FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH: THE CAMEROONIAN EXPERIENCE (1972 -1995)

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CERTIFICATION

This thesis entitled "**FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH: THE CAMEROONIAN EXPERIENCE (1972-1995) by WUNDE, J.A. KARL** meets the regulations governing the award of the degree of Doctor of Philosophy (PhD) in Economics of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

I hereby declare that this thesis was written by me and that it is a record of my own research work. It has not been presented before in any previous application for a higher degree or reputable presentation elsewhere. All borrowed ideas have been duly acknowledged by means of references and quotation marks.

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DEDICATION

This work is whole heartedly dedicated to

GOD The Almighty Father

(for His Graces and Kindnesses)

Professor CARLSON ANYANGWE

who single handedly, though mid-way, took up the challenge of my educational pursuit.

DEBORAH and JACOB

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ABSTRACT

Cameroonian policy makers are not unanimous about the appropriated growth strategy particularly concerning the issue of sequencing. That is, whch should come first, creating demand for financial services by ensuring rapid economic growth or ensuring proper development and expansion of financial sector (institutions) as a means of achieving economic growth. This issue has become important in the Cameroonian contot where a number of the reform policies have been introduced and where declining growth has been realised.

The thesis of this study is that inancial development is a pre-condition for economic growth (supply - leading hypothesis). The financial sector mobilises and channels resources from savers to investors and thereby induces real economic growth.

However, another school of thought believes that it is growth

which induces an expansion of the financial sector (demand - followiwng hypothesis). This thesis uses Granger - causality modelling to investigate these competing hypotheses in the Cameroonian economy. It further examines the factors that affect real financial growth in the country.

A major finding of this study is that there has not been adequate development and expansion in the Cameroonian financial sector. The thesis recommer ds that there must be an urgent financial sector reform programme which will promote competition in the money market and mobilise savings which could be channelled into investment. Among instruments of economic policy recommended are deregulation of interest rates and the liberalisation of the procedure for licensing new banks.

CHAPTER ONE

INTRODUCTION

A prerequisite for greater economic resilience and growth is a well-functioning financial sector, but this requires careful design and discipline. This is so because where finance fails, economic development also fails.

Financial institutions such as Central Banks, Commercial banks, mutual funds, investment banks and brokerage houses use a variety of financial instruments (currency, demand deposits, stock, bonds and options) to facilitate trade in goods and services and to channel resources from savers to investors. By providing payment services, mobilising savings, allocating credit, and allowing participants to pool, trade and price risk, financial systems may improve the flow of information, the allocation of resources, and the management of firms in ways that promote economic development (King and Le Vine, 1992).

The financial sector in most developing countries are in distress. The variety of monetary experience in this part of the world serves to underline the fragility of many financial arrangements, and helps to illustrate the myriad ways in which official policies, either spontaneously or in response to exogenous shocks can destroy or at least impair their functioning (Honohan, 1993). Thus, financial services in these countries generally lag behind the developmental needs of the economy.

Indeed, the distress nature of the financial sector has been fundamental to the failure of African countries to develop faster and attract more foreign capital than has been observed. A great many academic economists and practical bankers have laid much of the blame for this failure on government policies.

Government policy environment has varied from country to country and the contribution of the financial sector to GDP has ranged from 2.7 per cent for Morocco to

14.7 per cent for Mauritius. The relatively high proportion in Mauritius reflects the development of more sophisticated financial services and the country's success in attracting part of the lucrative international offshore banking business (Omoruyi, 1991).

In the light of the forgone discussion monetary economists in the developing world are now increasingly desirous of understanding the role of the financial system in these economies and how they respond to the evolving global structuration. This understanding is particularly more important in the light of the restructuring of the industrialised economies and the effects thereof on the adjacent policies in the developing economies.

The growing realisation of the role of the financial system in economic development therefore, calls for the examination of the development of the financial system. This becomes even the more imperative first, as the debate between financial development and economic growth is cast

in a bidirectional manner and secondly in light of the policy reforms under which the sector has been compelled to operate.

In the mid-1980s for example, most sub-Saharan African economies went through a series of reforms. Prominent among such reforms was the Structural Adjustment Programme (SAP). Some countries started this programme as early as 1982 and by 1986, over 25 countries had implemented this programme. An important explanation of the wholesome adoption of this reform programme on this part of the globe was that most of them had no alternative as the reform was a pre-condition for any further bilateral or multilateral aid. Simply put, it was a pre-condition for granting further loans.

In 1987, Cameroon embraced this reform. In addition to this reform programmes, the regional Central bank, BEAC, embarked on a series of reform programmes which acted as supplement to those of SAP. These policy reforms

were conditioned and excusable on the basis that, the policies that seemed effective in the mid seventies did not seem to work in the early eighties (Walle, 1991; ODI, 1990).

Infact, the World bank and many other analysts have examined the impacts of the reforms on GDP, investment, employment, government expenditure etc. But none of such studies has examined specifically the effects of such reforms on financial development in the country how it affects .... and ..... or is affected by growth.

Consequently, this study has focused on an examination of the development of the financial system and, how it affects economic growth within the context of the changing policy environment in Cameroon. As a consequence, further assessement of the implications thereof of such structuration for policy planning (and analysis) is made.

1.1 Background to the Problem

Economic activity in Cameroon has been stagnant, if not, retrogressing in recent years. In spite of the efforts made in the areas of adjustment, the economic performance of Cameroon has remained poor because of profound internal structural weaknesses and external constraints (Wunde, 1992).

In the early 1970s available data[1] suggested that Franc Zone (FZ) arrangements had provided governments of member countries with salutory monetary and fiscal discipline. For example, from 1970 - 1985, the growth of production and exports were higher in the CFA countries than elsewhere in Africa, and inflation was lower. Within this period, real income per capita of the CFA countries grew on average by about 2 per cent per year despite variations caused by two petroleum shocks, the primary commodity boom, and the start of the debt crisis in

developing countries. Also, within this period, living standards improved significantly and rising investment rates gave reason for optimism about future progress. The principal institutional arrangements which facilitated this good performance were the independent regional central banks, relatively disciplined monetary and other financial policies, and a fully convertible currency. These arrangements fostered both macroeconomic stability and relatively open trade policies that made possible sustained export led growth.

But all these were short-lived. Starting from 1986, FZ economies in general and the Cameroonian economy in particular have been facing major economic and financial crisis. While other African countries gave in to IMF pressures and exerted stringent monetary and fiscal discipline to adjust to changes in the international environment,

countries in the zone avoided adjustment and continued to live beyond their means and accumulate debt.[2]

Despite repeated attempts at internal adjustment, the economic and financial situation worsened, with per capita income falling and financing gaps widening. This dual crisis has caused a downward deflationary spiral of production, incomes, and expenditures that has cut real per capita income by 40 per cent since 1986. The continuing dowward spiral is impoverishing the population of the country. In the same token, it is also undermining the country's financial institutions and threatening its continued existence. The World Bank (1994) has added that the public sector in particular faced increasing difficulties. In the area of government finance, these difficulties reflected a shrinking tax base. This is as a result of a massive loss of competitiveness caused by an unfortunate combination of

inappropriate domestic economic policies and major external shocks, including illegal imports.

Additionally, since the onset of the current depression in the CFA countries in 1986, real incomes per capita have fallen at a rate of 7 per cent per year. Average per capita income has been cut by a total of 40 per cent since 1986.

Rising production costs, especially wage costs, contributed to a sharp drop in profitability, particularly in the public entrprise sector. With governments wage expenditure representing more than 60 per cent of budgetary revenue, and other outlays increasing markedly, the public sector financing requirement expanded significantly crowding out the private sector. Considerable domestic and external payments arrears were accumulated, creating serious distortions for the productive sector and weakening the banking system (World Bank, 1994).

Under such circumstances, the attractiveness to foreign investors dininished substantially, and capital flight increased appreciably. This further manifested itself in the form of negative growth rates especially in 1988 and 1989. In some countries these two years were disastrous. Cameroon, for example, witnessed real GDP growth rates of negative 9.0 and 0.9 per cents respectively. Moreover, according to World Bank (1989) between 1985 and 1987, Cameroon's export price index fell by 65 per cent for oil, 24 per cent for cocoa, 11 per cent for coffee and 20 per cent for rubber. This caused an overall 47 per cent deterioration in the terms of trade. Indeed, the fall in export earnings together with the internationally uncompetitive domestic interest rates which encouraged capital flight, resulted in a dramatic decline in Cameroon's net foreign assets from a positive 128 billion FCFA in June 1986 to a negative 47 billions FCFA in June 1988 and for the first time in the country's history, government's operations recorded a large

deficit of more than 508 billion FCFA equivalent to about 12 per cent in GDP. In the same vein, consumer's price index too in the country rose from 48.3 per cent in 1976 to 53.1 per cent in 1980. In 1985, this shut up to 87.6 per cent and then, to 108.6 per cent in 1989.

What happens at the general macro level also occurs at the sectoral level. The economic depression has also had serious consequences for the financial sector in the country. It has caused serious liquidity problems for the banking system through the accumulation of government and public enterprise arrears. The recession has also created financial difficulties for many private enterprises and led to a substantial increase in non-performing private sector loans. Capital flight accelerated as economic conditions deteriorated, draining liquidity from the banking system. The repurchase of CFA bank notes from sources outside the zone reached an annual rate of 9 - 10 billion french francs

in 1992 - 93. As a result, the zone's financial system has now been effectively undermined. The banking systems in a number of countries and in Cameroon in particular are now insolvent and/or illiquid as a result of non-performing private loans, government arrears, capital flight, under capitalisation and also corruption and mismanagement. Infact, Honohan (1993) gave an account of the banking sector as follows: "By 1990, most of the banks in Cameroon were technically insolvent, and four of them, accounting for over a quarter of the deposit base, were in liquidation. Another large bank, accounting for a further 22 per cent of deposits, was in a 'delicate situation and severely restricting withdrawals. The proximate cause of this collapse was the reduction in deposits during 1985-8. Unable to liquidate their loan portfolio in the face of the declining profitability of the private sector, the commercial banks were forced to rely more and more on Central bank refinancing until further expansion of this was suspended during 1988. Over

90 per cent of the loans in one of the liquidated banks needed to be 'written off' as did two-thirds in another. The heavy incidence of bad debts revealed a history of poor credit decisions often influenced by political considerations as well as the impact of the sharp decline in petroleum, coffee, and cocoa prices..... A curious feature is that the illiquid institutions remained open, though restricting deposit withdrawals. In contrast to the well-documented experience of what happens in other parts of the world when banks fail, the public offices of those in Cameroon were deserted and depositors evidently made a rational calculation that it was not worth their while to besiege any branch whose coffers were known to be empty". With such an account, the financial rules of the country are increasingly being called into question.

To deal with such an increasingly difficult situation, the government in collaboration with the Monetary Authorities

tried to strengthen the internal adjustment strategies of controlling wage costs and reorganising the financial system and public entreprises. As part of the policy drive, during the second half of 1987 government put in place a package of reforms:- the IMF - inspired Structural Adjustment Programme (SAP) with the main objective of:

> reducing the predominance of unproductive investments in the public sector, improve its efficiency and intensify the growth potential of the private sector.

The strategies adopted for achieving this objective were amongst others to:

> restructure the banking sector, including improved monetary and credit policies (World Bank, 1989).

In line with this strategy, the monetary Authorities introduced a series of reforms which included: the issue of anonymous certificate of deposits by banks, the creation of

a tax-free savings accounts; the simplification of taxation of savings; the review of interest rate scales (deposit and lending); the centralisation of allocation of credit .... and; the principle of reform of the insurance sector (BEAC, 1990). In addition, currency convertibility had to be restricted in August 1993 to slow down capital flight and protect the liquidity of the banking system. The last measure emplored in this regard was the devaluation of the FCFA on January 14, 1994.

1.2 **Statement of the Problem**

Despite the above efforts to tighten bank supervision,and limit government intervention in the lending process, so as to foster financial development and to encourage economic growth, the financial system continues to deteriorate. This points to the fact that either:

1) policies to promote financial development in the country are not well articulated or;

2) Certain actions of the government and others within the economy encourage the interaction of variables that hinder the realisation of financial development in the country.

The motivating problematic cast above revolves around the dilemma of policy direction. That is, whether to develope the financial system which will then impetusizes growth or conversely, to promote growth and financial development follows. This is the focus of this study. This study attempts to rigorously resolve the problem of sequencing between financial development and economic growth. This is necessary because, it is our considered opinion in this study that unless this problem of sequencing in the country is resolved, policies geared towards promoting growth in the country will continue to be a mirage.

1.3 The Need for the Study

According to Aboyade (1983), monetary theories developed under conditions of advanced industrial capitalism can hardly be expected to explain financial behaviour in a socialist system, and they may be a misleading guide to policy in the underdeveloped countries. To be valid and relevant, a good monetary theory must articulate a model of how the financial system behaves in each broad institutional setting and how it reacts with the total economic system concerned in explaining such phenomena as changes in the level of output, the balance of payments..... and the determination of interest rates and security prices.[3]

Contrary to the above, in Cameroon, as in most other developing countries, economic policy decisions are simply imported and implemented without being tested. Yet in applying these policies, they are affected and limited by a

host of factors such as the levels of economic development and political advancement.

Of much relevance to this study, however, is the level of economic development which incidentally, is relatively low. In the financial sector, for example is the absence of: a local monetary authority with powers to influence the money supply to meet the requirements of local development; developed local money and capital markets; inadequate medium and long-term lending facilities and; effective programmes to encourage savings habits. Still, a number of received monetary prescriptions assume the existence of all these.

This study is necessary when one considers the fact that little research work currently exists on the financial system as a powerful vehicle for economic growth in the country. A few of them (as cited in the literature)[4] have

often treated this system using a regional approach for all franc zone countries. And others still, have analysed the system as patches to their main study or as mere articles.[5] This should not necessarily be so because first, each member country has its own perculiar problem (and thus requires its own specific solutions) given its own resources and, the attitude of its own people with respect to policy prescription and implementation. This point has been forcefully supported by Boughton (1992) when he stated emphatically that "Countries in the zone are economically diverse and there is little trade among them". Secondly, given the pervasive influence of the financial sector on economic development, its analysis definitely requires a more elaborate and diagnostic approach than what is obtained in the literature.

This study will go a long way to provide new evidence on the relationship between finance and growth. It will also

aid planners and policy makers in formulating sound financial policies for controlling key economic variables that will cater for the needs of the local economy. It will further serve as an additional guide to and by updating literature on, the already existing body of knowledge for further study in this field.

1.4 Objectives of the Study

The research objectives derive directly from the research problem. The main purpose of this study is to analyse the role of financial sector in economic development and growth in Cameroon. However, the specific objectives of the study are:

1. to determine the direction of causality between the financial sector and real sector.
2. to examine, the evolution of the monetary and banking system of Cameroon;

3. to describe the structure of the banking system of Cameroon;
4. to investigate the determinants of real financial growth
5. to determine the density of financial structure in the country;
6. to make policy recommendations based on the findings of the study.

1.5 The Research Hypothesis

The main contention of this study is that financial development is a pre-condition for economic growth. This contention is investigated through the main hypothesis:

H0: The supply-leading approach is more predominant over the demand-following approach of financial development in Cameroon.

1.6 Scope of the Study

The time frame for this study was between the period 1972 and 1995. This period was specifically chosen for the following reasons. First, 1972 coincides with the year of BEAC's restructuring of its policies and administration towards Africanisation. Hence, monetary policies initiated from this time onwards were to suit the local economy rather than the colonial export economy. Secondly, this period was also considered important so as to meet statistical and econometric criteria. However, a review of the financial system before 1972 was given due regards. This was necessary to provide a background information of the system.

The study was also limited to the formal financial sector. This was informed essentially by the availability of data.

Above all, this study narrows its conceptual focus by studying financial institutions, instruments and services available to an economy regardless of the geographic source of those services. It does not discuss international finance though it infers from it.

1.7 Limitations of the Study

The basic limitation of this study was centered around inconsistent time series and discontinuity of data. In essence, the quality of some data was poor. However, for completeness, we had to piece data from different sources into a single series or construct missing data points from other aggregates. Hence, we had to interprete the results with some caution.

Also included as a limitation of this study was the underdeveloped nature of the financial system.

1.8 Methodology:

1.8.1 Sources of data:

In most parts secondary data were used for this study. Data were obtained from both local and international sources. International sources of data were: BEAC's Annual Reports and Statements of Accounts, the IMF International Financial Statistics Yearbook; African Development Indicators and, World Bank Publications.

Local sources of data were: the Ministries of Finance and Economy, Trade and Industry; Resident Mission of the World Bank; Caisse Centrale Pour La Cooperation Economique (CCCE); Economic and Social Development Plans; Cameroon Cooperative Credit Union League and; the Cameroon Central Statistical Department, which formed the major source of data. Information was also sought from various bank branches, post office and from the BEAC nationale. Other sources of secondary data were: libraries

journals and magazines, published and unpublished materials, reports and studies on the financial sector.

The secondary data were then supplemented with primary data which were obtained through the use of unstructured questionnaires from the officials in some of the institutions concerned.

1.8.2 **Variables on Which Data Were Collected:**

Basically, macroeconomic variables are used in analysing financial development and economic growth in Cameroon. These variables included those as defined in the models for the study.

However, data were also collected on: the number of commercial banks in the country, their branch offices and headquarters, years of incorporation, the number of expatriate banks, government-owned indegenous banks,

privately owned financial institutions and mixed indegenous banks.

1.8.3 **Tools of Analysis:**

Both analytical and descriptive tools were used for this study. Analytical tools included: indices, regression and correlation analysis. The descriptive tools included; graphs, tables, percentages and averages.

The ordinary least square estimation method was used to obtain estimates of the parameters of the regression equations.

The research was multi-stage. The first stage was a reconnaissance survey of the study area. The essence was to establish the necessary rapport with the relevant authorities and to obtain permission for the use of the relevant materials. The second stage was then concentrated in

Yaounde, Douala and Bamenda. These are towns where Ministries and the head offices of most financial institutions are located.

1.9 Organisation of the Study

This study is divided into six chapters as follows:

Chapter One: is the Introduction, and covers the background to the problem of the study, the statement of the problem, the objectives of the study, the study's hypothesis, the need for the study, scope of the research, and the organisation of the study.

Chapter Two: provides an overview of the study area. It discusses the socio-economic and political characteristics of the country. This chapter also takes a cursory look into the Monetary and Banking System of Cameroon in retrospect with special emphasis on: its historical evolution, the monetary arrangement, the institutional environment

and, the instruments, objectives and effectiveness of monetary policy in the country.

Chapter Three: reviews related literature on the study. This chapter contains a review of the functions of the financial system, the path of financial development, financial structure and growth in LDCs, and patterns of financial development. It also contains a review of empirical evidence on financial development and growth based on cross-country and country-case studies.

Chapter Four: contains Model discussion and specification. In this chapter also, the variables used in the model are outlined and defined.

Chapter Five: is the findings. In this chapter, we present and analyse the data. We then interprete the results thereof.

Chapter Six: is the last chapter and contains the summary of our findings. This chapter also contains our package of policy recommendations and, the overall conclusion of the study.

NOTES TO CHAPTER ONE

1. Nicolas Van de Walle (1991) 'The Decline of the Franc Zone: Monetary politics in Francophone Africa", Journal of African Affairs. The Royal African Society, Vol. 90, No. 360 July.

2. ibid

3. Aboyade O. (1983) "Integrated Economics. A study of Developing Economies: Addison Wesley Publishers, P. 260.

4. Examples include: Shantayan Devarajan and Jaime de Melo: 'Adjustment with a fixed Exchange Rate: Cameroon, Cote d'Ivoire and Senegal. The World Bank Economic Review, Vol. 1 No. 3, 1987.

   Devarajan and deMelo (1987) "Evaluating Participation in African Monetary Unions: A statistical Analysis of the Franc Zone". World Development 15, pp 483-496. Patrick Guillaumont and Sylvanice Guillaumont (eds) 'Strategies de Development Compares. Zone Franc et Hors Zone Franc, Economica, Paris, 1988; Guy Martine (1986) "The FZ Underdevelopment and Dependence in Franchophone Africa" Third World Quarterly Journal No. 8, pp 205-235.

5. Examples are: Ndongko Wilfred (1986). "Economic Management In Cameroon: Policies and Performances, Bonn/Yaounde; Onoh , J.K. (1982) Money and Banking in Africa, Longman Group Ltd Virginia T. and Richard, A. (1969) 'French West Africa', Greenwood Press, N.Y, Patrick Honohan (1993) "Financial sector failures In Western Africa, Journal of

Modern African Studies, Vol. 31, No. 1 Also see reference no. 4 above for more of such examples.

CHAPTER TWO

AN OVERVIEW OF THE CAMEROONIAN ECONOMY

2.1 Introduction

This chapter looks at the socio-economic and political overview of the Cameroonian economy. It also describes the organisational and institutional background of the monetary and banking system of Cameroon. The economy of Cameroon has little evolved over the years. Its monetary and banking system has not developed significantly (just like its many African counterparts) since independence. For example, since 1961, there are now just about a dozen commercial banks and a few specialised financial institutions. Their distribution is heavily skewed and they consist essentially of branches or subsidiaries of French, British and American financial insititutions. The money

market is little non-existent. The non-monetised sector is more predominant over the monetised sector.

It is our contention to provide a detailed description of the Cameroonian economy in this chapter for the following reasons. First, to conform with the tradition of country-case studies in this field, second, to fully understand the study area and accordingly insightfully locate our study and, lastly to achieve the objectives of our study.

A useful way of organising these issues is to further divide this chapter into sections as follows: Section 2.2 is on the geography of the country while Section 2.3 discusses the political setting of the country. Section 2.4 looks at resource distribution and regional specialization of economic activity and Section 2.5 analyses the pattern of production in the country. A trend analysis on the balance of payment of Cameroon is the subject matter of Section 2.6. Section 2.7

discusses Structural Adjustment Programme within the Cameroonian context. It specifies policies related to the financial sector. This is particularly relevant especially as the study utilizes a structural shift technique of analysis. Section 2.8 is on the evolution of the monetary and banking system of Cameroon since before independence. From a historical perspective, this section of the study looks at the evolution of the exchange system over time, and presents the monetary arrangement of contemporary Cameroon. This Section also describes the specific features of the financial system and prepares for us the basis upon which a financial model for such an economy is built, and finally Section 2.9 which is on the instruments, objectives and effectiveness of monetary policy in Cameroon.

2.2 Some Geographical Facts:

Cameroon is a tropical African country which lies to the north-east of the Gulf of Guinea between longitudes 8^0 and 16^0 east of the Greenwich and latitudes 2^0 and 13^0

north of the equator. It is bordered on the West by Nigeria, on the east by chad and Central African Republic, Gabon and Equatorial Guinea and on the North by Lake Chad. Cameroon has a total land area of 474,926 square kilometers.

Cameroon has two main natural vegetation belts which are: the equatorial forests and the tropical grasslands. They are further divided into smaller regions. The equatorial forest is divided into swamp forest and rain forest. The swamp forest stretches as a belt of varying widths along the whole of the coast from Rio-del-Rey in the West (including, Douala) down to equatorial Guinea in the South, with a break around Victoria and Bota. While the rain forest lies inland from the swamp forest. It stretches from Edea in the West to Bertoua in the east. The tropical grassland is divided into Guinea Savanna and Sahel Savanna, as one moves northwards. There are a few mountains with peaks

of over 1,000 meters, the highest being Mount Cameroon with 4070 meters.

The country has a wide range of climatic conditions, but as a tropical country, it is generally hot and humid. There are two marked seasons namely: the dry season and the wet season. The former lasts for about nine months (October to June) in the north, and for about six months (November to April) in the South, when the harmattan blows from the north-east from North Africa. The latter lasts from about mid-March to mid-October when the prevailing monsoon winds blow from the South West from across the great Atlantic Ocean.

The temperature of the Southern parts of the country is no morethan 25^0 C, while that of the northern part falls between 25^0 C and 34^0 C. Rainfall is highest at the coast but diminishes steadily northwards though with some

abnormalities. Average annual rainfall ranges from 80.5cm in most parts of the north to 390cm in most parts of the south. An abnormal situation is, however, obtained in Debundscha with an annual rainfall of 1,015cm which makes it the second wettest place in the world[1].

The country's population according to World Bank (1994) was estimated at 12.2 million people by the year 1992[2]. The country is the most populous in the UDEAC zone[3]. The population is unevenly distributed. The main areas of dense population are the Littoral, Centre and northern regions of Douala, Yaounde, Garoua and Maroua and the north west and west provinces of Bamenda and Bafoussam respectively. Some pockets of dense population also exist around Tiko and Buea of south west Province. The sparsely populated areas are the Adamawa, the East and South Provinces. The uneveness in the distribution of the country's population is due to historical, physical,

climatic, political, social and econom c factors. They are these factors that are equally responsible for the present disparities in the levels of development between the geographical regions of Cameroon.

Cameroon has an unusual large number of tribal groups with each of them having its own language. Some of the principal groups are; the Tikars, the Bamums, the Fulanis, the Widikums, the Bakossis, the Betis, the Bakweris and the Bassas.

2.3 The Political Setting

The territory now called Cameroon was a German protectorate between 1884 and 1916. She was a British and French colony from 1916 until 11th February 1961[4] when she had her political independence. Within this time the British Cameroons was administered and governed as part of southern Nigeria. From 1961 upto May 1972, the country

existed as a Federation consisting of two independent states - West Cameroon (English - speaking Cameroon) which was under British rule and, East Cameroon (French-speaking Cameroon) which was under French rule. From 1972, Cameroon assumed the status of a United Republic upto 1984 when she again changed to the Republic of Cameroon.

The country is divided into ten Provinces for administrative purpose. These Provinces are: the West, South West, East, South, West, North, Centre, Littoral, Adamawa and Far North. The first two provinces constitute the English-speaking Cameroon while, the rest eight Provinces constitute the French-speaking Cameroon. See Appendix I for the Provincial breakdown of Cameroons population and Appendix II for the growth of the total population over the years.

Cameroon has been under civilian rule since independence. Her first President was El Hadji Ahmadu Ahidjo (now of late)[5] who ruled the country from independence to November 1982 when he resigned. He was constitutionally succeeded by Mr. Paul Biya who rules the country to date.

2.4 Resource Distribution and Regional Specialisation of Economic Activity

Not until recently, the Cameroonian economy was essentially agriculture-based. But with the discovery of petroleum in the 1970s, there is diversification in the economy. Infact, the mining sector has been the main source of the rapid growth of the country's economy over the last 25 years. Despite these developments, agriculture has been and will likely continue to be the leading sector in the growth of the economy of Cameroon at least in the volume of employment it generates. MINAGRI[6] (1974), affirmed strongly the role of agriculture in the country when it stated

inter alia that, 'agriculture employed about 75 per cent of the active population of Cameroon and was a source of living for about 85 per cent of the total population by 1993"[7].

Agricultural production is organised into two types viz: the large-scale plantation form of production employing modern technology and dealing mainly in export crops and; the subsistence form of production dominated by peasants with small holdings and low yields and produce mostly food crops.

The pattern of agricultural production and specialisation is largely determined by the variation in the country's climatic conditions, soils and natural vegetation. For example, the main export crops are cocoa, coffee, banana and timber. These are grown in the forested regions of the South West, Centre, Southern and Littoral Provinces.

On the other hand, food crops such as millet, sorghum, rice and maize, all of the grain family are grown in the north between lake Chad and the Benue Basin. Others such as tubers, yams, cassava etc. are grown in the forested southern region, and palm oil, maize, peanuts and beans in the high western plateau.

The country's manufacturing activity is essentially in the areas of agroproducts, textiles, beverages, tobacco, cement and chemicals. Agroproducts alone, account for about 40 per cent of manufacturing[8] Manufacturing is a rather small source of employment accounting for about 2.3 per cent of the country's employment[9]

Mineral resources are unevenly distributed and mining activity in the country is still low. There are bauxite deposits of 900 million tonnes at minim Martap and 200 million tonnes at Ngaoundal. Tin output is about 8-10 tonnes a month at Mayo Darle, but reserves are only around 225 tonnes[10]

There are gold deposits of iron-ore near Kribi. Other resources include: deposits of limestone, some alluvial gold, granite, casseterite and chalk.

2.5 **Patterns of Production**

Table 3.1 shows the sectorial distribution of Cameroon's GDP for the periods ranging from 1969 to 1991. In 1969, agriculture accounted for 31 per cent of the country's GDP, while whoesale and retail trade (distribution), the second largest sector accounted for 23 per cent. Still in 1969, none of the other major sectors contributed as much as 12 per cent (with the exception of other services) to the country's GDP. This trend runs throughout the period under review. This shows that, the country's economy is predominantly agricultural.

Table 2.1 further shows that although agriculture is the leading sector, its relative size has been falling over the

years. For example, while as stated above, the agricultural sector contributed 31 per cent in 1969 to the country's GDP, its contribution amounts to just about 30.29 per cent and 22.71 per cent, in the years 1982 and 1985 respectively. This fall is reflected on the overall growth rate of the country's GDP (see Table 2.2). As shown on Table 2.2, from 1972, the annual growth rate of the country's GDP has been fluctuating. Starting with a spurt of 2.3 per cent in 1972, this figure rose astronomically to 10.7 per cent in 1974. This was occasioned mainly on the growth rate in the size of the agricultural sector. As a result of falling commodity prices on the World Market in 1975, the growth in GDP was negative.

However, the fall in the relative size of the agricultural sector especially as from the late 1970s was due to the discovery of oil particularly in 1977, towards which much attention was directed at the utter neglect of the former[11] Eventhough, world prices for cocoa and coffee declined

during the period 1979-1982, this fall was quickly overshadowed by the oil revenues. This, thus, led to a more positive annual growth rate of the country's GDP. This is depicted on Table 2.2. However, with a change of leadership in the country, this brought with it new economic policies[12]. Hence, the downswing of the annual growth rate of the country's GDP.

The discovery of oil coupled with the new investment code in 1984, encouraged foreign financieres to invest in the country. The investment was mainly in the areas of manufacturing and finance. This explains the upsurge of the contribution of these two sectors particularly the former to the GDP from 1984. This upsurge was transmitted to the overall growth rate of the country's GDP. And as shown on table 2.2, annual growth rate in the country's GDP moved from 5.8 per cent in 1984 to 8.6 per cent in 1986.

The year 1986/87 was a turning point for Cameroon. Three major shocks exposed Cameroon's weaknesses in economic structure and policies. Firstly, there was a decline in the external terms of trade by 60 per cent through 1992 and 1993 inclusive (though this year is not shown on the table). This was due to a heavy fall in the prices of coffee, cocoa and oil. Secondly, oil output began a long-term decline with the result that oil exports, which stood at $531 million in 1994, were about one third those in 1995. Third, the real exchange rate appreciated by about 54 per cent over 1986-1993 (World Bank, 1995). Such a severe appreciation in real exchange rate besides reducing Cameroon's competitiveness also had adverse effects on incentives and income distribution. Although the contribution of the various sectors to the GDP show a fairly downward fluctuation, this was again transmitted to the annual average growth rate of the overall GDP. And accordingly, Table 3.2 shows a growth rate of negative -2.6 per cent in 1987 to a

negative 5.7 in 1992 (with the exception of 1989). Economic performance has thus been deteriorating since 1987.

Table 2.1 Kind of Economic Activity at Current Factor Cost (in Per Centages)

	1969	1970	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Agriculture	31	30	33	32	31	29	27	27	30.29	25.76	24.52	22.71	24.24	24.37	22.77	24.04	23.95	24.12
Mining/Quarrying	-	-	-	-	-	-	-	-	13.08	17.08	18.17	18.23	13.20	12.37	18.26	13.92	13.87	13.09
Manufacturing	9	11	9	9	9	9	10	11	10.63	10.46	10.85	10.39	11.93	13.37	10.39	13.18	13.08	13.65
Electricity/gas/ water	-	-	-	-	-	-	-	-	01.18	0.13	1.26	1.11	1.23	1.19	1.11	1.18	1.19	1.21
Construction	4	4	5	4	6	6	6	6	6.13	5.96	6.47	6.31	6.96	5.53	6.31	5.42	5.47	5.31
Wholesale/Retail/ Trade	23	23	16	16	16	14	13	11	0.76	10.89	11.34	13.39	13.78	12.15	13.39	11.98	12.12	11.84
Finance,Insurance Real Estate	-	-	-	-	-	-	-	-	14.26	14.51	13.35	12.45	12.07	13.26	12.45	13.08	13.31	13.44
Transport/ Communication	7	7	7	8	7	6	6	5	6.01	5.37	5.09	6.44	6.56	6.45	6.38	6.36	6.33	6.29
Public Admin./ Defence	-	-	-	-	-	-	-	-	7.22	7.57	7.66	7.84	8.56	9.88	7.84	9.75	9.62	9.99
Other Services	21	21	21	21	21	21	23	23	2.70	2.75	2.66	2.05	2.19	2.16	2.05	2.13	2.10	2.11
G.D.P. at Factor Cost									100	100	100	100	100	100	100	100	100	100

SOURCE: U.N YEARBOOK OF NATIONAL ACCOUNTS, VARIOUS ISSUES

Table 2.2

G.D.P. (AVERAGE ANNUAL GROWTH (%)

Year	% Growth
1972	2.3
1973	5.5
1974	10.7
1975	-0.8
1976	4.3
1977	8.5
1978	14.7
1979	13.3
1980	15.6
1981	12.9
1982	12.6
1983	7.8
1984	5.8
1985	7.7
1986	8.0
1987	-2.6
1988	-9.0
1989	0.9
1990	-7.2
1991	-6.0
1992	-5.7

Source: World Tables (1994): Published for the World Bank. The Johns Hopkin University Press, Baltimore and London P. 22.

A more recent analysis by the World Bank (1995) shows that beyond 1992, the economy and its external accounts had deteriorated significantly. The World Bank Report presents strongly that, continuous public finance deficit were generated as falling revenues were not matched by expenditure cuts. The burden on the public finances was exacerbated by a large and inefficient public enterprise sector. Growing public sector enterprises were internalised in the financial sector to the detriment of banks and the private sector. Public debts increased. This decline in economic performance was manifested in the social domain via increased poverty and government cuts in health and education delivery systems.

2.6 Trends in the Balance of Payments

Table 2.3 shows the trend in the balance of payments for Cameroon from 1982 through 1992. Table 2.3 shows that the most important account in Cameroon's balance of payments is the trade account which has recorded persistent

growth from 46,113 million FCFA in 1982 to 164,800 million FCFA in 1992. The balance of payments position of the country has thus largely been determined by the state of her trade account, although the practice of placing substantial amounts of oil revenue in below the line accounts, often outside Cameroon, has obscured a more detailed analysis of the country's foreign trade performance.

Table 2.3 CAMEROON`S BALANCE OF PAYMENT (IN Million of Francs CFA)

	1982	1983	1984	1985	1986	1987	1988	1989*	1990*	1991*	1992
I. Current Accounts Balance (A+B+C)	-26805	-156,980	-73,822	-352,247	-190,841	-268,317	-85,776	-110,200	-91,200	-80,000	-121,200
A. Visible Balance (FDB)	46,113	53,906	229,061	220,326	153,227	76,299	191,436	147,400	180,600	190,000	164,800
-Exports (+)	456,214	520,804	694,301	730,649	719,256	507,465	528,182	562,400	583,700	600,000	474,800
-Inports (-)	-400,101	-466,898	-465,240	-510,323	-566,029	-431,165	336,746	-415,000	-403,100	-410,000	-310,000
B. Net Services	70,522	-211,770	-292,166	-464,238	-311,978	-314,843	-257,449	-237,600	-251,000	-260,000	-270,900
- Shipment	-23229	-15482	-32,057	-28,800	-66,670	-36847	-9864	~	-		
Other Transportation	3,141	3,170	4,160	-4,096	-1,350	-4,556	-21855	(1)	(1)		
- Insurance	-4,643	-3193	-1011	-3952	-9660	-5996	197	~			
- Civil aviation and Tourism	-2,734	-11,106	-20577	-26488	-56346	-60982	-73980				
-Interest,dividends	-62559	-105178	-141907	-264642	-144034	-120545	-146035				
-other private services/NCA	-88,042	-08,816	-19206	-128645	-37,441	-79254	-49840				
-Government Services/transfers	7,544	7175	-5590	-5614	-3,530	-6661	612				
C. Net Transfers	-2396	884	-10717	-8335	-32095	-29768	-19763	-20000	-20800	-10000	-13100
- Private Sector	-21067	-27,700	-33778	-44853	-42523	-37771	-40171	-40600	-32400	-40000	-31100
- Public Sector	18671	28,584	23061	36518	10428	+8003	20408	20600	11600	30000	18,000
II. Net L.T CAPITAL FLOW	76,615	204636	165417	210389	31304	129215	75895	-84500	-13700	50000	-39000
A.Private Sector	52132	173541	111818	168223	-15760	8491	3870	-66500	-73700	-40000	
-Direct Investment	36615	81480	7712	141971	6592	3596	20045				
-Drawing on Loans											
- Amortisation of debts											
- Others	-2363	-3002	-5370	-5605	-7060	-1618	-8326				
B. Public Sector	24483	31095	53599	42165	47064	120724	72026	153000	60000	90000	39000
-Drawing on loans						160303	166855				141000
-Amortisation of debts						-39579	-94810				-102000
-Others	76	85	-54	-35	-	-	-19	(1)	(1)	(1)	

III Net Capital ACT - Trad Credit - Non-banking Capital - Banking Capital	-45377 -1,246 -4945 51568	-5,088 17599 -3440 -26135	-76,229 28427 3850 -108506	19,344 13671 5379 94	138,776 9111 -24532 154197	-29,094 +20084 -29702 -19476	-110899 -8735 -43743 -58421	15,700 - -59000 74700	76,700 -29300 66,600 39'400	20,000 (1)	-81,600 -98000 16200
IV errors and Omissions	-1271	1092	-55146	49889	-7897	+27084	56173	-	-6400	4692	-44900
V Exceptional Financing	-	-	-	-	-	-	93700	-			148500
A.External Debt	-	-	-	-	-	-	78800				
-Refinancing								(1)	(1)	(1)	
-Re-spreading out (of payments)											
-Chang in overdue payments(interest)							78800				-18000
-Discounts											
B.Other Exceptional Financing (2)							14900				166500
VI Variation In Net Reserves (5)	6084	-43690	39780	-27375	28658	140933	-29093	10000	34600	5308	16000
-Possessions	1151	-44374	40801	-28503	31257	1598	-28185	31000	17000	-4377	
-Net transfers with IMF	83	1455	1053	-4122	-3194	-2654	26140	2300	2000	378	
-Other transfers (3)	136	-13	194	-255	147	141885	-26610	-25500	18400	10,249	
-Counterparts abd reevaluation (4)	4714	-728	-2268	505	448	304	-438	2200	1000	-942	

Source: BEAC`S Statistical Reports, No. 199
February 1993, P. 51
Means data is not available.

Table 2.3 further throws light on yet another important feature of Cameroon's international transactions - the persistent deficit on the services account. There has been a remarkable increase in the size of the deficit over the last 10 years, the period under review. Between 1982 and 1992 it rose from 170,522 million FCFA to 272,900 million FCFA. The existence of a deficit account is a common phenomenon in most developing countries and to a very large extent, it reflects the underdeveloped nature of their economies. In such economies, payments usually exceed receipts of the items of transactions on the account. Such transactions usually include:- transportation, insurance and travel.

Many factors have contributed to the growth of the deficit in Cameroon's services account over the period under review. These include: higher interest payment abroad resulting from the growth of external public debt;[13] unecessary expansion of Government expenditures abroad

for Missions and Political activities to perpetuate the continuous stay of the incumbent leadership in power; increased earnings of foreign-owned enterprises in Cameroon (which dorminate the economy); and lower interest earnings from reduced overseas assets. Among all the factors outlined above, the first two have been particularly instrumental in this direction.

As could be further seen on Table 2.3 the persistent growth of the deficit on Cameroon's overall services account has accounted for her current account being in a persistent deficit since 1982. Although the visible balance has been in surplus upto 1992, the surplus was not sufficient to counter the massive and growing deficit on the services account. Hence, the deficit on current account has since been in perpetual deficit for the whole decade.

Cameroon's economic position with the international world has always been much stronger than indicated by her

current account, with the basic balance (current and capital accounts) being either in a deficit of a smaller magnitude than that on current account or in a surplus. This is explained mainly by the relatively strong position of the country's capital account in which autonomous capital inflows have for most of the years overshadowed outflows. This net inflow of capital into the country is a function of many variables. Firstly, Cameroon is naturally abundantly resourceful with a diversified production base and relatively politically stable. This impressive development potential combined with appropriate policies and a favourable external environment, makes her relatively attractive to foreign investors. Secondly, the Cameroonian government has, especially since independence dynamically encouraged foreign investment via fiscal and other incentives. Typical along this line was the new investment code of 1984[14] which aimed at encouraging foreign financiers to invest in Cameroon and to give preference to small and medium sized firms. In response to these incentive, there has been some

considerable inflow of foreign private capital into the country. Regrettably, these policies did not go too far in achieving their objectives. For example, Walle (1991, has lamented the fact that foreign direct investment has slowed down to a trickle. To support the statement above, he cites the 1989 report of the "Conseil Des Investisseurs Francais en Afrique" in which it is noted that French private investment in Africa (most of it presumably in the FZ) averaged one billion dollars a year in the early 1980s, plunged to 53 million dollars in 1988 and further reported that 77 per cent of its members wanted to pull out of Africa altogether.

That notwithstanding, the gap in the inflows of foreign private capital has been augmented by net government receipts from loans and grants. Mbaku (1993), has outlined the magnitude and direction of some of such grants. He explains that since it became a unified country in 1961, Camerooon has received significant amount of foreign aids,most of it from France, the European Economic Community, and Several multilateral agencies. Although United States development and technical aid to Cameroon

has increased significantly in recent years, France is still Cameroon's biggest benefactor. For example, of a total of US $483.1 million of net official development assistance received by Cameroon in 1990, US $171.8 million (or 35.56 per cent of that amount) came from France. The US contribution was US $39.0 million or 8.07 per cent (OECD, 1992, p.76). Since 1971 Cameroon has received a cummulative sum of about US $3,937.7 million in foreign aid (grants and loans) from all sources combined. In 1990, the country received US $483.1 million from the international donor community. That amount of aid represented about US $41.2 per capita or about 4.3 per cent of the country's GNP in 1990 (OECD, several issues; World Bank, 1992, p.256). During the 1989/90 fiscal year, Cameroon which had an investment budget of US $548.6 million, received US $458.3 million in official development assistance funds. The latter amount represents nearly 84 per

cent of the country's investment budget for that fiscal year (OECD, 1992, p.76; Europa, 1992, p.649).

Therefore, because of such flow of funds, the capital account is always on the surplus. In this way, the persistent deficit on Cameroon's current account has hardly posed any acute balance of payment problem for the country. Put otherwise, the country's capital transactions have greatly helped in keeping such pressures within manageable limits.

However, it must be said that Cameroon stands to suffer from serious balance of payment crises in the years ahead for several reasons. The current and prevailing political crisis is slowing down economic activities tremendously giving rise to an ever worsening financial situation. Secondly, there is the persistent increase in the repatriation of dividends and profits; and thirdly, a continuous rise in the burden of external debt servicing and

refinancing. The situation may even be worse off given the fact that loans and grants given to the country are not channelled into the productive sectors of the economy but rather, such money is being systematically used for political gains.

2.7 Structural Adjustment Programme within the Cameroonian Context

It is necessary to discuss the Structural Adjustment Programme in this study for two reasons: (1) It is the most comprehensive and current programme in the country that is responsible for the Structural changes in the different sectors of the economy. Accordingly, it has affected financial development and economic growth in the country; (2) It forms the basis of the technique of analysis used in this study.

The Structural Adjustment Programme is a comprehensive policy reform[15] of the existing policy

framework and a response to the country's structural problems and external shocks.

Structural Adjustment to changing conditions has been practised for a very long time, even though it hasn't always been called by the name Structural Adjustment. In recent years, however, structural adjustment programmes have been initiated in a large number of developing countries. What distinguishes these programmes from economic policy making in earlier eras is that they involve many individual measures put together in a single package, they are worked out in explicit consultation with internal agencies and they are tied to additional foreign loans as intimated in chapter 1 of this study.

Adjustment programmes usually are initiated because of an inability by a country to service adequately an accumulated foreign indebtedness, which may have been brought about by a combination of past borrowing policies,

changes in the world market conditions (particularly in the prices of exportable commodities) and inappropriate domestic policies (Yagci, Kamin and Rosebaum, 1985; Donovan, 1984). Once a programme is formalised, its goals often encompass inflation control as well as improvement in the external accounts. Economic growth per se usually is not an immediate priority, but is assumed that the reforms will lay the basis for better growth prospects in the medium or long-term (Ntangsi, 1993).

The precursors of the structural adjustment programmes were the IMF stabilization agreements. These agreements still are important sources of external resources for countries experiencing financial difficulties. The agreements emphasized macro-economic reforms, particularly in the areas of fiscal and monetary policies, exchange rate policy and trade policy.

The Structural Adjustment Programme in Cameroon is based on internal adjustments with emphasis on increased competition, efficiency and a reduction of costs and prices in the economy. More specifically, the objectives of SAP in Cameroon as outlined by World Bank (1989) are:

a) To establish a positive rate of per capita income growth

b) To reduce progressively the constraints which hinder a general opening of economic opportunities, through fostering increased competition both at the foreign and home fronts and reducing the inefficiency of domestic markets

c) To re-orient the role of the state from one of direct intervention in the economy to one of facilitating the operations of the private sector and;

d) To re-orient public services towards programmes, which improve the well-being and productivity of all Cameroonians; taking into account the social dimensions of the adjustment programme.

The above objectives were to be achieved through a series of measures that will:

a) Stabilise and retructure public finances over the medium-term through improved programming and budgeting of government resources, better control over government salaries, improvements in the prouctivity and management of the civil service and an increase in non-oil tax revenue;

b) restructure and rehabilitate the public enterprise sector;

c) stabilize the finances of the agricultural marketing structures for the principal export crops (coffee, cocoa, cotton etc), liberalize

progressively trade in these crops, and create programmes to increase food security and to promote non-traditional agricultural exports;

d) deregulate internal commerce with a view towards lowering the domestic cost structure and rationalizing external trade regulations and effective rate of protection;

e) improve incentives for petroleum exploration and production;

f) re-orient policies in the health and education sectors, especially towards primary level, to improve human resource development;

g) establish specific programmes to reduce the social cost of adjustment (World Bank, 1989).

In view of the precarious financial situation prevailing in the country, the following monetary policies were

envisaged under SAP and the stabilization plan of Public Finance and Economic Recovery,

a) restructuring of the banking sector, with a view to the possible liquidation and rehabilitaion of some banks;

b) setting up of the Cameroon Agricultural Bank and the Cameroon Industrial Bank;

c) alleviation of the liquidity crisis, particularly through the auditing of state debts and arrears and consolidation of certain public sector deposits in banks and of banks debts in the Central Banks (BEAC);

d) reinforcement of monetary/banking control through the reform of financial policies with a reduction in the number of borrowing and deposit rates, an increase in authorized banking margins and the setting up of a money market;

e) negotiations with BEAC in order pregressively to abolish interest-rate subsidies, and direct credit guidance, and the progressive replacement of direct monetary control

measures with indirect, ones such as those based on prime rates reflecting free market conditions;

f) inauguration of the activities of the Cameroon Autonomous Sinking Fund (CAA).

In line with the above policies, the measures taken so far include:

a) the elimination of interest payments on current accounts (which previously had varied between 3.5% to 6.5%);

b) the establishment of a 10% ceiling on interest paid on short-term deposits by the government and public and parastatal corporations (which previously ranged from 11% to 13%);

c) the relaxation of the requirements regarding the ratio of paid-in capital plus reserves to loan commitments (to 5% as apposed to 5 to 10% previously);

d) the exemption of inter-bank transactions from domestic turnover tax;

e) the liquidation of Cameroon Bank and FONADER; and

f) the restructuring of SCB bank to SCB - Credit Lyonnais.

2.8 The Monetary and Banking System of Cameroon in Retropect

2.8.1 The Historical Evolution

The Monetary and Banking System of pre-colonial Camerooon was mainly trade by barter. This was the direct exchange of goods and services for goods and services. This was practised amongst different households and also, in the markets.

Upto the end of World War One (WWI), the medium of exchange in the country consisted mostly of wires, beads, ornaments, tobacco, cowries[16], pieces of iron wires, livestock

and ammunition. These items were mostly involved in distant trade. In the local markets, products exchanged were chiefly those for immediate consumption and usually included: beans, maize or corn, cocoyams, okro, groundnuts, palm oil, pepper, salt, bush-meat, palm kernels, mats, pottery (various utensils), spears, hoes, cutlasses, varieties of local beer and spirits and, palm wine. Coinages for exchange transactions such as the sovereign (from Britain) the france piece (from France), the old Maria Theresia dollar (from Austria), the Eagle[17] (from USA) and, the Doublon (from Spain) were also used. These coinages were brought in by Aisan merchants, European adventurers and traders and, Arab slave traders. The greatest impact of the use of these coinages was felt around the coast where these adventurers and merchants concentrated their activities. It must be added here that human beings (as slaves) also formed a principal medium of exchange.

The active monetisation of the Cameroonian economy (that is, the replacement of indigenous commodity currencies with modern money) just like its African contemporaries received its greatest impetus with the colonial partition of Africa in the mid-1880 (Onoh, 1982). From 1884, the German Mark was introduced. But for the most part, barter was still being practised in the markets. The Mark lasted uptil 1916 with the coming of the British and the French. Consequently, the British silver coins and the French Silver franc were introduced. This followed the abolition of the Mark which only disappeared after a long while. The existence of the multiplicity of these currencies in the territory was a source of much trouble to the people[18]. However, persistent proclamations by the colonial administration abolished indigenous commodity currencies, and were thus, replaced fully with the colonial currencies. The greatest impact of such proclamations was felt around the immediate and in the colonial adminstrative centers.

This means that transactions in commodity currencies still persisted for quite some time in the remote regions. The use of commodity currencies became almost entirely ended with the introduction of organised financial institutions in the country.

Before the introduction of organised financial institutions in the country, credit and mutual aid schemes of some sort had existed though. Such were: Women's and Men's associations, Social clubs and associations of friends. One such economic association that requires emphasis for the purpose of demonstrating how the transfer of funds from deficit spending units to surplus spending units and among firms and households, was effected was the "njangi".

The "njangi" otherwise known as Mutual aid association is an age-long social and economic activity that is used to promote trade and business. This was heavily

used in pre-colonial times when the financial system was still at its rudimentary stage. Njangis, according to Fanso (1989) are informal joint stocks organised periodically by members of the same community or village to aid partners rationally in their social commitments. Also commonly referred to as 'esusu', 'tonte', 'ngwa', and 'etsob' (by different natives) the "njangis, are infact, organised by close friends, relatives , members of the same trade or profession, with the objective of helping members meet up with their social commitments. It is more or less an organisation of trustworthy people who were able and committed to pay their levies regularly. The "njangi" usually meets weekly, bi-weekly or even monthly. And each time it meets, it is hosted by a member or two who entertain(s) the other members with food and drinks, all the members taking turn to host in strict rotation.

The member(s) whose turn it is to host receives the 'njangi' - that is the mutual aid package made up of the fixed

contributions of all the members. They are expected to use the package for purely transactive motive of organising funerals, marriages, dance festivals, birth parties - 'born houses' and paying of bride-prices. Over time, 'njangis' have become economic associations where the fixed contributions are in money and given as credit to partners to commence business or add to the running capital. In this way, 'njangis' are nonetheless, banks or capital markets, serving economic needs at local levels. Debts or savings are paid instalmentally in fixed amounts. Most of the loans are made during their sittings. Interest is usually paid on loans and by defaulters. In this way, funds are not only transferred from deficit spending units to surplus spending units but, are also safeguarded.

To sustain the traditional financial system, modern money has replaced the traditional commodity currencies while, organised financial institutions have complemented the unorganised financial institutions.

The presence of the British and French in the territory from 1916 was a signal indication of a new era in the monetary and banking system of Cameroon. Not only were currencies replaced, but organised financial institutions were also created. According to Onoh (1982), in the British Cameroons, commercial banking developed rapidly while, in the French Equatorial Africa (Cameroon inclusive) commercial banking was the least developed.

At independence, the oldest commercial banks were located in the British West Africa (or Barclays Bank DCO) established in 1925 with branches located at Victoria and Mamfe, and the Post office Savings bank which was organised on lines similar to those of the corresponding institution in the United Kingdom which operate throughout the Territory and Nigeria. Within the territory itself, post office savings banks facilities were provided at Victoria, Tiko, Kumba, Mamfe and Bamenda. Other banks (commercial)

established in the territory included: Cameroon Bank Ltd (1961); Banque Internationale Pour Le Commerce et L'industrie du Cameroun, BICIC (1962); Societe Generale de Banque du Cameroun, SGBG (1963); Union Bancaire en Afrique Centrale (1962); and the Paris based, Banque Nationale de Paris established in 1966. To achieve uniformity, the British - patterned banks located in West Cameroon have since been compelled since independence to operate along traditional French lines.

In 1962, a National Credit Council (NCC) was established[19] to coordinate the financial situation of the country. This council was charged with the responsibility of organising credit to conform to Government's National Development Plan. The Council adopted a liberal policy, explicitly, to maintain and safeguard the value of the national currency which was actually focused at endowing the country with considerable financial resources for the rapid

development of the economy. Together with the commission for the control of banks, and the Professional Association of Banks (PAB), the NCC adopted measures with a view to:

a) Seeking the means of expanding deposits and reducing hoarding;

b) working a fair system of renumeration for services by applying adequate and standard banking terms;

c) generalising the rise of bank money;

d) reducing the cost of credits within the limits compatible with the rate of development and growth desires;

e) carrying out an inventory of all the liabilities of the public and mobilising them for the best use in the national interest;

f) assuring maximum securities to depositors (Ndongko, 1986).

The powers of the NCC were, however, limited to the formulation of policies and advising on how to execute them. In this way, the council was serving as a consultant. It gives pieces of advice on banking conditions, ways of financing plans (which involves appeals for credit, determining minimum capital for banks, establishing the ratio between the funds of banks and all their commitments, opening and closing bank offices and their mergers and, appointing liquidators (Ndongko, 1986). Besides, the NCC also majored in the formulation of credit policies and could also design measures through which deposits in banks could be augmented. In this way, the NCC functions like the Nigerian Deposit Insurance Corporation (NDIC). The NDIC was established following the promulgation of Decree No. 22 of 15th June, 1988. It took off effectively in February, 1989 with most of its key personnels drawn from the Central Bank of Nigerian (CBN). It was set up to provide deposit insurance and related services for banks.

This is aimed at promoting confidence in the banking industry. The NDIC is empowered to examine the books and affairs of insured banks and other deposit-taking financial institutions. Licensed banks are mandated to pay a premium of 15/16 of 1 per cent of their total deposit liabilities. A depositor's claim is limited to a maximum of ₦50,000.00 in the event of a bank failure. In the last four years, the NDIC, in collaboration with the CBN, has intensified its effort to resolve the problem of insolvency in the banking industry. The overall impact of NCC on the financial system is the component part of chapter five.

In the domain of central banking, it would be interesting to note that while the former British Colonies (West Cameroon inclusive) were allowed to develop central banks, independent of each other, this was not the case with the French who emphasized dependency and centralisation in central banking.

Before independence the Central Monetary Authority in the British Cameroons was the West African Currency Board (WACB). The West African Currency Board was a Monetary System common to Nigeria, southern Cameroons, Gambia, Ghana and Sierra Leone. The Board came into existence in 1912 and was charged with the dual responsibilities of:

a) issuing currency in these areas

b) managing the currency so issued.

The representative officers of each country to the Board were stationed in their respective administrative capitals. In the case of southern Cameroon, the currency Board representative officer was in Nigeria. The Laws and regulations govering the issue, circulation and management of the currency in this territory was the Nigerian Ordinance No. 11 of 1916 and the West African coinage order of 1938.

The main purpose of the Board, however, was to facilitate trade between Britain and its colonies. This could be judged from the fact that, commercial banking was mostly foreign-owned and its principal activities was directed mainly in the areas of financing government and movement of cash crops.

The modalities of currency transactions between the colonies and Britain was simple! A large store of cash was usually maintained at the Central currency offices in West Africa, with constant replenishment of currency dispatched from London. Currency is issued to the Bank of British West Africa or Barclays Bank D.C.O as required, against payment to the West African Currency Board in London or against deposit of currency of equivalent value with the agents of the West African Currency Board in one of the West African colonies.

In general, new notes and coins were sent to West Africa for the following reasons:

a) to meet a seasonal or permanent increase in the demand for currency in the area concerned or;

b) to replace old coins and notes (Nwani, 1973; Ajayi, 1978).

These notes consisted of 100-shilling, 20-shilling and 10-shilling denominations; copper alloy coins of denominations and bronze coins of denominations penny, half pence and, ten-pence. Notes, alloy coins and nickle three pences were legal tender upto one shilling. The currency was interchangeable at par (subject to remittance charges). Thus, the WACB is known and called as a hundred per cent sterling exchange standard. Ajayi (1978) has presented logically the fact that "since the Board was required to maintain full sterling backing of their currency issue, the amount of currency that is, the public holdings of

currency as well as that of the commercial banks, rose or fell with the Board's receipts or payment of sterling".

On the other hand, the French Cameroon neither belong to, nor, had any central Monetary authority. It was not until November 1964 that the Central Bank for Equatorial Africa was reorganised to include Cameroon and, thereby renamed the Central Bank for Equatorial Africa and Cameroon (BCEAEC). This bank had a head office and a monetary committee in each member country and an administrative office in Paris. It was managed by a Board of Directors and was the sole approval of monetary policies in this region. It would be imperative to emphasize here that France was entitled to nominate half the members of both the Board of Governors and Monetary committees of member nations.

However, shortly after independence, the French policy of assimilation[20] and centralisation was compelled upon the English speaking. In this way, the British Cameroons apparently lost its identity and the Republic of Cameroon was a member of the Central African Customs and Economic Union (UDEAC), with a common central bank called, the Bank of Central African States (BEAC).

2.8.2 **Monetary Arrangement**

The Monetary and banking system of contemporary Cameroon must be understood within the framework of the Franc zone (FZ)[21] in Africa.

The FZ in Africa currently consists of two separate albeit very similar monetary unions made up of fourteen sub-saharan African countries and the Islamic Federal Republic of the Comoros. The first group is the West Africa Monetary union, WAMU, made up of Benin, Burkina Faso,

Cote d'Ivoire, Mali, Niger, Senegal and Togo. These countries have vested the responsibility for conducting monetary policy to a common central bank called, the Bank of West African State (BCEAO). The second group includes: Cameroon, Central African Republic, Chad, the Congo, Equatorial Guinea and Gabon with the Bank of Central African States (BEAC), as the Central Monetary authority.

Each of the two groups and the Comoros maintain separate currencies - the France de la Communaute Financiere Africaine for the WAMU countries; the France de la Cooperation Financiere en Afrique Centrale for the BEAC countries and; the Comorian franc for the Comoros. The currencies of the two groups including that of the Comoros, however, are commonly referred to as the CFA franc.

Since 1946 when the two Monetary Unions were created, the CFA franc has been pegged to the French franc at the rate of FCFA50 = IFF. It was not until January 12, 1994 that the FCFA was devalued and its value to the franc pegged at FCFA100 = IFF, a rate which still remains till date. In the same line, the Comorian franc which stood at CF50 = IFF since 1988 was also devalued to CF75=IFF[22] at the same time as the CFA franc.

Each of the two common central banks and the Central Bank of the comoros have an Operations Account[23] at the French Treasury into which they deposit 65 per cent each of their foreign exchange holdings.

Convertibility of the CFA franc into French francs through authorised intermediaries is supported by provision for central bank overdrafts on these accounts. Convertibility

is free and guaranteed by France through drawings on these same accounts.

2.8.3 **The Institutional Environment**

The specific goals of Monetary policy and the extent to which such a policy has gone in achieving its desired target must be understood within the characteristic feature of the monetary and banking environment as discussed below.

In Cameroon, just as in many other third world countries, the use of bank money as a medium of exchange is not very common. Table 2.4 shows for example, that in 1975, while currency holdings amounted to 76.05 billion FCFA demand deposits was only 43.82 billion FCFA. In the same line, in 1990, while currency holdings was 418.63 billion FCFA, demand deposits was only 262.25 billion FCFA, all expressed in absolute terms.

Table 2.5 shows the per centage rate of change of monetary holdings. There seems to be some inconsistency between the periods 1985 and 1992. This is explained basically by two main factors. First, the introduction of SAP which brought with it the restructuring of the monetary and banking system and secondly, the effects of political activities that made people to lose confidence in the banking system and thereby withdrew the little they had in their savings in banks and hoarded it in their homes.

Comparing further the average rate of growth of money supply (broadly defined) from 1975 to 1986 and from 1987 to 1992, a conclusion can be drawn that the former performed better than the latter for reasons already discussed above. This is true because between 1975 and 1986, the average annual rate of growth of money stock stood at 23.54 per cent while between 1987 and 1992, the average rate of growth of money stood at -9.11 per cent.

Another important feature of the monetary environment is that the use of bank money in Cameroon as in many developing countries has been largely restricted to governments, semi-government organisations, commercial institutions and for the great minority of the ruling class. This is, infact, a major pointer to the underdeveloped nature of the banking system in the country. The ultimate result is that open market operations and variable reserves as instruments of monetary policy become ineffective and less easily applicable as there is a likelihood of weak credit multiplier, which means that all primary fluctuations in liquids assets will bring about only a small derived fluctuation in money and credit.

Table 2.4: The Growth of Monetary Holdings (Billion FCFA)

YEAR	Money Supply Broadly Defined	Money (Currency)	Currency Outside Banks	Demand Deposits	Quasi-Money
1975	105.69	76.05	32.23	43.82	29.64
1976	132.48	94.57	36.90	57.67	37.91
1977	183.50	126.62	48.92	77.70	56.87
1978	212.31	146.95	58.47	88.48	65.37
1979	260.09	184.25	68.24	116.01	75.84
1980	315.42	208.23	78.08	130.15	107.18
1981	405.61	258.92	101.81	157.12	146.69
1982	483.41	298.48	107.59	190.89	184.92
1983	612.42	377.07	127.63	249.43	235.35
1984	736.23	410.76	134.41	276.35	325.47
1985	864.52	426.68	148.30	278.38	437.84
1986	831.04	447.97	167.66	280.31	383.07
1987	677.72	387.01	171.11	215.90	290.71
1988	725.18	421.99	161.12	255.87	303.19
1989	769.38	452.40	162.85	289.55	316.98
1990	756.61	418.63	155.98	262.65	337.98
1991	770.28	429.90	170.25	259.66	340.37
1992	744.45	410.33	148.86	261.46	334.12

Source: World Tables (1994). Published for the World Bank. John Hopkings University Press, Baltimore, London, p.180

Table 2.5: Changes in the Money Supply Components (1975 - 1992)

YEAR	Money SS (Broadly Defined)	%	Money (Currency)	%	Demand Deposits	%
1975						
1976	26.79	25.35	18.52	24.35	13.85	31.6
1977	51.02	38.51	32.05	33.89	20.03	34.73
1978	28.81	15.70	20.33	16.06	10.78	13.87
1979	47.78	22.5	37.30	25.38	27.53	31.14
1980	55.33	21.27	23.98	13.01	14.14	12.19
1981	90.19	28.59	50.69	24.34	26.97	20.72
1982	77.8	19.18	39.56	15.28	33.77	21.49
1983	129.01	26.69	78.59	26.33	58.54	30.67
1984	123.81	20.22	33.69	08.93	26.92	10.79
1985	128.29	17.42	15.92	03.88	02.03	00.73
1986	-33.48	-3.87	21.29	04.99	01.93	00.69
1987	-153.32	-18.45	-60.96	-13.61	-64.41	-22.98
1988	47.46	7.0	34.98	09.04	39.97	18.51
1989	44.20	6.09	30.41	07.21	33.68	13.16
1990	-12.77	1.66	-33.77	-7.46	-26.9	9.29
1991	13.67	1.81	11.27	02.69	-02.99	-01.14
1992	-25.83	-3.35	-19.57	04.55	01.80	00.67

Source: Computed from Table 3.4

This situation is, however, contrasted to that of developed financial systems in which the use of cheques is very instrumental for transactions purposes.

We may also add here that the monetary sector is heavily underdeveloped and this is reflected in a number of interrelated features of the structure of commercial bank. First, the banking system has remained highly concentrated and fragile. It would be interesting to know that 81% of the total bank network, 85% of total bank assets, 85% of total bank deposits, 89% of total lending and some 88% of all bank branches in the country are controlled by the 'Big Four' banks and in order of importance are: Banque Internationale pour le Commerce et l'industrie du Cameroon (BICIC), the defunct Societe Camerounaise de Banques - SCB (now SCB - CL), Banque Internationale de l'Afrique Occidentale (BIAO), and Societe Generale des Banques du Cameroun (SGBC). The policy implication of this excessive

over concentration has seriously limited the role of free-market solutions especially with regards to the determination of the interest rate and credit distribution. Second, most of the commercial banks in the country are merely overseas branches. Their orientation is fine-tuned towards external and less towards internal monetary policy. Additionally, commercial bank credit tends to follow seasonal fluctuation in agricultural production and trading activities. This means that substantial amount of short-term money are available outside peak seasons in search for profitable though temporal investment. These inherent drawbacks of the financial system combined with the underdeveloped nature of the highly unorganised often externally dependent and separately fragmented nature of the money and capital market, have tended to aggravate the ineffective use of the techniques of monetary control. The scope of monetary policy is further limited due to the predominance of the informal financial sector over the formal one.

Besides the existence of commercial banks, there are also a few specialised financial institutions that operate on the money and capital markets. Such include: savings banks (e.g post office savings bank); development banks (e.g SNI), insurance companies (e.g Better Life and CCAR), agricultural credit banks (e.g Credit Agricole); Small business financing organisations (e.g CAPME); Mutual funds and credit cooperatives (e.g CAMCCUL). All these institutions especially credit cooperatives are gradually increasing in number to take care of low-income earners. These institutions, no doubt, help to pool the reserves collected from a wide range of scattered individuals and groups with a variety of sum generated from a variety of sources together. Further, they enable the small investor to spread his risk over different types of credit instruments across different activity sectors of the economy.

Low incomes per capita coupled with inflexible high-cost banking practices and the use of expensive expatriates in many of the banks with foreign ownership participation, have militated against widespread easy access to branches especially by rural dwellers. Informal credit clubs continue to exist and predominate. And, although available quantification can be disputed, their importance in providing financial services can hardly be underestimated.

A more curious feature of the financial environment is that some of the illiquid institutions have remained open, though restricting deposit withdrawals. Ironically, these distressed banks[24] operate just within the four main areas of high population density-separated geographically, and ethnically as well by economic specialisation. These are the Littoral, West, Centre and North.

More importantly to note is even the fact that there is a relatively large proportion of exports to income in the

market sector. The dependence on exports combined with the attendant consequences of fluctuating prices of agricultural commodities and oil, affect government revenues and the resources available for capital formation. Low capital formation means a weak credit multiplier in the financial sector.

Recall further that, after political independence, currency and monetary matters remained some of the country's economic policy on which the colonial administrators (France in particular), exercised their prerogatives. In this way, monetary policies are directed more to serve the colonial interest rather than the domestic economy.

Lastly, Table 2.1 shows that the subsistence sector contributes much more significantly (than any other sector) to the GDP of the country. The relevance of this point here is that, it shows that this sector does not fall outside the

scope of circular monetary flow, but rather it is subject to a very low circuit of exchange. This tends to limit the extend to which monetary policy can be applied effectively. We now turn to the instruments, objectives and effectiveness of monetary policy in Cameroon.

2.9 Instruments, Objectives and Effectiness of Monetary Policy in Cameroon

In Cameroon, as is the case with most countries, the common long-term goals of economic policy are: price stability, high and stable rate of employment, a suitable balance of payment position and economic growth.

The policy of price stability has, however, not been a serious problem to the monetary Authorities given the advantage of a fixed exchange rate system. The Monetary Authorities have, therefore, been left to battle with the other economic objectives. In the words of the Central bank, the

twin objective of Monetary policy in Cameroon since 1961 has been to:

a) maintain a sound and stable currency;

b) maintain a general macroeconomic discipline (BEAC, 1990)

The second objective (b) encompasses the economic policy objectives outlined above. By 1972, when reforms towards the Africanisation of BEAC[25] were made, the objectives of Monetary policy were also extended to contain inflationary pressures.

However, during the 1990-1991 financial year, BEAC initiated a substantial reform programme that would permit it to adapt its conditions of intervention which have remained unchanged since 1972, to the present context characterised by a significant slowing down of economic

activity, negative growth rates, worsening budget deficits and a deterioration of the banking system.

First, on the list of such programme was the trends in ceilings on advances granted by the central bank to commercial banks. The method of determining ceilings on advances to banks was re-examined during the period under review. As a result, the passive and static method based on a comparison of bank resources and their use was to be replaced by a macro-economic approach taking explicitly into account such aggregates as GDP, the states flow of funds statement, the balance of payment and, the monetary situation. Yet, ceilings on advnaces to banks remained unmodified.

Trends in ceilings on advances to banks in the country as at 30th June 1990 to 30th June 1991, for example, remained at 258,210 million FCFA for short-term and 164,000 million FCFA for long-term respectively,

representing a total of 422,210 million FCFA for the period under review.

Secondly, was the trend of ceilings on advances to Treasuries. Trends in ceilings on advances to National Treasury as at June 1990 was 82,324 million FCFA and 87,145 million FCFA, as at June 1991. This represented a variation in absolute terms of 4,421 million FCFA and 5.80 per cent variation in relative terms.

The use of the central bank credit also fell under the 1990 reform programme. The use of credits from the central bank by banks and national treasuries in all the member states of BEAC decreased by 15.3 per cent in a year from 641,000 million on 30th June 1990 to 542,900 million at the end of June 1991. This is shown on Table 2.6. Further, Table 2.6 shows that short-term loans to banks increased by 4.1 per cent, whereas, medium-term loans increased by 47 per cent. In Cameroon and other BEAC countries such as

Congo and Chad, Central bank advances to their respective treasuries were higher than the authorised ceilings.

Within the same period, ordinary discount rate fixed at 10 per cent was increased to 11 per cent while, rate of advances to Treasuries was 5.5 per cent instead of 4.5 per cent (with a one point increase every six months until parity with the ordinary rate). The penalty rate to banks was fixed in the same year at 16 per cent, unchanged; while to Treasuries it was 6.5 per cent instead of 5.5 per cent (with an increase of one point every six months until parity with the bank penalty rate). In this way, the Central bank's advances to National Treasuries and to banks will respect identical conditions. Furthermore, a maximum lending rate was fixed at 18.5 per cent and a minimum deposit rate of 7.5 per cent. But from 1991 onwards, the ordinary discount rate was raised to 10.5 per cent instead of the 10 per cent the preceeding years.

As part of the drive to increase the effectiveness of Monetary policy and rationalise the banking system, the 1990 reforms also involved the replacement of the existing rigid structures by more flexible market-oriented methods of regulation. Of particular interest were the reforms involving interest rates policy and safeguarding of ratios.

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Table 2.6: Trends in BEACs Credits to Banks (in Millions of FCFA)

		1989		1990		1991
		June	December	June	December	June
A.	Credit to Banks short-term	319,798	304,723	298.296	287,082	310,619
	Medium-term	101,186	96,711	107.745	88,640	57,196
	Total	420,984	401,434	406,041	375,722	367,815
B.	Credits to Treasuries Short-term (art. 21)	123,456	160,805	153,516	110,359	97,863
	Medium-Term (art. 19/B)	93,310	83,567	81,452	79,337	77,863
	Total	216,766	244,372	234,968	189,696	175,085
C.	Overall Credits Short-term	443,254	455,528	451,812	397,441	408,482
	Medium-term	194,496	180,278	189,197	167,977	134,418
	Total	637,750	645,806	641,009	565,418	542,900

Source: BEAC's Annual Financial Report (1990-1991)

The new policy of interest rate allowed for a simpler and more rational management based on:

a) Unification of the bank's discount rate by the abolition of the preferential rate and the progressive raising of the rate on advances to Treasuries;

b) the introduction of greater flexibility in handling interest rates, these now being set by the Governor of the Bank with reference to the international situation and the economic and financial situation of the member states;

c) the liberalisation of banking conditions, with a considerable widening of banking margins. This should encourage regulation by the market rather than administrative control of the rates. Only two rates are fixed: a minimum lending rate (set at 18.5 per cent on 16 October 1990 and then brought down to 18 per cent on 15 April 1991) and minimum deposit rate (set at 7.5 per cent from 16 October 1990). (BEAC, 1990).

Concerning the safeguarding of ratios, practice has cast doubts on its reliability and, therefore, credibility. For one thing, the existing liquidity ratio was merely used as a threat. Yet, this ratio never fulfilled its warning function. Instead, practically, it has been found that with regard both to documentary control and on-site verifications, some theoretically illiquid banks to a large extent, do not seem to have any enormous problems. Whereas, others which appear liquid are in serious difficulty.

Another possible explanation why the Bank has not imposed this ratio is that, this tool may not, in isolation achieve much by way of overall liquidity control. As Teriba (1974) has argued systematically, "an increase in the cash reserve ratio unaccompanied for example, either by open market sales and/or the imposition of higher liquid asset ratios or a greater non-cash weighting in the structural composition of reserve eligible assets, is more likely to bring

a change in the distribution of assets of commercial banks as between bills, and say, cash rather than overall downward shift in their liquidity".

Unfortunately, even the open market operation cited above has been greatly limited due to the lack of broad and active money and capital markets in the CFA zone. Consequently, the sale or purchase of securities on any considerable scale are sure to result in wide and destabilising swings in the prices of securities which, in turn, may impair confidence in the marketability of government securities. Hence, the policy of BEAC has been to support the price of government securities at par and to discount treasury bills at a fixed rate.

It is in line with the above criticisms that the bank in its 1991 reform programme adopted the following revisionary measures:

a) the duration of liquidity ratio will be one month (as against the existing three months) and will have to integrate as both numerator and denominator, all the elements affecting the liquidity position;

b) a risk coverage ratio that will have to include contingent commitments and weight risks in relation to real guarantees;

c) the extension of the rules for risk distribution throughout BEAC Area while taking into account local specifications, particularly as regards the financing of crop credits and;

d) a long-term transformation coefficient to replace the capital assets cover ratio (BEAC 1991).

In addition to the monetary policy discussed above, the Central bank has three mechanisms which it uses to maintain macro-economic discipline and control monetary growth in the CFA franc zone. These mechanisms are:

a) interest chargeable on overdrafts and interest payable on credit balances in the central banks' operations accounts;

b) when the balance in a Central banks operations account fall below an agreed target level, it is required to restrict credit, generally by increasing the cost to member countries of rediscounting paper with the Central bank of restricting member countries' access to rediscounting facilities;

c) credit provided by the Central bank to the government sector of each of their member countries can be no larger than 20 per cent of its fiscal revenue in the previous year (World Bank, 1994).

Point (b) above reflects the limited development of domestic financial markets and the absence of bank reserve requiremnt. While, the implementation of mechanism (c) above follows from the fact that each central banks

operations account balance is notionally allocated among the member countries, with a residual allocated to the bank itself. The credit allocation is practised through the bank's refinancing facility. And the 20 per cent rule, is necessitated by the fixed parity of the CFA franc.

These mechanisms at one level have been remarkably successful at maintaining macro-economic discipline in the zone. For example, inflation in the CFA countries have been considerably lower than in their African neighbours. Table 2.7 demonstrates clearly this position.

Table 2.7 Average Annual Inflation.

	1973-81	1982-89
CFA	12.0	4.3
Others:		
Sub-Saharan African	24.3	29.7
Low Income LDCs	18.4	33.3
Primary Producers LDCs	24.4	44.9

Note: Unweighted averages

Source: Devarajan and de Melo (1991): Membership in the CFA zone: Odyssean Journey or Trojan Horse? in Chibber, A and Fisher, S. eds. Economic Reform in Sub-Saharan Africa. World Bank.

According to Table 2.7, inflation stood at 12.0 per cent for CFA countries between 1973-81. In sub-Sahara African countries it was 24.3 per cent in the same period. Similarly, while inflation rate was 4.3 per cent for CFA countries between 1982-89, it was 29.7 per cent for other sub-saharan African countries within the same period.

At the other end of the spectrum, evidence has it that the discretionary mechanism has not gone far in promoting macro-economic stability. Even, the 20 per cent rule has proved ineffective for overall fiscal discipline. The escalating crisis in the 1990's bears testimony to the fact that the disciplinary mechanisms have been inadequate especially in times of economic boom (Devarajan and Walton, 1994). Devarajan and Walton have further criticised this '20 per cent' rule on the grounds that, it restricts government borrowing from the Central bank only; there are no limits on either foreign or other domestic borrowing by governments. In the preceeding section, we stated that this rule applies only to direct lending from the central bank to the governments. However, the limit is not applicable to government guaranteed borrowing, neither does it apply to government loans which commercial banks rediscount with the central bank. As a consequence, FZ governments have taken advantage of this unrestricted instruments to finance

public expenditure. It may be added here that, even within the zone itself, the '20 per cent rule' does not apply to all countries. In the cases of Benin Republic and Niger for WAMU, this rule does not apply to them due to the relatively difficult and slowing down of economic activity in these countries. The same argument holds for chad in the BEAC countries.

On the issue of 'discretionary' mechanism of credit allocation by the central bank, credit is allocated to countries annually based on their estimated credit demand with the central bank's reserve position. The credit demand in turn, is built up from inflation and real-output targets. In this way it is like IMF operation of credit. If capital were perfectly mobile across countries in the Union, it would not be possible to sustain different credit and population targets (that is, different real interest rates) across the countries. Since capital is not perfectly mobile in the CFA zone, it is

possible to view credit allocation as country specific monetary programming exercises. In sum, monetary policy can still be effective in the Franc Zone in general and in Cameroon in particular if the constraints of the financial environment limiting its operation are taken adequate care of.

It has been shown in this chapter that Cameroon operates economic dualism, that is, the coexistence of a modern sector and a traditional sector. The modern sector is identified with the exchange economy (the monetized sector) and the traditional sector with subsistence sector. The modern monetized sector, in turn comprises the organised and unorganised markets. Money market is market for financial assets which are close substitute for money while capital markets are defined as a market for financial assets other than money market i.e markets for long-term claims or securities.

This chapter has shown that the relative unimportance of these markets in the Cameroonian economy has seriously impeded growth. There were few commercial and merchant banks and their branches have not been growing. The number of instruments of monetary policy has not increased since independence. The organised money market consisting of institutional agencies of credit such as central bank, commercial banks and financial intermediaries such as insurance companies and long-term lending institutions in urban and rural areas has not developed fast enough to accelerate economic growth.

The unorganised money market is made up largely of money lenders, traders and commission agents is largely outside the direct control of the central bank. There is, of course, no easy method of measuring the size of this market and its growth rate but is could be assumed that it supplies

the bulk of credit requirements of the rural sector which is the predominant sector in the Cameroonian economy.

The capital market is very narrow. The absolute number of buyers and sellers is low. The maximum average frequency of transaction is equally low due perhaps to the poor performance of the economy. Private securities markets exist, but because of their narrowness, they hardly perform the vital role of mobilising savings and allocating them efficiently for investment. However, the prices of govoernment securities have been consistently supported by the central bank, through open market operation.

The structure of interest rates is highly diversified with a wide range of rates. Interest rates on bank deposits vary for different terms and are usually subject to ceilings regulated by the central bank. The interest rates have been negative in real terms considering the high rates of inflation

the country has experienced in recent years. The low interest has caused distortion in resource allocation between the modern and traditional sectors. All these have caused impediment to short and long-term economic growth in Cameroon.

NOTES TO CHAPTER TWO

1. Debundscha is second to Cherapunji in Assam, north-east of India, with the latter having an average annual rainfall of 1,500cm.

2. World Bank (1994). World Tables. The Johns Hopkings University Press, Baltimore and London.

3. UDEAC is Economic and Customs Union of Central Africa States, otherwise called, Union Douaniere et l'economie de l'Afrique Centrale (in French). The treaty establishing this Union was signed in Brazaville, Congo on Decmber 8, 1964 by Cameroon, Central African Republic, Congo, Gabon and Chad. The treaty came into force on January 1, 1966 and replaced the Equatorial customs Union (UDE) established by a convention signed in June 1959. In April 1968, Chad and CAR withdrew to join Zaire in the Union of Central African States (UEAC). However, in December 1968, CAR rejoined UDEAC. The UDEAC zone constitute the members of BEAC. For more details on the objectives and the institutional framework of UDEAC, see Africa Today, 1991 edition p.80.

4. The former British Southern Cameroons took the decision at the United Nations organised plebiscite to achieve political independence. This was done by reunifying the former French Cameroons with the Southern Cameroons. Political analysts have since criticised the Plebiscite that it was fraud with serious limitations. Basically, because the Southern Cameroons was given the options of either joining Nigeria or French Cameroon and to be a state on its

own. But no third option was given to them to remain independent as a country on its own.

5. Ahmadu Ahidjo died on November 30, 1989.

6. MINAGRI is Ministry of Agricuture

7. MINAGRI Annual Report, 1994

8. Africa Today (1991): Africa Books Ltd, p.651

9. ibid

10. ibid

11. The oil boom also resulted in the neglect of badly needed reforms and in a disturbing surge in public sector consumption. Although Cameroon was reputed for its fiscal conservatism, for keeping a tight lid on government expenditures and for having ran budget surpluses routinely during the 1960s and 1970s, the country succumbed to dramatic increases in public expenditures during the oil boom. For example, Government expenditures increased from 49.1 billion FCFA in 1971 to 189.6 billion in 1979, 224.9 billion in 1980, 443.8 billion in 1981, 494.2 billion in 1982 to 813.7 billion in 1985.

12. Such policies were the 1984 Investment Code: the December 1987 Economic Stabilisation Plan; the 1987 Structural Adjustment Programme etc.

13. The United States Institute for International Finance has estimated Cameroons foreign debt to be US $3,000 million in 1985 and US $3,600 million in 1986, a drastic leap from the World Bank estimate of US

$2,356 million in 1984. The World Bank Report of 1995 has added that the expansionary policies of the 1980s led to a dramatic deterioration of Cameroon's credit standing as the government accumulated domestic and foreign debts, and was increasingly unable to meet its debt service obligations. Public-sector internal debt, including arrears, was about 45 per cent of GDP in fiscal 1994. Most of the Public-sector debt is attributable to the government and, to a lesser extent, a small number of public enterprises, mainly in the transport and agricultural sectors.
Further trend in Cameroon's external debt shows that it has also increased sharply since 1985. Long-term debt amounted to 83.3 per cent of GDP in 1994, and the long-term debt service-to-export ratio climbed to 17 per cent. With the large declines in exports and government revenues, Cameroon has experienced a sharp deterioration in its capital to service external debt. Since 1991, actually paid debt service has amounted to less than 30 per cent of debt service due.

14. The 1984 Investment Code was adopted in June by the National Assembly. Its target was to achieve balanced and self-reliant development. For more details, see Ndongko Wilfred (1986): Economic Management in Cameroon: Policies and Performance.

15. Because of their comprehensive character and the diversity of specific policy measures used, it is difficult to develop a taxonomy of structural adjustment programmes. Generally, it used to be said that they differ from stabilization programmes in that the latter focus only on aggregate demand management whereas the former emphasize the supply side as well. This distinction could not hold because measures like exchange rate changes and trade policy reform have

strong effects on both supply and demand through the price mechanism. However, it is true that structural adjustment programmes at least the sectoral ones - give much more emphasis to micro-level policy measures as opposed to purely macro-instruments.

16 By the mid-19th century, the cowrie currency had replaced other currencies in many places as the most favoured money. For more on the cowrie currency, see Nwani, O.A (1973), "The Role of Monetary and Financial Institutions in the Economic Development of Nigeria, 1800-1970", Chapter II. Being a PhD dissertation submitted to the Florida State University.

17 The American eagle was in various denominations namely, the double eagle, the signle eagle and, the half eagle.

18. In an Assessment Report published on October 31, 1924, on the clans of Bandop Area in the Bamenda Division of the Cameroons Province by J.C. Drummond-Hay, Assistant District Officer, it stated inter-alia that, "the German mark is gradually disappearing from the markets, though most goods are valued in marks still, the rate of exchange being two marks to the shilling". Since the mark has been declared illegal currency and was not accepted by the Administration in payment of tax, the ENGLISH silver coin was looked upon with suspicion and was not accepted in the markets. On the other hand, the European factories at Nkongsamba will only accept the mark as this coin was the popular currency in the French sphere and they were unable to buy produce with any other coinage. As a consequence, the trader who takes his goods to Nkongsamba must first sell them in the native market in order to get marks that

he may buy in the factories. The rate of exchange also fluctuated arbitrarily although, for the most part, barter was used.

19. This Council was estbalished by Decree No. 62/DF/90 of March, 1962.

20. To make the Southern Cameroons consume French goods, read French newspapers and infact, adopt French culture in its totallity, thereby, destroying the identity of southern cameroons.

21. See Appendix III for countries and teritories in the franc zone.

22. The size in the change in parity was thus -50 per cent in foreign currency terms for the CFA franc and 33 per cent for the Comoran franc. These rates follow from the assessment of the degree of overvaluation and the fact that the change in parity had to be sufficient enough to dispel expectations of subsequent adjustments. This enabled the parity to be set on a one time basis, at a level that would remain fixed for a long time. The aim of the devaluation was four-fold:

    i) restoring the competitiveness of exports and promoting economic recovery;

    ii) checking capital flight and encourgaing international support from external creditors and multilateral institutions;

    iii) the promotion of national savings, development of domestic production capabilities and increasing the per capita income of member countries;

iv) creating more job opportunities and reducing the level of poverty.

To cushion the effect of the devaluation of the CFA on member countries France promised to write-off part of their debts, provide emergency assistance for their balance of payments and guarantee 'absolute' protection of social expenditure in the fields of education and health. The IMF also indicated its willingness to help soften the effects of the devaluation through enhanced access to its resources.

13. The Operations Accounts, otherwise called Compte d'Operation (in French) are the accounts of the African franc zones for BCEAO and BEAC at the French treasury through which the French government guarantees convertibility of the CFA franc into French Francs. The Operations Accounts hold the foreign reserves of all members of the FZ. For more details on the workability of the Operations Accounts, See Allechi M'bet (1990) "Regional Integration in Africa, Unpublished Agenda" Academy Science Publishers pp. 205-233.

14. Financial distress is used to describe two separate albeit very closely related conditions of business enterprises. On the one hand, there is insolvency which relates to a condition in which the sum of a bank's assets is less than the sum of its liabilities including capital. On the other hand there is illiquidity which describes a bank's inability to honour current customers' obligations of the demand for money. It could be added that, a technically insolvent bank could remain sufficiently liquid long after it became insolvent so long as it has a large and stable

deposit base. While, a technically solvent bank could be beset by liquidity problems due to a wrong juxtaposition between the maturing of its assets and liabilities. Nevertheless, prolonged illiquidity tends to reflect underlying poor quality of assets and thus the onset of insolvency.

The classification of a bank as distress can be based on the capital, Assets, Management, Earnings, and Liability (CAMEL) rating system. In this case, the Monetary Authorities assess a bank's performance in terms of:- Capital Adequacy, Assets Quality, Management Competence, Earnings Strength and Liquidity Sufficiency; coupled with its overall condition. Given these parameters then, appropriate financial ratios are developed for assessing the condition (financial) of banks. Another way of classifying distress bank is to consider the ratio of a bank's classified assets to shareholders' funds. This, however, varies with countries. In most countries (Cameroon inclusive), banks with classified assets that exceed 100 per cent of shareholders funds are usually regarded as distressed.

Details of the criteria for assessing distress banks can be read from: Business and Economic Report of First Bank of Nigeria, November 1995; Fry, M.J. (1982) Models of Financially repressed developing economies, World Development 10, September in World Bank (1989) World Development Report (Oxford University Press, N.Y).

25. The Africanisation of BEAC came in by the signing in 1972 of the Brazaville Agreement between BEAC and the French Treasury. This agreement transferred the management of the foreign reserves of the Central African States, members of BEAC, to an Operations

Account. The implication here is that, Cameroon, like the other State of the Centra African sub-region, transferred its monetary sovereignty to BEAC.

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

This chapter is further divided into five sections. A functional approach to understanding the role of the financial system in economic growth is presented in section 3.2 while section 3.3 reviews works on the path of financial development. Literature on the structure of the financial system is presented in section 3.4 while section 3.5 contains empirical literature on the pattern of financial development. Empirical literature on the relationsnip between financial development and economic growth in some countries is reviewed in section 3.6.

3.2 The Functions of the Financial System

3.2.1 The functional approach[1]

The functional approach in understanding finance and economic growth focuses on the activities of firms and managers, corporate control, and facilitating risk management. This approach further researches on exchange, and resource mobilisation. It highlights the value added of the financial sector.

To organise the vast literature on finance and growth, using the functional approach, Levine (1996) breaks the primary function[2] of the financial system into five functions as follows:

a) facilitate the trading, hedging, diversifying, and pooling of risk

b) allocate resources

c) monitor managers and exert corporate control

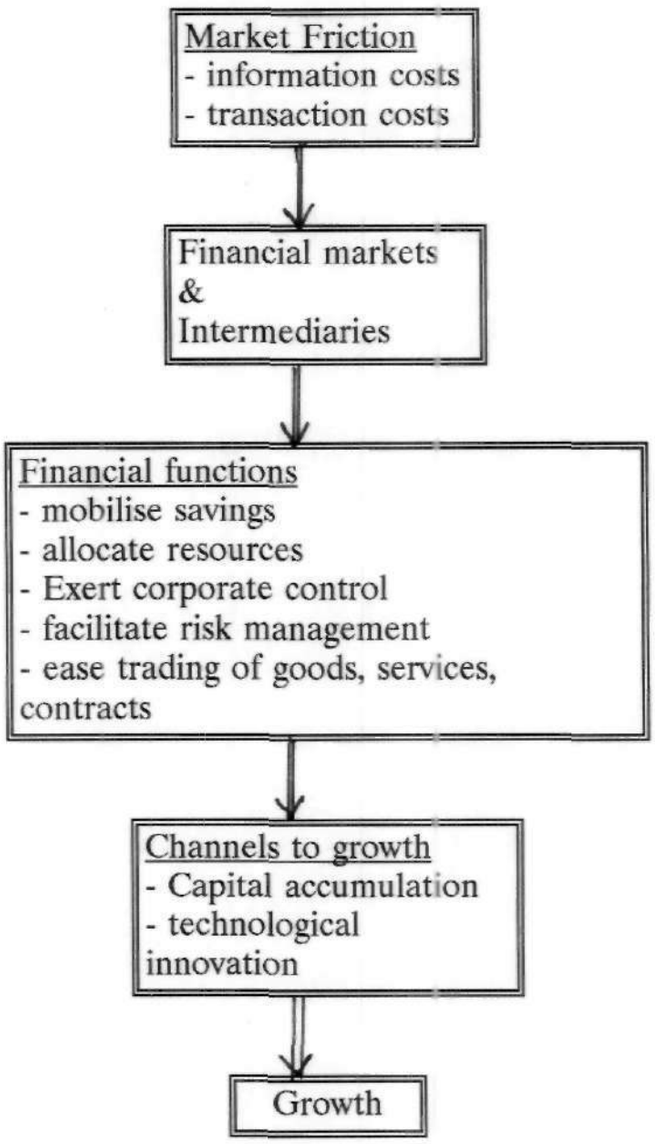
d) mobilize savings and

e) facilitate the exchange of goods and services.

In explaining how these five financial functions affect economic growth, Levine (ibid) examines two channels through which each financial function may affect economic growth: These channels are: Capital accumulation and technological innovation. On capital accumulation, Levine explains that one class of growth models uses capital externalities or linear production functions ("AK models") to generate steady-state per capita growth (Paul Romer 1986; Lucas; 1988; Sergio Rebelo 1991 in Levine, 1996). In these models the functions performed by the financial system affect steady-state growth by influencing the rate of capital accumulation. Levine then posits that, the financial system affects capital accumulation either by altering the savings rate or by re-allocating savings among different capital producing technologies. On technological innovation, a second class of growth models focuses on the invention of new production processes and goods (Romer 1990; Gene Grassman and Elhanan Helpman 1991; and Phillip Aghion

and Peter Howitt 1992 in Levine, 1996). Levine explains that in these models the functions performed by the financial system affect steady-state growth by altering the rate of technological innovation. In discussing further how specific market frictions motivate the emergence of financial contracts, markets, and intermediaries and how these financial arrangements provide five financial functions that affect saving and allocation decisions in ways that influence economic growth, Levine provides the following diagram:

Fig. 1: A theoretical Approach to Finance and Growth.



Source: Levine R. (1996) Financial Development and Growth: Views and Agenda. Policy Research Working Paper No. 1678. World Bank.

3.2.1.1 Acquiring Information About Investments and Allocating Resources

Information acquisition costs create incentives for financial intermediaries to emerge (Diamond 1984; Boyd and Prescott 1986). Assume, for example, that there is a fixed cost to acquiring information about a production technology. Without intermediaries, each investor must pay the fixed cost. In response to this information cost structure, however, groups of individuals may form (or join or use) financial intermediaries to economize on the costs of acquiring and processing information about investments. Instead of each individual evaluating skills and then conducting evaluations an intermediary can do it for all its members. Economizing on information acquisition costs facilitates the acquisition of information about investment opportunities and thereby improves resource allocation (Levine, 1996).

The ability to acquire and process information may have important growth implications (Levine, 1996).

Greenwood and Jovanic (1990), asserts that since many firms and entrepreneurs will solicit capital, financial intermediaries and markets that are better at selecting the most promising firms and managers will induce a more efficient allocation of capital and faster growth.

Financial intermediaries may also boost the rate of technological innovation by identifying those entrepreneurs with the best chances of successfully initiating new goods and production process (King and Levine 1993c). Schumpter (1912, p.74), had supported this view when he stated inter alia that: The banker, therefore, is not so much primarily a middleman . . . . . He authorises people, in the name of society as it were . . . . (to innovate).

The role of stock markets in influencing the acquisition and dissemination of information about firms has also gained recognition on finance-growth nexus. For example, as stock

markets become larger (Grossman and Stiglitz, 1980) and more liquid (Kyle 1984; and Holmstrom and Tirole 1993), market participants may have greater incentives to acquire information about firms. Intuitively, with larger and more liquid markets, it is easier for an agent who has acquired information to disguise this private information and make money. Thus, Merton (1987), presents beautifully the fact that, larger liquid stock markets can stimulate the acquisition of information. Moreover, this improved information about firms should substantially improve resource allocation with corresponding implications for economic growth. However, argues Levine (1996), existing theories have not yet assembled the links of the chain from the functioning of stock markets, to information acquisition, and finally to aggregate long-run economic growth.

Increasing debate, however, still looms in the air over the importance of large, liquid, efficient stock markets in

enhancing the creation and distribution about firms via published prices.

3.2.1.2 **Facilitating Exchange:**

Levine (1996) has presented the fact that financial arrangements that lower transaction costs can promote specialization, technological innovation and growth. Levine supports his arguments by inferring from Adam Smith's (1776) Wealth of Nations. According to Smith (1776, p.7), division of - labour - specialization is the basis for productivity improvements. Smith posits that, the higher the level of specialization, the more likely workers can invent better machines or production processes. He argued further that lower transaction costs would permit greater specialization since specialization requires more transactions than an autarkic environment (Levine, 1996). Levine notes that Smith's argument about the lowering of transaction cost and technological innovation are cast in terms of the

advantages of money over barter.[3] Thus, according to King and Plosser (1986); and Williamson and Wright (1994) an easily recognizable medium of exchange may arise to facilitate exchange.

Modern theorists have attempted to illuminate more precisely the ties between exchange, specialization and innovation (Greenwood and Smith, 1996). More specialization requires more transactions. Since each transaction is costly, financial arrangements that lower transaction costs will facilitate greater specialization. In this way, markets that promote exchange encourage productivity gains. There may also be feedback from these productivity gains to financial market development. If there are fixed costs associated with establishing markets, then higher income per capita implies that these fixed costs are less burdensome as a share of per capita income. Thus,

economic development can spur the development of financial markets.

However, following Greenwood and Smith's (1996) model, a better market, a market with lower transactions costs --- does not stimulate the invention of new and better production technologies. Instead, it was found that lower transaction costs expands the set of "on the shelf" production processes that are economically attractive. In addition, the model defines better "market" as a system for supporting more specialised production processes. But Levine (1996) criticizes the fact that this does not explain the emergence of financial instruments or institutions that lower transactions costs and thereby produce an environment that naturally promotes specialized production technologies. He argues freely that this is important because we want to understand the two links of the chain: what about the economic environment creating incentives for financial arrangements

to arise and to function well or poorly, and what are the implications for economic activity of the emerging financial arrangements?

3.2.1.3 Mobilizing Savings

According to Sirri and Tufano (1995), mobilisation involves the creation of small denomination instruments. These instruments provide opportunities for households to hold diversified portfolios, invest in efficient scale firms, and to increase asset liquidity. Without pooling, households would have to buy and sell entire firms. By enhancing risk diversification, liquidity, and the size of feasible firms, therefore, mobilisation improves resources allocation. Levine (1996) is of the view that mobilising savings involves the following:

a) overcoming the transaction costs associated with collecting savings from different individuals and
b) overcoming the informal asymmetries associated with making savers feel comfortable in relinquishing control of their savings. Levine cites Carosso's (1970) history of Investment Banking in America for a description of

the diverse and elaborate means employed by investment banks to raise capital. To be more specific he cites 'foreign connections', newspaper advertisements, pamphlets and a vast sales force that sells securities as ways used by investment banks to raise capital. This is successful, however, provided that 'Mobilizers' can convince savers of the investments.

Sirri and Tufano (1995) have presented logically, the fact that, in light of the transaction and information costs associated with mobilizing savings from numerous agents, numerous financial arrangements may arise to mitigate these frictions and facilitate pooling. Specifically they added, that mobilization may involve multiple bilateral contracts between productive units raising capital and agents with surplus resources. As an example of multiple bilateral mobilisation, the joint stock company is cited. They, however, suggest that to economize on the transactions and information costs associated with multiple bilateral contracts, pooling may also occur through intermediaries as seen above, where thousands

of investors entrust their wealth to intermediaries that invest in hundreds of firms.

Besides the direct effect of better savings mobilization on capital accumulation, better savings mobilization can improve resource allocation and boost technological innovation (Bagehot, 1873 p.3-4). Thus, financial systems that are more effective in mobilizing the savings of individuals can to a very large extent affect economic development.

3.2.1.4 Monitoring Managers and Exerting Corporate Control

Besides reducing the costs of acquiring information ex-ante, financial contracts markets and intermediaries may arise to mitigate the information acquisition and enforement costs of monitoring firm managers and exerting corporate control ex-post, i.e after financing the activity (Levine 1996). For example, the owners of firms will create and organise

financial arrangements in such a way that will compel the managers of firms to manage the firms in the best interest of the former. This means that the absence of financial arrangement that enhance corporate control may impede the mobilization of savings from disparate agents and thereby keep capital from flowing to profitable investments (Stiglitz and Weiss (1983).

According to Levine (1996), verification costs impede investment decisions and reduce economic efficiency. Verification costs imply that outsiders constraint firms from borrowing to expand investment because higher leverage implies greater risk of default and higher verification expenditures by lenders. Thus, collateral and financial contracts that lower monitoring and enforcement costs reduce impediments to efficient investment (Williamson 1987b; Bernanke and Gertler 1989, 1990; Ernest Ludwig Von Thadden 1995).

Besides particular types of financial contracts, financial intermediaries can also reduce information costs even further. For example, financial intermediary mobilizes the savings of many individuals and lends these resources to project owners. In this way, financial intermediaries can economize on monitoring costs, since a borrower is only monitored by the intermediary, not all individual savers. Additionally, financial systems that facilitate corporate control, can also make possible the efficient divorce of ownership from management of the firm. This divorce helps in fostering effecient investment by lowering both monitoring and, information acquisition costs. Bencivenga and Smith (1993); Khan (1994) have stated in clear terms that in terms of long-run growth, financial arrangements that improve corporate control tend to promote faster capital accumulation and growth by improving the allocation of capital.

Jonsen and Meckling (1976) have added that besides debt contracts and banks, stock markets may also promote corporate control. They opine that "public trading of shares in stock markets that efficiently reflect information about firms allows owners to link managerial compensation to stock prices". Levine (1996) however, declines the existence of a model that links the role of stock markets in improving corporate governance with long-run economic growth. This means that, the theoretical signs on the links in the chain from improvements in stock markets to better corporate control to faster economic growth are still ambiguous.

3.2.1.5 **Facilitating Risk Amelioration**

In the recent past, economists have modeled the link between the emergence of financial markets in response to liquidity risk[4] and examined the influence of these financial markets on economic growth. For example, in Diamond and Dybvig's (1983) seminal model of liquidity, a fraction of

savers receive shocks after choosing between two investments: an illiquid, high-return project and a liquid, low-return project. Those receiving shocks want access to their savings before the illiquid project produces. This risk creates incentives for investing in the liquid, low-return projects. The model assumes that it is prohibitively costly to verify whether another individual has received a shock or not. This information cost assumption rules out state-contingent insurance contracts and creates an incentive for financial markets--- markets where individuals issue and trade securities - to emerge (Levine 1996). Thus, the argument holds that by facilitating trade, stock markets reduce liquidity risk. A fall in the transaction costs of stock markets gives rise to an increase in investment in the illiquid, high-return project. And if illiquid projects enjoy sufficiently large externalities, then, it goes without saying that, greater stock market liquidity induces faster steady-state growth.

Besides stock markets, financial intermediaries[5] can also facilitate risk amelioration. For example, by providing demand deposits and choosing an appropriate mixture of liquid and illiquid investments, bank provide complete insurance to savers against liquidity risk while simultaneously facilitating long-run investments in high return projects (Levine 1996). Thus, by eliminating liquidity risk, banks can increase investment in the high-return, illiquid asset and by so doing, accelerate growth.

Besides reducing liquidity risk, financial systems may also mitigate the risks associated with individual projects, firms, industries, regions, countries, etc (Levine, 1996). Banks, mutual funds, and securities markets all provide vehicles for trading, pooling and diversifying risk. The financial system's ability to provide risk diversification services can affect long-run economic growth by altering resource allocation and the saving rates (Levine, ibid). Generally, savers do not like risk. Theoretically (and even practically too), projects with high return tend to have higher

risk than those with low return. Reasonably, thus, financial markets that ease risk diversification tend to induce a portfolio shift towards projects with higher expected returns (Devereux and Gregor Smith 1994; Obstfeld, 1994). It can therefore, be concluded that, the financial system's ability to provide risk diversification services can affect long-run economic growth by altering resource allocation.

Thus, far, this study has discussed at length each financial function in isolation. It may be thought from first sight that this narrow approach may impede the synthesis of these distinct functions into a much more coherent understanding of the role of financial system in economic development. This may not neccessarily imply. Rather, this approach was adopted for simplicity and clearer understanding of part of the theoretical underpinning of the finance-growth nexus. Infact, by identifying the individual functions performed by the financial system, the functional approach only helps to foster a much more complete

understanding of finance and growth. That notwithstanding, earlier authors have provided illustrative stories of the ties between finance and economic development.

3.3 The Path of Financial Development:

The relationship between financial and economic development continues to stimulate economic research in an increasing number of developing countries for over a decade now. These developments have been influenced primarily by government policies in the financial sector.

In designing its policies in this sector, the government is usually faced with the dilemma of policy direction. That is, whether to increase the number of financial institutions and their services ahead of the demand for them or conversely, to let the demand for these institutions impetusize their creation. Either way, the most fundamental

economic objective is to improve upon the financial system and bring the economy under control.

A more detailed understanding of the forgone discussion lies within the framework of what is referred to as the "Supply-leading approach" and the "demand - following approach" (Patrick, 1966; Nwani, 1973). According to Nwani (1973), the supply leading approach represents an opportunity to induce real growth by the creation or supply of financial institutions ahead of the demand for them. This is in line with the view of Porter (1966: 345) and Mckinnon (1973). When these institutions are created, resources are readily transferred from non-growth sectors to modern growth sectors of the economy. By so doing, entrepreneural response in these modern sectors are stimulated and promoted. This approach represents the initial stage of economic development because it supplies the major institutions through which economic activities take place.

According to Nwani (1973), a fully analysed 'supply-leading approach in the development of financial institutions and their services may emphasize the following:

a) Economic development is not always a slow, evolving process but can be stimulated by more financial institutions;

b) enables a nation to break the chains of total external economic control;

c) fair and greater competition may be promoted.

d) economic planning and development may be aided by the chanelling of investible funds to established priorities ;

e) monetisation of the economy may be quickened and the money civilisation process may be deepened.

On the other hand, Nwani (1973) sees the "demand - following approach" as emphasizing the demand for financial institutions and their services ahead of their establishment. He conceives that, the higher the demand for financial services, the higher the rate of development of financial institutions. This view is supported by Gurley and Shaw

(1967: 257). According to this view, the "demand-following" approach may result in:

a) a conservative form of financial development and may slow down the pace of economic development.

b) discrimination against borrowers whether in the agricultural, commercial or manufacturing sectors and leads to the development of monopoly trade;

c) increasing advantages to the colonial powers and will solidify the competitive advantage of foreign entrepreneurs. We may also add here that, this approach may also result in the creation of an oligopolistic structure of the banking industry in which only very few banks control a large proportion of the activities of the industry.

The approaches reviewed above, however, do not establish causality on which approach should come first. Rather, they complement each other. For example, with the 'supply-leading' approach, real growth is induced and as the growth process continues, this approach becomes less significant and gradually paves the way for 'demand - following' approach. And, as this approach gradually gains

momentum, the 'supply-leading' approach becomes more relevant to provide the necessary financial institutions and services for the increased demand. And so, the process continues in a vicious circle.

3.4 Financial Structure and Economic Growth in Developing Countries

Differences in financial structure help explain differences in economic growth. For example, differences in the financial structure of Germany and England help explain Germany's more rapid economic growth rate during the latter half of the 19th century and the first decade of the 20th century (Gerschenkron, 1962). The argument is that, Germany's bank-based financial system, where banks have close ties to industry, reduces the cost of acquiring information about firms. This makes it easier for the financial system to identify good investments, exert corporate control, and mobilize savings for promising investments than in England's more securities market-oriented financial

system, where the ties between banks and industry are less intimate (Levine, 1996). Although debate still exists on the relationship between financial structure and economic growth, historical pieces of evidence suggest that the two are interrelated. See for example, Hoshi et al (1990); Allen and Gale (1994); Pozdena and Alexander (1992); Godsmith (1969). All these writings point to the affirmation that the way a country's financial structure is organised determine the level of its economic performance.

When we turn to developing countries, the prevailing institutional and structural imperfections in the financial system help to retard economic growth.
Therefore, it is necessary to identify these imperfections for consideration when it comes to policy planning. An easier way of understanding these imperfections is to categorise the financial structure.

The financial structure of developing countries comprises the formal and informal sectors. The formal sector is also refered to as the organised money market (Aboyade, 1983). The informal sector on the other hand is the unorganised money market. The latter predominates over the former. Below, we discuss the financial structure of developing countries and show how the imperfections inherent in them help to retard growth in these countries.

3.4.1 **The Organised Money Market**

The organised money market has been described in the literature to comprise institutional agencies of credit which range from central and commercial banks, to financial intermediaries such as insurance companies and various credit societies and, thrift and savings institutions. The organised money market of developing countries is characterised by:

a) Highly diversified interest rates. In developing countries, there is no unique rate that can be characterised in reality and be termed, the rate of interest. This argument has been supported to a large extent by concessionary rates that are given to certain sectors of the economy. Though there could be a prevailing official rate set by central bank, around such a rate is the existence of interest rates reflecting a multitude of market forces and policy influences:

b) Porter (1965), has also pointed out that the organised money market in developing countries is characterised by narrow capital markets with few buyers and sellers, low average frequency of transactions, the absence of risk-bearing security brokers and the absence (few) of a broad spectrum of owners and ownership motives.

c) Savings insensitivity to changes in interest rates.

In some countries and at a particular period, these rates may even be negative due to inflation.

d) Low interest rates. Interest on bank deposits are usually low varying from 3 to 7 per cent and are often subject to ceilings regulated by the central bank. The policy of such low interest rates has been purportedly justified on the need to promote economic growth. Yet, this policy gives rise to distortion in the allocation of scarce resources between the modern and subsistence sectors, worsens access to scarce credit by smaller economic units and, to an extent, impinges on the long-term growth and of an integrated domestic money and capital markets.

e) Limited financial assets. These include: treasury bills, government and industrial securities and equities. There is however, money and real

physical assets. The argument here is that, these financial assets which form the transition between money and real assets are very few in developing economies. Put otherwise, such "transactional assets" play a minor role in the asset structure of such economies.

f) Transactive motive of the demand for money is predominant over the speculative and precautionary motives, yet transaction balances are very likely to be insensitive to interest rates on financial assets. It was against this background that Park (1972) argued that, whereas the keynesian theory was more relevant to the advanced countries with a relatively more matured and sophisticated money and capital markets, the quantity theory on the other hand, was more relevant to developing economies without such markets.

The organised money market falls under the direct control of monetary authorities. The relative importance of this market has attracted increasing interest. To this end, different economists have used different ratios to measure the relative importance of this market. The various measures of this market available in literature include:

a) the ratio of currency to the supply of money (narrowly and broadly defined) as in Wai Tun U (1956), Ojo (1974), and Nwani (1973).

b) the ratio of domestic credit to Gross National Product, GNP also as in Wai Tun U (1956)

c) the ratio of assets of all financial institutions to GNP as in Goldsmith (1969), Ikhide (1987)

d) the ratio of new issues of financial institutions to GNP, also as in Goldsmith (1969). Ikhide (1987).

Goldmith (1969), defined a rise in these ratios (c) and (d) to mean that the assets of financial institutions have risen more rapidly than the GNP, which he further described to be a proxy for growth. Conversely, a fall in these ratios he said meant that the absolute growth in the number of financial instituions had not been accompanied by growth in the real sector. These ratios will be computed and interpreted in this study for the period 1972 to 1995 using Cameroon data.

Closely related to the above ratios is the concept of monetisation which Ikhide (1987) defines as "the enlargement of the sphere of the monetary economy". It is an extension of the use of money in all its ramifications. The monetisation ratio can be measured as the ratio of non-monetary output to Gross Domestic Product, GDP. It is an important measure of the level of and course of development (Chandavakar, 1971). Ratios (a), (b) and (c) are closely

related to the process of financial intermediation or financial deepening, while ratio (d) represents financial widening.

3.4.2 **The Unorganised Money Market**

According to Oladeji and Ogunrinola (1992), the informal financial market is a highly heterogenous grouping; a residual incorporating all financial transactions that take place beyond the functional scope of various countries' banking and financial regulation. To be more specific, Meier (1970) added that informal financial markets include: associations and participators such as money lenders, rotating savings groups and credit associations, mobile bankers, mutual assistance groups, landlords, neighbours, friends and family members.

These institutions have, over time assisted in mobilising savings (especially in rural areas) and disperse credit among people on a relatively low-income in the

developing countries, though the supply of loanable funds from such sources may be limited and inelastic. Delancy (1978); Bouman (1977) and Miracle et al (1980), demonstrated empirically and supported strongly the view that the bulk of the credit available to the common man in LDCs comes from these other informal organisations.

Historically, informal financial organisations had their roots in early Europe and spread to most African countries, South Asia and the Carribean where they are widely pronounced in the credit system. For example, Chandavakar (1971) and Desai (1969) estimated the share of the unorganised financial market in the total credit supply of India between the range of 50 per cent and 70 per cent. In a related study, Oladeji and Ogunrinola (1992) showed that the search for informal finance cuts across socio-demographic groups. The findings of their study (in Nigeria) also showed that what used to be identified with the rural

economy has come to be an urban phenomenon, strictly, due to the prevailing economic crunch and credit squeeze in the organised financial sector. The findings of this study are similar to those of Meier (1970) which strongly supported the view that ... the rural residents still rank higher both in terms of disposition and of the demand for informal credit.

In what follows from the above discussion, the participants in the unorganised money market seem to fall outside the immediate control of the Monetary Authorities, and as such are completely immune from the policy actions of Monetary Authorities. This is not necessarily true. Practically, the two markets are joined together in urban areas through commercial banks and in the rural areas through co-operative credit societies with the two institutions performing intermediary role for the two markets. Through this connection, therefore, it could be argued that Monetary Authorities exert some considerable influence over the

unorganised money market, marginal though as the influence may be.

3.5 Patterns of Financial Development

The debate exists that financial structure[6] changes as countries develop. This differs across countries. A pioneer study in this area was by Goldsmith (1969) over a cross section of countries. Goldsmith traced the relationship between the mix of financial intermediaries and economic development for 35 countries over the period 1860 - 1963. The World Bank (1989) and Demirguc-Kunt and Levine (1996b) recently extended Goldsmith's work by examining the association between the mix of financial intermediaries markets, and economic development for approximately 50 countries over the period 1970 - 1993 (Levine 1996). The findings of their study showed that financial structure differs importantly across countries and changes as countries develop economically.

Specifically, the study found that, as countries get richer over time or as one shift from poor to richer countries;

a) financial intermediaries get larger as measured by the total assets or liabilities of financial intermediaries relative to GDP;
b) banks grow relative to the central bank in allocating credit;
c) non-banks -- such as insurance companies, investment banks, finance companies, and private pension fund - grow in importance; and
d) stock markets become larger, as measured by market capitalization relative to GDP, and more liquid, as measured by trading relative to GDP, market capitalization, and stock price variability.

However, these 'patterns' of financial development have been criticised on the following grounds:

a) it is difficult to distinguish private from public banks and development banks from commercial banks in many countries;

b) the definition of a bank and of a non-bank are not always consistent across countries.

c) there is nothing causal about these relationships. These patterns alone do not suggest that poor countries can accelerate their growth rates by changing the structure of their financial systems.

d) finally, many differences exist across countries at similar stages of economic development. The financial systems of France and United Kingdom are a case in point. The assets of deposit banks composed 56% of financial system assets in France, while the comparable number in the United Kingdom was 35%. The assets of contractual savings institutions composed 26% of total financial system assets in the United Kingdom, while in France, the figure was only 7% in 1985. Thus, while there is a general trend involving financial structure and the level of GDP per capita, there are important exceptions and differences within income groups (Levine

1996). The literature reviewed above thus, calls for caution in analysing and drawing conclusions about patterns of financial development especially when it involves linking financial structure and economic growth.

3.6 **Empirical Literature**

As earlier stated, this section is further broken down into two sub-sections (1) cross-country studies and (2) country-case studies.

3.6.1 **Cross-Country Studies**

The first work to be reviewed in this area is that by Goldsmith (1969) on the relationship between economic growth and aggregate measures of how well the financial system functions. Goldsmith (1969) uses the value of financial intermediary assets divided by GNP to assess financial development under the simplistic assumption that the size of the financial system is positively correlated with the provision and quality of financial services. He used data

on 35 countries covering the periods 1950 - 1963. His findings reveal the following:

1) "..... a rough parallelism can be observed between economic and financial development if periods of several decades are considered"; and

2) ".... there are even indications in the few countries for which the data are available that periods of more rapid economic growth have been accompanied though not without exception, by an above - average rate of financial development".

Goldsmith's work, however, has been criticised by Levine (1996) on the following grounds:

a) the investigation involves limited observations on only 35 countries;

b) it does not systematically control for other factors influencing economic growth (Levine and Renelt 1992);

c) it does not examine whether financial development is associated with productivity growth and capital accumulation;

d) the size of financial intermediaries may not accurately measure the functioning of the financial system; and

e) the close association between the size of the financial system and economic growth does not identify the direction of causality (Levine, ibid).

However, very beautifully, Goldsmith recognised the weakness of causality himself when he stated emphatically that "(there) is no possibility, however, of establishing with confidence the direction of the causal mechanisms, i.e of deciding whether financial factors were responsible for the acceleration of economic development or whether financial mainsprings must be sought elsewhere" (Goldsmith, 1969 p.48).

Of recent, researchers have taken steps to address some of these weaknesses. King and Levine (1992) studied 119 developed and developing countries studied in Levine and Renelt (1991) over the period 1960-89 and 1974-89. The study investigates whether countries that grew faster over long time periods tended - on average - to have larger financial system. To achieve this objective, they specifically examine the following relationships: (1) the size of the financial system and growth, (2) growth and the relative importance of different financial institutions and (3) the distribution of financial system assets and growth. To measure the size of the financial system and growth, the authors used the following measures:

MIY: the Ratio of M1 to GDP. M1 is defined here as the sum of currency held outside of the banking system plus demand deposits at commercial banks. This ratio is also used as a measure of monetary depth.

LLY: the Ratio of Liquid Liabilities of the Financial System to GDP. Liquid Liabilities equal M1 plus interest bearing liabilities of the banking system, plus demand and interest bearing liabilities of "non-bank" financial intermediaries e.g savings banks, postal savings institutions, finance companies, etc. LLY also measures overall financial depth.

QLLY: the Ratio of Quasi-Liquid Liabilities of the financial system to GDP. Quasi-Liquid Liabilities equals Liquid-Liabilities minus M1. QLLY captures the size of financial intermediation

DCPY: the Ratio of claims on the Private Sector by the Central Bank and Deposit Money Banks to GDP (Domestic Credit to the Private Sector). Also measures size and indicates asset distribution.

The measures employed in the analysis are either (1) the average values of these four base measures over the same period, or (2) the initial values of these four base measures in 1960.[7] The rationale for using average value is to illustrate whether countries that grew faster over long time periods tended - on the average- to have larger financial systems. The rationale for using initial values is to study whether countries that began the sample periods with

large financial systems tended to grow faster than countries with smaller initial financial systems. Using the initial size of the financial system allows for a possible abstraction of the potential causal mechanism of growth to the financial system and focus on the relationship between financial system size and subsequent growth.

Based on average real per capita growth rates over the 1960 - 89 period (GDP), they divided countries into four categories: very fast, fast, slow, and very slow growers, with an equal number of countries in each category. The mean of the financial size variables for each of the four categories over the 1960-89 period was then computed. The findings showed that, countries with faster growth rates tended to have larger financial systems.

Based on initial measure, the same methodology of average value (as discussed above) was emplored. The findings were that countries that began the thirty year period

with larger financial systems enjoyed faster subsequent growth.

Based on the channels to growth, the simple correlations between growth and the financial size indicators seems to run through both the "investment" and "efficiency" channels.

On the second issue of the relationship between financial institutions and growth, three measures were used as follows:

CBY: The Ratio of Central Bank Domestic Assets to GDP

BY: The Ratio of Deposit Money Banks Domestic Assets to GDP

BTOT: The Ratio of Deposit Money Banks Domestic Assets to Deposit Money Bank plus Central Bank Domestic Assets.

Upon estimation of the above ratios, three results were reported: (1) faster growing countries tend to have large ratios of deposit bank assets to GDP than slower growing countries; (2) faster growing countries tend to have larger deposit banks relative to central banks than slower countries; and (3) there is weak, negative correlation between central bank size as a share of GDP and growth (King and Levine, 1992).

And, lastly, the distribution of financial system Assets and Growth. This part analyzes whether the asset distribution of the financial system is related to long-run growth. The authors, however, regret that due to data limitations, the focus in this section was narrowed down to answer the question: do faster growing countries tend to be countries in which financial intermediaries allocate a higher proportion of assets to the non-financial private sector? The measure used for this purpose was defined as:

DCPT: The Ratio of claims on the Non-Financial Private Sector by the Central Bank and Deposit Money Banks to total Domestic Credit.

The findings arrived at was that, in faster growing countries, the financial system would allocate a higher per centage of credit to private enterprises as opposed to the government, public enterprises, or the central bank. The authors, however, cautioned 'that DCPT may simply be an indicator of the relative size of the private sector and not an indicator of financial sector performance in any meaningful way".

An addendum to this study reveals the relationship betwen interest rates and growth for the same 119 countries but this time for the period 1974-89. Upon estimation it was

found that, through the investment channel, interest rates vary inversely with growth. This finding may be more clarified using the IS framework[8]

King and Levine however, cautioned that "this study (as reviewed above)[9] should be viewed as an initial attempt to better document the empirical linkages between measures of domestic financial market activity and long-run growth.

Consequently, these authors, King and Levine (1993a,b,c) again took upon themselves the challenge to conduct a more comprehensive study on the level of financial development and growth. The study involved 80 countries and covered the period 1960-89. The study systematically control for other factors affecting long-run growth, examine the capital accumulation and productivity growth channels, construct additional measures of the level of financial development, and analyze whether the level of

financial development predicts long-run economic growth. They used four measures of financial development to more pricisely measure the functioning of the financial system than the initial measures they used in 1992 and Goldsmith's measure of 1969. The first measure, measures the size of financial intermediaries and equals liquid liabilities of the financial system (Currency plus demand and interest bearing liabilities of banks and nonbank financial intermediaries) divided by GDP. They call this measure DEPTH. The findings using this measure showed that, citizens of the richest countries --- the top 25 per cent on the basis of income per capita --- held about two thirds of a year's income in liquid assets in formal financial intermediaries, while citizens of the poorest countries --- the bottom 25 per cent -- held only a quarter of a year's income in liquid assets. This shows clearly that a strong correlation exists between real per capita and GDP and DEPTH.

The second measure of financial development, measures the extent to which the central bank versus commercial banks are allocating credit. They call this ratio BANK. To estimate BANK, they simply divided bank credit by bank credit plus central bank domestic assets. Here the authors assume that banks are more likely to provide the five financial functions than central bank. Levine (1996) has however, identified two major weaknesses with this measure: (1) Banks are not the only financial intermediaries providing valuable financial functions and (2) banks may simply lend to the government or public enterprises. The result of this measure showed that BANK is greater than 90 per cent in the richest quartile of countries. In contrast, commercial and central banks allocate almost the same amount of credit in the poorest quartile of countries.

The third and fourth measures which they call, PRIVATE and PRIVY respectively partially concern themselves with the allocation of credit. PRIVATE is

estimated as the ratio of credit allocated to private enterprises to total domestic credit (excluding credit to banks). While PRIVY is credit to private enterprises divided by GDP. In using these measures, the authors assume that financial systems that allocate more credit to private firms are more engaged in researching firms, exerting corporate control providing risk management services, mobilizing savings, and facilitating transactions than financial systems that simply fund credit to the government or state owned entreprises. The findings using these ratios showed that, a positive and statistically significant correlation exists between real per capita GDP and the extent to which loans are directed to the private sector.

For further analysis, King and Levine (1993b,c) then went ahead to assess the strength of the empirical relationship between each of these four indicators of the level of financial development averaged over the same period 1960-1989 period F, and three growth indicators also averaged over the year 1960-1989 period G. The three

growth indicators are: (1) the average rate of real per capita GDP growth, (2) the average rate of growth in the capital stock per person, and (3) total productivity growth, which is a 'Solow residual' defined as real per capita GDP growth minus (0.3) times the growth rate of the capital stock per person. That is, if (F (i) represents the value of the ith indicator of financial development (DEPTH, BANK, PRIVY, PRIVATE) averaged over the period 1960 - 1989, G (j) represents the value of the jth growth indicator (per capita GDP growth, per capita stock growth 1960 - 1989, and X represents a matrix of conditioning information to control for other factors associated with economic growth (e.g income per capita, education, political stability, indicators of exchange rate, trade, fiscal, and monetary policy), then 12 regressions are run on a cross-section of 77 countries using the following equation:

$$G(j) = \& + BF(i) + YX + E$$

The empirical results from the above estimated equation

showed that, there is strong positive relationship between each of the four financial development indicators F(i), and three growth indicators G(j). The results of all the 12B's were also statistically significant. Ignoring causality, the coefficient of 0.024 on DEPTH means that a country that increased DEPTH from the mean of the slowest growing quartile of countries (0.2) to the mean of the fastest growing quartile of countries (0.6) would have increased its per capita growth rate by almost 1 per cent per year. This is large. The difference between the slowest growing 25 per cent of countries and the fastest growing quartile of countries is about 5 per cent per annum over this 30 year period. Hence, the rise in DEPTH alone eliminates 20 per cent of this growth difference.

And finally, on causality, that is, to examine whether finance follows growth, King and Levine (1993b) studied whether the value of financial depth in 1960 predicts the rate of economic growth, capital accumulation, and productivity

improvements over the next 30 years. The results suggested that the initial level of financial development is a good predictor of subsequent rates of growth, capital accumulation and productivity improvements over the next 30 years even after controlling for other factors such as political stability, education, income, measures of monetary, trade and fiscal policy.

More recent works have continued to enrich the literature about the direction of causality between financial development and economic growth. For example, Levine (1996) reports the study by Rajan and Zingales (1996). The study assumed that financial markets in the United States are relatively frictionless. This benchmark country then defines each industry's efficient demand for external finance (investment minus internal cash flow). The study then examined industries across a large sample of countries and tested whether the industries that were more dependent on external finance (in the United States) grow relatively faster

in countries that begin the sample period with better developed financial systems. They find that industries that rely heavily on external funding grow comparatively faster in countries with well-developed intermediaries (as measured by PRIVY) and stock markets (as measured by stock market capitalization) than they do in countries that start with relatively weak financial systems (Levine, 1996). Similarly, Levine (1996) added, using firm-level data from 30 countries, Demirguc-Kunt and Maksimovic (1996b) argue that firms with access to more developed stock market grow at faster rates than they could have grown without this access. The same story is told of Jayaratne and Strahan (1995). These authors found that when individual States of the United States relaxed intrastate branching restrictions, this boosted bank lending liquidity and accelerated real per capita growth rates even after controlling for other growth factors. Thus, from the findings of the cross-country studies reviewed above, evidence points to the affirmation that the

level of financial development importantly affects the rate of economic development.

Yet, the issue of causality remains a burning one. Financial development may predict growth. But this may simply be because financial systems develop in anticipation of future economic growth. Whatever the case may be, an important lesson drawn from the cross-country case studies reviewed above is that, finance-growth link is a first-order relationship. We now turn to evidence of finance-growth relationship using country-case studies.

3.6.2 **Country - Case Studies**

Country-case studies by Cameron, Crisp, Patrick, Tilly (1967) dissect historically the relationships between banking development and the early stages of industrialization for England (1750 - 1844), Scotland (1750 - 1845) France (1800 - 1870), Belgium (1800 - 1875), Germany (1815 - 1870),

Russia (1860 - 1914), and Japan (1868 - 1914). These country-case studies do not use formal statistical analysis. Instead, the researchers carefully examine the legal, economic and financial linkages between banks and industry during the industrialization of these seven countries. Typically, the case studies started by describing the political system, economic conditions, and financial structure at the start of the period of analysis. Then, the studies provided a detailed description of the evolution of the financial system during a period of rapid economic development, Levine (1996). These country-case studies also document critical interactions among financial intermediaries, financial markets, government policies, and the financing of industrialization. The findings of these studies generally show that the banking system played a positive, growth-inducing role (Cameron, 1967b).

For some exposition, consider the case of Japan (1868 - 1914). In the early 1870's a modern banking system was created. It was subsidized by the right to issue bank notes. The operational activities of these banks were limted by the absence of a large-scale demand for funds. These banks concentrated their funds and activities on financing agriculture, domestic commerce and foreign trade. In this way, the banks became the locus of the much early promotional and entrepreneural talent which initiated the industrial spurt beginning in the mid-1880s especially in rail-roads and in cotton textiles (at first import-competing and later export-oriented). The banks also became an early important source of industrial funds. The modern financial system thus, was not only created in advance of Japan's modern industrialization but by providing both funds and entrepreneural talent on a 'supply-leading basis, contributed significantly to the initial spurt.

It was further revealed that by the mid-1890s, the emphasis shifted from supply-leading to demand-following in the financing of textile and other consumer goods industries. On the other hand, the financing of most heavy manufacturing industries continued on a supply-leading basis perhaps until World War I, with a considerable portion of the external funds provided through the long term loans of special banks established at government initiative and utilising government funds.

The debate continues to exist. Let us again consider the case of Scotland betwen 1750 and 1845. Scotland began the period with per capita income of less than one-half of England's. By 1845, however, per capita income was about the same (Levine 1996). While recognizing that the ".... dominant political event affecting Scotland potentialities for economic development was the union of 1707, which made Scotland an integral part of the United Kingdom" (Cameron,

1967a, p.60), Cameron argues that Scotland's superior banking system is one of the few noteworthy features that can help explain its comparatively rapid growth.[10] Other analysts disagree with the 'facts' underlying this condition. Some researchers suggest that England did not suffer from a dearth of financial services because non financial entreprises provided financial services in England that Cameron's (1967a) measures of formal financial intermediation omitted. Others argue that Scotland had rich natural resources, a well-educated work force, access to British colonial markets, and started from a much lower level of income per capita than England. Consequently, it is not surprising that Scotland enjoyed a period of rapid convergence toward England's income per capita level. Finally, still other researchers disagree with the premise that Scotland had a well-functioning financial system and emphasize the deficiencies in the Scottish system (Pollard and Ziegler 1992). Thus, although Andrew Kerr first argued

in 1884 that Scotland enjoyed a better banking system than England from 1750 until 1844, the debate about whether Scottish banking explains its faster economic growth over the period 1750-1845 continues today (Levine 1996). This is also the case with Japan as reviewed above.

Another country-case study on the relationship between financial and economic development is that by Haber (1991, 1996). In the study, Haber compared industrial and capital market development in Brazil, Mexico and the United States between the period 1830-1930, a ten year period. The findings of the study revealed that capital market development had a profound influence on industrial composition and national economic performance. The study revealed specifically, that with the overthrow of the Brazilian monarchy in 1889 (and formed the first Republic), the Brazilian financial markets were dramatically liberalized. The consequence was a fall in industrial concentration and

a boom in industrial production. This was also the case of Mexico with the fall of the Diaz dictatorship (1877-1911). Thus, "differences in capital market development had a significant impact on the rate of growth of industry ..... (and that a) lack of access to institutional sources of capital because of poorly developed capital markets was a non-negligible obstacle to industrial development in the nineteenth century (Haber, 1996 p. 40 in Levine 1996).

In the same spectrum, and with respect to Nigeria, one of the early works has been that by Nwani (1973). Using a non-parametric methodology, the author found that financial development (such as the establishment of the Nigerian Industrial Development Bank, NIDB; the Lagos Stock Exchange Market, etc), has fostered the rate and, raised the level of economic development.

Using a parametric methodology, Aigbokhan (1996) examines causality between financial development and economic growth in the context of financial sector reforms

in Nigeria between the periods 1987 and 1994. Aigbokhan uses the Granger-causality model to investigate the issue of sequencing in Nigeria that is, which should come first: creating demand for financial services through ensuring growth and macroeconomic stability, or creating financial services, the demand for which would follow.

For the estimation procedure, Y was designated to represent real sector growth while F for financial sector growth. For the value of Y Aigbokhan used real GDP at 1980 prices. For F, he used seven proxies namely:- monetary aggregate, represented with Mo (Money based), M1 (Mo + demand deposits), and M3 (M1 + quasi money + time deposit), currency ratio, represented with CR1 = M1/GDP and MR2 = M3/GDP. The nominal money balances variable was deflated in each case by the consumer price index to obtain real money balances.

He then tested for causality using the standard F-test. On the overall, the results indicate causality running from financial to real sector growth which is consistent with the supply-leading hypothesis that financial development which encourages increase in number of banks and bank offices promotes "banking habit" and liberalizes interest rates, tends to induce investment.

With specific reference to financial growth and the factors affecting it, Ikhide (1987) undertook a study in Nigeria between the period 1958 - 1986. To measure financial size, Ikhide used two ratios: (1) He divided the assets of all financial institutions by the GDP using a three year moving average. This ratio is called the Financial Interrelations ratio (Goldsmith 1969) and (2) the New Issues Ratio (Goldsmith 1969). This ratio is obtained by simply dividing the new issues of financial institutions by GDP. To determine the factors affecting these ratios, Ikhide viewed rate of interest, price level and real GDP as important

determinants. Ikhide (1987) concludes that ".... the Nigerian economy is characterised by a strong leaning towards supply-leading approach and a low level of ratio of assets to GDP, which were both qualities of an early stage of financial development where bank notes and cheque deposits were supplementing metallic money; a society trying to industrialise government - induced industrialisation but nevertheless a financial structure in which enough foundation has been laid for industrial take-off".

The last work to be reviewed in this area is Money and Capital in Economic Development, a book by Mckinnon (1973). The book studies the relationship between the financial system and economic development in seven countries viz: Germany, Indonesia, Argentina, Brazil, Chile, Korea and Taiwan in the post World War II period. In each of the countries, evidence as interpreted by Mckinnon

suggest that better functioning financial systems support faster economic growth.

Now, it could be observed from the empirical literature reviewed above that:

a) No study has really been carried out on the relationship between financial development and economic growth in Cameroon.

b) All the studies that attempted to measure financial size, used GDP for the denominator. In our study, we emplore GNP. The use of GNP to GDP as a better measure of economic growth has been emphasized by Goldsmith (1969) himself, Wai Tun U (1956), Gurley and Shaw (1960), Neal (1988) etc.

c) None of the studies adopted a structural shift procedure. The only one that attempted to do so was the study by King and Levine (1992) over

the period 1960-89 and 1974-89. A mere observation of these dates reveal some overlapping. Also, no statistical tool was reported for this purpose nor, even the rationale behind dividing the periods into two was given. Their study suffered from specification error.

d) Amongst the factors determining financial size, Ikhide's study completely left out the influence of the foreign sector.

e) Scanty literature exists on the relative proportion of the populace that has access to banking facilities. It is important to know this because, the financial system of a country could be large, yet concentrated in a particular area (either for economic or political reasons) thereby, denying a larger proportion of the populace access to financial services. This is very relevant for policy planning (and analysis).

f) Scanty literature also exists on the determinant of this relationship.

g) All the studies that attempted to determine causality are silent on stationarity of data.

In this study, therefore, we shall relax the shortcomings, thereby, enrich the existing literature on finance-growth relationship.

NOTES TO CHAPTER THREE

1. The major alternative approach to studying finance and economic growth is based on the contributions by Gurley J. and Shaw E (1955), Tobin J. (1965) and Mckinnon R. (1973). In their formal model, they focus on money. This narrow focus has the demerit of restricting the analysis of the finance-growth nexus, and leads to a misleading distinction between the 'real' and financial sectors.

2. Merton and Bodie (1995, p.2) defines this primary function as "facilitating the allocation of resources, across space and time, in an uncertain environment".

3. These advantages include: a medium of exchange, a unit of account, a standard for deferred payments, a store of value.

4. Liquidity risk arises due to the uncertainties associated with converting assets into a medium of exchange. Liquidity in itself is the ease and speed with which agents can convert assets into purchasing power at agreed prices.

5. Defined as coalitions of agents that combine to provide financial services.

6. Gertler M- and Rose A. (1991) sees financial structure as the nature of financial arrangement ..... the payoff structure, convenants, etc.... that affects the incentive of borrowers.

7. The analysis was conducted over the 1960-89 and 1974-89 periods. Only the 1960-89 results were

reported and mention was made of the 1974-89 findings when there are important differences.

8. The term 'IS' is the short form of expressing the equality of investment and saving which represents the product market or 'real' equilibrium. The 'IS' schedule shows the combinations of interest rates and income levels where saving-investment equality takes place so that the product market of the economy is in equilibrium.

9. bracket is mine

10. It is of some degree of relevance to note that Scottish Banking was comparatively stable over this period, suffering fewer and less severe panics than its southern neighbour. More on Scottish banking system can be read from Syney Checkland (1975) and Tyler Cowen and Randall Kroszner (1989).

CHAPTER FOUR

MODEL SPECIFICATION

4.1 Introduction

The formulaltion of a model of financial growth for Cameroon is premised on the fact that the external world has an influence on this sector.

In formulating the model, variables affecting financial growth are systematically added, as applicable, to arrive at various functional forms.

It is thus, our task in this study to develop and estimate the necessary financial growth models that would be applicable to the real working of the Cameroonian financial system in particular and other economies that have the same institutional financial system in general.

The rest of this chapter is divided into 7 sections. Section 4.2 discusses the framework for analysis while Section 4.3 presents the model for the study. The list of the variables used in the model are presented in Section 4.4 whille Section 4.5 discusses various model specifications. The basic features of the model is the focus of Section 4.6 while the summary of list of the equations is presented in Section 4.7. Section 4.8 is on observations and estimation procedure.

4.2 **The Framework for Analysis**

Some researchers have concentrated their efforts on the causal relationship between financial development and economic growth and paid little attention to the factors determining such a relationship. Yet, such factors that jointly explain this relationship are crucial if the financial system is to be "pushed" further into the national economy.

This is why in this study in general and in this chapter in particulalr we attempt a comprehensive modification of Ikhide's model to investigate the determinants of financial growth in Cameroon.

First, we use the Granger's framework to establish causality between financial development and economic growth. Granger formulated a definition of causality between economic variables which has been very much in use in empirical studies. See for example, Pierce and Haugh (1977), Fiege and Pearce (1979), Odedokun (1987), Jung (1986), Jones and Uri (1987), and Aigbokhan (1995). The Granger's test method uses a one-sided distributed lag whereby the incremental forecasting value of past (often, plus present) history of one variable on another variable is used as the yardstick. According to Granger (1969, p.424-52), if a variable [X(t)] causes another variable [Y(t)], then

[Y(t)] will be better predicted using the past values of (Y(t)] and (X(t)] together than using only the past values of [Y(t)] alone.

Thus,

$$E[Y(t) - E\,Y(t)/X(t)] < E[Y(t) - E\,Y(t)/Y(t)] \quad \ldots\ldots\ldots(1)$$

From equation (1) above, the right-hand side shows the forecast error of [Y(t)] using only the information available on (Y(t)] (where $t < 0$) while the left-hand side depicts the forecast error of [Y(t)] using information available on [Y(t)] and [X(t)] (where $t < 0$).

While Granger generalized his test model to a multivariate situation, it is only the bivariate contest that has been employed at the empirical level (Odedokun, 1987). We shall, in this study, thus limit ourselves to this bivariate framework. Hence, using this framework the equation for the incremental forecasting value takes the form

Y = Y (past values of Y; present and past values of X) .....(2)

That is, we regress the current Y value on the past Y values

plus present and past X values. Causation from X to Y is idenfitied if the coefficients of the present and past X values in equation (2) above are significantly different from zero as a group. Similarly, to test for causation of Y on X, X and Y in equation (2) above are reversed. A one-way causation exists if either Y causes X and X causes Y. In the same line, a two-way causation exists if X causes Y and Y causes X while there is an independence between X and Y if none causes the other.

According to Granger (1969, p.429), the optimum prediction of equation (2) above is normally confined to a linear one.

The model is based on the assumption that X and Y are jointly covariance stationary. To make the series more stationary, therefore, the original data are first-differenced or seasonal - differenced and it has been shown by Pierce

and Haugh (1977, p.269), that such linear transformations still preserve any causality that may be present in the original data (Odedokun, 1987).

Concerning the ratios AF/Y and AF^{11}/Y as extensively reviewed in chapter two, studies on them have been concentrated in the advanced and more sophisticated financial systems of the developed countries of U.S.A., Japan, Switzerland and Britain, and results have always ranged between the values of 1 and 1.5 (Goldsmith, 1969 P.45). Ikhide (1987) on Nigeria was among the earliest studies to extend the use of these ratios to LDCs. However, instead of using GNP as the denominator as reflected in the original version of the ratio, Ikhide used GDP. The results of his study gave values of between 0.26 and 0.76. On the determinants of real financial growth, Ikhide's study seem to be the pioneer work in LDCs in this area. The results from

the estimation of the equations using the OLS method above have already been discussed in Chapter two of this study.

In light of the above, the present study re-visits Ikhide's model with some modification using Cameroonian data. This became necessary for the following reasons: First is that in the light of Ikhide's observation above on the model for LDCs when the sample period is confined to 1959-1986, it would be interesting to find out what the evidence on Cameroon suggest in more recent times. The second is that a lot of structural changes have taken place since the adoption of SAP, as tools for revamping and stimulating the economy in what appears to be an implicit acceptance of its policies. So, it becomes imperative to find out the impact of SAP on real financial growth. Thirdly, Ikhide's model adopted a closed economy approach and thus, failed to incorporate the effects of the fluctuations in

the foreign sector on the domestic financial development. In this study, Ikhide's model is modified for an open economy. This is necessary because the incorporation of the interdependence between domestic and foreign economies in modeling the behaviour of financial growth reduces specification error. This in turn, enhances the accuracy of financial development with respect to scale variables and provides us with a measure of sensitivity of the domestic growth of the financial system with respect to foreign monetary developments.

4.3 **The Model**

4.3.1 **Analytical Tools:**

Two sets of analytical tools are used in this study namely: indices and, regression and correlation analysis.

4.3.1.1 **Indices:**

The relative value indices was used. The relevant variables in our regression equations were all converted into a base year for uniformity and consistent results.

The formula used is as shown below:

$$Qi = \frac{X_i}{X_o} \times 100 \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 3$$

Where;

Q_i = index of variable (i)

X_i = variable to be considered in a period

X_o = value of variable in base year.

The base year was 1987. This choice of the base year follows from World Bank economic and financial data. This period is justified for its relative stability as it marked the beginning of a major economic policy reform in the country.

4.3.1.2 Regression and Correlation Analysis

This analytical tool is used to test for causality and the determinants in the financial growth model.

4.4 List of Variables used for Modelling

The models to be formulated incorporate both endogenous variables and exogenous variables.

4.4.1 Endogenous Variables:

$\frac{AF}{Y}$ = Ratio of assets of financial institutions to GNPin current prices (FIR)

$\frac{AF^{11}}{Y}$ = Financial interrelations ratio of new issue to GNP (NIR)

4.4.2 Exogenous Variables

Y/P_L = Real income

P_L = general price level

R = rate of interest

P_n = rate of growth of population

Y = national income

P^e_t = parallel marked exchange rate

F^e_t = foreign exchange rate

Z = dummy variable

Other variables in the model are:

MA1 = Money base, defined in this study as a monetary aggregate consisting of currency held by banks and by the public.

MA2 = MA1 plus demand deposits

MA3 = MA2 plus savings and time deposits.

The variables MA1, MA2 and MA3 represent the monetary variables in the causality model.

CR1 = The ratio of MA1 to MA2.

CR2 = The ratio of MA1 to MA3.

The variables CR1 and CR2 represent the currency ratios used in the causality model.

MR1 = The ratio of MA2 to GNP

MR2 = The ratio of MA3 to GNP

DCR = The ratio of Domestic Credit to GNP

The variables MR1, MR2 and DCR represent the monetisation ratios used in the causality model.

Others are:

D = Density of financial structure

N = Total number of bank offices in the country.

In modelling the Cameroonian financial sector we are guided by the following peculiarities of the financial system in particular and the Cameroonian economy as a whole. These are:

a) the stage of development of the financial markets

b) the level of development of the banking habit.

c) the degree of accessibility of the population to the banking system.

d) the generally low levels of income for a greater segment of the population

e) the Cameroonian economy is an open one and.

f) part of the country's currency is traded illegally across its borders.

These guidelines are necessary because they call for caution in:

a) trying to model the monetary sector in line with the major ideas of development of orthodox monetary economics and:

b) offering policy recommendations resulting from this kind of exercise, for long-term growth.

4.5 **Models Discussion and Specification:**

In this section, three models are discussed and specified. It is expected that these models will capture the relevant features of the Cameroon's financial system. These models are: the causality model, the spatial distribution model and the model on the determinants of real financial growth. We now examine each of these models in turn. We begin with the causality model.

4.5.1 **The Causality Model**

In our study, we shall represent financial development with F and economic growth which is measured by GNP, Y. We shall submit here that:

Let A_t, t= 1, 2, 3 be the given information set including at least (Ft, Yt), the bivariate framework. We submit further that:

Let $A_t = (A_s, S< t)$ as in Aigbokhan (1995).

For example, F_t represents all past values of F and Y_t represents past values of Y. Following Grangers definition of causality between F and Y we state here four directions and conditions of causality.

1 F causes Y if

$$Ó^2(Y/Ã) < Ó^2(F/Ã- F)..... (4)$$

where:

$Ó^2(Y/Z)$ represents the minimum prediction error sample estimate of the population variance of Y, given an information set Z. A reduction in the minimum

prediction error variance when past values of F are included in the information set on which the prediction of Y is conditioned, signifies that F causes Y.

In the same token,

2. Y causes F if:

$$\acute{O}^2(F/\bar{A}) < \acute{O}^2(F/\bar{A}\text{-}F) \text{ .....(5)}$$

3. Y causes F and F causes Y if:

$$\acute{O}^2(F/\bar{A}) < \acute{O}^2(F/\bar{A}\text{-}Y)$$

and

$$\acute{O}^2(Y/\bar{A}) < \acute{O}^2(F/\bar{A}\text{-}F)\text{.....(6)}$$

4. Causation between Y and F does not exist if

$$\acute{O}^2(Y/\bar{A}) = \acute{O}^2(Y/\bar{A}\text{-}F)$$

and

$$\acute{O}^2(F/\bar{A}) = \acute{O}^2(F/\bar{A}\text{-}Y)\text{.....(7)}$$

Also, it is assumed that A=(F,Y) are a pair of linear, covariance-stationary time series. Thus, in line with Granger (1969), Granger and Newbold (1974), Odedokun (1987),

Aigbokhan (1995), the present study uses a linear empirical model, incorporating our basic variables of Y and F.

The estimated model is:

$$Y_t = \beta o + \beta_1 Y_{t-1} + \beta_2 F_{t-1} + Et_5 \ldots\ldots\ldots (8)$$

$$F_t = \alpha_o + \alpha_1 F_{t-1} + \alpha_2 Y_{t-1} + Et_6 \ldots\ldots\ldots (9)$$

where Et_5 and Et_6 are the random disturbance terms of equations (8) and (9) respectively and t represents the time period. Ets are assumed to be serially uncorrelated with zero mean and finite covariance matrix. The decision rule for equations (4), (5), (6) and (7) becomes:

a. F causes Y if Ho: $\beta j = O$, $j = 1, 2, 3 \ldots\ldots$ n is rejected

b. Y causes F if Ho: $\alpha j = O$, $j = 1, 2, 3 \ldots\ldots$n is rejected

c. F and Y causes each other if (4) and (5) hold true

d. causation does not exist between F and Y if both (4) and (5) are not rejected.

The F-test will then be used at the 5 per cent level of significance to determine the causal relationship between

financial development F, and economic growth Y.

The F-test is hereby defined as follows:

F-test = (N-K). $(ESS_R - ESS_{UR})/q(ESS_{UR})$

where:

ESS_R and ESS_{UR} are the sums of squared residuals in the restricted and unrestricted regressions respectively; N is the number of observations; K is the number of estimated parameters in the unrestricted regression; and q is the number of parameter restrictions. This statistic is distributed as F(q, N-K).

4.5.2 **The Spatial Distribution Model:**

The spread of banking facilities in the country was examined by calculating the density of the financial structure.

Density at any rate, can demonstrate how wide banking facilities are in any given economy from which deduction may be made. To relate geographical density of banks to

geographical density of population we can use bank offices in relation to total population as significant measure. The model used for this purpose was developed by Goldsmith (1969) and applied by Nwani (1973) to Nigeria. The model is as follows:

$$D = \frac{N \times 10{,}000}{\text{Total population}} \quad \ldots\ldots\ldots\ldots\ldots (10)$$

with all variables remaining as defined under section 4.4.

For analytical purpose, the following ratios are arbitrarily defined:

1. a ratio greater than 1, means morethan one financial institution-office per 10,000 inhabitants as 'high'.
2. a ratio between 0.5 and 1, means moderate.
3. a ratio below 0.5 means low and,
4. a ratio less than 0.1 means 'very low' (Goldsmith, 1969).

What remains now is to model the determinants of Financial growth.

4.5.3 **Model on the determinants of real Financial Growth**

Recall that, for the analysis of financial development, two ratios are used, the FIR and, the NIR. Accordingly, we develop models for each of these ratios starting with FIR.

4.5.3.1 **The Financial Inter-relation Ratio Equation:**

This ratio is computed by dividing the value of assets of financial institutions at the end of a year by GNP during that year.

Cognisant of certain specific independent variables that affect financial development and growth, we can write the growth function in a linearised and more general form as:

$$\frac{AF}{Y} = f\,(Y/P_e,\ R,\ P_L,\ F^e_t,\ P^e_t\ P_n) \quad \ldots\ldots\ldots \quad (11)$$

where; AF/Y is the Financial Inter-relation Ratio, Y/P_e the

real income, P_l the price level, F^e_t the foreign exchange rate and, P^e_t the paralled market exchange rate, P_n the rate of growth of population, and R the rate of interest.

We then transform equation 5 into a regression model. In transforming this equation we separately add the dummy variable to capture those unquantifiable structural changes that have taken place within the era of Structural Adjustment Programme. To this end, we deposit here that the period 1972-1986 (Pre-SAP era) shall carry the value O for each year, while the period 1987-1995 (Post-SAP era) shall carry the value 1 for each year. See Koutsoyiannis (1977, P. 282). We then assign a dummy variable Z for the entire period 1972-1995. In its linear regression model, therefore, FIR can be stated as follows:

$$\frac{AF}{Y} = a_o + a_1 Y/P_L + a_2 R + a_3 F^e_t + a_4 P^e_t + a_5 P_n + a_6 P_l + a_7 Z + U_t \ldots (12)$$

with all variables remaining as defined above and, U_t and ao--a7 representing the stochastic disturbance and, the

parameters to be estimated respectively. The primary assumptions about the distribution of Ut are maintained subject to the regression results. That is,

$$E(u) = O; E(uu) = O^2ui; \quad E(uiuj) = 0, \; i \; j$$

Equation 5 was then regressed in the linear form for the different periods as specified above.

Next, is our NIR Equation.

4.5.3.2 **The New Issue Ratio Equation:**

This ratio (AF^{11}/y) is computed by calculating the change in the assets as a percentage of GNP of that period. All variables remain as defined in equation (11).

We recall here that the values of $\frac{Af^{11}}{Y}$ for the different years are simply the first difference of the values of FIR for the various years. It thus follows, logically that, the NIR must be similar to the FIR model. Hence, the regression model of NIR runs as follows:

$$\frac{AF^{11}}{Y} = b_o + b_1 Y/P_L + b_2 R + b_3 P^e_t + b_4 F^e_t + b_5 P_n + b_6 P_1 + b_7 Z + U_t \ldots\ldots (13)$$

Our expectations with regards to the coefficients of our variables are stated as follows:

i) Real income (Y/P_L). The expectation here is that Y/P_L will make a significant positive contribution to both Financial Inter-relation Ratio and New Issue Ratio. An increase in income, `ceteris paribus', will lead to an increase in the demand for the issues of financial institutions which is just a form of wealth in the portfolio of holders. An increase in real income, therefore, is expected to generate an increase in the demand for assets or new issues of financial institutions.

ii) The price lelvel (P_L) . The general contention exists that the willingness of individuals and businesses to hold an expanded quantity of money, or financial claims measured in money terms, is influenced by their expectations

regarding the future price level. If it is expected that prices will rise appreciably, holders of money will try to limit any increase in the money value of their holdings or may even attempt to dispose of them. It could be recalled here that, voluntary savings go with financial assets while involuntary savings go with mere money accumulation. In this way, the effect of price rise is noticeable. It then follows that holdings on financial assets are likely to rise less than those of money if prices or rate of change of prices on AF/Y and AF^{11}/Y are expected to be different since voluntary savings is a stock concept and involuntary savings a flow concept (IKhide, 1987). Hence, we expect that the rate of change of prices or the rate of inflation should be a more appropriate explanatory variable for new issues of financial institutions.

iii) Interest rate (R). We expect on `a priori' grounds that the coefficient of this variable in the FIR and NIR models will be negative. The behavioural pattern of this variable is clearly pronounced in the short-run. Interest rates may be expected to influence the level of issuance of financial instruments by financial institutions. Infact, the choice of the financial institutions by depositors is partly dictated by this variable.

iv) The Foreign Exchange Rate (F^e_t) This is the ratio of the United States dollars to the FCFA. This variable is expected to make a significant negative contribution to financial growth in the country. The argument follows that most of the big financial institutions in the country are either multinationals or headed by foreigners. Profits from such institutions are exchanged for this foreign currency and sent abroad. The value of

the FCFA compared to the dollar is lower. In this way, the extra FCFA that is required to compenssate for the dollar value is lost from the domestic economy. This erodes the asset base of financial institutions.

v) The Parallel Market Exchange Rate (P^e_t). This variable is defined in this study as the number of units of FCFA traded on the black market as converted into per United States dollars. On `a priori' grounds, as the value of the domestic currency depreciates, the public may expect further depreciation and thus, they will hold more of the foreign currency and less of the domestic currency. In this way, we may be tempted to run into hasty conclusions about the sign coefficient of this variable in this model. The Cameroonian economy is an open one. A large amount of its FCFA is traded illegally

aross its borders especially with Nigeria. Besides, a great majority of the businessmen in Cameroon do not save their profits in the country, neither do they carry on exchange officially in the country. Rather, a wide range of exchange is done illegally across the borders to take advantage of the relatively high rates (Walle, (1991); ODI, (1990) Devarajan and de Melo (1989). Also, the value of the FCFA does not depreciate so fast. Infact, the relative stability of the FCFA has been confirmed by World Bank (1989, 1991, 1994), EIU (1989), Devajaran and de Melo (1987), 1994), Walle (1991) and, Duesenbery and MCPherson (1991). This stability notwithstanding, businessmen who are foreigners carry out the money from the country. It is against such background argument that we expect the coefficient of the parallel

market exchange rate to be strongly and negatively correlated to financial size and growth in the country.

vi) Rate of growth of Population (P_n). It is our expectation that as population increases, the demand for financial instruments will also increase `ceteris paribus'. However, given the steady growth rate of population in the country, we expect this variable to play a less signficant positive role in financial size and growth in Cameroon.

vii) The dummy variable (Z): Recall that this variable was introduced into the models to capture the unquantifiable variables of the effects of policy reforms on financial size and growth in the country. We also recall here that we define these variables as the effects of privatisation and commercialisation, liquidation

of some of the financial institutions in the country such as Cameroon Development Bank and FONADER. We further define this variable to capture the effects of salary cuts (this was done 3 times within the period 1987 to 1994) and, reduction in government expenditure. The effects of all these is the reduction either directly (as in liquidation) or indirectly (as in salary cuts) of the overall asset base of financial institutions in the country. Hence, it goes without saying that the dummy variable (Z) is expected to be strongly significant and negatively correlated to financial development in the country.

4.6 The Basic Features of the Model

a) The financial model for Cameroon captures both the real and monetary sectors of the economy. This

implies that these two sectors are interrelated. This relationship is very important when considering policy planning (and analysis).

b) All the variables in the models are cast in money terms with the exceptions of rate of growth of population.

4.7. Summary of List of the Equations

For simplicity of analysis and easier understanding, our formulated structural equations are re-stated below:

FIR equation

$$\frac{AF}{Y} = a_o + a_1 Y/P_L + a_2 R + a_3 F^e_t + a_4 P^e_t + a_5 P_l + a_6 P_n + a_7 Z + U_t$$

a_1 and $a_6 > O$; a_2, a_3, a_4, a_5, and $a_7 < O$

NIR equation

$$\frac{AF11}{Y} = a_o + a_1 Y/P_L + a_2 R + a_3 F^e_t + a_4 P^e_t + a_5 P_l + a_6 P_n + a_7 Z + U_t$$

a_1 and $a_6 > O$; a_2, a_3, a_4, a_5 and $a_7 < O$

On the overall, the R^2 and Durbin - Watson (DW) statistics aided in the interpretation of the regression results.

4.8 Observation and Estimation Procedure

On estimation procedure, the Ordinary Least Squares (OLS) technique is employed. Ours are single equation models for which the OLS technique would be more applicable. Besides the fact that our regression equations are unidentified, which renders the use of indirect least square (ILS) and Two-Stage- Least square (2SLS) in our study null and void, Maddala (1977), has noted that, the OLS method has been found to be more robust against specification equation methods. In this chapter, we have shown clearly how (1) the direction of causality between financial development and economic growth can be determined; (2) AF/Y and AF^{11}/Y ratios can be estimated; (3) We have also shown how the density of financial structure can be obtained.

The equations for financial growth are used as a way of arriving at the variables needed for our model.

In the next chapter, we then set out to estimate the model and discuss the findings resulting thereof.

CHAPTER FIVE

PRESENTATION AND INTERPRETATION OF EMPIRICAL RESULTS

5.1 Introduction

The purpose of this chapter is to present and discuss the results of our findings from the models formulated in chapter four.

The plan of this chapter is further organised as follows: Section 5.2 presents the results of causality between economic growth and financial development, while Section 5.3 presents the results of the FIR and NIR ratios. Section 5.4 presents the findings of the regression equations, and Section 5.5 is on the findings of the structure of the banking system. Section 5.6 estimates the density of financial structure and lastly Section 5.7 which looks at the growth of some financial institutions in the country over the period under review.

5.2 **Results on Causality**

First, we test for stionarity of our data. Recall that the Grangers causality framework is used to establish causality between the real sector and the financial sector. However, running a Grangers' causality test requires the data to be stationary if not, they are transformed to be stationary. Causality test has been widely used in empirical economics (e.g Hsiao, 1981; Miller and Russek, 1991, and Holmes and Hutton, 1992). These studies generally assume the first difference of data for stationarity. We argue here that this is not true because their results may be spurious due to specification errors. This possible mispecification and spuriousity of results motivates our interest in performing stationarity tests at different levels of estimaions.

To test for stationarity of our data, different levels of estimations were carried out as itimated above. First, we differenced the data. Using the log of first difference, we

found that the data was not stationary. The graphs of the log of first difference of our data are shown in Appendix IV Figs 1, 4, 7, 10, 13, 16, 19, 22, 25, 28. The second level of estimation was then conducted. Using the first difference, the results again portrayed non-stationarity of the data. The graphs of the data using the first difference are shown in Appendix IV, Figs 2, 5, 8, 11, 14, 17, 20, 23, 26, 29. The third level of estimation was again conducted. This level involved the second differencing of the data. When the second differencing of the data was conducted, the data showed fairly stationary results. The graphs of the second differencing of the data are as presented below, Figs 3, 6, 9, 12, 15, 18, 21, 24, 27, 30. However, it might be that the third differencing of the data could have given fairly better results. But we could not delve into this third differencing because the more we difference the data, the more we loose the data, hence, the smaller the sample size and consequently, the smaller the degree of freedom. This may pose some estimation problems. That notwithstanding, we

believe that the stationarity of our data after second differencing is reliable enough to yield some useful results.

FIGURE 3: THE GRAPH OF THE SECOND DIFFERENCE OF NOMINAL Y

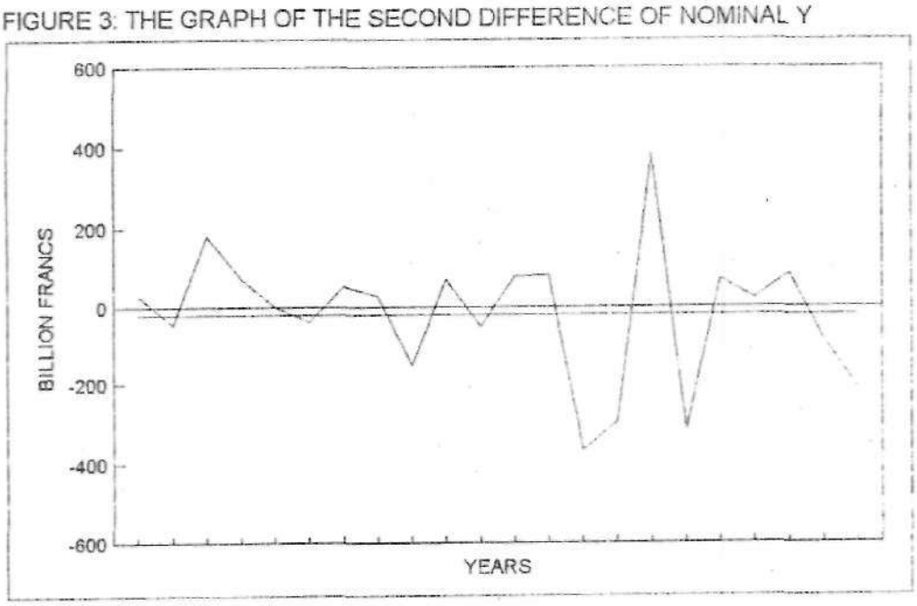


FIGURE 6: THE GRAPH OF THE SECOND DIFFERENCE OF Y IN PERCENTAGE

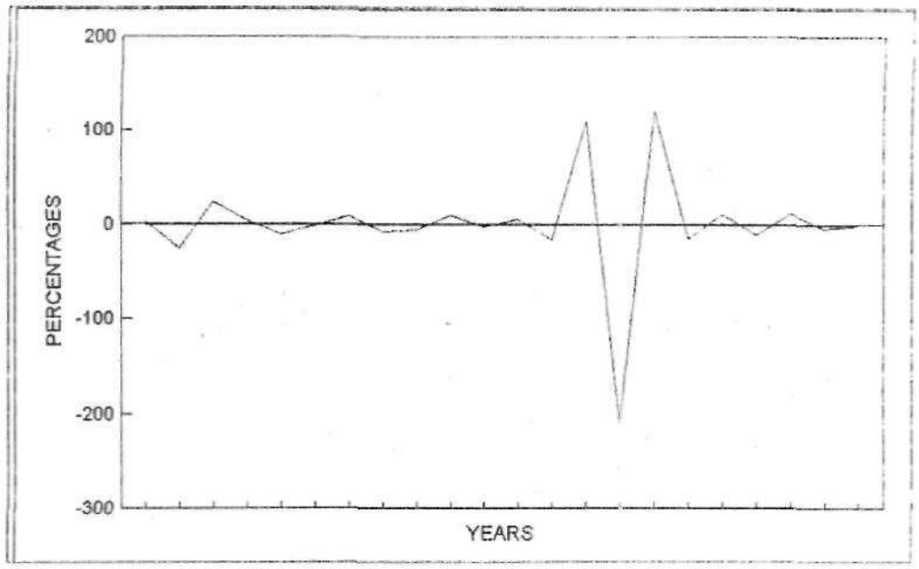


FIGURE 9: THE GRAPH OF THE SECOND DIFFERENCE OF MA1

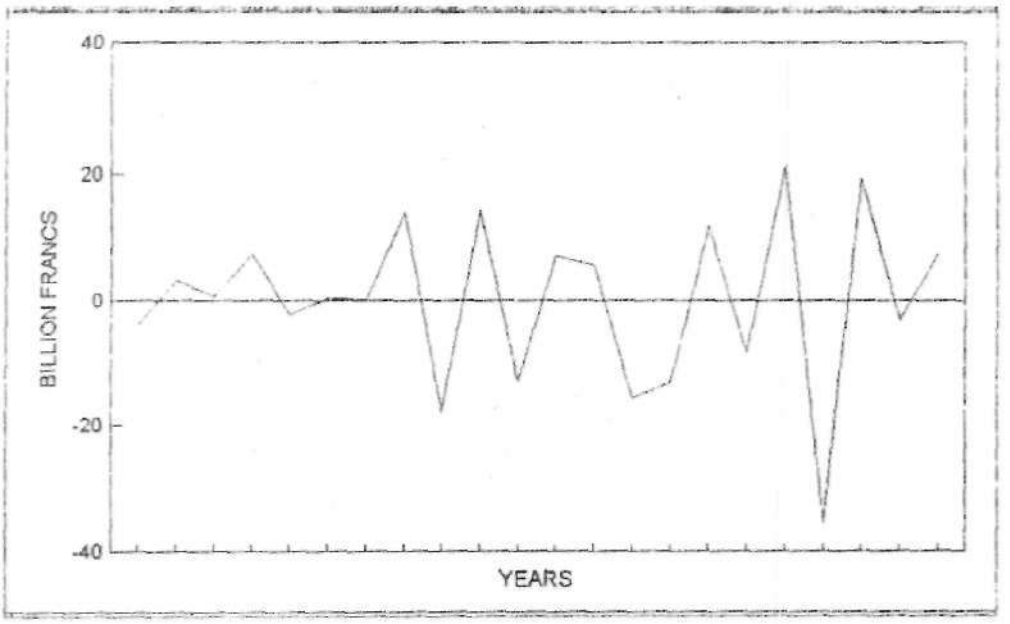


FIGURE 12: THE GRAPH OF THE SECOND DIFFERENCE OF MA2

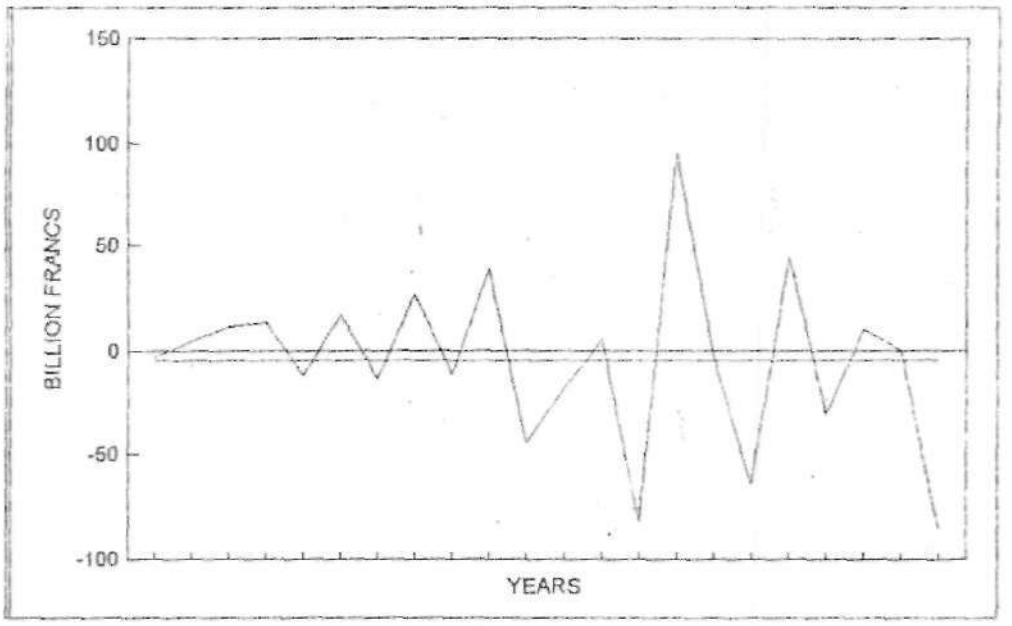


FIGURE 15: THE GRAPH OF THE SECOND DIFFERENCE OF MA3

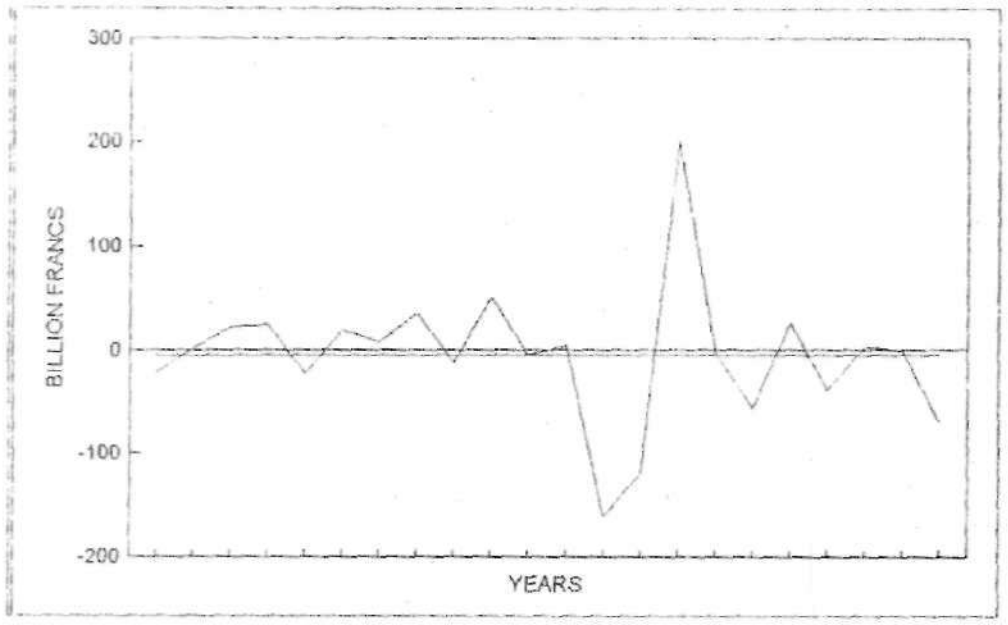


FIGURE 18: THE GRAPH OF THE SECOND DIFFERENCE OF CR1

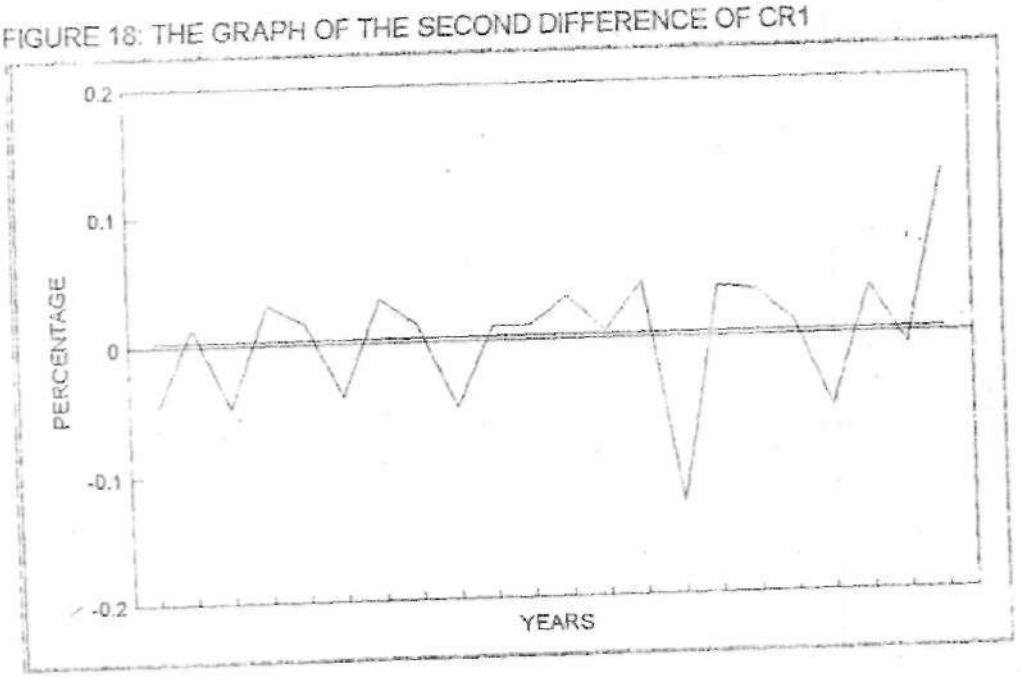


FIGURE 21: THE GRAPH OF THE SECOND DIFFERENCE OF CR2

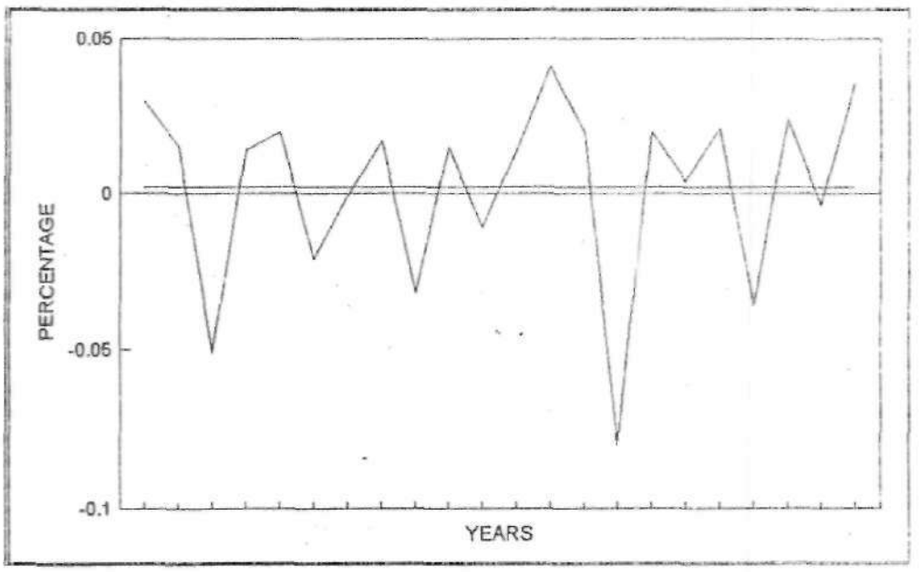


FIGURE 24: THE GRAPH OF THE SECOND DIFFERENCE OF MR1

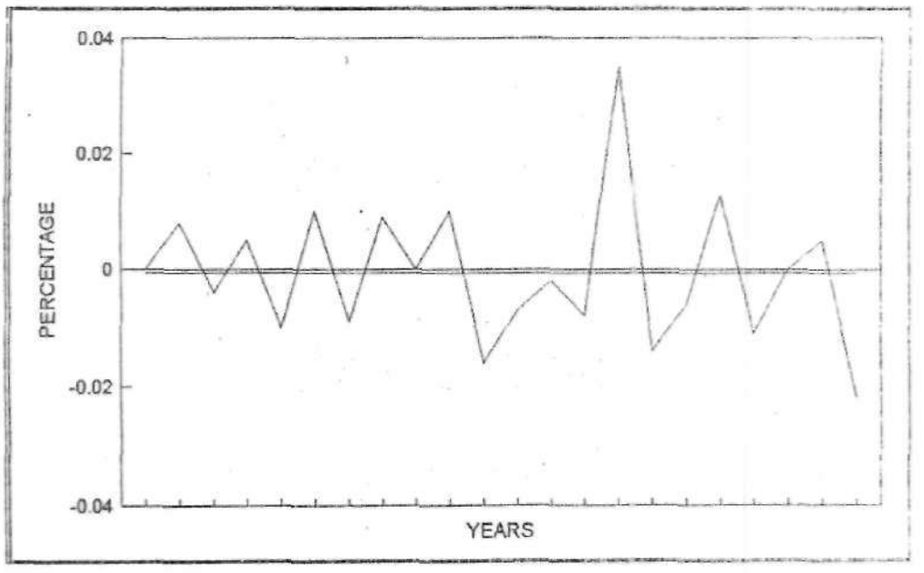


FIGURE 27: THE GRAPH OF THE SECOND DIFFERENCE OF MR2

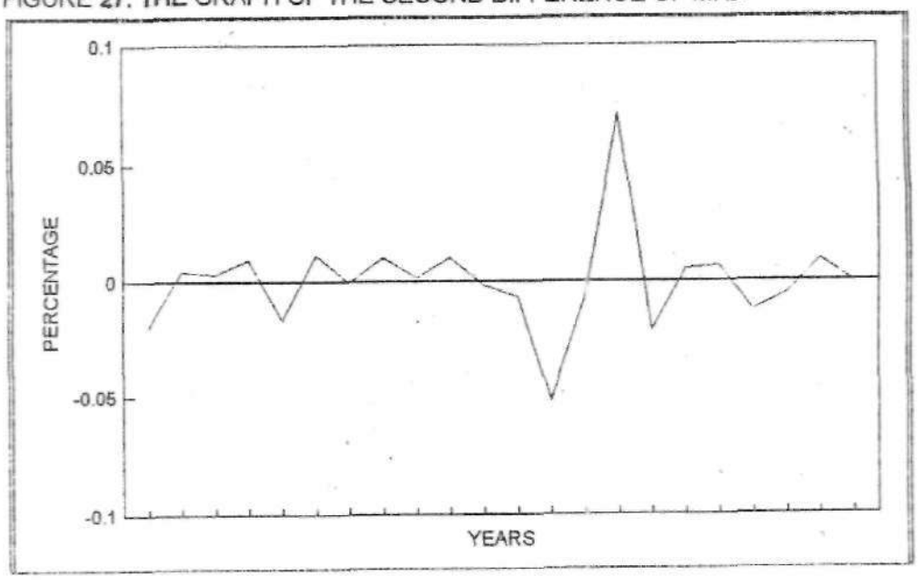
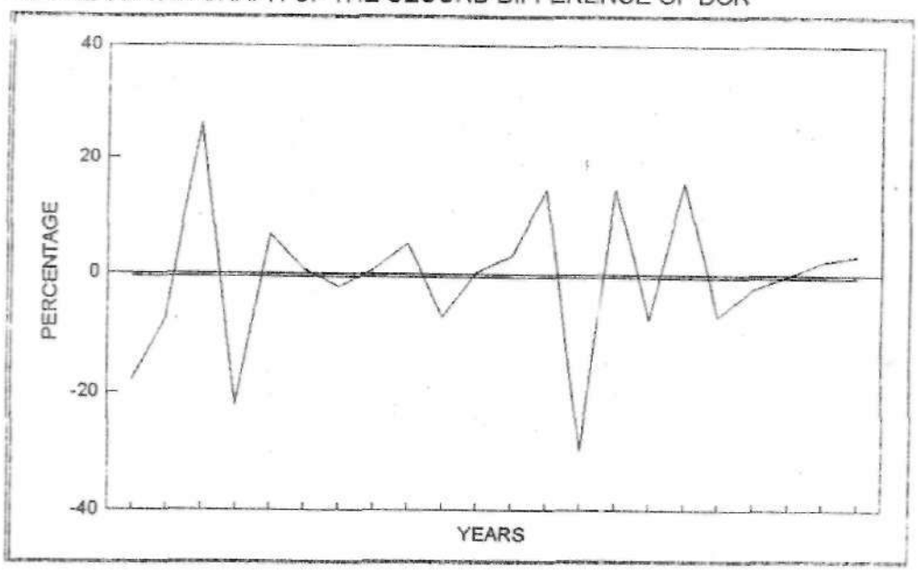


FIGURE 30: THE GRAPH OF THE SECOND DIFFERENCE OF DCR



We now turn to our empirical findings on the direction of causality between financial development and economic growth. Table 5.1 (a) and (b) below show the results of the direction of causality between real growth and financial growth of the Pre-SAP and Post-SAP periods respectively.

Table 5.1 (a) Results of causality between 1972 - 1986

Y →	MA1	0.32
Y →	MA2	0.23
Y →	MA3	3.63
Y →	CR1	4.61
Y →	CR2	9.28
Y →	MR1	0.13
Y →	MR2	1.14
Y →	DCR	3.21
MA1 →	Y	3.77
MA2 →	Y	0.65
MA3 →	Y	0.24
CR1 →	Y	0.49
CR2 →	Y	22.0
MR1 →	Y	0.16
MR2 →	Y	3.56
DCR →	Y	2.36

5.1(b) Results of Causality between 1987 - 1995

Y →	MA1	0.10
Y →	MA2	4.42
Y →	MA3	5.86
Y →	CR1	2.45
Y →	CR2	6.94
Y →	MR1	5.23
Y →	MR2	19.69
Y →	DCR	0.11
MA1 →	Y	0.50
MA2 →	Y	0.33
MA3 →	Y	6.07
CR1 →	Y	2.50
CR2 →	Y	1.22
MR1 →	Y	6.17
MR2 →	Y	20.14
DCR →	Y	6.15

Critical F (1972 - 1986) = (2,12) at 5% = 3.89
Critical F (1987 - 1995) = (2,6) at 5% = 5.14

For the pre-SAP period (1972 - 1986), Table 5.1(a), the results indicate some level of bidirectional causality between financial and real sector growth, using monetary aggregates and monetisation rate. Specifically, the following causalities for the pre-SAP era have been detected:

i) A bidirectional causation, runs from growth (Y) to CR2 and from CR2 to Growth (Y). Causation is significant at 5% level.

ii) A unidirectional causation runs from Y to CR1 at 5% level of significance.

This might be due to the fact that monetary actions respond to changes in the level of aggregate economic activity or that the demand for money is influenced by the tempo of economic activity. No causality in other cases is detected at 5% level of significance.

For the post-SAP period (1987 - 1995), Table 5.1(b), the results also indicate some bidrectional causation between financial and real sector growths.

Specifically, the following causalities for the post-SAP era have been detected.

i) A bidirectional causation runs from Y to MA3 and from MA3 to Y. The same is true of Y to MR1 and MR1 to Y. This is also true of Y to MR2 and MR2 to Y. In all these cases, causation is significant at 5% level.

ii) A unidirectional causation runs from Y to CR2 and from DCR to Y all, significant at 5% level. In all other cases, no causation is detected at the 5% level.

First, the causality test reveals that a higher level of interaction between real and financial sector is more evident in the post-SAP era than in the Pre-SAP era. This suggests that, the effect of SAP on the economy cannot be undermined. However, the findings that not all financial variables were statistically significant at the 5% level can be interpreted to mean that some features inhibiting growth may have been contained in recent financial sector reforms that would need to be carefully reappraised.

Second, it could also be observed from Table 5.1(a) and 5.1(b) that causality runs slightly in favour of the demand following hypothesis. This means that growth in the real sector to some extent induces financial development. This evidence, however, is in contrast with the findings of Jung (1986), Nwani (1973) and, Aigbokhan (1996) which showed that LDCs are characterised by a strong leaning towards the supply leading approach in the development of their financial sectors. Yet, the results of this study conform with the observations of Gurley and Shaw (1967), that development of the real sector generates demand for financial services, with new financial services developing in line with the development of the real sector.

5.3 **Estimated Results from FIR and NIR:**

Table 5.2 shows the results of AF/Y ratio (FIR) and AF^{11}/Y ratio (NIR). Table 5.2(a) shows that from the period 1972 to 1986 (the Pre-SAP era), the FIR ratios though positive, fell steadily throughout the period under review, except for the

year 1975 when the ratio was negative with - 0.71. This is to be expected. This was the period when the prices of agricultural products on the world market fell. There was again a sudden burst in this ratio in 1976. The spurt in this ratio in 1976 was premised on the oil bonanza. Many more financial institutions were created and the existing banks extended their branches to take advantage of the oil revenue. In this way, the country experienced a more rapid growth in financial assets than in domestic produce.

Similarly, the FIR ratios fell between the periods 1987 and 1995, showing the same Pre-SAP trend. As from 1987, for example, Table 5.2 (b) shows negative ratios upto 1995. The policy implication here is that, the assets of fianancial institutions have been decreasing in relation to GNP, which goes further to support the findings of causality. During this period, some financial institutions went distress and were eventually closed. Others were restructured following SAP's

line of action. The few that have survived restricted the extension of their branch networks. The positive growth ratio of 1989 with 0.2 is expected and is explained by the introduction of the short-lived Economic Stabilization Plan whose effect could be judged to have been felt over a year after it was introduced.

Next, is the AF^{11}/Y ratio (NIR). Tables 5.2 (c) and (d) show the results of AF^{11}/Y ratio. Table 5.2 (c) shows that from 1972 to 1995, the NIR ratios though fluctuating, the general trend has been negative. Tables 5.2 (c) and 5.2 (d) show that the NIR ratios performed better in the Pre-SAP era than in the Post-SAP era respectively. The positively high ratios recorded in 1976 and 1977 is again explained by the effect of the oil bonanza. This attracted foreign financiers to invest in the country especially in the oil and financial sectors. This helped fostered the level of monetisation of the economy

which accordingly, provided the stimuli for growth in the real sector.

In the Post-SAP era, the situation worsened as the NIR ratios performed more poorly. This is, nonetheless, unexpected. It is during this period that erratic economic policies including the "announcement effect" of the devaluation of the FCFA coupled with serious political upheavals have been met in the country. Notably, the chaotic 1992 Presidential elections led to a run on the banks as the political crisis deepened. As customers swarmed into the banks for daily withdrawals, the cash crunch slowed down business and economic activity.

Table 5.2(a)

FIR RATIOS - (1972 - 1986)

Year	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Ratio (FIR): Af/y (%)	0.68	0.62	0.54	-0.71	0.73	0.49	0.47	0.51	0.42	0.41	0.39	0.38	0.29	0.26	0.21

Table 5.2(b)

FIR RATIOS - (1987 - 1995)

YEAR	1987	1988	1989	1990	1991	1992	1993	1994	1995
Ratios (FIR): AF/y (%)	100	0.17	0.20	-0.16	-0.24	-0.29	-0.3	-0.34	-0.35

Table 5.2(c)

NIR RATIOS - (1972 - 1986)

Year	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Ratio (NIR): AF^{11}/y (%)	0.16	0.15	0.09	0.13	0.19	0.05	0.02	0.03	0.02	0.009	0.006	0.005	0.002	0.001	0.001

Table 5.2(d)

NIR RATIOS - (1987 - 1995)

YEAR	1987	1988	1989	1990	1991	1992	1993	1994	1995
Ratios (NIR): AF^{11}/y (%)	100	0.11	0.15	-0.16	-0.07	0.09	-0.06	-0.07	-0.10

5.4 **The Regression Results:**

Here, we present and discuss the regression results.

1. $\frac{AF}{Y}$ 42.14 + 4.148 Y/P_L - 6.823R-0.566P_L
(1.073) (-0.627)(-2.365)

- 0.220F^e_t - 19.875P^e_t + 3.391Pn - 29.721Z
(-1.811) (-1.968) (0.849) (-2.652)

F - value = 53.38

R^2 = 0.9437

D-W = 2.194

N = 24

$\frac{Af}{Y}$ for the Pre-SAP era (1972 - 1986)

2. $\frac{AF}{Y}$ = 53.08 + 2.82 Y/P_L - 4.981R - 0.768P_l
(0.350) (-0.278) (-2.686)

-0.367F^e_t - 22.135P^e_t + 9.469P_n
(-2.448) (-1.917) (+1.152)

F- Value = 9.17

R^2 = 0.532

D-W = 2.011

N = 15

$\frac{AF}{Y}$ for the Post -SAP era (1987 -1995)

3. $\frac{AF}{Y} = 12.851 + 12.477Y/P_L - U.269R - 1.500P,$
(+0.630) (-0.552) (-0.692)

$-0.040F^e_t - 12.479P_t + 13.722P_n$
(-0.120) (-0.173) (+0.67)

F - value = 5.415

R^2 = 0.9822

D-W = 2.070

N =9

$\frac{AF^{11}}{Y}$ for the combined period (1972-1995)

4. $\frac{AF^{11}}{Y} = 2.120 + 5.529Y/P_L - 26.049R - 0.813P,$
(0.954) (-1.589) (-2.257)

$-0.317F^e_t - 19.929P^e_t + 4.943P_n - 35.919Z$
(-1.732) (-1.308) (+0.825) (-2.128)

F - value = 24.805

R^2 = 0.8834

D-W = 1.721

N =2 4

$\frac{AF^{11}}{Y}$ for the Pre-SAP era (1972-1986)

5. $\frac{AF^{11}}{Y} = 6.609 + \underset{(+0.358)}{3.966Y/P_L} - \underset{(-0.206)}{6.288R} - \underset{(-1.430)}{0.693P_I}$

$$\underset{(-1.377)}{-0.317F^e_t} - \underset{(-0.553)}{10.929P^e_t} + \underset{(+0.587)}{4.943P_n}$$

F-value = 10.172

R^2 = 0.26

D-W = 2.102

N = 15

$\frac{AF^{11}}{Y}$ for the Post-SAP era (1987-1995)

6. $\frac{AF^{11}}{Y} = 15.954 + \underset{(+3.376)}{14.275Y/P_L} \underset{(-10.240)}{-44.621R} - \underset{(-3.836)}{1.775P_I}$

$$\underset{(-7.283)}{-0.520F^e_t} - \underset{(-5.991)}{92.341P^e_t} + \underset{(+3.223)}{14.092P_n}$$

F - value = 22.030

R^2 = 0.999

D - W = 2.267

N = 9

In all the equations presented above, the t-values are in bracket, R^2 = the coefficient of determination, F = the

calculated F statistic, N = the number of observations and D-W = the Durbin Watson statistic.

In the set of equations presented above, our R^2 (which measures the goodness of fit) is high for all the equations, the minimum value being 51% (with the exception of equation 5). With regards to the issue of serial correlation, the Durbin - Watson (D-W) estimates for some of the periods suggest that there is slight serial correlation problem in the results. Attempt was not made to correct the results for serial correlation because of the smallness of the sample size (especially for the sub-periods) which may render the results from further computation less meaningful. However, it is not expected that such corrections would have significantly altered the conclusions drawn from the results.

In equation (1), variables Y/P_t amd P^e_t (although with low coefficients are statistically significant at 10% level while the

variables P_l and Z are significant at 5% level. Although the coefficient of R is high, this variable is statistically insignificant. The high coefficient of Z and its statistically significant position in the equation shows that the Structural Adjustment Programme has had a profound negative influence on FIR in the country. Further, 94% of the variation in FIR is explained by these variables. One could conclude here that the variables Y/P_l F^e_t, P^e_t and P_l are instrumental in explaining variation in AF/Y in the country.

Equations (2) and (3) of FIR indicate that Y/P_l, R, P^e_t, P_l, P_n and F^e_t contributed 53% to FIR in the pre-SAP era and 98% in the post-SAP era respectively. The underlying logic here is that SAP has further increased FIR's dependence on these variables.

Equation (4) is the NIR regression equation for the combined period (1972 to 1995). Accordingly, the variables R,

F^e_t and P^e_t are statistically significant at 10% level. While, the variables Y/P_l and P_n are not statistically significant neither at the 5% level nor at the 10 level. The dummy variable Z has a high coefficient and is statistically significant at the 5% level. This is also true of P_l. Thus, our dummy variable confirms our theoretical conjecture. It also shows that a unit change in the variable Z, leads to about 40% change in AF^{11}/Y. This again shows that SAP has had a significant negative influence on NIR. And that 88% of the variation in NIR is explained by these variables. One can conclude that the important determinants are F^e_t, P^e_t, R and P_l.

Our regression results showed a weak positive link between real financial growth (measured by AF/Y and AF^{11}/Y) and the variables Y/P_l, and P_n, in some equations. Though on theoretical grounds, there should be a strong positive link in all the equations as regards Y/P_l in order that such income would effectively increase the asset base on financial institutions, this

was not applicable to Cameroon from our results during the period under investigation. This shows the failure of savings mobilisation strategies to satisfy desired objectives. However, real income can still contribute more signficantly as evident from the positive signs in the equations in which it was statistically insignificant. This , of course, can be achieved if appropriate policies can be applied. Also the variable Pn was statistically insignificant in all the equations it entered into. This reveals the slow growth rate of population in the country.

Equation (1) of AF/Y showed that interest rate though possessing the theoretically right sign is not significant. The policy implication of this fact coupled with the 'a priori' knowledge of the economy, suggests that the substitution between money and other financial assets may be absent for the period under review. This is to be expected. A developing money economy like ours is characterised by inadequate financial assets in which to carry out trade, the interest rate

effect while not denied, may just be minimal. The choice thus faced in this kind of economy may not be between money and financial assets (a la Keynes) but rather between money and physical assets (a la monetarists). It could, however, be observed that from the estimated results, interest rate variable entered the AF^{11}/Y ratio (equation 4) as an important determinant. This is expected. First, the volume of new issues marketed is determined primarily by the rate of interest on these issues. Secondly, we also recall that the AF^{11}/Y ratio is a much more sensitive measure of real financial growth as it is a flow variable, consequently, is very sensitive to particular government policies and shocks in the economic system.

As usual, equations (5) and (6) represent the Pre-SAP and Post-SAP eras of NIR respectively. The two sets of equations show that the relevant variables contributed 26% in the Pre-SAP era to NIR as against 99% in the Post-SAP era to

NIR. This again suggests that SAP has further increased the dependence of NIR on these variables.

On the overall results of both the FIR and NIR, evidence has shown that the coefficients of the independent variables and the explanatory powers of these variables increased in the Post-SAP era as compared to the Pre-SAP era. This confirms that policy reforms have a stronger impact on real financial growth in the country than in the Pre-SAP era. Recall that this impact was negative. Indeed, the limited successes of the Structural Adjustment Programme in developing countries is well documented in the literature. See for example, Omoruyi (1991), Ntangsi (1989), Anyanwu (1995).

With regards to F^e_t and P^e_t variables, these our findings have shown contributed negatively to real financial growth in the country as expected. This result is consistent with the hypothesis advanced by Bahmani-Oskoore and Pourheydrian

(1990), and with the findings of Choudhry (1995) that, as the value of the domestic currency depreciates, the public may expect further depreciation and thus, they will hold more of the foreign currency and less of the domestic currency, lowering the demand for money as a result, which subsequently, lowers the asset base of financial institutions and thus, retards financial growth. This is very obvious in the country. The natural factors that explain such a position include; first, the rumour of devaluation of the domestic currency, the FCFA in 1990 and its eventually being implemented in 1994. Secondly, the political crisis which gave rise to a high degree of business uncertainty especially during the Post-SAP era in the country cannot be neglected. This position can be further explained by the fact that, most of the large businesses in the country have large foreign participation thus, their dividends are either invested abroad or withheld in other foreign currencies, outside banks. This erodes the asset base of financial institutions in the

country and accordingly, retards financial development. This, thus, calls for a careful policy action.

5.5 Structure of the Banking System

The Cameroonian financial system includes BEAC (the regional Central Bank), commercial banks, investment banks, development banks and credit Unions. Commercial banks are the dorminant institutions of the system. Investment banks are established with the purpose of underwriting securities; however, they are also involved in commercial banking without depending on deposits as a source of funds. While, Development banks are primarily engaged in extending medium and long-term loans to selected industries. Their funding comes from the government or other International Organisations like the World Bank. The number of development bank in the system is highly limited. This is as shown on Tables 5.3(a) and 5.3(b). Before 1987, there were only two development banks in Cameroon, the Cameroon Development Bank and

FONADER. After 1987, Table 5.3)(b) shows that no development bank existed in the country. As for investment Banks, there was only one before 1987, the First Investment Bank and in 1987, the very figure of one was maintained by the CCEI. Commercial banks are highly predominant in the financial system. Further, a close inspection of Table 5.3 indicates that the sector was slow to respond to the Structural Adjustment measures. Before the Structural Adjustment Programme, the number of licensed banks in the sector were 13. This number increased by only 3 after the programme. Out of the 13 banks before 1987, 3 banks were liquidated - Cambank, Cameroon Development Bank and, FONADER and over 5 were restructured. On the whole, after 1987, 3 new banks entered into the sector. These are: Amity Bank, CCEI and National Financial Credit. Of these new entrants, none of them was foreigned owned. All of them had a majority indigenous shares. Let it be noted that by law, the government

or its representative holds at least a 35% share in the foreign owned commercial banks.

We shall, however, proceed with the analysis of the financial and banking structure with a focus on commercial banks. The reasons for this are two-fold. First, development and investment banks have a limited scope in the financial system as a whole given their different structure. Secondly, we further emphasize commercial banks in order to maintain comparability and uniformity between the units investigated.

Table 5.3(a) Licensed Banks In Cameroon Before 1987

1. Cameroon Bank
2. Cameroon Development Bank, CDB
3. Societe Generale de Banque au Cameroun, SGBC
4. Banque Internationale pour le Commerce et l'ndustrie du Cameroon, BICIC
5. Standard Chartered Bank Cameroun, SCBC
6. Banque Meridien - BIAO Cameroun, BMBC
7. Centre de Cheque Postaux, CCP
8. First Investment Bank, FIB
9. International Bank of Africa, IBAC
10. Societe de Recouvrement des Creances du Cameroun (recouvrement des Creances BCD, BIAOC, BICIC, CAMBANK, PARIBAS, SCB, SGBC, BCCC)
11. Banque Unie de Credit (BUC)

OTHER BANKING INSTITUTIONS:

12. Caisse d'Epargne Postale, CEP
13. Credit Foncier du Cameroun CFC
14. Funds National de Development Rural, FONADER.

Table 5.3(b) Licensed Banks In Cameroon After 1987

1. Caisse Commune d'Epargne et d'Investissement, CCEI
2. Credit Agricole du Cameroun, CAC
3. SCB-Credit Lyonnais
4. National Financial Credit
5. SGBC
6. Credit Foncier du Cameroun, CFC
7. Amity Bank.
8. BICIC
9. Meridien BIAO*
10. Standard Chartered Bank of Cameroun
11. First Investment Bank
12. IBAC
13. CEP
14. CCP
15. SRCC**

*Closed down by 10/9/96. **Represents a kind of a liquidating body of the banks enumerated. See Table 5.3(a).

With regards to ownership, Commercial banks in Cameroon can be grouped into 3 main categories - Government-owned indigenous, Private indigenous and mixed. Table 5.4 below shows these classes of banks, their banking offices, date of incorporation, head offices and ownership structure.

5.5.1 **Mixed**

As shown on Table 5.4 a majority of commercial banks in Cameroon fall under this category. Of the 11 banks operating in the country, 9 of them fall under this category. The per centage of shares of the government, foreign and private is as shown on the table.

5.5.2 **Government Owned Indigenous**

Table 5.4 reveals that it is only the Centre de Cheque Postaux, CCP that is 100 per cent government owned indigenous. Another Bank that could be classified under this category is the Post Office Savings bank though it is not

represented on the table. This is because it does not perform a majority of the functions of commercial banks. This bank only accepts deposits and gives it back when demanded. It does not for example, grant any loan or overdraft facilities.

5.5.3 Private Indigenous

As at 1996 the only Private-indigenous bank in Cameroon was the National Financial Credit. It is 100 per cent private indigenous.

Another class of bank which is conspicuously absent on Table 5.4 is the Foreign-owned (expatriate) bank. These are banks that operate all over the world. They have access to overseas liquidity from their head offices. However, at present, there is no 100 per cent foreign-owned bank in Cameroon. Some of them such as SCB-Credi Lyonnais which should have been under this category instead fall under "mixed' because of the presence (small as it may be) of the government.

A curious look at Table 5.4 further shows that banking offices in Cameroon are concentrated in urban and semi-urban

areas. The negligence of the rural areas reduces the degree of monetisation of the subsistence sector. The few banks with branch offices in semi-urban areas are the newly created Amity Bank and the National Financial credit.

Table 5.4: Licencesed Commercial Banks in Cameroon as at 1996

CLASS OF BANK	BANKING OFFICES IN CAMEROON TOWN	NO	HEAD OFFICE	DATE OF INCORPO RATION	OWNERSHIP BODY	% Shar es
A) MIXED	YAOUNDE	3	YAOUNDE	1987	INDIGENOUS	85
1.C.C.E.1	DOUALA	2			FOREIGN	15
	BAFOUSSAM	1			GOVERNMENT	0
	BAMENDA	1				
	GAROUA	1				
2.AMITY	DOUALA	1	BAMENDA	1990	INDIGENOUS	80
BANK	BAMENDA	1			FOREIGN	20
	KUMBO	1			GOVERNMENT	0
3.CREDIT	YOUNDE	3	YAOUNDE	1989	INDIGENOUS	0
AGRICOLE	DOUALA	1			FOREIGN	17.5
	BAFOUSSAM	1			GOVERNMENT	82.5
	KUMBA	1				
	BAMENDA	1				
4.SGBC	YAOUNDE	2	DOUALA	1963	INDIGENOUS	n.a
	DOUALA	8			FOREIGN	
	BAMENDA	1			GOVERNMENT	
	BAFOUSSAM	1				
	LIMBE	1				
	NKONGSAMB	1				
	A MAROUA	1				
5.CREDIT	A branch in each	10	YAOUNDE	1977	INDIGENOUS	30
FONCIER	Provincial				FOREIGN	0
	Headquarters				GOVERNMENT	70

6.SCB-CREDIT LYONNAIS	YAOUNDE MAROUA GAROUA NGAOUNDERE EBOLOWA DOUALA NKONGSAMBA BAFANG BAFOUSSAM DSCHANG BAMENDA LIMBE	3 1 1 1 1 2 1 1 1 1 1 1	YAOUNDE	1989	INDIGENOUS FOREIGN GOVERNMENT	17 65 18
7.BICIC	A branch in each provincial Headquarter		YAOUNDE	1962	INDIGENOUS FOREIGN GOVERNMENT	
8.STANDARD CHARTERED BANK	YAOUNDE DOUALA	2 2	YAOUNDE	n.a	INDIGENOUS FOREIGN GOVERNMENT	85 0 15
9.IBAC	YOUNADE DOUALA	1	YAOUNDE	n.a	INDIGENOUS FOREIGN GOVERNMENT	n.a
B)GOVERN-MENT OWNED IND. 10.C.C.P	YAOUNDE	1	YAOUNDE	n.a	INDIGENOUS FOREIGN GOVERNMENT	0 0 100
C) PRIVATE-OWNED INDIGENOUS 11.NFC	YAOUNDE BAMENDA MAMFE MUYUKA KUMBA	2 1 1 1 1	YAOUNDE	1991	INDIGENOUS FOREIGN GOVERNMENT	100 0 0

SOURCE: Field survey.

The Population in urban areas is about 373,798 inhabitants. The total land area of the country served by 335 branch offices of banks is 474,926 Sq.km. The total population of the country currently stands at slightly above 12.2 million people (according to World Bank estimates). This means that each bank office is serving an area of 1,417.69 sqkm and 36,418 number of inhabitants. This relates to the nature of the density of the financial structure. This is examined in details in the next section below.

From the structure of the banking system, our study has revealed that it is heavily skewed towards mixed banks in terms of ownership with a large percentage of foreign participation. Such banks are the oldest in the country with relatively large capital base and experienced staff. Two major implications follow from above. First, such banks erode the financial base of the country as they do not plough back their profits into the domestic economy and, secondly, they kill the young and local entrepreneural skills of the infant institutions as the later may find it difficult to compete with the former.

5.6 Density of the Financial Structure

The density of financial structure shows the degree of accessibility of the population to banking facilities. Financial density thus relates the geographical density of banks to the geographical density of the population.

According to Table 5.5 the total number of branches of offices of banks is 335. Going by the Spatial distribution model of 4.5.2 in chapter 4 of the study, the density of the financial structure in Cameroon as at 1996 is 0.27, in the Post-SAP era as against 0.33 in the Pre-SAP era. Both figures are less than 0.5. This shows that the density of financial structure in the country is 'low'. The small number of bank branches as also shown on table 5.5 reflects the low efficiency of financial intermediation. This means that banking facilities are not widely distributed in the country. The policy implication here is that the development of monetary and financial institutions in the country follows the 'demand-

following approach'. The attendant efects of this include; discrimination in credit expansion by the few banks available and, the prevalence of monopolistic practices in banking business in the country.

Table 5.5 Branches of Offices of Banks.

	BANK	YEAR OF INCORPORATION	BRANCHES OF OFFICES
1	CCEI	1987	8
2	AMITY BANK	1990	3
3	CREDIT AGRICOLE	1989	7
4	S.G.B.C.	1963	15
5	CREDIT FONCIER	1977	10
6	SCB-CREDIT LYONNAIS	1989	15
7	BICIC	1962	10
8	STANDARD CHARTERED BANK	n.a	4
9	IBAC	n.a	2
10	CCP	n.a	1
11	NFC	1991	6
12	POST OFFICE SAVINGS BANK	1938	254
	TOTAL		335

SOURCE: Field Survey

Further, the low density structure coupled with the fact that most of the branch offices of financial institutions in the country are located in urban areas, defeats the very essence of the establishment of such institutions in a subsistence economy like that of Cameroon. It is expected that the establishment of financial institutions are to aid in quickening the pace of monetisation and commercialisation of the subsistence sector which is predominant. In this way, one is made to believe with Nwani (1973) that "in a case in which the financial system is purely permissive and accomodates only all 'credit-worthy' borrowers (who reside in the urban areas), in keeping with the demand-following hypothesis, it promotes monopoly and unbalanced growth".

5.7 The Growth of some Financial Institutions in Cameroon.

The prevailing institutional and structural imperfections in the money and capital markets has led to the recognition of morethan ever of some specialised form of financial institutions in the country.

In this section of the study, we examine the growth of three such institutions over time. These institutions are: the Credit Union, the Insurance Companies and the Post Office Savings bank.

5.7.1 The Cooperative Credit Union:

It is important to discuss the growth of credit Union as a specialised financial institution in the country. The economic interest in the subject is two-fold. First, it is the only financial institution in the country that is experiencing a geometric increase in its number while other financial institutions are going distress. Second, it is a relatively new form of financial

institution (relative, to commercial banks and post office savings banks) that mobilises and encourages savings in the country , and has a different 'modus operandi'.

By definition, a credit Union is a group of people that decide to save their money together in order to make loans at low interest among themselves. They are organised by people with a common bond. For example, the members of the same community, of the same neighbourhood, of the same Union, the employees of the same company or of the same government ministry. Credit Unions can also operate in a number of large and medium size organisations in Cameroon such as, Cameroon Development Corporation (CDC), Societe Camerounais de Palmiere (SOCAPALM) Plantations; the Police and Customs and, rural and urban credit Unions for farmers and businessmen respectively.

The interest charged by the Credit Union is usually one per cent (1%) per month on the unpaid balance of the loan. This means that, for example, for a loan of 1,000 FCFA for ten months period, the debtor member pays a total of 100FCFA in interest to the Credit Union. Loans may be granted for any productive or provident purpose.

Credit Unions have a long standing history[1] since the 1850s when the first modern Credit union was started in Germany. The first Credit Union in Africa started in Ghana in 1955, and in Cameroon, it started in 1963 (CAMCCUL, 1993).

The Cameroon Cooperative Credit Union League (CAMCCUL) is the apex organisation of the cooperative Credit Unions in Cameroon. CAMCCUL was registered in 1968 with 34 cooperative credit Unions as its affiliates. Its headquarters is presently in Bamenda. CAMCCUL is affiliated to Africa Confederation of Cooperative Savings and Credit Association

(ACCOSCA)[3], whose headquarters is in Nairobi, Kenya. ACCOSCA is the apex organisation of cooperative credit union League in Africa.

Now, turning to the growth of credit Union in Cameroon, availalble data points to the affirmation that, there has been a sizeable increase in both its membership, total shares/savings and, total number of Unions. Table 5.6 clearly illustrates this position. Table 5.6 shows that from 1969 to 1986, membership of the Union, increased from 5,000 to 60,512. Within the same period, total shares/savings increased from 21,500,000FCFA to 7,834,431,097 in 1969 to 1986 respectively. The total loans outstanding increased from 14,000,000 FCFA to 5,711,797,281 FCFA in 1969 through 1986 respectively. Reserves stood at 311,267,726 in 1986 from 4,155,000 FCFA in 1972. Within the same period, total number of credit unions in the country had increased from 85 in 1969 to 223 in 1986.

The same story (with some slight modification) could be told of the period between 1987 to mid - 1996. From 1987, membership stood at 62,443. This number grew rapidly to 97,215 in the mid-1996. At the same time, total shares/savings stood at 8,890,644,194 in 1987 and by mid-1996, this had risen to 13,344,784,410. Total loans outstanding grew from 6,341,439,775 in 1987 to a trickle 6,729,831,707 by the mid-1996. Reserves within this period rose from 392,289,534 to 1,409,710,531 in 1987 through mid-1996 respectively. The trend was the same for the total number of unions which grew from 231 in 1987 to only 292 by mid-1996.

The comparative analysis as presented above between the periods 1969 to 1986 (Pre-SAP era) and 1987 to mid- 1996 (Post-SAP era) show that, the former registered a fairly more favourable increase in the variables under discussion than the latter. Consider, for example, the short period between 1991 to 1995. Within this period, total loans outstanding decreased

over time, moving from 6,365,307,914 FCFA through 5,882,382,280 in 1994 to 5,948,966,076 FCFA in 1995. The increase again started in the second half of 1995 with 6,188,582,375 FCFA. This trend is similar to other variables under consideration within a given period. A major explanation to this trend is the effect of political crisis, salary cuts amidst SAP's policies.

Table 5.7 shows the regional distribution of Credit Unions in the country as at 31st June 1996. The table further shows the number of groups, their membership, share/savings, total loans outstanding and, reserves. An interesting observation is the Skewness of the distributional pattern of the Unions towards the Urban areas (of Bamenda and Douala), a phenomenon common to all other financial institutions. The concentration in Bamenda is explained by the fact that this town has the headquarters of the Union. Thus information relating to the operational activities of the Union can easily be sort by

those residing in its immediate surrounding. This increases the level of patronage. The concentration in Douala is due to the fact that, this town is the economic capital of the country. However, it could not be denied that this form of financial institution still covers many semi-urban and a few rural areas more than any other form of financial institution in the country, with the exception of the Post Office Savings bank.

It may be of interest at this point to provide a detailed analysis on the purpose, sources and uses of funds of the Credit Union. These aspects are taken up in Appendix V of the study.

Table 5.6

Cameroon Cooperative Credit Union League Limited
Growth of Related Credit Unions and Discussion Groups

Date	Membership	Total Share/Saving	Loans Outstanding	Reserves	No Regd Unions	No Study Groups	Total No of Unions
31/12/69	5,000.000	21,500,000	14,000,000	?	41.000	44.000	85.000
0.037	8,470.000	40,700,000.000	23,750,000.000	?	51.000	76.000	127.000
0.036	13,975.000	89,005,000.000	50,254,000.000	?	66.000	107.000	173.000
0.036	19,268.000	142,861,000.000	86,658,000.000	4,155,000.000	67.000	123.000	190.000
0.035	22,514.000	224,124,063.000	126,762,981.000	6,562,655.000	92.000	89.000	
/12/74	24,989.000	354,969,407.000	203,312,173.000	9,671,428.000	91.000	86.000	177.000
0.034	31,236.000	549,731,866.000	318,762,129.000	14,689,665.000	92.000	110.000	202.000
0.034	35,040	777,431,876.000	479,035,437.000	34,455,472.000	93.000	98.000	191.000
0.034	37,457.000	985,941,277.000	633,667,241.000	32,891,383.000	95.000	92.000	187.000
0.033	36,662.000	1,366,079,821	925,329,169.000	47,358,791.000	99.000	98.000	197.000
0.033	40,524.000	1,,99,418,149	1,263,435,152.000	68,363,135.000	106.000	98.000	204.000
0.032	41,197	2,338,517,094.000	1,626,657,306.000	84,116,216.000	106.000	98.000	204.000
0.032	44,778.000	2,939,423,719.000	2,035,159,225.000	119,706,100.000	106.000	95.000	204.000
0.032	47,888.000	3,583,737,100.000	2,494,877,309	154,745,615.000	112.000	104.000	216.000
0.031	50,042	4,307,511,428.000	3,010,598,133.000	179,016,260.000	112.000	108.000	220.000
0.031	53,016.000	5,328,305,547.000	3,677,394,661.000	200,788,509.000	122.000	113.000	225.000
0.030	58,804.000	6,493,662,064.000	4,584,349,874.000	241,865,832.000	115.000	106.000	222.000
0.030	60,512.000	7,834,431,097.000	5,711,797,281	311,267,726.000	120.000	103.000	223.000
0.030	62,443.000	8,890,644,194.000	6,341,439,775.000	392,289,534.000	120.000	111.000	231.000
0.029	68,986.000	9,653,513,545.000	6,829,910,807.000	495,106,513.000	126.000	109.000	237.000
0.029	72,358.000	10,583,503,547	6,809,631,638.000	570,360,382.000	135.000	104.000	240.000
0.029	74,973.000	10,782,421,173	6,598,330,348.000	716,790,771.000	139.000	110.000	249.000
0.028	75,657.000	10,920,978,314.000	6,365,307,914.000	790,062,787.000	143.000	112.000	252.000
0.028	75,913.000	10,887,727,035.000	6,158,389,883.000	928,408,473.000	144.000	117.000	260.000
0.028	78,686.000	10,701,163,114.000	6,043,786,211.000	1,053,849,080	163.000	102.000	268.000
0.027	84,962	11,014,549,485.000	5,882,382,280.000	1,098,984,600.000	230.000	38.000	268.000
0.109	86,515.000	11,449,816,674.000	5,860,713,253.000	1,332,452,337.000	230.000	41.000	271.000
0.053	89,577.000	11,935,716,920.000	5,948,966,076.000	1,093,217,845.000	234.000	37.000	271.000
0.035	89,688.000	12,034,804,642.000	6,188,582,375.000	1,217,031,896.000	240.000	37.000	277.000
0.027	91,689.000	12,259,767,484.000	6,550,765,180.000	1,280,909,493.000	241.000	42.000	283.000
0.108	93,597.000	12,954,491,731.000	6,523,687,562.000	1,254,882,657.000	245.000	42.000	287.000
0.054	97,215.000	13,344,784,410.000	6,729,831,707.000	1,409,710,531.000	246.000	46.000	292.000

Source: Field Survey

Table 5.7

Statistics of Affiliates by Chapter Data as at 31st June 1996

No	Chapter	Area	No. of Group	Member ship	Share-savings	Loans out Standing	Reserves
1.	Bamenda						
		Mezam					
		Credit Unions	37.000	25,627.000	4'022'440'492	1.504'658'340	287'755'252
		Disc. Groups	0.000	0.000	0	0	0
		NGOKETUJA					
		Credit Unions	8.000	857.000	87,806,016.000	34,774,299.000	1.070e+07
		Disc.Groups	1.000	40.000	1,431,995.000	790,000	121.895
		O.M.O					
		Credit Unions	13.000	4,264.000	313,337,353.000	82,244,867.000	2.661e+07
		Disc. Groups	3.000	134.000	1,922,710.000	305,000.000	517,428.000
		Total	62.000	30,922.000	4.427e+09	1.623e+09	3.257e+08
2	FUNDONG						
		W.U.M					
		Credit Unions	4.000	828.000	36,771,121.000	7,602,510.000	3,236,468.000
		Disc. Groups	4.000	160.000	994,295.000	0	0
		BOYO					
		CreditUnions	19.000	5,819.000	279,730,832.000	1.288e+08	4.394e+07
		Total	27.000	6,807.000	317,496,248.000	1.364e+08	4.718e+07
3.000	NKAMBE						
		CreditUnions	9.000	1,819.000	263,764,624.000	1.693e+08	2.802e+07
		Disc. Groups	5.000	423.000	4,896,784.000	1,150,550.000	203,240.000
		Total	62.000	30,922.000	4.427e+09	1.623e+09	3.257e+08
4.000	KUMBO						
		CreditUnions	24.000	5,500.000	377,956,662.000	1.854e+08	5.282e+07
		Disc. Groups	10.000	948.000	13,319,710.000	5,559,085.000	1,001,325.000
		Total	34.000	6,448.000	391,276,372.000	1.909e+08	5.382e+07

Table 5.7 Cont'd

5	FAKO						
		Credit Unions	29.00	15,633.00	4.15e+09	2149667544	5.10e+08
		Disc. Groups	3.00	459.00	37,452,852.00	2.48e+07	400,201.00
		Total	32.00	16,092.00	4.19e+09	2.57e+09	5.10e+08
6.00	KUMBA						
		MEME:					
		Credit Unions	22.00	8,799.00	1.55e+09	8.67e+08	2.44e+08
		Disc. Groups	7.00	3,506.00	27,045,316.00	3,844,243.00	1.96e+06
		Total	29.00	12,305.00	1.57e+09	8.71e+08	2.46e+08
7.00	MAMFE						
		Credit Unions	26.00	3,233.00	228,964,674.00	1.00e+08	4.16e+07
		Disc. Groups	1.00	29.00	168,900.00	0.00	16,000.00
		Total	27.00	3,262.00	229,133,574.00	1.00e+08	4.16e+07
8.00	BAFOUSSAM						
		Credit Unions	29.00	5,148.00	431,127,418.00	1.96e+08	4.15e+07
9.00	DOUALA						
		LITTORAL					
		Credit Unions	19.00	9,757.00	996,593,896.00	5.04e+08	8.31e+07
		Disc. Groups	8.00	772.00	98,222,816.00	9.30e+07	1.09e+07
		SOUTH					
		Credit Unions	3.00	2,355.00	258,082,525.00	1.83e+08	1.29e+07
		CENTRE					
		Credit Unions	4.00	835.00	167,734,075.00	8.69e+07	8.98e+06
		Total	34.00	13,719.00	1.52e+09	8.67e+08	1.16e+08
10.00	NORTH PROVINCE						
		MAROUA PROJ					
		Disc. Groups	4.00	270.00	739,595.00	0.00	0.00
		TOTAL	4.00	270.00	739,595.00	0.00	0.00
	Grand Total						
		Credit Unions	246.00	90,474.00	1.32e+10	6.600e+09	1.39e+09
		Disc. Groups	46.00	6,741.00	186,194,973.00	1.30e+08	1.51e+07
		TOTAL	292.00	97,215.00	1.33e+10	6.73e+09	1.41e+09

SOURCE: Field Survey

5.7.2 Insurance Companies:

For some strange reasons, the few writers on the Cameroonian Monetary and banking system have often left out discussion on insurance companies in the country. In this section of the study, we do not intend to overstress the role of such an institution but rather, we set out to provide a background information of this institution in the country and show how it has grown over time.

All insurance comapnies in Cameroon are registered under the Insurance companies Law No. 85/003 of 31 August, 1985. This Law regulates the operation of companies and underwriters engaged generally in insurance business. For example, the law requires an initial capital of 250,000,000 FCFA to commence any insurance business.

The insurance law has been further concretised by the creation of a regional body, Le CODE CIMA (Conference Interafricaine des Marche d' Assurance) which commenced operation in the country on February 15, 1995. CIMA works hand in hand with the Association of Insurance companies in Cameroon. For full legality, all insurance companies in Cameroon must be registered with CIMA.

As at December, 1996, there were 14 licensed insurance companies in the country. This is shown on Table 5.8. Their number grew from seven, before 1987 to 16 after 1987. These are indicated with asteriks on the table.

The branches of some of the insurance companies for which data were available are spread in almost all the Provincial headquarters.

TABLE 5.8 Licensed Insurance Companies in Cameroon as at 1996

1. Beneficial Life Insurance, CAMAT
2. Cameroon Insurance, CAMINSUR
3. Compagnie Camerounaise d'Assurance et de Reassurance, CCAR*
4. Compagnie Nationale d'Assurance, CNA*
5. General and Equitable Assurance Cameroon, GEACAM*
6. Garantie Mutuelle des Cadres, GMC.
7. Assurance La Mediatrice, S.A.
8. Assurance Les Provinces Reunies
9. Satellite Insurance Company S.A.
10. Societe Africaine d'Assurance et de Reassurances, SAAR.
11. Societe Nouvelle d'Assurance du Cameroun, SNAC**.
12. Societe Camerounaise d'Assurance, SOCAR*
13. TransAfricaine Assurance, TAA
14. All Life Insurance Company
15. AMACAM**
16. Caisse Nationale de Reassurances (CNR)*

Source: Field Survey.
NOTE: * Insurance companies incorporated before 1987
** Wound up.

It is also worth mentioning that more than 50 per cent of them were purely owned by indegenes (individuals and companies) and the rest, expatriate or mixed. And that, all of them are strictly involved only in commercial transaction. Almost all the insurance companies in the country have their head offices in Douala, Yaounde and Bafoussam.

5.7.3 **Post Office Savings Bank:**

The discussion in this chapter will be incomplete without detailed study on the Post Office Savings Bank.

The Post Office Savings Bank was created in 1938. The bank is a governments' institution aimed at providing a convenient place of savings for lower income groups. The minimum amount of deposit that can be left in an account is 1,000 FCFA. This is the same amount required to open an account with the bank. Depositing money in an account can be done in cash, mandat or by certified postal or bank cheque.

Withdrawal is in two forms - Partial, which allows for a certain sum to be withdrawn or Integral, which entails withdrawing all the amount in the account. This, however, does not necessarily entail a closure of the acount. Partial Withdrawal is usually allowed in two main forms namely:

On Notice Withdrawal: any amount that does not exceed the deposit.

By Telegram: the maximum a day that can be withdrawn is 50.000 FCFA.

The telegraphic withdrawal is also operational. This is to reduce the delay due to withdrawal by Post. However, the client usually pays for the cost of telegram. This form of withdrawal is rarely operational (except under emergency situation) due to the high charge involved.

The Post Office Savings bank is operated in all the Post Offices and Postal agencies throughout the country. In

this way, the bank seems to have a fairly wide distribution in the country.

The interest on deposit is calculated according to some stated formula and is normally done for periods of 15 days. The interest on deposit and the maximum amount on which interest is paid is fixed by law and is subject to amendment.

The Cameroon's Post Office Savings bank is regulated by Laws No. 62/20 of November 21, 1962 and No. 78/08 of July 12, 1978. The Bank's financial year runs from July to June of every year.

As of now, the bank accepts two forms of deposits. These are fixed deposits and savings deposits. There is no room for overdraft. This fact coupled with its low interest on savings makes this bank unattractive to high income earners. This informs us on the reason why the bank has not recorded

any significant growth in terms of number of branches and reserves over time.

A significant development in the bank was the introduction of the Mobile Post in the late 1980's. The aim was to enhance the usefulness and competitiveness of the bank with commercial bank. The Mobile Post, however, has since been closed as it was not economically viable.

Also, formerly, the Savings realised from the bank used to be stored in the Treasury. But due to government's plundering attitude of funds in the Treasury (where she has the overall say), the realised funds from Savings are now kept in banks where the government has little access to.

The Cameroon Post Office Savings bank has four main regional agencies. These are found in Bafoussam, Douala,

Yaounde and Garoua. However, the main administrative headquarters of the bank remains in Yaounde.

This chapter has has traced the direction of causality between financial development and economic growth in Cameroon using the Granger's framework of analysis. The results showed that causality runs from economic growth to financial development.

This chapter has also determined financial development of Cameroon using the FIR and NIR ratios. The results showed that these ratios fell over time.

Using the OLS method for our regression equations, we identified some important variables determining financial development in the country.

With regards to the density of financial structure in the country, the results showed that this was 'low'. In terms of the structure of the banking system commercial banks predominated over other financial institutions.

The last section of this chapter under our results showed that the growth in Credit Union and Insurance industry in the country has been encouraging. We also saw that, it is not until of recent that the role of the insurance industry in the country and the legal framework within which it operates has been recognised. As concerns the Post Office Savings bank, its growth has been hindered by the competition it faces from Commercial banks and other financial institutions that grant Credit.

NOTES TO CHAPTER FIVE

1. Credit Unions can be traced back to Rochdale, England 1844, when a group of weavers founded a cooperative store. The members bought shares to raise capital and purchased goods to sell to members at fair prices.

   After the crop failure and famine of 1846 in Germany, a Mill and bakery Cooperative was organised by a civil servant, Hermann Schulze-Delitzsch. In 1850, he established the first Cooperative Credit Society, which later was known as a "People's Bank".

2. For the History of Credit Union movement in Cameroon, see "History of the Cameroon Cooperative Credit Union League Limited (CamCCUL Ltd)", 1963 - 1993. 11th September 1993, Bamenda, N.W.P. Cameroon.

3. ACCOSCA is an affiliate of World Council of Credit Unions (WOCCU) with its headquarters in the U.S.A.

CHAPTER SIX

SUMMARY AND CONCLUSIONS

6.1 Introduction

This study has investigated financial development and economic growth in Cameroon since before independence. However, the empirical analysis of the study confined itself from 1972 to 1995. The choice of this period is dictated by the availability of necessary information.

This chapter provides a general conclusion of the study in the light of the major findings which are sumarised below. The most important aspect of any study such as this lies in its ability to investigate and provide answers to the hypothesis of the research, but more importantly, to provide a framework for policy action. In this study therefore, efforts are made to articulate policy prescriptions on the basis of the research findings. This chapter is further organised as follows: Section 6. 2 presents the summary of the major findings; while Section

6.3 analyzes the policy implications of the findings. Section 6.4 advances various policy recommendations and finally,Section 6.5 which provides the overall conclusions of the study.

6.2 Summary of Major Findings:

6.2.1 Causality between Financial and Real Growth

Our empirical findings have shown that, evidence supports the demand-following approach in financial development in Cameroon. The Authorities believe that, growth in the real Sector induces financial growth. In all, the findings from causality seem to point to the fact that, recent financial sector reform in Cameroon have not really yielded any desired results. Thus, rejecting our hypothesis.

6.2.2 Real Financial Growth:

Our investigations have shown that our FIR and NIR ratios have grown poorly over the period covered by the study. The study thus confirms that as the economy grows, the financial sector has been left behind. In all, therefore, we can

say that our economy is characterised by a slight leaning towards the demand-following finance and a low level of the ratio of assets to GNP.

6.2.3 **Determinants of Financial Growth:**

As regards the FIR ratio, the size of the regression coefficients of real income and parallel market exchange rate, are its dorminant explanatory variables.

As regards the NIR ratio, the dorminant explanatory variables are real income, interest rate and, parallel market exchange rates.

Hence, real income, interest rate and parallel market exchange rates, are the key determinants of real financial growth in Cameroon. It is, however, also observed that,

there are likely other important variables contributing to real financial growth.

It is imperative to state also that in terms of ownership structure, our findings showed that the banking industry is heavily oligopolistic with a very high concentration of banking offices in the urban areas. This means that the financial system has not been pushed further into the economy reflecting to an extent a low level of financial development.

6.3 **Policy Implications of Our Findings:**

The findings that causality runs slightly from economic growth to financial development has an imporotant implication on monetary policy action. Monetary policy action which is geared towards financial development which in turn acts as a stimuli for growth has not been realised.

The findings that the parallel market exchange rate is a key variable of financial development in Cameroon has implications on the external gap of the financial sector in Cameroon. The unofficial widening of this exgernal gap is centered primarily around inappropriate financial policies concurrent with the heavy reliance of the Cameroonian economy on foreign borrowing as a method of investment financing.

The findings that changes in interest rate is important when considering financial development in Cameroon shows that monetary policy impinges upon the liquidity preference of banks. Changes in the determinant of liquidity preference definitely affects the flow of credit from banks, to the general public.

The empirical findings that the density of financial structure in Cameroon is low and the additional fact that banks are heavily concentrated in urban areas means that, the transformation of the subsistence sector is ignored.

6.4 **Policy Recommendations:**

Based on the findings of the study, we hereby advance the following policy recommmendations:

6.4.1 **Creation and Expansion of Financial Institutions**

Financial development is a complex and multifaceted process. It involves the balanced development of three essential elements:- institutions, instruments and markets. To this end, it is recommended that more banks and other financial institutions alongside financial instruments and markets should be encouraged to develop in order to provide large credit facilities and to divert voluntary savings into productive channels. Branch and unit banking should be extended to semi-

urban and rural areas in order to remedy the underdeveloped urban-concentrated banking system where only estates, big industries, commercial houses and urban dwellers benefit from the banking credit facilities. The extension of such institutions to rural areas will make credit available to peasants, small businesses and traders. Availability of credit is very important for investment.

To promote growth in some of the specialised financial institutions discussed in the study, it is further recommended that, credit unions for example, should also extend their branches into rural areas (that is, rural dwellers should be educated and made to start their own credit union) the insurance companies should expand their scope to capture fire, death, theft, travels, medical expenses and losses of money, rather than just being concerned with commercial transactions of car licenses and accidents. The Mobile Post Office should be reintroduced (with adequate and effective management). It may be that the minimum amount of deposit be reduced and the maximum amount of withdrawal be increased. Interests too on

both fixed and savings accounts should be increased. However, it should be emphasized here that, this recommendation is not an endorsement of the creation of financial institutions with dubious motives. Rather, our recommendation appeals to a well monitored financial institutions tailored towards developmental goals.

6.4.2 **The Application of DOSRI**

Through a rigorous application of the principle of DOSRI (Directors, Officers, Stockholders and Related Interests) one is made to believe with Yusuf (1993) that, a bank could help alleviate chronic problems of favouritism in granting and retrieving loans, unhealthy recruitment and promotions, which more often than not have resulted in the collapse of many banks around the world. The principle of DOSRI seeks to prohibit board members or other key officials of the bank from direct borrowing of money from their particulaiaristic banks either for investment purpose or for political ambitions, or even housing loans once retrieval prospects would appear to be bleak,

particularly among the non-shareholding Directors. In several countries, including the USA and Nigeria of recent, thousands of officials and Directors get dismissed or jailed annually for severely abusing such privileges. Mere suspensions would only have a modest impact.

6.4.3 **Autonomy of the Monetary Authority**

The formulation of an adequate monetary policy should combine the roles of the monetary authority and the executive branch of the government. It is strongly recommended that, fully specified and dichotomised functions of each of these authorities in Cameroon should be made with respect to monetary matters.

Let it be quickly added here that so far as BEAC continues to be tied to the apron strings of France, its usefulness towards serving the interest of the nation states it claims to, its genuine role in this regard is heavily called to

question. It is thus recommended that, full autonomy of BEAC be granted and be made to perform independently (like other Central Banks, e.g Central Bank of Nigeria) the role of a Central Bank. Otherwise, the member countries should detach their membership from BEAC and own individual Central Banks.

6.4.4 **An Alternative to S.A.P:**

The crucial role of finance in economic growth has been brought out in our study. We offer here an additional alternative strategy to the governments approach, embodied in SAP. That, some financial insititutions be dissolved and others privatised and even the allocation of credit by the invisible hand, is called to question. Instead of dissolving distress banks, surveillance over long serving officers in entrusted positions, thorough auditing, investigation, monitoring and action of the defaulters should be brought to book and be asked to pay compensation for further revamping of such banks.

In the same line, it is further recommended that, the establishment of Audit Committees in all financial institutions that will be independent of external influences, is necessary. Also, sound management through effective checks and balances systems, management information systems and review procedures be put in place.

Additonally, a policy that compels a certain proportion of the dividends of expatriate banks to be reinvested in the country be put in place. And, above all, a well articulated policy that will reduce illegal currency transactions across the borders is urgently called for.

AHMADU BELLO UNIVI
KASHIM IBRAHIM LI

6.5 **Conclusions:**

Disputes about the extent to which financial development can affect the level of economic activity at most times, has often been cast in a single specification. For Cameroon, this study adopts not one, but rather, separate and interrelated models to study financial development and growth in the country.

The models, served unambiguously, the purpose for which they have been developed. They have shown clearly: (1) the direction of causality between financial development and economic growth; (2) the density of the financial structure; (3) the determinants of real financial growth and the influence of the foreign sector on the financial sector and (4) the impact of SAP on real financial growth in the country.

The findings of this study have revealed that, first, Cameroon has followed a rigid and uncomprehensive blue print of the demand-following hypothesis. Second, that monetary policy has its own limitations as a tool for development because, the real-monetary phenomena are narrowly linked and, third that, the financial system is highly vulnerable to capital flight.

Mindful of the nature and quality of data used, we however, deposit here that this study does shed some light on financial development and economic growth. This particular aspect of finance has seldom been appraised quantitatively in a developing economy in a monetary union. The most serious and impartial works are either descriptive or more generalised. It it hoped that this work will stimulate further research on the link between financial development and growth not only in Cameroon, or of countries in Monetary union, but also in other developing economies alike.

Finally, it is recommended that Cameroon needs a strong financial sector in order to achieve rapid economic growth.

APPENDIX I

PROVINCIAL BREAKDOWN OF THE POPULATION OF CAMEROON AS AT 1996

	PROVINCE	Number of Inhabitants
1.	Adamawa	495,185
2.	Centre	1,651,600
3.	East	517,198
4.	Extreme North	1,855,695
5.	Lithoral	1,352,833
6.	North	832,165
7.	North West	1,237,348
8.	West	1,339,791
9.	South	373,798
10.	South West	838,042
	Total	10,493,655

Source: CamPost No. 59 Wednesday, February 27, 1991, p.1

APPENDIX II

POPULATION (Thousands)

YEAR	POPULATION
1972	6,836
1973	7,022
1974	7,223
1995	7,439
1976	7,671
1977	7,921
1978	8,183
1979	8,445
1980	8,701
1981	8,954
1982	9,245
1983	9,457
1984	9,710
1985	9,969
1986	10,244
1987	10,536
1988	10,846
1989	11,175
1990	11,524
1991	11,880
1992	12,242
1993	n.a
1994	n.a
1995 (mid)	13,300*

Source(1) 1972 - 1992 World Tables (1994)
World Bank. Johns Hopkins University, Baltimore.

Source(2)* World Development Report, 1997, p. 214.

APPENDIX III

COUNTRIES AND TERRITORIES IN THE FRANC ZONE

COUNTRIES	CENTRAL BANK	CURRENCY	PARRITY WITH
FRANCE & MONACCO	BANK OF FRANCE	FF	
D.O.M. - Gouadeloupe - Guyane - Martinique - Reunion - Saint Pierce - Miquelon	Institute d'emission des DOM IE D.O.M	FF	
T.O.M. - Nouvelle Caledonie - Polynesie Francaise - Wallis et Futura	Institut d'emission des T.O.M. I.E.T.O.M	FCFP	FCFP=O.S.S.F.F
Other Independent countries: - Benin - Burkina Faso - Cote d'Ivoire - Togo, Niger - Senegal, Mali	B.C.E.A.O.	FCFA	
- Cameroon - C.A.R. - Congo, Gabon - Tchad - Equatorial Guinea	B.E.A.C	FCFA	IFF=50FCFA
Comoros	Institut d'emission des Francs	FCFA	IFF=50FCFA

Source: Anyang Nyongo'o In Allechi M'bet (1990) "Regional Integration in Africa" Unfinished Agenda. Academy Science Publishers p.209.

APPENDIX IV

Details on the Credit Union Risk Management:

The Credit Union Risk Management is a group of insurance scheme introduced by CAMCCUL in 1976 in order to cater for possible risks that may occur to a credit union through death or permanent disability of any of her members.

The contract is drawn between Camccul and the individual credit unions. The premiums are therefore paid by the credit union on a group basis.

How it Operates:

The insurance scheme currently operates on:

i) Life Savings: The credit insures shares savings of her life members against death;

ii) Loan Protection: The credit union insures loans of her life members against death or permanent disability.

Coverage Limits:

The maximum coverage for life savings is presently 500,000CFA francs, while that of loan protection is 2,500,000CFA francs

Ways In Controlling Credit Union Risks:

Three ways are used in controlling credit union risks. These are:

i. Loan Protection Insurance

ii. Life savings Insurance Coverage;

iii. Fidelity Bonding.

Loan Protection and Life Savings Coverage are group life insurance designed for credit union members and are taken up on behalf of the members by the Credit Union. All life insurance coverage are for the members at no additional charge. The credit union pays all the premiums.

Registration of Credit Union with the Scheme:

To be registered in this scheme, a registered credit union passes a resolution at its Annual General Meeting to join the scheme. An application is filled by the said credit union and sent to Camccul which then scrutinises the application, issues a certificate, opens a file and sends the cretificate to the credit union.

Procedures in administering the Risk Management Scheme

The credit union pays premiums to Camccul and Camcul settles all their claims.

The premiums are accompanied by a monthly coverage report, the monthly financial statement and the statement of income and expenses. These documents must reach the League office on or beofre the 15th of the following month.

Camccul checks these monthly coverage reports properly, receives the premiums, and compiles a premium control sheet.

Exclusions in the Risk Management Scheme:

The following is a list of the exclusions from the scheme:

i) loans and savings of clubs, societies etc;

ii) loan balances of members 70 years of age and above;

iii) loans in excess of 2.5 million CFA francs;

iv) all savings made by a member after attaining the age of 70;

v) all savings in excess of 500,000CFA francs

vi) Suicide;

vii) civil disorders/wars;

viii) natural disasters resulting in mass deaths (that is, a case where more than ten members die from the same cause within an area);

ix) outbreak of epidemics resulting in mass deaths (as defined above).

How Benefits of Savings are Calculated:

The schedule of benefits for Life Savings are calculated as shown below:

i)	amount deposited before 6 months	=	25%
ii)	6 months to 54 years	=	100%
iii)	55 years to 59 years	=	75%
iv)	60 years to 64 years	=	50%
v)	65 years to 70 years	=	25%
vi)	Above 70 years	=	no coverage

When a member dies

When a member dies, the claim is processed as follows:

i) the beneficiary brings the death certificate to the credit union;

ii) the credit union prepares a claim statement and

attaches the death certificate and all records of the late member and sends them to Camccul.

iii) Camccul scrutinises the claim and makes a cheque which is paid to the credit union. Camccul must ensure that the credit union has sent the coverage reports and paid her premiums.

iv) the bookkeeper of the credit union issues a cash receipt for receiving the money or cheque.

v) when the entries are made in the passbook, it is then handed over to the beneficiary.

The credit union retains the loan and interest.

Credit Unions to be served with Lapse Notices:

Lapse notices are sent to:

i) Credit unions which fail to pay their premiums within 60 days.

ii) credit unions which fail to submit coverage reports within 60 days.

How a Contract is reinstated:

To reinstate a contract, the credit union must do the following:

i) Pay all unpaid premiums, and

ii) submit all monthly coverage reports.

In this way, the credit union will be entitled to all her benefits.

How a Contract is renewed:

To renew a contract when it has been cancelled, the credit union must:

i) submit a new application;

ii) submit the old contract to Camccul. This credit union is not entitled to benefits prior to renewal.

Main advantages of the Scheme:

These include:

i) The loan of a late member is paid as soon as he dies

up to a maximum of 2.5 million CFA francs, with interest upto six months.

ii) Savings of late members are increased upto 500.000CFA francs and handed to the beneficiary;

iii) Camccul pays "non claim bonuses" to participating credit unions annually, if there is a balance of premiums collected;

iv) Loans of permanently disabled members are paid, provided there is a sure proof of permanent disability. (The maximum age limit in this case is 60 years).

v) It eliminates difficult collection problems that could otherwise result from deceased or disabled borrowers.

vi) There is an extra direct cost to the member.

APPENDIX V

The Purpose of Credit Union, the Sources and uses of funds

The Law relating to Cooperative Societies and Common initiative Groups is No. 92\006 of 14 August 1992. Decree No. 92\455\PM of 23 November 1992 lays down the procedure for implementing law No. 92\006 of 14 August 1992.

Purpose

According to Section 42 of Cahpter II, p. 29 of the above text, the sole object of thrift and loan cooperative societies shall be to:

a) encourage savings by their members;

b) provide capital for moderate interest loans to members

c) provide their members with the financial services that complement savings and loans under conditions fixed by their articles of association if need be. The bye-laws of the text further add that the prupose of cooperative credit union shall be

d) to encourage its members to make regular savings by providing them with possibilities of investing their money

e) to provide members with loans for pruposes of providence or production, or both;

f) to foster the economic and social interests of its members;

g) to ensure the progress of its members by educating them continuously on the proper use of money;

h) offer to the members complementary savings and credit services and financial services as stipulated;

i) to provide other credit union services such as Risk Management, Checking Systems etc.

Source of Funds

The Bye-Laws of the union define the sources of credit union's fund to include:

a) Share Capital

b) Reserve Funds

c) Members savings

d) Members deposits

e) Surplus funds

f) Donations and subsidies

g) Loans

Analysis and Implications of Sources of funds

The maximum number of shares a member can own shall not exceed 20% of the total number of shares owned by all members.

The shares may be withdrawn where a person or society ceases to be a member. The shares and savings may be transferred to third parties by the account holder. The shares shall bear dividends in cases of a surplus. Loans may attract rebates from the net surplus.

Normally, the savings will carry some interest. It is the duty of the Board of Directors to fix the rate of interest. This must, however, be subject to the approval by a simple majority vote of the General Assembly. The interest on savings is considered as an operational cost.

Each member of the union is compelled by law to save regularly at least six times a year. Savings are withdrawn on prior notice which must be approved by the Board of Directors. If the withdrawal of the members savings is less than half of the total amount, a notice of at least one month must be given. If on the other hand, the withdrawal is to be total, a three months notice is required.

A member may deposit any amount into his/her deposit account given that such practices do not reduce his/her ability to make regular savings. such deposits made by members or users must be kept in liquid form.

Deposits are withdrawn freely through the Board of Directors may be informed if large amounts of deposits are to be withdrawn. Fees may not be charged for keeping deposits accounts.

The Cooperative Credit Union may take loans from the League and other Cooperatives or other development financial institutions within the limits generally agreed upon by a simple majority vote of the General Assembly.

Uses of Funds

The Law and bye-laws of the Cooperative Credit union outline the uses of funds to include:

1a) The funds may be used to achieve the purpose of the Cooperative Credit Union.

b) Investments of the union are governed by the provisions of Article 37, Chapter 1, p. 27 of the law which states that "An investment or placement shall be subject to the approval of the General Meeting, if it

exceeds an annual amount fixed by the General Meeting".

2) An amount equal to 25% of the shares and savings must be deposited in a fixed deposit account with the League to serve as a liquidity ratio.

3) Funds that have not been used in granting loans to members or deposited in the Leagues Fixed Deposit may be invested.

a) In deposit or savings accounts in banks located within the National Territory or in postal savings accounts. A decision as to which should be used must be decided by a simple majority vote of the Board of Directors.

b) As other deposits in the League.

4) Net surpluses available for distribution at the end of each year shall be distributed as follows:

a) 20% compulsory reserve funds or statutory reserve

b) 5% education reserve;

c) General reserve;

d) payment of dividends on shares;

e) other reserves;

f) payment of honorarium of Board of Directors

g) payment of Bonuses;

5a) The reserve fund shall be invested prior to being used for its intended purpose;

b) the education fund shall be used in the education of members and the training of the staff of the Cooperative Credit Union in keeping with a programme initially approved by the General Meeting;

6) Appropriation of net surplus shall be subject to the approval of the General Meeting;

7a) Provisions shall be made as a cost to the Credit Union to safeguard against contigency such as depreciation, doubtful debts etc.;

b) the accounts of the credit union shall be closed at the end of the year (31st December). They shall be audited within two months following the end of the year.

FIGURE 1: GRAPH OF THE LOG OF FIRST DIFFERENCE OF NOMINAL Y

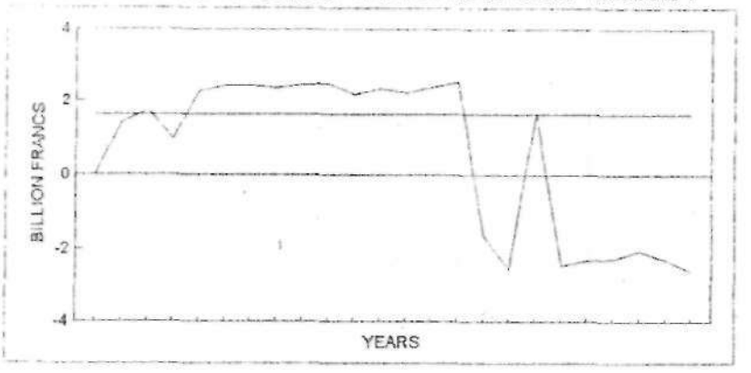


FIGURE 2: THE GRAPH OF THE FIRST DIFFERENCE OF NOMINAL Y

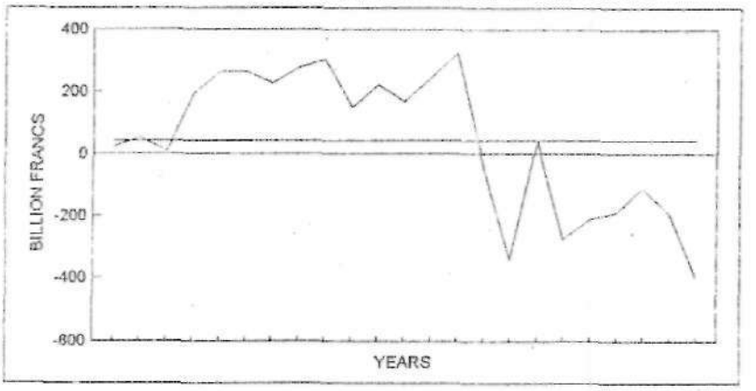


FIGURE 4: GRAPH OF THE LOG OF FIRST DIFFERENCE OF Y IN PERCENTAGE

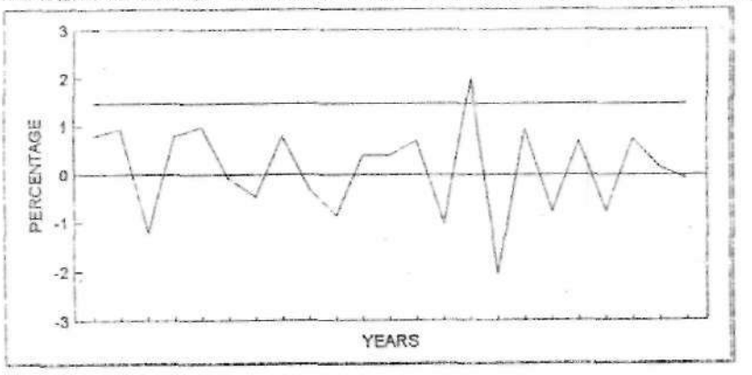
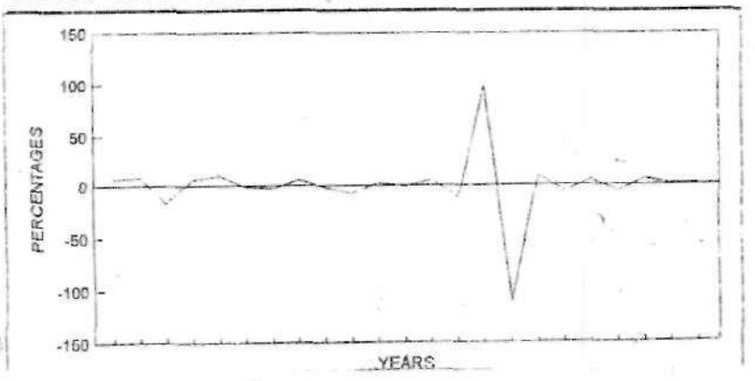


FIGURE 5: THE GRAPH OF THE FIRST DIFFERENCE OF Y IN PERCENTAGE



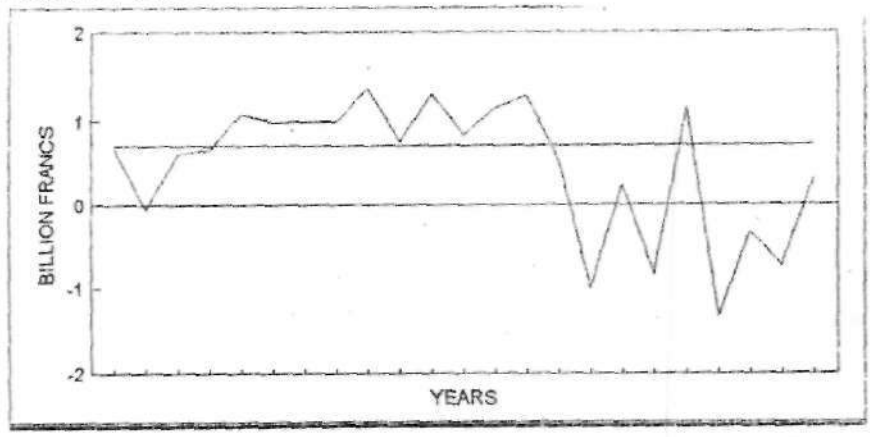


FIGURE 8: THE GRAPH OF THE FIRST DIFFERENCE OF MA1

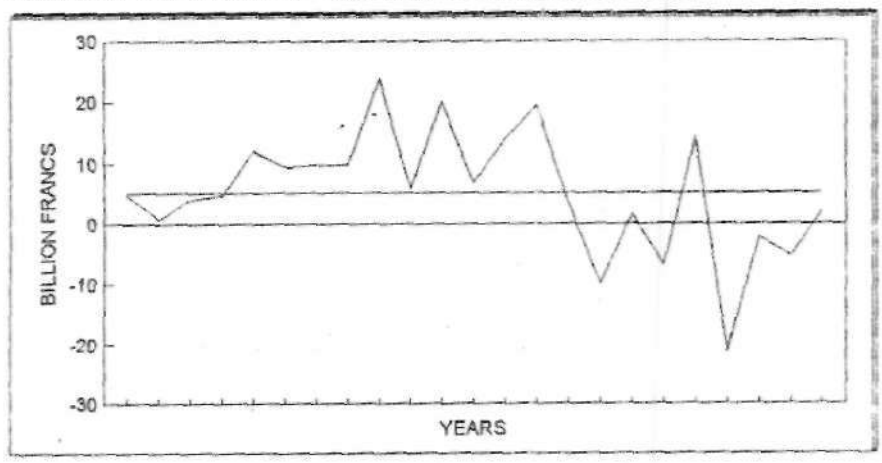


FIGURE 10: GRAPH OF THE LOG OF FIRST DIFFERENCE OF MA2

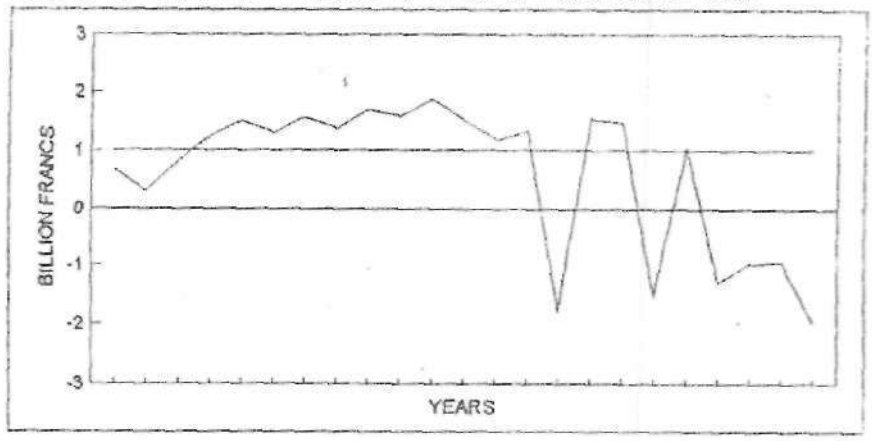


FIGURE 11: THE GRAPH OF THE FIRST DIFFERENCE OF MA2

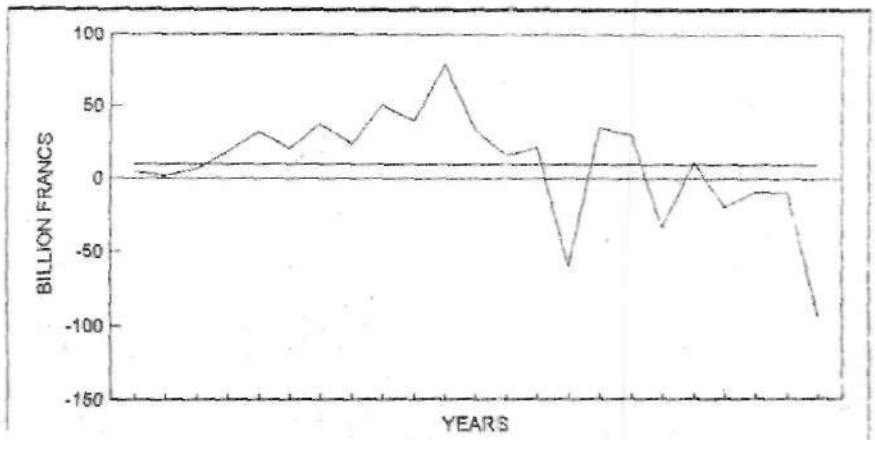


FIGURE 13: GRAPH OF THE LOG OF FIRST DIFFERENCE OF MA3

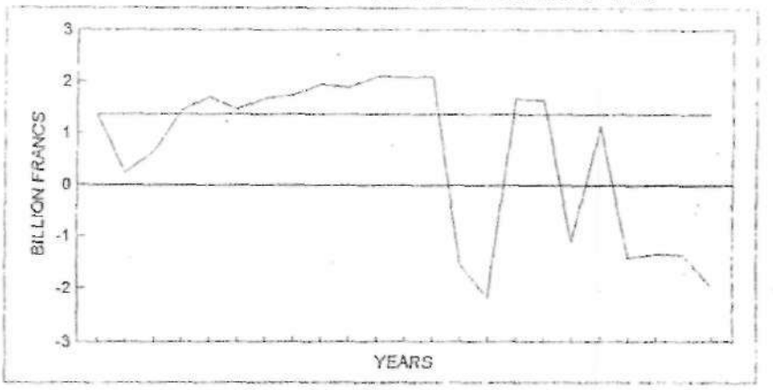


FIGURE 14: THE GRAPH OF THE FIRST DIFFERENCE OF MA3

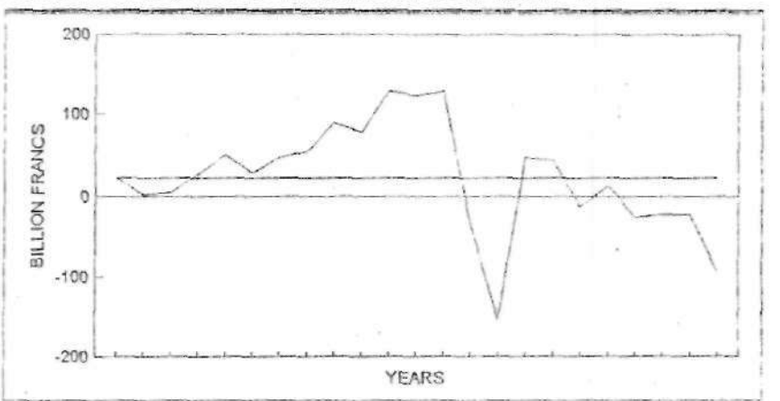


FIGURE 16: GRAPH OF THE LOG OF FIRST DIFFERENCE OF CR1

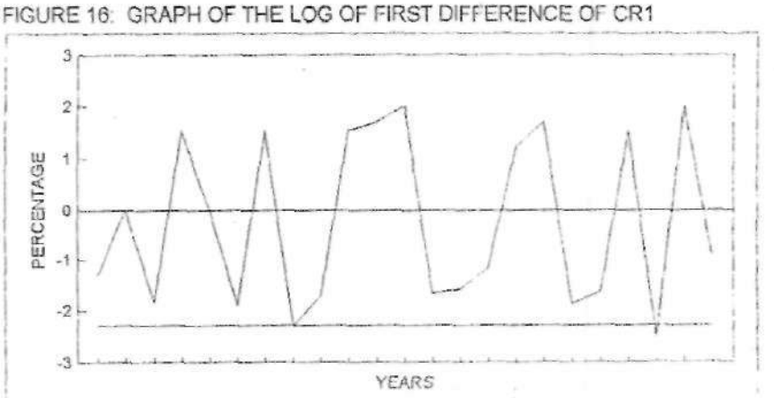


FIGURE 17: THE GRAPH OF THE FIRST DIFFERENCE OF CR1

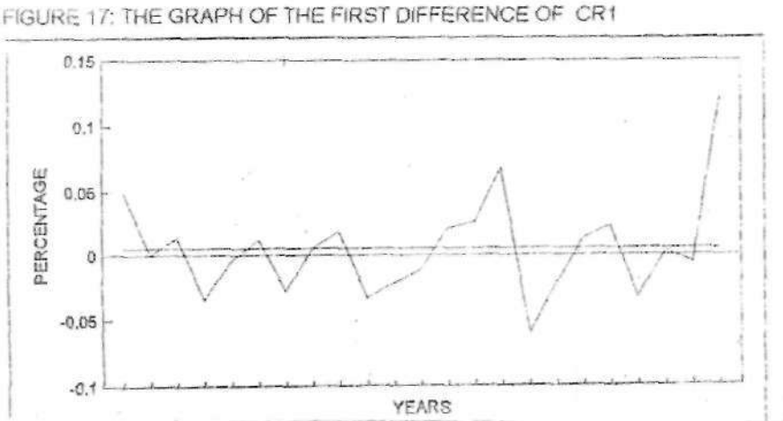


FIGURE 19: GRAPH OF THE LOG OF FIRST DIFFERENCE OF CR2

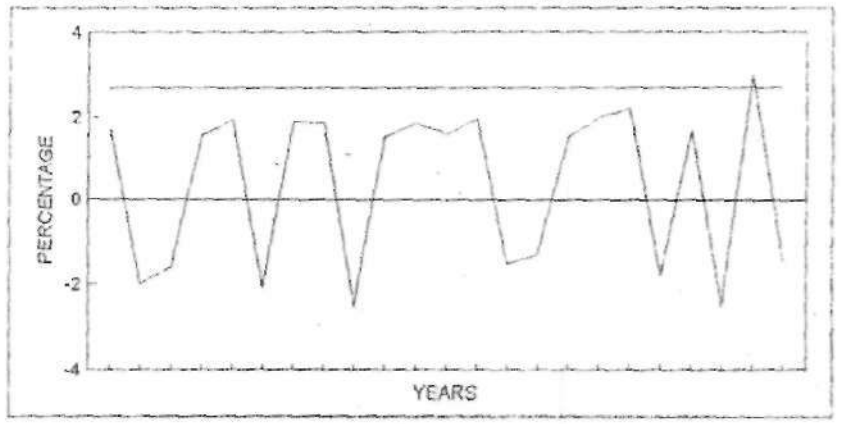


FIGURE 20: THE GRAPH OF THE FIRST DIFFERENCE OF CR2

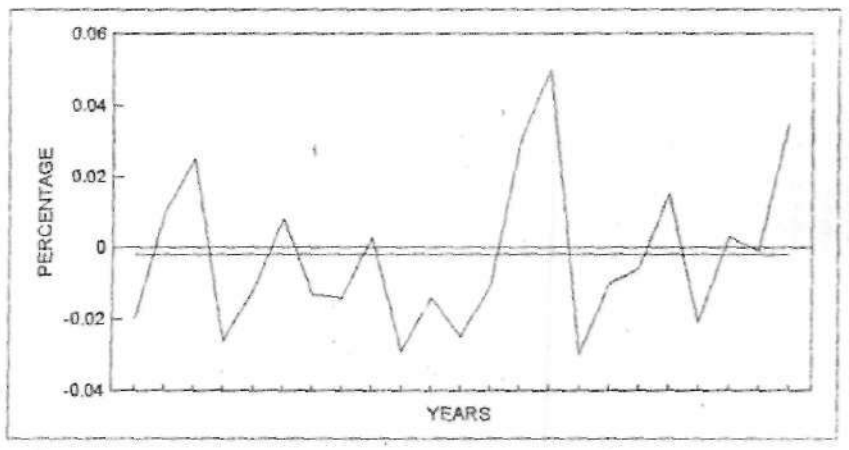


FIGURE 22: GRAPH OF THE LOG OF FIRST DIFFERENCE OF MR1

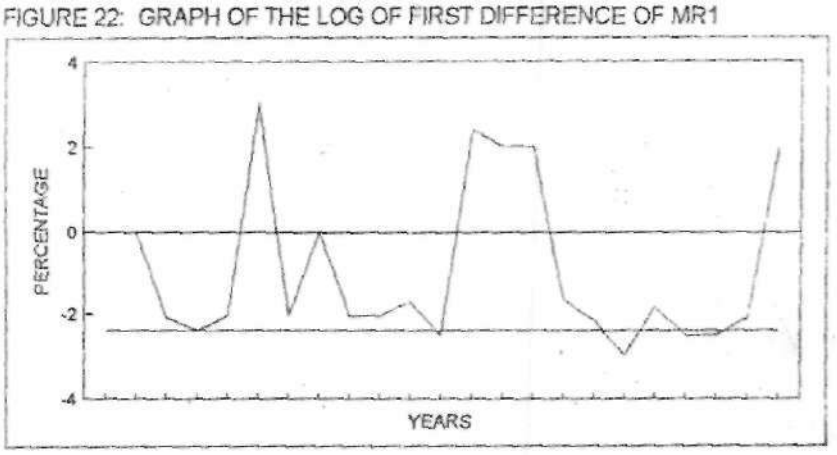


FIGURE 23: THE GRAPH OF THE FIRST DIFFERENCE OF MR1

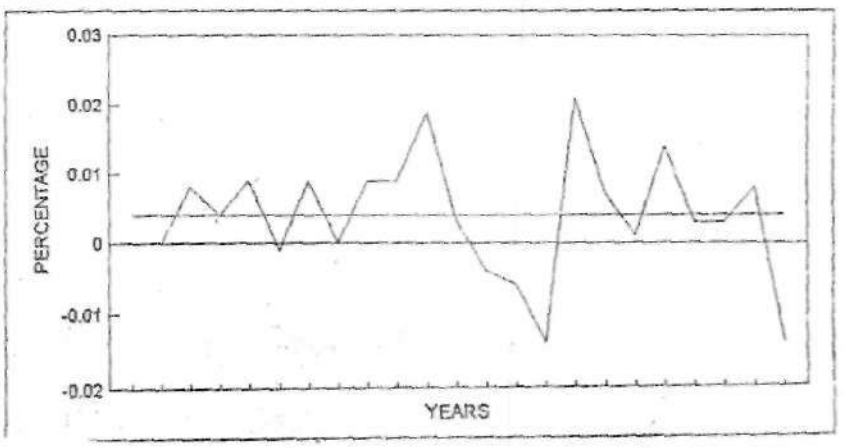


FIGURE 25: GRAPH OF THE LOG OF FIRST DIFFERENCE OF MR2

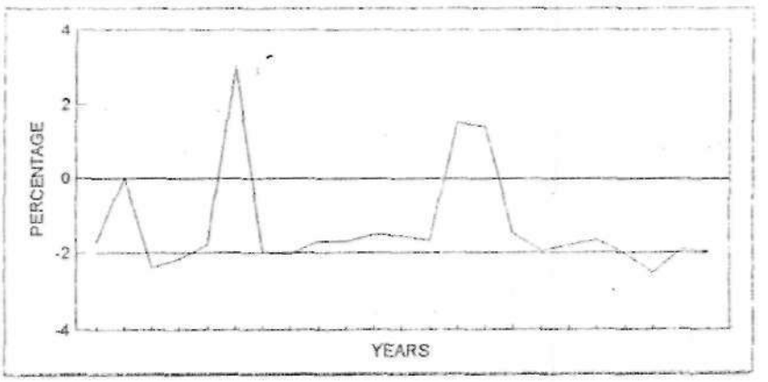


FIGURE 26: THE GRAPH OF THE FIRST DIFFERENCE OF MR2

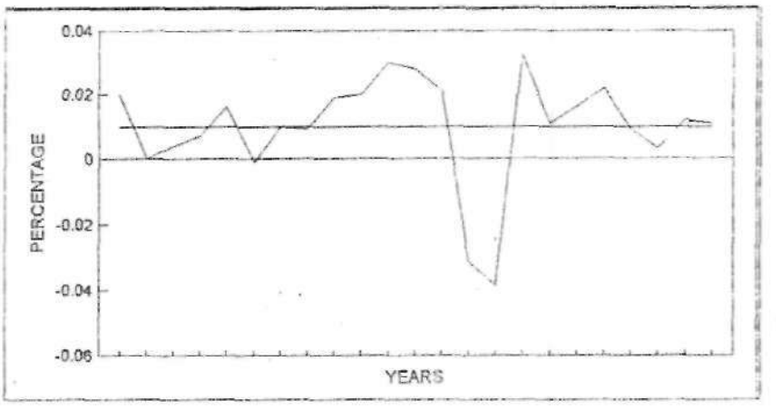


FIGURE 28: GRAPH OF THE LOG OF FIRST DIFFERENCE OF DCR

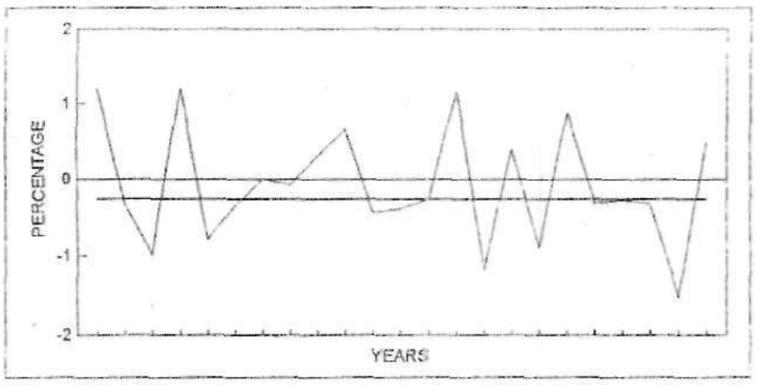
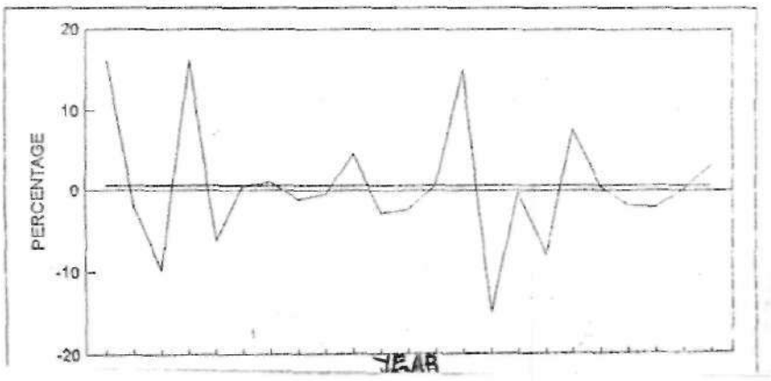


FIGURE 29: THE GRAPH OF THE FIRST DIFFERENCE OF DCR



APPENDIX VII

DATA FOR REGRESSION

BILLIONS FCFA			
YEAR	MA1	MA2	MA3
1972	22.30	62.18	76.98
1973	27.25	67.06	99.62
1974	28.13	69.09	101.29
1975	32.23	76.05	105.69
1976	36.90	94.57	132.48
1977	48.92	126.62	183.50
1978	58.47	146.95	212.31
1979	68.24	184.25	260.09
1980	78.08	208.23	315.42
1981	101.81	258.92	405.61
1982	107.59	298.48	483.41
1983	127.63	377.07	612.42
1984	134.41	410.76	736.23
1985	148.30	426.68	864.52
1986	167.66	447.97	831.04
1987	171.11	387.01	677.72
1988	161.12	421.99	725.18
1989	162.85	452.40	769.38
1990	155.98	418.63	756.61
1991	170.25	429.90	770.28
1992	148.86	410.33	744.45
1993	146.66	401.21	722.28
1994	141.28	392.31	699.37
1995	143.39	297.64	605.20

	PERCENTAGES (%)	
YEAR	CR1	CR2
1972	0.36	0.29
1973	0.41	0.27
1974	0.41	0.28
1975	0.424	0.305
1976	0.39	0.279
1977	0.386	0.267
1978	0.398	0.275
1979	0.37	0.262
1980	0.375	0.248
1981	0.393	0.251
1982	0.36	0.222
1983	0.338	0.208
1984	0.327	0.183
1985	0.348	0.172
1986	0.374	0.202
1987	0.442	0.252
1988	0.382	0.222
1989	0.36	0.212
1990	0.373	0.206
1991	0.396	0.221
1992	0.363	0.200
1993	0.366	0.203
1994	0.36	0.202
1995	0.482	0.237

YEAR	MR1 (%)	MR2 (%)	DCR (%)
1972	0.06	0.07	12.54
1973	0.06	0.09	3.63
1974	0.06	0.09	1.55
1975	0.068	0.094	8.28
1976	0.072	0.101	7.82
1977	0.081	0.117	1.60
1978	0.080	0.116	2.03
1979	0.089	0.126	3.02
1980	0.089	0.135	1.84
1981	0.098	0.154	1.32
1982	0.107	0.174	5.85
1983	0.126	0.204	3.05
1984	0.129	0.232	0.59
1985	0.125	0.253	1.13
1986	0.119	0.222	16.08
1987	0.105	0.1835	1.00
1988	0.126	0.216	0.60
1989	0.133	0.227	7.48
1990	0.134	0.243	0.18
1991	0.148	0.265	0.67
1992	0.151	0.274	1.23
1993	0.154	0.277	3.37
1994	0.162	0.289	3.34
1995	0.148	0.300	0.21

YEAR	GNP (BILLION FCFA)	Y (%)
1972	1,032.3	1.3
1973	1,057.1	5.1
1974	1,111.3	13.7
1975	1,120.2	2.9
1976	1,310.3	3.4
1977	1,572.7	13.2
1978	1,833.5	11.9
1979	2,057.0	8.9
1980	2,332.9	15.1
1981	2,634.8	13.0
1982	2,784.6	5.5
1983	3,003.3	8.0
1984	3,171.2	7.6
1985	3,414.8	12.6
1986	3,737.2	1.2
1987	3,693.0	100
1988	3,351.0	-11.8
1989	3,392.3	-2.9
1990	3,115.6	-9.0
1991	2,907.1	-3.9
1992	2,717.1	-10.0
1993	2,608.1	-4.3
1994	2,415.2	-2.9
1995	2,012.4	-2.1

YEAR	AF (%) Y	AF II (%) Y
1972	0.68	0.16
1973	0.62	0.15
1974	0.54	0.09
1975	-0.71	0.13
1976	0.73	0.19
1977	0.49	0.05
1978	0.47	0.02
1979	0.51	0.03
1980	0.42	0.02
1981	0.41	0.009
1982	0.39	0.006
1983	0.38	0.005
1984	0.29	0.002
1985	0.26	0.001
1986	0.21	0.001
1987	100	100
1988	0.17	0.11
1989	0.20	0.15
1990	-0.16	-0.16
1991	-0.24	-0.07
1992	-0.29	0.09
1993	-0.3	-0.06
1994	-0.34	-0.07
1995	-0.35	-0.10

YEAR	Pn (%) Rate of Growth	R (%)	PL(%)	Z
1972	2.72	7.4	19.1	0
1973	2.86	7.4	21.9	0
1974	2.90	7.4	25.7	0
1975	3.10	7.3	29.2	0
1976	3.23	7.2	32.1	0
1977	3.30	7.1	36.8	0
1978	3.20	7.3	41.4	0
1979	3.0	7.3	44.2	0
1980	2.90	7.5	48.4	0
1981	3.20	7.5	53.6	0
1982	2.30	7.5	60.7	0
1983	2.70	7.5	70.8	0
1984	2.70	7.5	78.8	0
1985	2.80	7.5	79.8	0
1986	2.90	7.4	82.3	0
1987	100	100	100	1
1988	3.0	7.2	108.6	1
1989	3.1	7.3	106.1	1
1990	3.0	7.5	107.3	1
1991	3.0	7.5	109.1	1
1992	2.90	7.5	108.2	1
1993	3.0	7.5	107.4	1
1994	2.80	7.5	106.6	1
1995	2.3	7.5	102.8	1

YEAR	Fe_t (%) To the US $	P^e_t (%)	$\frac{Y}{P_L}$ (%) Rate of change
1972	50.6	0.32	0.3
1973	60.4	0.33	0.3
1974	64.2	0.46	0.63
1975	62.8	0.55	0.21
1976	58.6	0.67	0.25
1977	59.0	0.82	0.07
1978	63.1	0.90	0.09
1979	67.4	0.93	0.11
1980	70.3	0.99	0.07
1981	90.4	1.01	0.15
1982	109.4	1.01	0.02
1983	126.8	1.05	0.01
1984	145.4	1.04	0.06
1985	149.5	0.99	0.15
1986	115.2	0.99	0.08
1987	100	100	100
1988	99.1	1.01	0.08
1989	106.2	1.02	0.05
1990	90.6	1.00	0.04
1991	102.3	1.03	0.05
1992	100.2	1.06	0.05
1993	99.8	1.06	0.01
1994	113.2	1.09	0.03
1995	111.9	1.08	0.02

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