a certain liquidity- and investment pooling in form of a co-operative Central Bank. The credit societies could transfer this function to the national savings bank in close co-operation with the national development bank.

With regard to savings instruments, an introduction of the lottery system should be examined in case this has not been realized as yet. Improved information and advisory schemes which deal with repayment of credit and various other organizational aspects provided by the financial institution would help to alleviate the deficiency in future African entrepreneurs particularly in the rural areas. The prerequisites for this purpose, that is, for training facilities, will have to be established in the credit institutions.

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Table 1.

Average Annual Rate of Growth in Real Terms and Proportion of Gross National Product 1961 - 1967, Averages for Three Years +)

in %

	1961-67	1968	1969	1970	1971
AFRICA					
Rate of Growth in Real Terms:					
Gross Investments	5,4	6,1	11,0	9,3	10,7
Proportion of GNP:					
Gross Investments	16,9	18,5	19,1	19,6	20,2
Savings Volume	13,8	17,0	16,8	16,0	15,1
INDUSTRIALIZED COUNTRIES					
Rate of Growth in Real Terms:					
Gross Investments	6,0	5,8	6,3	4,2	2,3
Proportion of GNP:					
Gross Investments	21,9	22,2	22,5	22,6	23,9
Savings Volume	[illegible]2,5	22,7	23,1	23,3	24,5

Source: World Bank/IDA, Annual Report 1973, Page 104

+) In the present Annual Report 1972/73 the rates of growth in real terms and proportion of Gross National Product for the individual years were adjusted by using averages which were calculated from the medians of three years.

Table 2.

Countries	Population in 1,000 (Estimated at mid-1971)	Gross National Product per capita $US 1971
Botswana	618	160
Kenya	11,670	160
Zambia	4,250	380
Sudan	16,135	120
Tanzania	13,249	110

SOURCE: World Bank/IDA, Annual Report 1973, Page 28.

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