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PERSONAL SAVINGS IN AFRICA: STRENGTHENING THE INSTITUTIONAL FRAMEWORK (COMMERCIAL BANKS, POST OFFICE SAVINGS BANKS, THRIFT AND CREDIT CO-OPERATIVES, AND SAVINGS BANKS PROPER)

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ABSTRACT

The United Nations is expressing increasing concern about personal savings mobilisation in underdeveloped countries. Currently attention is focussed on Africa. The purpose of this paper is to try to analyse this concern and to place the question of personal savings mobilisation in a **broader** economic perspective. Four types of savings institution are discussed in some detail: commercial banks, Post Office Savings Banks, thrift and credit cooperative societies and savings banks proper. The author takes issue with the more common criticisms of commercial banks and Post Office Savings Banks as mobilisers of personal savings in Africa. She also argues that the potential importance of cooperative societies has been exaggerated.

PERSONAL SAVINGS IN AFRICA: STRENGTHENING THE INSTITUTIONAL FRAMEWORK (COMMERCIAL BANKS, POST OFFICE SAVINGS BANKS, THRIFT AND CREDIT COOPERATIVES AND SAVINGS BANKS PROPER)

We must distinguish economic surplus on the one hand from savings on the other in order to establish why and in what circumstances savings mobilisation is important for economic development. Potential economic surplus is 'the difference between the output that could be produced in a given natural and technological environment with the help of employable productive resources, and what might be regarded as essential consumption" (Baran, 1957). There are various ways the surplus can be moblised. The main alternatives are

1. Taxation
2. Overseas borrowing
3. deficit financing
4. pricing policy (including use of state trading organizations)
5. deposits in banks and other financial institutions
6. sale of bonds and securities
7. lotteries
8. durect reubvestment by producers not using financial institutions
9. group mobilisation of slack labour for labour-intensive capital formation
10. other "self-help" projects
11. state directed real location of private sector resources
12. expropriation

Of these alternatives 5, 6 and possibly 7 and 10 constitute the use of savings instruments.

An issue any country must face if it wishes to raise capital accumulation is how to increase the productive mobilisation of its potentially available surplus. As a method the use of savings institutions has the political advantage that they represent a voluntaristic approach to mobilisation. They can, however, be costly to develop and the cost involved per unit saved is likely to vary between institutions. Also the scope for ensuring that mobilised savings are used to raise the value of future production varies between institutions and for savings institutions as a whole is far from complete.

To state that there is a savings constraint to economic growth and/or poverty reduction is in the sense in which the term savings is used here (voluntary abstention from consumption out of income) to state

that all other opportunities for resource mobilisation have been exhausted or are politically unacceptable or cost more at the margin than mobilising additional savings. While it is important not to ignore alternative methods of resource mobilisation and the interrelationships between them the general issues involved will not be discussed further here. Where any of the above conditions hold a choice must then be made between different methods of savings mobilisation. As already suggested there are a number of alternative institutions, securities and informal organisations that can be used to mobilise savings. These include:

Commercial banks
post office savings banks
savings banks
credit and savings cooperatives
multi-purpose cooperatives
building societies
finance companies
life insurance funds
pension funds
bonds, securities, commercial bills, Treasury bills
lotteries indigenous voluntary savings organisations.

All of these institutions accept personal savings, which are the subject of this paper. The case **emphasising** the mobilisation of personal savings in Africa rests primarily on the facts that

1. total savings are low in comparison with industrially advanced countries
2. only a small section of the economy, as compared with industrially advanced countries, generates corporate savings.
3. is part of personal savings tends to be hoarded.

There are, however, limitations to surplus mobilisation for expanded production through personal savings facilities. These stem from the facts that

1. higher income groups devote part of their surplus income to acquisition of existing fixed assets (land and urban property), luxury consumption and overseas assets. Development of more diverse financial institutions and assets may attract some of the resources that would finance these outlays in the form of deposits but othermeasures are required if a substantially larger share of this surplus is to be mobilised to expand the value of

domestic production (foreign exchange control, taxes on land and urban property or ceilings on individual ownership of such assets and widening of the scope for entry of domestic capital into productive accumulation.

2. most personal incomes are low and absolute per capita savings availability from these incomes is low too.

In deciding what institutions should be used to mobilise personal savings various criteria may be used. One is the general cost-effectiveness of institutions in generating and managing deposits. A second is the nature of the beneficiaries. A viable savings institution has two categories of beneficiaries: those who deposit their savings and those who obtain credit. While there may be overlap, this may be far from complete. (Shareholders may represent a third category.) Factors to be considered in dealing with these issues include: coverage, institution costs and user costs, direction of on-lending, relationship between the terms offered by financial institutions and demanded by potential users and ease of coordination between institutions.

Commercial Banks

The commercial banks are the major institutional mobilizers of personal savings in Africa, but acceptance of personal savings is only part of their business: deposits come also from public bodies and private firms and loans and overdrafts are extended to both. For example, in Kenya in 1974 total commercial bank deposits amounted to K£271 million of which K£48 million were public sector deposits and the remaining K223 million came from private firms and individuals. By contrast deposits with the Kenyan Post Office Saving Bank amounted to £8 million (Kenya Government, 1975: 166, 168). These figures are illustrative of the relative scale of operation of the commercial banks and other savings banks throughout the continent. Furness reports that in Nigeria in 1971 80 per cent of institutionalized savings were held in commercial banks, 17 per cent in the National Provident Fund and 1 per cent in the Post Office Savings Bank., (Furness, 1975: 61).

The scale of operation of the banks and their relative success in attracting deposits obviously demands attention. The banks are in a position to play a significant role in economic development not only because they mobilise funds but because within limits they can also create money: a net expansion of commercial bank loans generates a net increase in bank deposits and total monetary purchasing power. How this purchasing power is used affects the development process. The total volume of credit extended by the commercial banks in a nationally autonomous banking system is limited by their holdings of notes, coin and other designated liquid assets, and these in turn depend partly on their ability to attract deposits.

Much has been written about commercial banking in developing countries (for the African experience see e.g. Jucker-Fleetwood, 1964, Newlyn 1967, Loxley 1973 and Furness, 1975). We shall concentrate here on the main features of the banks' operations as mobilisers of personal savings.

The commercial banks accept three types of deposits: demand, savings and time. The first earns no interest and is repayable on demand; the second and third earn interest and notice is required before withdrawal. The banks do not want to serve the very small saver and have a minimum deposit requirement well above that of the Post Office Savings Banks and other institutions aiming to attract small savings. (Thus in Kenya the minimum commercial bank deposit is from shs. 300/- to shs. 500/- (Von Pischke, 1972) whereas the minimum post office savings bank deposit is shs. 5/-.) The reason for the minimum deposit derives from the commercial banks' origins. From their development in the nineteenth century these have been profit-maximising institutions. The first commercial banks in Africa were all private expatriate banks. Even where the banks have since been nationalised they are still expected to make a profit within the limits imposed on their operations by central governments. Obviously therefore they continue to press for the maintenance of such traditions as the minimum deposit which they perceive as helping to achieve this aim (in this case through eliminating small scale uneconomic accounts whose processing costs are said to be greater than the revenue they can bring the banks). The prime purpose of the private sector banks is to maximise profits and not to serve all potential savers. The objective of the nationalised banks is some compromise between the two.

By the time the commercial banks came to Africa they had overcome the difficulties arising from excessive competition for deposits and excessive readiness to lend funds which arose in the early decades of the nineteenth century. Banking traditions had been established which gave the commercial banks a reputation for reliability and this combined with "the sheer volume of their business helped them to inspire the necessary confidence to attract savers" (United Nations Secretariat, 1975:7). Initially the deposits attracted in Africa came from import-export firms, colonial governments and mines and plantations. The banks continued to mobilise corporate and public sector deposits but from the outset they also accepted personal deposits and these also expanded steadily. The banks were based in a limited number of major commercial and administrative centres but their up-country branches have now expanded to the main centres of most districts (the "district headquarters" in British administrative jargon, which are usually the main trading centres for their areas).

Personal savings in commercial banks were initially almost totally expatriate. But as Africans achieved success in commerce, crop processing, transport and other economic activities and as some of them obtained more senior jobs in the colonial administration so they also began to open bank accounts. After independence this trend accelerated partly because many governments started paying more salaries to African staff through the banks. Although this broadened the range of depositors by income classification the minimum deposit requirement was still retained; there was still no desire on the banks part to serve the really small saver.

Obviously the commercial banks' preference for, and ability to attract, large and medium-size deposits essentially explains their relative importance in the banking network as mobilisers of funds. As well as reliability the banks offer certain other advantages. These are-:

1. ease of deposit and withdrawal
2. interest payments on time and savings deposits at higher rates than those offered by Post Office Savings Banks. (The larger the deposit the greater the significance of interest differentials to the depositor.)
3. possibility of obtaining a loan or overdraft
4. attractiveness of savings accounts to many African depositors
5. expanding up-country branches
6. expanding national ownership.

With regard to point 4 the figures are impressive. Hubner reports a considerable increase in savings deposits in Uganda in the 1960s and ascribes this to

> "an enlarged income of this part of the population, coupled with a strongly pronounced prestige consciousness as well as direct advertising by the banks ... (in addition) the tightening of exchange control in 1965, the efforts of the credit institutions to gain new clients by the extension of their branch networks ... (and) the introduction of the withdrawal of cheque facility, by which the holders of savings accounts were allowed to effect up to 75 cheque drawings per annum." (Hubner, 1973: 106).

Furness also reports major increases in time and savings deposits: 324 per cent in Ethiopia from 1966 to 1973 (while the money supply only expanded 60 per cent) and 319 per cent in Zambia over the same period. He explains this in terms of the lack of other financial institutions in many countries which make the commercial bank deposits the major alternative to hoarding particularly given the spread of branch banks (Furness, 1973: 119 and 130). Finally the following quotation reports a study of personal savings in medium and high income areas of Nairobi (Kenya).

"There are remarkable differences in the holding of financial assets. Savings accounts are by far the most prevalent method of saving among Africans. Some 55 per cent of those reporting changes in financial assets own savings accounts. Only 32 per cent of the Africans reported current accounts ownership. While a large proportion of Asians own savings accounts (69 per cent), this is not so striking as in the case of Africans since a high proportion of them - some 56 per cent - report ownership of current accounts. Europeans show a marked preference for current accounts over savings accounts. While only 20 per cent reported ownership of saving accounts, almost all (85 per cent) reported ownership of current accounts.

There is a clear indication that ownership of saving accounts first increases with income and then declines. Some 49 per cent of the middle income Africans report ownership as compared with 64 per cent of the high income Africans. In the case of Asians the ownership is reported by 90 per cent and 44 per cent of the middle and high income Asians respectively."[1] (Kamau, 1973: 13).

With regard to the sixth advantage (expanding national ownership), it is noteworthy that this has not only provided the opportunity to increasingly prevent the transfer to overseas metropolitan centres of commercial bank profits but also to expand the degree of government control over the activities of the banks with respect to promoting economic development. This may be done for example through requiring the further expansion of up-country branches or by directives with respect to the direction of lending (see United Nations Secretariat, 1975 and discussion below).

As bank branches have increased the commercial banks have become more familiar as well as more accessible. They also accept deposits from savings organisations whose individual members cannot meet the minimum deposit requirement. Some of the banks also make a further contribution to savings mobilisation by providing arrangements for automatic monthly transfers from clients' current accounts to their savings accounts. For example in Uganda such a scheme has been operated by the Uganda Commercial Bank (Jellicoe, 1968: 18).

Despite these changes the comercial banks have been subjected to strong criticism for failing to meet the development requirements of underdeveloped countries (e.g. United Nations Secretariat, 1975).

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(1). "Middle income Africans are those with annual income of less than £1,000 - High income Africans are those with income of £1,000 and over. Middle income Asians are those whose income is less than £2,000. High income Asian have incomes of £2,000 and over." (Kamau, 1973: ibid.).

While clearly the operations of the Banks do have disadvantages so far as resource mobilisation is concerned, in my view some of this criticism is misplaced. Let us briefly consider this issue. The main disadvantages of the commercial banks with respect to personal savings mobilisation are the following:

1. failure to mobilise small savings
2. still relatively limited rural coverage
3. failure in use of funds to meet the credit needs of the small farmer and businessman
4. their predominantly short-term liabilities generally inhibit long-term lending
5. they provide credit partly for socially unproductive purposes.

Certainly the commercial banks fail to mobilise really small-scale savings, although particularly in recent years inflation has eroded the real value of the minimum deposit. It is, however, unreasonable to make this criticism without consideration of its implications: what needs to be done to mobilise small-savings? Should the commercial banks in fact be expected to take these actions? We return to these issues below, in discussing the operations of these institutions specifically intended to serve the small saver where we also discuss the second and third disadvantages. /We note here, however, that there appears to be a general consensus that the travelling branches introduced by some banks in the 1960s have not been very successful because rural people are distrustful of someone who takes their money and then drives away (Jellicoe, 1968; Hubner, 1973; Heyer, 1976)./

The fourth and fifth disadvantages, as well as the third, are linked to the fact that commercial banks (unlike the Post Office Savings Bank) provide credit: they not only mobilise savings but influence their use. They can exert this influence through the interrelated choices of borrower, purpose of loan and its duration and cost. The short-term nature of the commercial banks' liabilities combined with attempted profit maximisation explain why most commercial bank credit is short-term. (Interest rates are higher and it is easier to control repayments thus protecting liquidity). Their credit is often for financing movements of goods, inventories, storage and in general seasonal shortfalls of revenue over expenditure. For example the crop marketing boards are major seasonal borrowers (Hunt 1975: Chapter 2). However they provide credit not only to large parastatals and private firms but to individual borrowers who may use this for a variety of purposes: for

establishment or operation of a small business, property purchase or development, school fees or consumption. Where borrowers prove reliable (or have exceptional influence) short-term credit may become medium-term through renewal of overdrafts.

The banks have been criticised for being insufficiently adventurous in the use of their funds and for hence failing to contribute to economic development in a manner commensurate with the funds at their disposal (and in the manner expected by Schumpeter(1934)). In order to establish whether this criticism is valid two separate issues must be considered

a. are the banks fully lent (given their cash and liquid asset reserve requirements)?

b. If they are fully lent what would be the economic impact of a shift in their lending pattern?

Through much of Africa over the past two decades the commercial banks have apparently been fully lent (see e.g. Newlyn, 1967 on the East African banks; also, on Kenya, Nation Business Bureau, 1976: 9). The banks often could not autonomously expand total loans given the level of their reserves. They depended on increased government borrowing or foreign exchange inflows to enable them to do so. This is important: we can now elucidate the preceding criticism of the banks' operations. If the banks can only expand credit for productive investment by switching the direction of lending then effectively the banks' critics are arguing that the banks should use their powers to push up national savings and investment ratios. This makes sense in those countries where the banks have been nationalised; it makes less sense where they have not. Why should profit-making institutions in the private sector be expected to voluntarily take it upon themselves to deal with a problem that U.D.C. governments have found notoriously intractable: raising the savings rate? In practice both in industrially advanced c ountries and in U.D.C.s commercial banks only modify their profit maximising policies when directed to do so by national governments and/or under threat of nationalisation. If governments wish commercial banks to change their lending policies it is up to them to enforce this: private commercial banks are not non-profit making or charitable institutions operating solely in the social interest. Governments can and do instruct commercial banks as to what their lending limits and priorities should be (see Nation Business Bureau, 1976, for a recent Kenyan

example[1]). Naturally even nationally owned banks protest when this lowers their profit margins. Some governments in Africa have shown greater determination to enforce such directives then others. (This applies also to more specialised banks. Thus in Tunisia in the late 1960s the Banque Nationale Agricole had to follow stringently enforced directives from the Central Bank with respect to the direction of new lending despite the strong disagreement of the director.)

It is also important to note that in a monetary economy the items specified by the United Nations Secretariat (1975) as taking up most commercial bank loans (i.e. financing inventories, storage and movement of goods and seasonal shortfalls in revenue over expenditure) must be financed: There are definite limits to potential commercial bank loan switching from socially unproductive to socially productive uses. It is true, however, that the identification of the limits requires the collaboration of the banks in the form of accurate reporting of loan use.[2]

There are limits to the effectiveness of moral suasion in influencing commercial bank lending. If governments wish to radically change the performance of commercial banks then they must intervene directly. On the lending side to some extent this has been done. While there is scope for further elimination of unproductive lending the extent to which this can be achieved other than in a socialist state is questionable.

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(1) "The rate of expasion of credit to the private sector and public corporations is to be limited to 13 per cent a year - excluding the farming sector, loans to small African businessmen and the financing of exports. Of the three exceptions made, agriculture stands to gain most. Loans to the agricultural sector should be equal to 17 per cent of the net deposits of the commercial banks." (op.cit. : 9).

(2). It is very odd that the Secretariat should refer to these uses as if they represented socially unproductive uses of credit because they do not finance fixed investment, since product movement and storage are necessary components of the social production process. Interestingly the rules of the Tanzanian N.D.C.A. specify that the types of activity for which credit is intended are

> "for agriculture, agricultured purposes and enterprises, for the marketing and processing of agricultural products, for the development of storage and transport facilities and undertakings, for the development and encouragement of small industries and trades and for the development of co-operative distribution services" (Tanzania Government, National Cooperative and Development Bank Act, 1964, cited in Loxley, 1973.)

An important feature of the United Nations Secretariat's 1975 analysis of the commercial banks is the implication that if only they would lend long then this would lead to increased financing for socially desirable investments. But as the Secretariat half admits, this is far from the case, just as available statistics probably underestimate the extent to which the banks are in any case already financing medium to long term investments through renewable overdrafts and loans. For secure, profitable investment for the national economic elite in African countries often takes the form of land and property purchase and property construction. Where they can provide good security they can obtain commercial bank loans and overdrafts to finance such activities. Although there are certainly examples of medium and long-term indigenous investment in productive activity (in farming and, in rare cases, in manufacturing) the entree into manufacturing is for many extremely difficult due to the activities of the multi-nationals (to which the commercial banks of course extend credit). This raises much wider issues of national and international economic policy, pointing to the risk of deriving unrealistic and piecemeal solutions from analysing the activities of the commercial banks in isolation from their context.

Post Office Savings Banks

Over recent years the "poor performance" of Post Office Savings Banks in Africa has been the subject of comment (Jucker-Fleetwood, 1964; Furness 1975; see also United Nations Secretatiat, 1975). Thus, of Africa generally:

> "Little attempt was made to dynamize this institution, which soon suffered from a very high number of depositors with very small accounts." (Jucker-Fleetwood, 1964: 165).

and

> "Disappointing, too, has been the performance of the Ghana Savings Bank (formerly the Post Office Savings Bank), which has failed to match the increasing competition of the commercial banks for small savings." (Furness, 1975: 68).

Hubner writes of the Ugandan Post Office Savings Bank:

> "Since 1956, the development of deposits declined, although the number of accounts continually increased. At the end of 1967, the total deposits amounted to approximately £1.2 million, sub-divided into 175,000 accounts. This declining development can mainly be traced to the expansionist policy of the credit institutions, who are enlarging their branch network, allow a more generous disposition of credit balances, and, last but not least, offer more prestige and greater security". (Hubner, 1973: 106).

Jucker-Fleetwood and Furness between them present figures which show that in Nigeria from 1950 to 1970 there was some expansion followed by contraction in the activities of the Post Office Savings Bank. From 1950 to 1960 deposits rose from £2.8 million to £3.1 million while the mean size of deposits fell from £16.7 to £12.9 (Jucker-Fleetwood, 1964: 165). By 1971 total deposits had fallen to just over £2 million representing 1 per cent of institutionalized savings (Furness, 1975: 60, 61).

The United Nations Secretariat in 1975 offered the following explanation for this phenomenon.

> "A major factor that limits the affectivess of post offices as channels for the collection of personal savings concerns the use made of the funds thus collected. The fact that those funds flow ... to the Treasury constitutes the strength but also the limitation of the postal savings system ... . The post office banks appear to potential and actual depositors as institutions that put their savings to uses that remain mysterious to them and do not give the saver the possibility of receiving a loan in case of need." (United Nations Secretariat, 1975: 139)

The Secretariat goes on to recommend that savings banks generally should provide small and medium-scale credit to their clients.

> "The policy of allowing savings banks to grant loans to individuals farms, small businesses and local authorities has a number of advantages from the standpoint of savings mobilisation and community development. First people are more likely to save if they know that the savings institution can give them a loan which, added to their savings, will enable them to undertake a constructive project such as starting a business, building a house or financing the education of their children. Second, saving is encouraged when actual and potential savers know that the savings institution uses the funds for projects which benefit the immediate community rather than transmitting them to a distant central government where they may be merged with the general resources of the Treasury. Third, when savings banks are allowed to make loans, they can charge interest rates commensurate with the current money market rates; such rates are almost invariably higher than the interest rates which Governments pay on funds transmitted to the Treasury; the savings banks thus ... can afford to offer larger financial incentives to savers." (United Nations Secretariat, 1975: 14, 15).

In so far as this recommendation pertains to Post Office Savings Banks I disagree with it and shall explain why. First, however, I take issue with the above-quoted comments of Jucker-Fleetwood and Furness.

Both Jucker-Fleetwood and Furness appear to ignore an important general principle: in view of the objectives that motivate the development of financial institutions in U.D.C.s an institution's performance cannot be evaluated in isolation. Competition may sometimes be healthy (indeed,

creative) but in U.D.C.s with scarce resources including a scarcity of banking skills unquestioning encouragement of competition in all sectors is wasteful. If it transpires that emerging institutions complement each other, or that one regularly "competes away" a certain type of business from the other, this is not necessarily a reason for modifying the operations of the latter. Time series data for single institutions must be treated with caution. The apparently poor performance of Post Office Savings Banks may be partly explained by the expansion of other institutions such as commercial banks which are better adapted to meeting the requirements of depositors who might otherwise continue to use this Post Office facility. It may also be partly explained by the identification by potential depositors of alternative uses for their funds: for example, following the expansion of cash-cropping and increased monetization of African economies, direct plough-back into farming or investment in trade as well as payment of school fees, matching inflated bride-wealth requirements and purchase of consumer durables. The last may represent consumption outlays but unless governments have clear perceptions of target consumption standards and consistently enforce ceil ings to these targets, it is not automatically clear that such purchases by the relatively poor should be regarded as an une sirable alternative to institutional savings.

Post Office Saving Banks have certain clear merits as savings institutions; these are their coverage, particularly their extension into the rural sector combined with their readiness to accept small deposits, and their reliability. Other national institutions have either not yet achieved the same coverage (e.g. other savings banks) or, if they have (e.g. cooperatives) have not the same degree of reliability. Marguerite Jellicoe captured rural savers' attitudes to Post Office Savings Banks when she wrote:

> "Where there are post offices these are still popular in rural areas, because they are always there and one knows the staff personally, and that they send and receive one's letters which usually arrive safely." (Jellicoe, 1968)

By way of illustration I cite the regulations of the Post Office Savings Bank in Uganda as they operated in the late 1960s.

> "The minimum deposit is Shs. 5. Withdrawals of between shs. 5 and shs. 200 per week can be effected immediately, withdrawals of more than shs. 200 must be sanctioned by the chief administration; the rate of interest amounts to 3% per annum." (Hubner, 1973: 106)

Although there have been examples of declining Post Office Savings Banks, this experience is not universal. Indeed in Nigeria deposits have apparently risen since 1971 to N£4.6 million in 1974 (Nigeria Government 1975). In Kenya withdrawals from the Post Office Savings Bank exceeded deposits from 1962 to 1968 inclusive but from 1969 to 1974 (the latest date for which figures are available) the trend has been reversed: deposits have exceeded withdrawals. By 1972 total assets and liabilities exceeded the 1962 level (in current terms) and by 1974 they had increased a further 27 per cent (Kenya Government, 1972 and 1975). In Zambia also there has been a substantial expansion of deposits (see Table 1).

Table 1 Zambia Post Office Savings Bank/National Savings and Credit Bank*

Date	Balance due to depositors (K,000)
1963	4,924
1964	5,440
1965	5,926
1966	6,306
1967	7,320
1968	7,751
1969	7,895
1970	8,307
1971	9,335
1972	10,549
1973	11,539
1974	13,498

* The bank was renamed in the early 1970s.

Source: Zambia Government, Monthly Digest of Statistics.

What we are probably observing in the case of Post Office Savings Banks in Africa is, firstly, an unusually high turnover of depositors. This in turn is a function of the very nature of the service that these banks provide. For most users it is their first institutional saving experience. For many of these people the period when they use the Post Office Savings Bank is followed by another in which either it becomes more convenient and/or more profitable to use the facilities of a commercial bank or they fall upon hard times (e.g. unemployment). In either case they may withdraw their accumulated savings.

The recent Kenyan experience of rising total deposits has itself been accompanied by rising annual deposits and withdrawals. The fact that total deposits have risen from 1969 to 1974 may be explained by three phenomena.

1. The expansion of cash cropping and monetisation of the rural sector has led in some areas to the emergence of prosperous peasants making greater use of the Post Office Savings Bank.

2. There has been a rise in the number of low and lower-middle level wage and salary earners who wish to save but do not have sufficient funds to open a bank account (or even if they do may at first feel more secure using the Post Office Savings Bank). These people are often rural-based public sector employees. It is in the public sector that Kenyan employment has expanded fastest since independence and the rate of expansion rose markedly after 1968: there was a 55 per cent increase in African public sector employment from 1968 to 1974 of which only a small proportion represented high-level Africanisation (Kenya Government, 1975: 232).

3. A relatively high degree of political and economic stability throughout the country ensured regular access to and sustained confidence in the Bank.

A further advantage of Post Office Savings Banks is their shared overheads (with other post office services) which helps to keep down the costs of operating a large number of small accounts.

The foregoing is not to suggest that Post Office Savings Banks have no disadvantages for the small saver but again I question whether the U.N. Secretariat has accurately identified these in suggesting that the key disadvantages are low interest rates and inability either to lend to depositors or in other ways use locally the funds deposited with them. As if anticipating these comments Jellicoe (1968) wrote:

> "The low rate of interest (2½ per cent) on post office savings accounts is not important to a man with very little who would otherwise leave his small savings at home. The chief disincentive to post office saving seems to be that one has to fill in a form and wait whenever one wants to get any money out and under rural conditions one can rarely foresee when this will be." (Jellicoe, 1968: 17).

Carvin (1975) also emphasises the importance of safety and ease of withdrawal and questions the importance of interest rates as an incentive to rural savings. In addition for rural savers the cost of access to any savings institution outside the village or local market centre is a deterrent to use for the majority.

The fact that delays are involved in withdrawal does not automatically mean that the Post Office Savings Banks should alter their withdrawal system, for safety is an acknowledged advantage of this system as also is the absence of a direct charge to users. It is, however, worth speculating whether it might in any way be possible to ease the withdrawal system within the limits that any costs of abuse might be met by lowering interest payments to savers. The success or failure of such a change would depend on the relative elasticities of response.

Essentially the role of the Post Office Banks lies in offering a service to small savers who are dissatisfied with, or do not have access to indigenous savings institutions and who do not have sufficient resources to establish a commercial bank account. There is still a role for Post Office Savings Banks as a mobilisers of small-scale savings and as offering a first step in banking experience for low income earners. The relatively extensive rural coverage of the Banks is an important feature of this. The question that must still be confronted is whether there is scope for other institutions also to operate at the lower end of the income distribution offering a package of services different from those of the Post Office Savings Banks but to people many of whom may be in the same income range.

(iii) Cooperative thrift and credit societies.

The United Nations Secretariat (1975) reports that by 1972 savings and credit cooperatives operated in twenty-one African countries, had 316,000 members and aggregate shares and deposits worth $13.9 million (op.cit.: 15). Most of these cooperatives were affiliated to the African Cooperative Savings and Credit Association (ACOSCA). Table 2 summarises the expansion of savings mobilised by ACOSCA affiliates from 1970 to 1974. During this period half the total expansion was recorded in one country: Kenya; while a large share of the remainder was recorded in Zambia followed by Ghana. In Nigeria savings first declined, then returned to their 1970 level. In several other countries they fell over the period as a whole. This suggests that there may be certain specific conditions that are conducive to expansion of cooperative savings. With a view to identifying these we begin by examining the Kenyan case.

In Kenya credit union savings grew substantially from 1970 to 1974. By the end of 1974 there were 155 societies with a membership of 83,000. These were mostly urban and mostly in Nairobi. There had been serious management and default problems but by 1974 most of the societies operated on a check-off system thus ensuring both regular savings and loan repayments.

The Kenya Government stated in 1970:

> "The encouragement of thrift among the salaried community and the accumulation of saving through savings and credit co-operatives can make a significant contribution towards providing local development capital and thereby reduce the need for borrowings from outside the country. Also, these societies provide soft consumer loans to members and help to train them in the basic principles of money and its proper use. The current Countrywide programme for the promotion of savings and credit societies among the salaried communities in both the public and private sectors is now being given priority over most other aspects of co-operative developments" (Kenya Government, 1970: 48).

In 1971 J.K. Muthama (Commissioner for Cooperative Development) stated that a prime government aim was to include workers in all government departments, workers in city and municipal councils and school teachers.

The Kenya strategy mobilised $10 million in four years. Key features of its success were the emphasis on urban workers, on government employees and on the check-off system combined with strong government backing. If we take

TABLE 2

SAVINGS (SHARES AND DEPOSITS)
OF ACOSCA'S AFFILIATES FOR THE PERIOD
1970 - 1974 (current U.S. dollar values)

Country	1970	1971	% age Increase	1972	% age Increase	1973	% age Increase	1974	% age Increase	% age of Average annual Increase
Cameroon	82,700	271,158	228.0	571,443	110.7	890,555	55.8	1,738,708	95.2	122.4
Dahomey	-	-		-		-		-		-
Ethiopia	299,852	649,414	116.6	515,010	-20.7	722,970	40.1	627,752	-13.2	30.8
Ghana	988,725	1,020,887	32.5	1,242,000	21.7	2,764,223	122.6	3,097,103	12.0	47.2
Kenya	770,962	1,162,246	50.8	2,314,837	99.2	4,575,266	97.6	11,983,571	160.0	101.4
Lesotho	355,455	389,542	9.6	463,669	19.0	506,428	9.2	506,428	-	9.5
Liberia	69,753	100,379	43.9	119,365	18.9	212,613	78.1	370,942	74.5	53.5
Malawi	-	-		-		188	-	6,703	*	-
Mauritius	11,800	18,778	59.1	21,000	11.8	30,326	44.4	27,315	-9.9	26.3
Nigeria	5,877,800	3,543,985	-39.7	3,627,513	2.4	5,652,671	55.8	5,652,671	-	4.7
Senegal	-	19,264	-	28,000	45.3	22,711	-18.9	20,620	-9.2	4.3
Sierra Leone	28,874	28,874	-	683,000	-	683,000	-	683,000	-	-
Swaziland	-	-		7,800	-	7,800	-	44,923	*	-
Tanzania	705,438	1,184,223	67.8	1,350,000	14.0	2,008,198	48.8	1,149,688	-42.8	21.9
Togo	-	-		1,367	-	9,465	-	3,608	-	-
Uganda	209,996	209,996	-	705,000	236.0	1,612,280	128.7	1,612.280	-	91.2
Upper Volta	-	-		8,400	-	6,800	-19.0	-	-	-
Zambia	539,165	790,776	46.7	1,327.038	67.8	3,956,639	198.1	4,030,000	1.9	76.6
TOTALS:	9,940,522	9,389,552	-5.5	12,985,442	38.3	23,662,133	82.2	31,560,332	33.3	37.1

From: ACOSCA 5-year development plan 1976-1980.
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three other relatively urbanised countries listed in Table 3; Ghana, Nigeria and Zambia we find that Zambia and Ghana rank second and third in terms of cooperative savings expansion 1970 to 1974. Nigeria, on the other hand, experienced particular problems. Not only does she have successful indigenous savings and credit societies with which the thrift and credit cooperatives must compete, but she did not have the strong government backing for cooperatives savings expansion that existed in Kenya. Until 1976 the cooperative movement was the responsibility of the Minister of Labour in the Federal Government, while region promotion was not helped by periodic redrawing of state boundaries.

Kenya, Nigeria and Zambia are the only countries which had mobilised over £2 million through savings cooperatives in 1974. In no case, however, do the cooperatives yet rank above the Post Office Savings Bank as mobilisers of funds despite, in Kenya at least, their strong government backing. And in no case do they have significant rural coverage.

No detailed data are available on the use of the loans which these societies make from their savings. Since we noted at the outset that the development impact of savings depends on their use we should note two points. First a number of the loans appear to be for consumption by people who are not desperately poor. Second many societies augment the funds available for lending by bank borrowing; in so far as this credit also finances consumption it is being diverted from other potentially productive uses. We should also note that rural sector coverage by the ACOSCA affiliated societies is minimal.

An important issue in assessing the cooperatives' impact is what are one's success criteria: short-term expansion rates, notional impact on development or speculation concerning long-term prospects? Relative success in savings mobilisation in one country out of twenty-one is insufficient evidence to claim clear success for cooperative thrift and credit in contributing to economic growth or to improving the status of the poor in Africa.

Throughout the 1960s much was expected of the cooperative movement in Africa but, as documented by UNRISD, its achievements were often disappointing (UNRISD, 1971 and 1975). While the marketing cooperatives spread rapidly, often with strong government backing, their management was the subject of frequent criticism.

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Before trying to explain the somewhat disappointing results so far of cooperative savings particularly in the rural sector, let us examine the apparent advantages of thrift and credit cooperatives as mobilisers of personal savings.

The first step of the argument is similar to one put forward in favour of Post Office Savings Banks. In this case the full argument is as follows. The commercial banks do not meet the needs of the mass of the lower income, predominantly rural population in Africa. The Post Office Savings Banks are not expanding their deposits. Anthropologists, administrators and others have commented on the quite impressive surplus often produced in rural areas claiming it is either hoarded or in other ways used unproductively. The experience of Currency Boards and Central Banks at the time of new note issues is also said to bear witness to this fact. Where savings are accumulated in the form of livestock this may lead to overgrazing. At the same time many peasant farmers in Africa face periodic or persistent capital shortages. The ideal solution appears to be the establishment of local-level savings and credit institutions. Arguably people would be more willing to deposit funds with with such institutions if they could see that the funds were being used to local benefit and indeed that they themselves might be able to obtain credit.

The argument appears strong. Furthermore in at least one case, in Kenya, a higher interest payment has been offered on cooperative saving deposits than by either the commercial banks or the Post Office Savings Bank, a significant point if rural savers are, after all, responsive to interest rates (Von Pischke, 1972). Thrift and credit societies generally accept deposits well below the minimum deposit requirement of commercial banks. Their small membership means that it is in principle possible to establish large numbers of such societies throughout the rural sector of any African country (as well as in low income areas of the urban sector) thus making this means of saving widely accessible. Overhead and operating costs can be kept low by using simple buildings (sometimes just a room loaned from or shared with a cooperative marketing society) and by electing the officials of the society from among its members to act on a voluntary basis. Where the manager is paid this can be done at a rate commensurate with local incomes rather than the salary of a bank clerk working for a commercial bank. In some cases the only fixed cost incurred by the societies may be the purchase of a safe. Where thrift and credit cooperatives operate in association with marketing societies crop payments may be automatically credited to their accounts. Whether or not they are amalgamated with marketing cooperatives the thrift societies represent voluntary associations of individuals come together with a common purpose and in their own interest.

By the late 1960s results had not matched expectations. Jellicoe (1968) reports quite insignificant mobilisation of savings by savings cooperatives in Uganda, Kenya, Tanzania and Ethiopia by the late 1960s. Of 35 savings cooperatives established in Uganda in the 1950s 32 remained in 1965, with accumulated deposits amounting to U£30,000 (Ubner, 1973). In Kenya 62 CUNA-type credit unions, chiefly in urban areas, had accumulated savings of K£75,000 by 1967. In Tanzania CUNA-type credit unions expanded rapidly in numbers in the mid-1960s. By 1967 there were 175 registered unions with savings of T£100,000 (Jellicoe, 1968). These sums are trivial compared with the deposits mobilised by the commercial banks. They are small also as compared with those mobilised by the Post Office Savings Banks.

We have already noted the exceptional 1970s urban-based expansion in Kenya and the preconditions for it. But in Uganda and Tanzania subsequent expansion was much less marked. In the rural sector little happened. Again there appears to have been one exception in Ruanda where the Bangues Populaires introduced in 1974 which are effectively rural cooperative thrift and credit societies[1] made a quite substantial initial impact. The first societies were established in the main cash crop producing areas where there was no institutional competition for savings: the commercial Bank of Kigali has only five up-country branches and there is no Post Office Savings Bank. In the first year about 25 societies mobilised $500,000 with average deposits of $100 per head[2] but even here the preconditions while good for the first societies are not so favourable for the further expansion of the movement. Much of the rest of Ruanda is far less prosperous: the crucial preconditions of lack of institutional competition and surplus income do not exist.

So what went wrong? Why did the cooperative movement, for which such high hopes were, and sometimes still are held (e.g. in Kenya: Von Pischke, 1972) fail to mobilise substantial savings? It is impossible to give a definitive answer but one may suggest one. Three prerequisites of savings institutions for low income groups emphasised in the discussion of Post Office Savings Banks were accessibility, reliability and ease of withdrawal. In addition a number of writers have emphasised the importance to potential savers of confidentiality. The savings cooperatives have largely failed to date on the second count.

Undoubtedly the single most important failing of the cooperative movement in Africa to date has been the quality of its management. Independent

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1. Their constitutions provide for local people to elect from those who wish to participate a board of directors, whose members work on a voluntary basis.
2. Source B. Préfol, personal communication.

studies and government reports on the cooperative movement both emphasise this. The problem has been that what appeared to be some of the merits of the cooperative movement have in fact caused this weakness. Small groups (usually 150 to 1000) of poor individuals, most of them illiterate, cannot afford to employ a manager to run their society at anything but very low pay. While some managers are dedicated to their work and do an excellent job, the system has characteristics which may be expected to lead to quite frequent examples of incompetent management and abuse, particularly in communities which are inegalitarian, and in which high value is attached to individual economic achievement. Such societies cannot afford to recruit experienced and well-qualified managers, nor to offer much chance if any of future income increases or promotion: the broader the base of the pyramid in the cooperative movement, the poorer promotion prospects. For an ambitious, individualistic young society manager, anxious to improve his economic status, there are strong temptations to abuse his position either through engaging in other income earning activities to the neglect of society sork or through misappropriation or other abuses in the disposition of society funds. At the same time, unless not merely the society committee (who may also abuse their office in disposing of funds) but also a substantial proportion of the ordinary members are literate the checks on abuse are very weak.

In such circumstances the common response to poor management, which is to recommend increased government supervision and training, can never fully resolve the problem. This response leads to increased government subsidy (and social cost) for a movement which, in Africa, has been largely imposed from above with a centrally determined cluster of characteristics which mush inevitably in many cases make it non-viable. Undoubtedly there are some success stories, but these are dependent on a small group of individuals and when these individuals leave their societies or lose their commitment there are inadequate safeguards to ensure the on-going viability of the societies. There is no way of introducing such safeguards from above. If the members cannot generate them, then the societies will collapse. After a good start this can happen in one or two years.

Westergaard (1970) suggests paying management to be more efficient by offering lucrative bonuses based on the annual surplus. Since many societies cannot generate a significant surplus (see e.g. Hunt 1975: chapter 5) it is difficult to foresee this having much effect. In fact in some areas thrift and credit societies are unlikely to be able to pay the manager out of their own revenue even if they want to. Table 3 summarises the operating costs of a Ugandan

credit society. There are no overheads. All funds were lent to members (in 1966) at 12 per cent per annum interest, and most funds lent were borrowed from a bank at 7 per cent. For our purposes let us imagine they were borrowed from members. The table reveals a substantial loss which in this case was met from the crop marketing proceeds of the same society. Only if the society had paid no interest on funds borrowed would it have broken even paying the manager £5 a month. In this case the society had about 200 members and lent to 46. It is difficult to conceive of the same members generating deposits large enough to finance all loans (this was a moderately well-off coffee producing area) certainly for a number of years. Yet only by on-lending low-cost funds can societies raise the revenue needed to cover their costs.

TABLE 3. UGANDA CO-OPERATIVE CREDIT SCHEME BUDGET FOR A TYPICAL PRIMARY SOCIETY

Item	Shillings
1. Costs: Transport	180
Stationery	150
Manager's salary	1,200
Total	1,530
2. Revenue: Interest received over 10 months on Shs. 14,000[1] at 5 per cent p.a.	583
Interest received over 10 months on Shs. 2,135[2] at 12 per cent p.a.	214
Total	797

1 Bank loan.
2 Society's own funds.

Source: Files of Kyanamukaka Growers' Co-operative Society Limited, cited in Hunt, 1975.

In addition to management quality other factors contribute to the non-viability of savings cooperatives: they stand a better chance of success in relatively prosperous areas inadequately served by other savings institutions (e.g. fairly remote areas producing high value cash-crops). But usually it is in prosperous areas that other institutions and voluntary associations are most active.

Since savings cooperatives have so far failed to attract the mass of the African population there is no way of demonstrating whether the hypothesis that there are large sums of untapped savings in Africa's rural areas is true or false. There are however reasons to suppose this claim has been exaggerated. We may conceive (albeit crudely) of Africa's rural areas falling into three categories:

pastoral, semi-arid agricultural, and well-watered, fertile agricultural. In the first the population is generally mobile, accumulates savings in the form of livestock and has displayed virtually no interest in accumulating monetary savings. Savings in livestock grow over time, can be transmulating monetary savings. Savings in livestock grow over time, can be transmuted to cash if necessary at the will of the owner and directly help to meet the consumption needs of the owner in times of adversity (e.g. drought). In semi-arid areas people often simply do not have a significant surplus which might be deposited in a savings institution. In well-watered, fertile areas on the other hand there is most likely to be a number of other institutions and voluntary associations engaged in mobilising savings. Usually only in relatively isolated areas (e.g. Ruanda before the introduction of the Banques Populaires in 1974) is this not the case.

Some writers cite the expansion of cash-cropping without use of credit to support their contention that substantial unmobilised savings exist in the rural sector (e.g. Heyer, 1976). But stated so simply this argument ignores the following points.

(a) these innovations were often very low-cost: for example the establishment of robusta coffee in Uganda (Hunt, 1975, chapter 2)

b where some help was needed with costs kin might help (Hunt, 1975, chapter 6)

c where innovations were more costly their adoption was either confined to the relatively wealthy and/or based on credit.

d some savings that can be mobilised in rural areas to establish apparently profitable innovations are available in a latent form: that is as family labour which would not be exerted on a regular basis over and above existing productive activity but which people are prepared to exert on a once-for-all basis (clearing bush, constructing buildings and fencing, planting tree crops, or earning cash to finance necessary purchases) in the anticipation of future gain.

It was claimed that one advantage of thrift and credit societies was that people would be able to see their funds being put to local use (for the development of their area). In fact it is no easier to ensure that co-operative Society loans are used to finance production than it is to ensure that commercial bank loans are. In the writer's experience in Uganda, group pressure was certainly not exerted to influence loan use (Hunt, 1975, chapter 5). The

one apparent safe-guard that can be used by any lending institution is provision of credit in kind, but this is open to abuse by either resale of the items or borrowing for purposes that would otherwise have been self-financed thereby releasing own funds for other uses.

So far the cooperative movement in Africa has established that it is possible to devise structures for local level savings mobilisation but has not met with conspicuous success in mobilising them. This is not to deny that there have been pockets of success. In view of the foregoing however, and in view of the apparently greater success of voluntary savings associations in providing the initiative and flexibility needed for local savings mobilisation (see below) I would recommend the following:

Government Ministries and Departments of Cooperatives should reduce their supervisory role vis a vis. savings cooperatives: This is costly and not conspicuous successful. Instead they should emphasise publicity through the media and through talks in the countryside, and the provision of advice. They should be aware that they stand the greatest chance of success in establishing urban based cooperatives for public employees using the check-off system. Here people can be grouped by job and work location which should make group commitment and participation easier, while use of the check-off inhibits abuse. In area where a large number of cooperative societies have been established a local cooperative office staffed by a secondary school leaver with a year's training in accountancy and in the cooperative movement should be established. This person should be available to offer advice[1] and accounting services when requested both to registered cooperative thrift and credit socities and other voluntary savings organisations. He/She should be provided with transport to make it possible to serve a rural area, and should be expected to cover a quite large range of societies.

where thrift and credit societies operate in association with marketing societies the accounts should be distinct with separate membership lists. Given the extent and importance of the marketing societies in some countries it seems inevitable that quite close supervision of these organisations, which have been largely imposed from above, should continue. But while governments have various ways of enforcing compulsory savings in the rural sector, for instance through crop pricing, in so far as we are concerned here with a situation of choice, supervision should not be imposed. Advice should

1. E.G. on a model constitution

be offered when requested. The experience of voluntary organisations shows that people often can and do establish organisations that protect themselves from the abuses described above, and that they learn through their own mistakes. The plethora of voluntary savings organisations in much of Africa is testimony to the resilience of the idea of local savings organisations although it is equally true that individuals after experiencing failure may be temporarily discouraged (and subsequently more cautious).

Savings Banks

Although examples are reported in Anglophone Africa (Cauvin, 1975) savings banks are more common in the Francophone countries. Whereas cooperative thrift societies have certain similarities in terms of organisation with voluntary savings associations, the savings banks have certain organisational similarities with the time and savings deposits section of the commercial banks. This is both an advantage and a limitation. As institutions operating independantly with salaried staff (and often more imposing buildings than the cooperatives) they may command greater local respect and confidence. But since their savings mobilisation role is similar to the commercial banks, their ability to mobilise savings is limited by competition in some areas from the latter.

The main rationale for establishing savings banks even in areas where commercial banks operate is that in contrast to the commercial banks they will (a) accept smaller minimum deposits
(b) provide small-scale credit
(c) provide credit on less security than would be acceptable to the commercial banks
(d) by in some cases specialising according to the professional occupation of their clientèle the savings banks can reduce the risks attached to small unsecured loans.

Given these characteristics, the savings banks may be able to plug a gap between the services offered by the commercial banks and the voluntary associations and thrift and credit societies. Logically this makes sense primarily from the credit perspective. It is not clear that there is a substantial need for an alternative outlet for savings per se (remembering also the existence of Post Office Savings Banks). But people may be willing to place deposits with savings banks if this will provide them with access to credit which they could not otherwise obtain. The people likely to fall in this category are rich peasants and small businessmen. However we should note that as well as

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cooperative credit, African governments have established a number of other special funds and programmes for lending particularly to "progressive" farmers and also to small businessmen (e.g. the Ugandan African Loans Fund and in Kenya theAgricultural Finance Corporation and the Industrial and Commercial Development Corporation). Where such funds are actively used this may curtail the scope for the operation of savings banks.

In practice the existing scale of operation of the banks is limited. Cauvin (1975) is impressed by the Kenya Savings Bank (started in 1970) but provides no figures for the total deposit mobilised. Jucker-Fleetwood (1964) reports that artisans in Morocco have their special credit organisations with the Caisse d'Epargne et de Credit and the Banque Populaire but deposits mobilised were relatively low. In Ruanda the Caisse d'Epargne currently operates only in Kigali where its clientèle consists predominantly of civil servants and the military.

Preceding Institutions Compared with Other Formal and Voluntary Savings Institutions.

If we wish to identify the other major mobilisers of personal savings in Africa apart from the commercial banks, we must look to the other institutions that serve the élite and middle income groups: the insurance and pension funds and building societies in particular and also the finance companies. In 1971 the building societies in Kenya held deposits of almost K.£9 million (Dillon: 1972). In 1974 the net premiums of the life insurance companies in Kenya for life assurance and annuities were K.£8.7 million (Kenya Government, 1975:172). These are many times larger than the sums raised through financial institutions serving small savers.

From a development point of view a crucial question is what is done with the sums mobilised. Governments must decide whether they regard the financing of élite and middle-class housing and the purchase of consumer durables as development priorities. So far as the insurance companies in Kenya are concerned, there is some evidence that about one third of their lending now goes to producing sectors plus real estate, other financial instutions, and government. Over half of this however, goes to real estate and the proportion of total loans going to genuine production appears to be still very low indeed (Kenya Government, 1975:171). The relevant information is summarized in table 4.

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Turning to the indigenous savings associations which exist in much of Africa, these serve a very different lower income clientèle. They have a number of important features. Firstly, they enable us through their constitutions and written accounts of their activities (e.g. Jellicoe, 1968 and Meillascoux 1968) to establish why their members save. An important point that emerges from such an analysis is that the main reason why their members save (accumulating funds which via the banking sector can be channelled into the national economy) is not to finance productive investments but to mutual aid associations. Jellicoe quotes the following list of aims of such associations.

> "To help members in time of emergency such as sickness and death"; "to promote education and social well-being of of members". "to help members in case of death and burial; for education to create the idea of community feeling among them"; "to aid Luo in case of death or sickness and to train Luo to be good citizens". (Jellicoe 1968: 33).

Jellicoe elaborates: "assistance in emergency" may include the payment of fines and help for those who have got into trouble due to non-payment of taxes" (ibid.).

Another quite important type of savings association described by both Jellicoe and Meillassoux is the dance association. There are also instances of voluntary savings associations being formed to finance house construction. Kikuyu women have formed such groups to finance the purchase of corrugated iron roofing and Jellicoe described three African housing associations formed in Nairobi in the 1960's (op.cit.:51).

All the above suggests that the various African governments in encouraging the formation of thrift and credit cooperatives and savings banks in order to finance production are perceiving a totally different set of needs from those perceived by those who are expected to use these institutions. This is confirmed by repeated reports of the diversion of such credit to non-production uses (e.g. Hunt, 1975). The reasons for the lower priority attached to borrowing for production include as well as those listed on page, the absence of individual land title and high rents for land in much of Africa and associated with this the absence of large-scale indigenous money lending and indebtedness. Much of farm production capital is produced

in kind on the farm (seed, family labour etc.). Purchased inputs such as seed, fertiliser, insecticide should prove self-financing after the first seasons use if they are profitable. And, as stated above, there are a number of specialised credit programmes and agencies geared to meeting the needs of larger-scale and medium term agricultural borrowing. It is of interest in this regard to note some of the relevant characteristics of indigenous savings associations described in some detail by writers such as Jellicoe (1968) and Meillassoux (1968). These associations generally have carefully worked out constitutions and systems for cross-checking the use of funds which are usually deposited in banks and only withdrawn at specified times and for specified purposes. "All urban associations bank their funds in commercial bank's savings accounts. In Kampala different tribal organisations patronise different banks". (Jellicoe, 1968:34).

Again, this account of payments to an association shows how carefully funds may be supervised.

> "There are 42 members of our Association....people come up to the table and pay the money to the Secretary. He writes down the amount in the cash-book. He then gives the cash to the Treasurer, who writes a duplicate receipt, one for the payer and onw which he gives to the Secretary who files it. All this must be done in public....
>
> All cash must be put in a locked cashbook by the Treasurer who must pay it into the Bank on Monday. After twenty four hours the Auditor may visit him, require him to open the cashbox and demand to see the receipt from the bank. .... It is true that some Treasurers have taken money; this is because members have not taken sufficient care to see that the money is banked quickly". (Officer of a Location Association, cited inJellicoe, 1968)

Location Associations do not pay interest on deposits.

I do not wish to suggest that the voluntary associations have not experienced difficulties. Clearly they have particular difficulties associated with sustaining commitment and honesty in their elected officers. There are plenty of accounts of such associations folding up due to apathy,

abuse or simply dispersal of members. But equally dispersal of members. But equally there are many examples of such associations that have thrived over long periods, and of new ones being formed. True the associations are more often urban than rural based but

Selected Policy Issues

The preceding discussion touches on a number of policy issues concerning personal savings mobilisation which it is important that African governments should confront. These include:

1. What in volume terms are the main sources of untapped surplus personal income which might be saved? Can this surplus be most effectively mobilised through financial institutions or through other means? If through financial institutions through what type of institution?
2. Are financial institutions which are successful in mobilising personal savings equally successful in channelling them into productive uses? An in so far as they do channel credit into productive use, who benefits?
3. Have previous policies with respect to mass savings mobilisation been in certain respects misguided? For example, has undue emphasis been given to the propositions that to be successful savings institutions must provide credit and must provide it for use in those areas and by those people from whom deposits are generated?
4. Should the public sector through interest or in other ways subsidise savings institutions?

We will briefly consider each of these issues. So far as the untapped surplus is concerned, the evidence seems inconyravertible that the bulk of this lies with the élite: the small numbers of very rich. The diversification of equities and bonds markets can help to mobilise some of this surplus much of which either goes into real estate or, legally or illegally, goes abroad. However, private sector institutions which successfully mobilise the savings of the rich do not necessarily channel them into socially productive uses. When these institutions do lend to finance production they lend predominantly to multinationals. It is true that they also lend to governments but in very small quantities (government received less than 2 per cent of loans and advances of insurance companies in Kenya in 1975).

At the lower end of the income distribution government policies have in the past been geared to establishing public sector institutions to mobilise small scale savings, in an attempt to plug what they have seen as the gap left by commercial banks. These attempt have met with relatively little success. They have attempted to impose savings motives and structures on people who often had other savings motives and preferred other structures. The consequence has been that public resources have been diverted to supporting at hidden cost relatively unproductive institutions. It is not clear that these costs have been socially justified.

Financial institutions are both creatures of their economic environment and creators of it. However, independant underdeveloped economies, the scope for them to create is restricted by their national and international economic environment. Private financial institutions tend rather to perpetuate and accentuate existing structures. Commercial banks and other institutions usually facilitate rather than initiate economic change however much one might wish it were otherwise and however frequently one cites the example of Japanese bank involvement in investment financing (U.N. Secretariat, 1975:12).

This is not to deny that governments can put pressures on financial institutions to modify their policies on deposits and advances. There are two possibilities: the first is to acquire national ownership or a controlling interest in the institutions. The second is to issue directives or use moral suasion (or the threat of nationalisation). The commercial banks could be requested to lower their minimum deposits by 20 per cent. Insurance companies as well as commercial banks could be directed to lend a specified proportion of their total loans to government or approved sectors of the private economy. Where the banks and other institutions are nationalised it should be possible to exert fuller control over the disposition of their funds. There will, however, be particular contradictions in the economy where financial institutions are nationally owned but industry is not. Governments will be divided between wishing to use the institutions to promote national economic development and to back indigenous enterprise on the one hand and continuing subserviance to multinational capital and its local credit requirements on the other, with the latter exerting a strong influence on the pattern of economic change in almost all African countries. None of this has much to do with the savings or credit needs of the mass of the African population. But without far-reaching structural changes in access to and control over productive resources it is frankly difficult to see how the types of public sector intervention in this area described earlier can

amount to much more than tinkering with the system with only a small proportion of the target population being affected and little impact on production. (I do not refer here to specialised credit and development agencies some of which, such as the Kenya Tea Development Authority have had a substantial impact on production: these are outside any terms of reference and merit a separate paper in themselves.)

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Table 4

Kenyan INSURANCE STATISTICS

ANALYSIS OF LOANS AND ADVANCES

A. Life Insurance* K£'000

As at end of	1970 December	1971 December	1972 December	1973 December	1974† December
Government**	**276**	**436**	**185**	**331**	**76**
Enterprises:					
Agriculture***	—	7	—	—	—
Mining and Quarrying	14	13	13	—	—
Manufacturing	21	37	5	128	296
Building and Construction	—	—	—	—	—
Real Estate	862	2,098	3,320	2,535	—
Trade	110	425	225	478	168
Electricity and Water Supply	—	—	—	—	716
Transport, Storage and Communications	212	240	247	231	192
Financial Institutions	132	—	—	—	2,605
Other Business	219	1,062	908	901	2,593
Total	**1,570**	**3,882**	**4,718**	**4,273**	**6,570**
Private Households etc.:					
Private Households	2,893	3,548	2,394	4,053	3,064
Non-profit making Organizations	1	—	—	—	—
Total	**2,894**	**3,548**	**2,394**	**4,053**	**3,064**
Total Private and Public Sector	**4,740**	**7,866**	**7,297**	**8,657**	**9,710**

*Excludes loans and advances to private sector outside Kenya.
**Includes Central Government, Local Government and Other Public Bodies.
***Includes Forestry, Fishing and Wildlife.
†Provisional.

B. Non-Life Insurance* K£'000

As at end of	1970 December	1971 December	1972 December	1973† December	1974† December
Government**	**98**	**246**	**231**	**102**	**108**
Enterprises:					
Agriculture***	35	31	—	25	21
Mining and Quarrying	—	—	—	—	—
Manufacturing	2	—	—	135	—
Building and Construction	—	—	12	—	108
Real Estate	—	—	95	91	165
Trade	—	—	—	20	21
Electricity and Water Supply	—	—	—	—	—
Transport, Storage and Communications	—	—	—	—	—
Financial Institutions	63	—	—	65	—
Other Business	1	90	56	52	—
Total	**101**	**121**	**163**	**388**	**315**
Private Households etc.:					
Private Households	54	19	10	25	75
Non-Profit making Organizations	—	—	—	—	—
Total	**54**	**19**	**10**	**25**	**75**
Total Private and Public Sector	253	386	**404**	**515**	498

Source: Central Bank of Kenya, and Central Bureau of Statistics
*Excludes loans and advances to private sector outside Kenya.
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Source Kenya Government, 1975 Statistical Abstract, p. 171.

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[illegible]

Source: [illegible] 1975 Statistical Abstract, p. 175.

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