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MOBILIZATION OF DOMESTIC RESOURCES

M71-778

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I. INTRODUCTION

"Capitals are increased by parsimony and diminished by prodigality and misconduct"

Adam Smith[1]

1. Two decades ago the United Nations initiated efforts to promote development of the so-called under-developed areas of the world.[2] At that time attention was focused on mobilization of domestic resources. Two decades went by; the emphasis has shifted to foreign resources and foreign aid, and the problems of domestic resources are far from being solved. The tendency to avoid seeking solutions to these problems and instead to turn to foreign aid is very disquieting. Foreign aid which should be an auxiliary tool used to generate growth of domestic resources often comes to be regarded and used as their substitute.

2. Undeniably, most African countries have made an attempt to increase the flow of domestic resources and in several cases their efforts have certainly been considerable. But by and large the results obtained have been disappointing. In many African countries the saving ratio has declined and the balance-of-payments position of these countries on current account have deteriorated during the last decade. The region as a whole showed a lower rate of growth during the last decade[3] (1960-1967) than in the previous one. Several factors contributed in different degrees to this slow-down of economic growth. It may be that the most important

1/ Adam Smith: An Inquiry into the Nature and Causes of the Wealth of Nations, The Modern Library, Random House, New York, 1937, p. 321.

2/ Measures for Economic Development of Under-developed Countries, Report by a Group of Experts, UN, New York, 1951.

3/ Yearbook of National Accounts Statistics, 1968, New York, 1969, Vol. II, Table 5B.

factor was the overriding tendency to attempt accelerated economic growth within the social, economic, technological, and organizational framework as a basis for pre-colonial and colonial structures. There was a failure to distinguish between "development", that is the transformation of societies and their orientation toward concepts and action related to modernization, and improved social status and "economic growth", that is, the attaining of measurable increments in the output of goods and services. Excessive reliance was placed on aggregative planning, foreign private investment, foreign aid, and technical assistance without a sufficiently critical evaluation being made of these instruments as effective means for achieving the objectives and targets proposed in plan documents.

3. Theoretically, following neo-classical concepts, investment should generate its own savings, so that investment and savings should develop in an ever-expanding spiral, each giving support to the other. That has not happened in Africa. The gap between domestic savings and investment has remained as wide as ever, if it has not further widened.

4. There are, however, some doubts about whether or not the neo-classical theories have any relevance for Africa. Neo-classical economists assume that full employment is maintained through the entire accumulation process. They also generally assume that the money supply remains constant and they maintain that development generally benefits all major income groups.

5. These assumptions do not reflect the African realities. The supply of labour exceeds the volume of employment that capacity utilization of the existing stock of capital equipment can provide. The redundant labour, i.e.,"the industrial reserve army" competes with the employed labour force and tends to depress wages to the subsistence level. There is unemployment in the (modern) money sector of the economy as well as much redundant labour within the subsistence sector of the economy. Striking asymmetries in income, particularly money income distribution, not only persist but also

in some cases increased during the past decade. It is believed that the structural pluralism,[4/] which is a common feature of most African economies is the basic cause underlying African economic problems, and, implicitly also the cause of the failure to mobilize domestic resources for development.

6. Frequently, in analyses of the failure of domestic savings to respond to the rise in investment, blame has been placed on various policies, instruments, and administrative deficiencies as well as on the high consumption propensities, both in public expenditure and in the private sector. This may be valid to some extent but the widespread nature of this failure and persistence over a long period of time would indicate that there are more basic causes which not only prevent these factors from being easily removed but also strengthen them as development proceeds. These defects are symptoms of a deeply rooted problem, and can only partially explain the persistent failure of savings to respond to investment.

7. The policies, so far generally advocated and proposed for the mobilization of savings in Africa, based as they are on the model of western developed countries, derived from neo-classical, or rather Keynesian and post-Keynesian concepts, often cause in the African milieu an opposite effect from the one desired. Market imperfections and rigidities are well known by economists but their impact on resource mobilization and resource allocation, within a structure of plural economies, has never been systematically investigated, at least in the African context which is strikingly different from that of other developing regions.

8. If these premises have any validity, implied is a thorough reconsideration of the strategies and policies so far proposed and accepted. Therefore it is important, that as detailed and exhaustive an analysis as possible

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4/ See: paragraphs 27-31; and also E/CN.14/INR/183, Some Features of Development in Africa, March 1971.

be carried out to determine how far structural pluralism accounts for the failure of domestic resources mobilization in Africa, and, if necessary, what new policy recommendations could be made to counteract it.

9. The endemic scarcity and unreliability of statistical data in Africa poses a serious limitation to such analysis. Information on capital formation and savings, when available, suffers from several known limitations. This is even more the case for information on income distribution, consumption and savings patterns, and taxation. There are almost no data on new money supply and the official exchange rates do not reflect the real values of African currencies which are frequently overvalued.

10. Nevertheless, it has been possible to collect a certain amount of information and data which are considered reasonably reliable and representative of a fair cross-section. They have made possible the attempt at analysis carried out in this study. What has been sought has been to present a rudimentary outline of the problem of resource mobilization and allocation under conditions of structural plurality as they operate in Africa. To undertake anything more would have been too ambitious. Of course, a more thorough study is urgently required if the countries of the region are not to be overwhelmed by a sense of utter futility in their attempts to achieve self-sustained growth.

11. In the first section of this paper the records of savings and investments in addition to growth performance of the countries are presented (to the extent that information is available). This section is based on national accounts statistics analysis of the problem which used an "identity" approach premise.5/ The second section analyses detailed data and information on a sectoral basis, departing from the concept of "behavioural"

5/ For terminology used in this study please refer to the note on terminology.

approach which discloses the peculiarities of the structural pluralism of African economies. The third section is devoted to conclusions concerning development of more adequate strategy for domestic resources mobilization and suggestion on policy measures.

II. SAVING AND INVESTMENT IN AFRICA - A BRIEF SUMMARY

12. Balance-of-payments data (Table 1) are available only for 21 countries[6/] and frequently the coverage is restricted to more recent years. There is a major shortage of information, although the other data and information (on Gross Domestic Product, and Capital Formation) are also often not available. Historical series (say for 1950-1960) seldom exist. Because of that the analysis must be restricted to selected countries (18) which represent some 70 per cent of the population of developing Africa and some 73 per cent of its Gross Domestic Product (see Table 3). Although these percentages suggest a relatively good coverage, it should be pointed out that they yield a more optimistic than actual picture because most of the countries which apparently have had better performance are included, whereas most countries which are doing less well and the relatively poor countries are not included.

13. Except for Libya in more recent years (1965 onwards) and Zambia in the past (till 1966) all countries for which balance-of-payments data are available show a negative position on current account. This deficit represents in average some 4 per cent of GDP (1965-66) of the sample. Compared with Latin American countries, which have some 1 per cent[7/] deficit in average, this figure alone is highly disquieting. And, of course, this is an average, the situation in some countries is more negative.

6/ I.M.F., Balance of Payments Yearbook, Vol. 20; information on countries belonging to the Franc area (La Zone Franc, 1967) does not give a full set of data necessary for dressing a balance-of-payments.

7/ Economic Survey of Latin America, 1967, Economic Commission for Latin America (ECLA), United Nations, New York, 1969.

Table 1: Developing Africa a/: Balance -of-payments position on current account, 1960-1967 (in US$ mln.)

	1960-1962 b/ average	1963	1964	1965	1966	1967	1968 c/
Northern Africa							
Libya	- 37.8	- 27.4	- 39.2	+ 87.4	+100.5	+ 136.1	-
Morocco	- 65.0	-108.3	- 47.2	- 13.8	- 68.8	- 80.2	-99.8
Sudan	- 43.4	- 77.2	- 89.6	- 41.9	- 55.1	- 49.1	-64.0
Tunisia	- 81.0	-106.5	- 120.6	- 177.5	-128.0	- 136.7	-
UAR	..	-284	- 286	- 252	-179	- 286	-
Western Africa							
Dahomey	..	-	-	- 16.4	- 23.5	- 28.0 c/	-
Ghana	-109.0	-124.3	- 95.0	- 226.6	-129.9	- 84.8	
Ivory Coast	..	- 19.8	- 17.0	- 37.7	- 46.2	- 58.3	
Mali	..	-	- 43.7	- 44.3	- 37.4	- 37.1	-
Nigeria	-179.2	-162.4	- 272.4	- 276.6	-282.5	- 266.6	-248.6
Sierra leone	..	- 19.9	- 24.0	- 38.2	- 28.5	- 29.3 c/	-
Togo	..	-	-	- 17.9	- 8.5	- 12.8	-
Central Africa							
Congo (K)	..	-	- 64.0	- 108.5	- 33.9	-6.0	+ 58.9
Eastern Africa							
Ethiopia	- 20.0	- 28.2	- 19.0	- 29.[illegible]	- 44.4	- 41.6	- 42.1
Kenya	..	- 10.4	+ 6.9	- 19.8	- 27.2	- 58.3	- 54.9
Malawi	..	-	- 21.3	- 32.5	- 46.9	- 35.7	-
Mauritius	..	-	- 9.2	- 12.5	- 3.8	- 16.6	- 6.2
Somalia	- 22.0 d/	- 22.8	- 35.0	- 31.8	- 20.9	- 23.0	- 21.8
Tanzania	- 11.5 d/	+ 12.3	+ 29.1	- 6.5	- 0.4	- 5.6	- 14.9
Uganda	..	-	-	- 12.1	- 15.8	- 9.7	-
Zambia	..	-	+ 102.6	+ 97.6	+ 68.3	- 1.4	-
Totals e/							
Northern Africa				-397.8	- 330.4	- 415.9	
Western Africa				-657.7	- 556.5	- 516.9	
Central Africa				-	-	-	
Eastern Africa				- 15.4	- 70.2	- 168.9	
Grand Total				-1070.9	- 957.1	- 101.7	
Totals as per cent of GDP f/							
Northern Africa				3.6	2.9	3.4	
Western Africa				8.2	6.5	-	
Central Africa				-	-	-	
Eastern Africa				0.3	1.4	-	
Grand total				4.5	3.8	-	

a/ for coverage see table 3

b/ if not otherwise stated

c/ provisional

d/ 1961-1962 average

e/ coverage like in table 2 (see also Table 3) i.e. excluding Dahomey, Congo (K), and Somalia

f/ relates to "considered" countries (see Table 3)

Source: IMF Balance of Payments Yearbook Vol.20

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Table 2: Developing Africa [a/]: gross domestic capital formation [b/] and gross domestic savings [c/] as percentage of gross domestic product [d/] in various periods

Country	Period	Gross domestic capital formation: first year of the period	Gross domestic capital formation: End year of the period	Gross domestic savings: Basic year of the period	Gross domestic savings: End year of the period	savings-gross dom. capital formation gap: First year of the period	savings-gross dom. capital formation gap: End year of the period
Northern Africa							
Libya	1964-1967	28.0	25.0	24.3	31.4	- 3.7	+ 6.4
Morocco	1960-1967	10.6	14.3	11.5	11.3	+ 0.9	- 3.0
Sudan	1960-1967	14.1	12.7	13.5	9.2	- 0.6	- 3.5
Tunisia	1960-1967	17.0	28.0	5.9	12.1	-11.1	-15.9
U.A.R.	1963-1966	21.4	18.1	14.3	14,5	- 7.1	- 3.6
Western Africa							
Ghana	1960-1967	22.8	13.1	14.7	9.6	- 8.1	- 3.5
Ivory Coast	1963-1966	18.7	24.4	15.7	19.1	- 3.0	- 5.3
Mali	1964-1966	11.6	6.0	-18.2	-16.3	-29.8	-22.3
Nigeria	1960-1966	11.5	15.4	4.9	9.9	- 6.6	- 5.5
Sierra Leone	1963-1965	11.7	16.6	4.6	5.3	- 7.1	-11.3
Togo	1965-1967	25,8	17.8	14.7	13.5	-11.1	- 4.3
Eastern Africa							
Ethiopia	1961-1966	12.9	13.2	11.2	10.0	- 1.7	- 3.2
Kenya	1964-1967	13.8	20.3	14.5	15.1	+ 0.7	- 5.2
Malawi	1963-1966	14.3	19.9	0.0	1.5	-14.3	-18.4
Mauritius	1964-1967	23.3	17.1	16.6	6.9	- 6.7	+10.2
Tanzania	1960-1967	12.6	18.8	11.4	18.1	- 0.8	- 0.7
Uganda	1966-1967	10.8	15.3	10.6	13.9	- 2.3	- 1.4
Zambia	1964-1967	12.3	38.0	28.1	37.8	+15.8	- 0.2

a/ for coverage see table 3

b/ i.e. including changes in stocks

c/ including provision for consumption of fixed capital

d/ at factor cost current prices

Sources: IMF: Balance of Payments Yearbook, vol.20; Yearbook of National Accounts Statistics 1968, U.N. New York, 1969; UNECA countries' information sheets

14. Basic trends in capital formation and apparent savings[8/] can be observed from Table 2. In the aggregate both apparent capital formation and apparent saving ratio showed some slow rise during the past decade. It should be pointed out that this aggregate situation differs widely from sub-region to sub-region. North Africa shows some symptoms of stagnation, a declining trend in apparent capital formation ratio, and no progress in apparent saving ratio in spite of the spectacular performance of Libya. East Africa is making fast progress increasing its apparent capital formation ratio; this is accompanied by moderate improvement in apparent saving ratio. Nothing precise can be said about West Africa , which probably has suffered a set back. The situation in Central Africa is not known because of lack of data for the Central African Customs Union (UDEAC) countries. The overall (18 countries) apparent saving-capital formation gap has been widening. More significant differences have been experienced by individual countries - a synoptic review is given in Table 4.

8/ Throughout this section apparent savings are understood (and calculated) as equal to Gross Domestic Capital Formation plus the surplus of the nation on current account with the rest of the world (see Appendix).

Table 3: Coverage by Table 2 in terms of population and gross domestic product (year 1966)

Sub-Region	Countries: Considered	Countries: Not considered	Coverage in per cent in terms of: Population	Coverage in per cent in terms of: Gross Dom. Product a/
Northern Africa	Libya, Morocco Sudan, Tunisia U.A.R.	Algeria	84.7	79.2
Western Africa	Ghana, Ivory Coast, Mali, Nigeria S. leone, Togo	Dahomey, Gambia, Guinea, Liberia, Niger, Senegal, Upper Volta	80.5	78.9
Central Africa		Cameroon, C.A.R. Chad, Congo (B), Congo(K), Gabon	0.0	0.0
Eastern Africa	Ethiopia, Kenya, Malawi, Mauritius, Tanzania, Uganda Zambia	Burundi, Madagascar, Rwanda, Somalia, Rhodesia	82.3	72.0
Total considered as per cent of all countries listed			68.8	72.8

Remark: selection is incidental following availability of data (IMF data have been decisive)

a/ at factor cost, current prices

Table 4 - Relative situation of individual countries

Apparent Capital Formation ratio	increasing	increasing	declining	declining
Apparent Saving ratio	increasing	declining	increasing	declining
Apparent Saving - Capital Formation gap gap narrowing	Nigeria 1960-66 Tanzan. 1960-67 Uganda 1966-67	-	Libya[a/] 1964-67 UAR 1963-66 Mali 1964-66	Ghana 1960-67 Togo 1965-67 Mauritius 1964-67
widening	Tunisia 1960-67 I.Coast 1963-66 S.Leone 1963-65 Kenya 1964-67 Malawi 1963-66 Zambia[b/] 1964-67	Morocco 1960-67 Ethiop. 1961-66	-	Sudan 1960-67

Source: Table 2

a/ Saving surplus

b/ The country declined from a saving surplus position into a negative position *vis-à-vis* savings.

15. Apparently Nigeria, Tanzania and Uganda have been doing well, whereas the Sudan obviously has some difficulties. Libya has not given evidence of channelling her own resources to aid the development process.

16. Nevertheless the aggregate approach, as it frequently happens, does not yield the true picture. The overall situation is highly vulnerable and loses its positive features when two countries are excluded: namely, Libya and Zambia (representing in terms of population 2.7 per cent of the sample, and in terms of GDP 10.6 per cent). These two countries excluded, the increase in apparent capital formation ratio is close to zero (0.4 per cent

of GDP for the period) and the apparent saving ratio declines (0.8 per cent of GDP for the period). In addition, the apparent saving-capital formation gap widens.9/ In other words, the general situation is worsening rather than improving, especially in view of the fact that countries which have not been included in the present analysis are on the average rather more handicapped than those analysed.10/ Also, when compared with the overall situation of Latin America and Asia /Economic Commission for Asia and the Far East (ECAFE) coverage excluding Australia, Japan and New Zealand/ situation in Africa is encumbered by many more difficulties.11/

17. The trends in apparent domestic savings in relation to gross domestic product are depicted in absolute terms in Chart 1. Most countries do not show a stable relationship between income and saving. There are striking instabilities in the case of Ghana.12/ The chart confirms the positive trends indicated by Nigeria and Tanzania, which show rising trends throughout the period. Countries with higher income levels (Libya, Ivory Coast, Zambia) show a certain degree of flattening out of apparent savings. In general countries with low rates of growth show an erratic path of apparent savings running below previously achieved ratios (Morocco, Ghana). Countries with highest growth rates show best apparent saving performance (Libya, Zambia, Ivory Coast).

9/ The average percentages are a crude approximation because the periods considered for individual countries differ widely.

10/ e.g. two relatively large countries: namely, Algeria and Congo (D.R.) have not been included. Both were coping with serious difficulties during the period under consideration.

11/ During 1960-67 Latin America suffered slight decline both in apparent investment ratio and in apparent saving ratio but the apparent saving-investment gap did not change in relative terms (and in relative terms this gap is four times smaller in Latin America than in Africa). Asia (as defined above) showed a gradual improvement in both apparent investment ratio and apparent saving ratio but the apparent investment-saving gap has had a growing trend (in relative terms), i.e. in most countries there has been an increasing dependence on foreign saving (as is the case in Africa).

12/ Malawi, of course, represents a special case which may be irrelevant because the recorded data may prove to be unreliable.

Chart 1

Domestic savings in relation to gross domestic product

x - gross domestic product (factor cost)

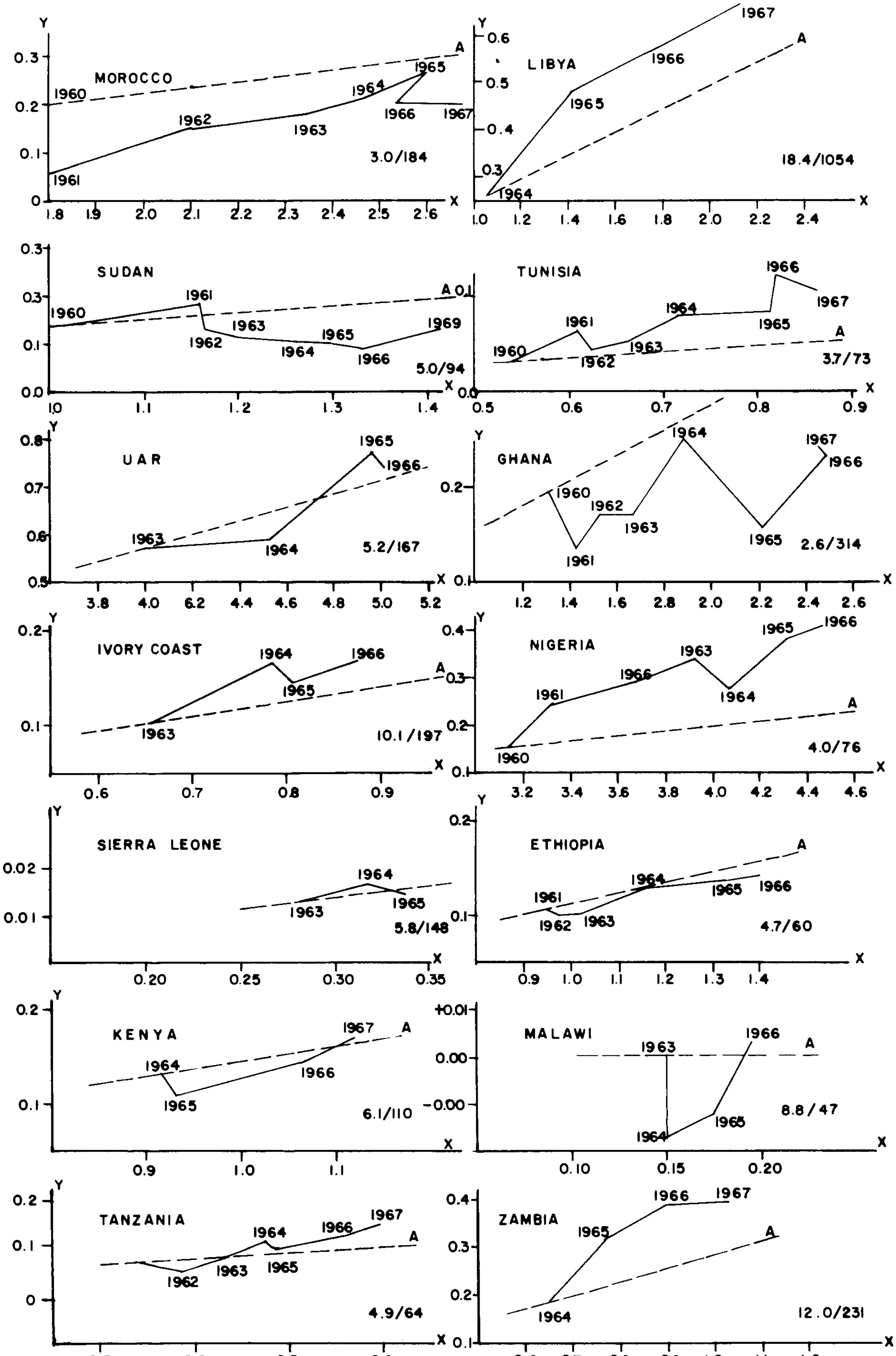
y - domestic savings

A - constant (first year of the period) savings ratio

(values in US$ billions at current prices)

Source: see Table 2

Remark: annual rates of growth for the period and GDP per capita (for 1966) are given in the right lower corner of each diagram.


MOROCCO
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1965
1966
TANZANIA
4.9/64
1962
1963
1964
1965
1966
1967
ZAMBIA
12.0/231
1964
1965
1966
1967

CHART 1

18. As expected the chart does not show any correlation between GDP and apparent saving ratio. This confirms the general opinion that aggregate analysis has very limited (if any) usefulness. In fact, it should be admitted that the analysis presented above does not contribute much to the explanation of the problem. It only sheds more light on the overall situation.

III. SECTORAL SAVINGS: STRUCTURE, BEHAVIOUR AND OTHER FEATURES

A. Static approach

1. Generalities

19. This part of the analysis is based on data and information on 16 East and Central African countries [Congo (D.R.) and Mauritius have not been considered].[13] For convenience of overall appraisal these countries have been divided into three groups following their basic feature of income distribution[14] between the foreign enclave and the indigenous population and the government as follows:

Group	Percent of income accruing to the foreign enclave
I	less than 25
II	more than 25 but less than 40
III	more than 40

13/ Information and data have been collected by the UNECA Industry Section in its process of working out general macro-economic framework data for industrial development harmonization studies. Published and unpublished sources, as well as information gathered in the course of interviews with substantive officers in statistical, planning, taxation, labour, etc. authorities of the countries concerned, have been used. The methodology used for selection, evaluation and computation of basic data are subjects of a basic study on pluralism of African economies and societies which will be published separately.

14/ Before depreciation and taxation - i.e., gross domestic income.

20. Tables 5 and 6 present the basic data characterizing these three groups as well as the aggregate data for the whole sample.

21. Similar data for West Africa and North Africa have, so far as is known, never been collected. The lack of data for West Africa,15/ although an important gap, is not expected to cause any dramatic changes in the conclusions of the present study; howwver, the lack of data on North African countries makes it necessary to omit them from this study because the conclusions drawn for developing Africa south of the Sahara are certainly invalid for North Africa. This is a weakness of the present study which cannot be remedied within the short period of time available. Nevertheless it should be considered that the North African countries merit a separate study.

22. Another weakness of the present analysis is that it is restricted to a particular period of time. All data on which the study is based refer to 1963 or thereabout. It should be realized that these data were collected in 1966 and 1967, when in only few cases were data for 1965 available. This exercise has never been repeated although it should be.

23. For practial purposes and, viewed in conjunction with the methodology which led to the set of data used, the information should be considered as representing the situation in 1962-1965, or more generally, in the early 1960s. Since then changes have occurred and country trends have changed direction, and frequently trends have taken the opposite direction. For example it is certain that the differences in the pattern of income distribution, saving, etc. in the Ivory Coast and Tanzania are more outstanding today than they were in 1960 because the developments trends and factors prevailing in these countries have since moved on almost completely opposite directions.

15/ Some information on the Ivory Coast and Senegal has been collected but not in such detail as to be incorporated into the present study.

Table 5: Main Characteristic Features of Groups

	I	II	III	Aggregate or average
Population				
Total (mln)	36.2	28.1	16.2	80.5
Subsistence sector %	76.40	67.7	62.40	70.5
Indigenous money sector %	23.25	30.6	33.95	28.0
Non-indigenous %	00.35	1.7	3.65	1.5
Annual rate of growth %	2.1	2.5	3.0	2.4
Gross Domestic Product (f.c.):				
Per capita US$	54.6	76.7	145.6	80.7
Annual rate of growth %	4.2	3.5	3.5	3.7
Per capita annual rate of growth %	2.1	1.0	0.5	1.3
Gross Income Distribution: %				
Indigenous pp. Total	78.5	63.0	38.3	58.7
Subsistence	44.5	27.4	13.4	27.5
Money sector a/	34.0	35.6	24.9	31.2
Foreign enclave: Total	20.5	35.5	59.0	39.5
Non-Indigenous pp. a/	14.1	23.4	36.4	25.3
Corporate Business b/	6.4	12.1	22.6	14.2
General government c/	1.0	1.5	2.7	1.8
Non-monetary income	45.6	28.0	14.0	28.3
(Number of countries)	(6)	(6)	(4)	(16)

countries analysed:

Group I: Burundi, Cameroon, Chad, Ethiopia, Rwanda, Somalia

Group III: Central African Rep., Congo (B), Madagascar, Malawi Tanzania, Uganda

Group II: Gabon, Kenya, Southern Rhodesia Zambia
[illegible]
[illegible]

a/ Income of household and private non-profit institution from all sources
b/ Excluding dividends paid to indigenous shareholders and general government
c/ Income from: public sector entreprises, statutory bodies, participation in mixed enterprises and property

Remark: annual rates of growth are for period 1960-1966, other data for 1963 or thereabouts

Table 6: Income, Saving and Capital Formation: Comprehensive Indicators

	Group I				Group II				Group III				Average			
	Indigenous Population		Non-Indig.	Other Data	Indigenous Population		Non-Indig.	Other Data	Indigenous Population		Non-Indig.	Other Data	Indigenous Population		Non-Indig.	Other Data
	Subsis. c/	Money	Popu.		Subsis.	Money	Popu.		Subsis.	Money	Popul.		Subsis.	Money	Popu.	
Gross Income US$ per capita	31.8	80.0	2173		31.1	89.2	1052		31.3	107.0	1446		31.5	90.1	1366	
Out of which Monetary US$ per capita	3.2	66.8	2173		2.7	81.6	1052		3.0	98.9	1446		3.0	80.3	1366	
Disposable Income US$ per capita	31.4	77.4	2083.9		30.9	86.7	1008		31.1	101.2	1311.1		31.2	86.8	1272.3	
Out of which Monetary US$ per capita	2.8	64.2	2083.9		2.6	79.1	1008		2.8	93.1	1311.1		2.7	77.0	1272.3	
Direct Taxes US$ per capita	0.40	2.60	89.1		0.13	2.48	44.0		0.18	5.75	134.9		0.27	3.31	93.7	
Gross Saving US$ per capita	0.10	5.44	337.5		0.11	7.17	141.3		..	4.84	127.3		0.08	5.95	155.3	
Direct Taxes and gross saving US$ per capita	0.50	8.04	426.7		0.24	9.65	185.3		0.18	10.59	262.2		0.35	9.26	249.0	
Disposable Income in % of Gross Income	98.7	97.9	95.9		99.3	97.2	95.8		99.4	94.6	90.7		99.1	96.3	93.2	
Direct Taxes and Gross Saving in % of Gross Income	1.6	10.0	19.6		0.8	10.8	17.6		0.6	9.9	18.1		1.1	10.3	18.2	
Share in direct tax collected %	18.6	36.4	19.3		3.3	29.5	29.3		0.7	13.7	34.7		4.2	20.6	31.1	
G.D.Capit. Format. as % of GDP				12.0				15.9				15.8				14.7
G.D.Capit. Format. as % of Money Sector Gross Income				21.7				21.8				18.2				20.2
G.D.Capit. Format. US$ per cap.:																
of Total Pupulation				6.6				12.2				23.0				11.8
of Money Sector Population				27.9				37.6				61.0				40.1
Foreign Aid US$ per capita				3.5				2.7				3.9				3.3
Capital Outflow US$ per capita a/				+1.5 b/				-1.6				-11.4				-2.2

a/ Net outflow or inflow (+) including foreign aid

b/ Inflow

c/ Imputed

24. Nevertheless in an overall view of the period 1960-1967 symptoms of deeper structural changes (with a few exceptions) of the economies of the African countries south of the Sahara are not evident.[16/] Income asymmetries persist if not increase, a new African bourgeois class comes into existence substituting for colonial administrators, and in some cases the indigenous farmer class, the behavioural pattern of which does not differ much from its predecessors', also confirms Duesenberry's[17/] observation that consumption and saving can be influenced not only by the absolute level of money income of the individual but also by the social class with which he identifies himself. Many of the Africans who have replaced the former higher-and middle-level non-African government officials and have occupied posts within the foreign enclave (in the framework of Africanization) or become farmer-entrepreneurs have adopted the consumption pattern of their predecessors, who frequently (especially those at the lower end of the income scale) attempted to live at a higher standard than was warranted by their means. Transfer of wealth and income to the upper-income groups, which are supposed[18/] to have a higher propensity to save, often leads to sterilization of savings.

25. Although the weakness of operating on the basis of somewhat obsolete data should be recognized, it is believed that the qualitative results and

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16/ See: E/CN.14/INR/183, Some Features of Development in Africa, March, 1971.

17/ Duesenberry, J., Income, Saving and Theory of Consumer Behaviour; Harvard University Press, 1950.

18/ As will be seen below these suppositions seem to be untrue in African conditions in which the propensity to consume increases within higher levels of income. The higher income groups do not have a higher propensity to save and if they save, these savings are seldom channelled into productive reinvestment.

conclusions of this study will be a fully valid generalization relevant for African countries south of the Sahara.[19/]

2. Description of the sample - African economic pluralism

26. Already the criteria used above to divide the sample into three groups of countries have emphasized one of the features of the structural pluralism of countries of Africa south of the Sahara. Of course, structural pluralism should be considered as the salient feature of these economies. In Northern Africa this feature (except in the Sudan) is less apparent and probably much less relevant for development studies.[20/]

27. The notion of pluralism being different from the well-known concept of dualism warrants some explanation.[21/]

28. In the first instance, the economic systems of Africa may be divided into two sectors - the advanced modern sector and the traditional sector, the latter may be suggestively denoted "subsistence sector" and the former "money sector". But a closer consideration of the African situation leads to a further conclusion that in fact we are dealing here not with a dual system but with a case of plural economies and societies. Its first duality has been already mentioned above and its second duality arises out of the fact that the economy (and society) is divided into two sectors: namely, the indigenous (or national) sector and the non-indigenous (non-national or non-African) sector which may be denoted, also suggestively, as "foreign enclave". The latter sector is inherently related to the money economy. Thus the economy should be divided into three sectors: namely, (1) subsistence, (2) indigenous money economy, and (3) foreign enclave, thus presenting a plural economy.

19/ It may be that the generalization is valid for all except those countries which follow pragmatically a consistent anti-neo-colonial policy; countries in which the influence of the foreign enclave is declining in and structural changes are in progress.

20/ In these countries the formerly plural structures have now been reduced and features of structural dualism are now evident. Admittedly, as far as is known, not even a preliminary study highlighting these aspects has been made for North Africa.

21/ See also E/CN.14/INR/183, op.cit. and the forthcoming study on pluralism of African economies and societies mentioned above.

29. There are no longer people who depend exclusively on the subsistence economy but a very large part of the population of African countries south of the Sahara depends mainly on subsistence economy. For analytical purposes it has been assumed that all households or individuals that generate more than 50 per cent of their gross income from subsistence should be regarded members of the subsistence sector. In fact such classification allocates to the subsistence sector little less than 75 per cent of the population of sub-Saharan countries. Some little more than 8 per cent of their income was monetized.

30. The indigenous population of the money sector has a substantially higher _per capita_ gross income of which some 12 per cent was subsistence income, i.e., derived from non-commercialized production for its own consumption needs.

31. The third sector, namely, in this context, the foreign enclave is composed of non-indigenous population and foreign (non-African) corporate business. The sector's gross income is composed of non-indigenous personal income (including locally paid dividends) and corporate business profits (less dividends paid locally to individuals or to the general government).

32. Obviously structural pluralism creates a distortion in the investment pattern so that rewards for investment are heavily weighted to encourage uses which perpetuate the system. Under these conditions the stimulus of incentives, e.g., of higher prices effective in a competitive economy, do not necessarily lead to higher production. Underemployment, the virtually monopolistic position of the foreign enclave in respect of trade, banking, manufacture and sometimes large-scale farming and the ubiquitous links of the foreign enclave create opportunities of earning profits in trade and speculation usury which far exceed what can be earned in production, with its attendant risks, toil and long periods of waiting. Some "better-off"

members of the indigenous sector form a part of these links serving the foreign enclave and reaping frequently exceedingly large profits from these opportunities. The articulation of the money sector of the economy through these links to both the money and subsistence sectors of the rural sector with its heavy load of underemployment, offers an opportunity of earning high-monopoly profits without active participation in production or its expansion. The monopolistic domination by the tertiary sector over the rural economy is apparent in the cities, where the big commercial-cum-industrial foreign companies of today have major capital. These monopolistic conditions create the temptation to employ savings to enhance monopoly gains through trade and speculation, inventory manupulation, and hoarding, by means of investment in real estate, consumer durable or other durable assets including stock-piling of currency notes. Investment for production has to compete with these alternative uses of saving; unless returns are as safe and as high as returns accruing from the alternative uses of savings, its chances of attracting savings are dim indeed. And, of course, there are very few such attractive investment opportunities within the sphere of production in Africa, especially considering the size of national African markets.

3. The subsistence sector

33. Closer analysis of the relationships and interaction among the three basic sectors does not show any measurable direct relationship or interaction between the foreign enclave and subsistence sector. If it exists it occurs through the intermediary of the indigenous money seotor which shows relationships and interaction with both other sectors. Nevertheless, the feed-back effect of the money economy on the subsistence sector is relatively very weak.22/ The true impact of the money sector on the

22/ This reflects partially the basic assumption that the income of households within the subsistence sector is derived in more than 50 per cent of the total from non-commercialized production. Such an assumption implies that any one household (or individual) who begins to obtain more than 50 per cent of his income in cash ceases to be a member of the subsistence sector and "migrates" to the money sector. Thus little change in terms of per capita income occurs within the subsistence sector, which can be regarded as economically idle, except for being a source of labour for the money sector.

subsistence sector is related to the demand for labour by the former which causes the transformation of the members of the subsistence sector from the traditional pattern of life to a modern way of living within the money economy, a kind of economic "migration".

34. Thus, to a large extent, the subsistence sector for practical purposes may be considered a self-contained sector[23/] and in respect of the present analysis is considered separately from the money sector of the economy.

35. Characteristic features of the subsistence economy are given in Tables 5 and 6 for each group of countries.[24/] If their non-monetized income is not considered, this sector's share in money income amounts on an average to 8.2 per cent in group I, 3.3 per cent in group II, and 1.5 per cent in group III. Its "contribution" to gross domestic savings is respectively 1.3 per cent and 0.5 per cent (not quantifiable for group III). Considering savings and direct taxes (which can be considered for this population to represent sacrifices equal to if not more burdensome than saving) together, the share of the subsistence sector in the group I countries amounts to 9 per cent, in group II to 0.9 per cent, and in group III to 0.2 per cent. In conclusion it may be said that the amounts considered are really meaningless and are much smaller than any reasonable order of magnitude of error which burdens the whole analytical exercise. Neither can the potential savings of this sector have any significance for the economy on the whole. Therefore, the proposition of excluding the subsistence sector from the present analysis

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23/ For many reasons this is a simplicication which can be permitted only in an analysis concerned with a short period of time.

24/ It should be pointed out that data on direct taxes paid by the subsistence sector should be considered as a first approximation. Data on saving are highly hypothetical being derived as residual and checked only approximately against estimations of the cash part of the fixed capital formation with no possibility being available to distinguish between new investment and replacement (depreciation). Of course, this population hoards some money, and although it is very difficult to estimate the amount, the volume may be fairly substantial in view of the size of the subsistence population.

should be considered as not lessening its validity.[25/] The core of the problem remains in the money sector of the economy.

4. The money economy in general

36. Aggregate (by groups and for the whole sample) data on the money sector are presented in Table 7, which provides various kinds of information in absolute as well as in relative terms. For the purpose of quick reference and comparison, main data have been recapitulated under heading K - "Comparative data (in %)" in Table 7. It should be pointed out that this Table relates only to the money sector of the economy.

37. Data presented are disaggregated and appear under five headings (columns); however, under each of the headings highly aggregate data is presented.[26/] This makes discussion of personal saving and consumption difficult because of the heterogenous nature of the groups whose activities are represented under one heading. They include families whose primary source of income is wages, salaries, interest or dividends; families whose primary source of income is an unincorporated business; farm families; and even non-profit institutions. Nevertheless, as more detailed information is not available we have to proceed with analysis bearing in mind its limitations which arise from the described internal heterogeneities.

38. Before proceeding with the analysis it is necessary to consider again the general characteristics of the three groups of countries into which the sample was divided - i.e., data collected in Table 5 and 6.

25/ Nevertheless, the taxes collected from the subsistence sector in countries belonging to group I seem to be an important contribution to treasury revenue (almost 19 per cent of all direct taxes collected compared with 8.2 per cent share in money income - this seems to be an appreciable effort) although direct taxes represent a minor part of all fiscal revenue in these countries.

26/ Efforts to collect information enabling further disaggregation of personal income, e.g. into few income level brackets or by types of activities have failed. Only fragmentary information is available in this respect.

Table 7:

Gross Domestic Income, Disposable Income, Saving and Capital Formation (cont'd.)

H.	Group I						Group II						Group III				
	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid
Sectoral Contribution to Net Saving in %																	
Gross Domestic Saving	18.3	17.4	44.8	-1.9		78.6	17.3	19.0	65.2	10.7		112.2	6.6	18.7	103.4	16.9	
Transfer Abroad b/	0.9	13.1	16.1	---		30.1	0.7	5.6	27.0	---		33.3	0.5	13.1	47.8	---	
Net Domestic Saving	17.4	4.3	28.7	-1.9		48.5	16.6	13.4	38.2	10.7		78.9	6.1	5.6	55.6	16.9	
Net Saving	17.4	4.3	28.7	-1.9	51.5	100.0	16.6	13.4	38.2	10.7	21.1	100.0	6.1	5.6	55.6	16.9	15.8
I. **Saving Structure by Sector in %**																	
Gross Domestic Saving	105.2	403.7	156.1	100.0		78.6	104.2	141.5	170.8	100.0		112.2	108.1	331.1	186.2	100.0	
Transfer Abroad b/	5.2	303.7	56.1	---		30.1	4.2	41.5	70.8	---		33.3	8.1	231.1	86.2	---	
Net Domestic Saving	100.0	100.0	100.0	100.0		48.5	100.0	100.0	100.0	100.0		78.9	100.0	100.0	100.0	100.0	
Net Saving	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
J. **Structure of Saving and Transfer in %**																	
Gross Domestic Saving	23.4	22.1	56.9	-2.4		100.0	15.4	16.9	58.2	9.5		100.0	4.5	12.9	71.0	11.6	
Transfer Abroad b/	3.1	43.4	53.5	---		100.0	2.1	16.8	81.1	---		100.0	0.8	21.3	77.9	---	
Net Domestic Saving	36.0	8.9	5[illegible].0	-3.9		100.0	21.0	17.0	48.5	13.5		100.0	7.2	6.7	66.0	20.1	
Net Saving	17.4	4.3	28.7	-1.9	51.5	100.0	16.6	13.4	38.2	10.7	21.1	10C.0	6.1	5.6	55.6	16.9	15.8
K. **Comparative Data (in %)**																	
Share in Population	98.5	1.5	---	---	---	100.0	94.7	5.3	---	---	---	100.0	90.3	9.7	---	---	---
Share in Gross Inc.	61.4	25.4	11.5	1.7	---	100.0	49.0	32.3	16.6	2.1	---	100.0	28.8	41.9	26.2	3.1	---
Share in Direct Taxes	44.7	23.7	31.6	---	---	100.0	30.6	30.3	39.1	---	---	100.0	13.8	35.0	51.2	---	---
Share in Gross Dom. Saving	23.4	22.1	56.9	-2.4	---	100.0	15.4	16.9	58.2	9.5	---	100.0	4.5	112.9	71.0	11.6	---
Share in Tran. Abroad b/	3.1	43.4	53.5	---	---	100.0	2.1	16.8	81.1	---	---	100.0	0.8	21.3	77.9	---	---
Share in Net Dom. Saving	36.0	8.9	59.0	-3.9	---	100.0	21.0	17.0	48.5	13.5	---	100.0	7.2	6.7	66.0	20.1	
Share in GDCF	18.0	8.0	27.1	46.9		100.0	16.8	13.7	32.9	36.6		100.0	3.9	6.8	59.2	30.1	
Share in Net Fix. C. Form.	9.6	4.4	24.4	61.6		100.0	10.4	6.2	31.1	52.3		100.0	4.3	4.6	56.6	34.0	

b/ See table 7a

Gross Domestic Income, Disposable Income, Saving and Capital Formation (cont'd.)

		Group II						Group III						Aggregate					
Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages
	78.6	17.3	19.0	65.2	10.7		112.2	6.6	18.7	103.4	16.9		145.6	13.3	18.5	75.4	10.1		117.3
	30.1	0.7	5.6	27.0	—		33.3	0.5	13.1	47.8	—		61.4	0.7	10.4	32.7	—		43.8
	48.5	16.6	13.4	38.2	10.7		78.9	6.1	5.6	55.6	16.9		84.2	12.6	8.1	42.7	10.1		73.5
51.5	100.0	16.6	13.4	38.2	10.7	21.1	100.0	6.1	5.6	55.6	16.9	15.8	100.0	12.6	8.1	42.7	10.1	26.5	100.0
	78.6	104.2	141.5	170.8	100.0		112.2	108.1	331.1	186.2	100.0		145.6	105.3	229.1	176.4	100.0		117.3
	30.1	4.2	41.5	70.8	—		33.3	8.1	231.1	86.2	—		61.4	5.3	129.1	76.4	—		43.8
	48.5	100.0	100.0	100.0	100.0		78.9	100.0	100.0	100.0	100.0		84.2	100.0	100.0	100.0	100.0		73.5
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	100.0	15.4	16.9	58.2	9.5		100.0	4.5	12.9	71.0	11.6		100.0	11.3	15.8	64.3	8.6		100.0
	100.0	2.1	16.8	81.1	—		100.0	0.8	21.3	77.9	—		100.0	1.5	23.8	74.7	—		100.0
	100.0	21.0	17.0	48.5	13.5		100.0	7.2	6.7	66.0	20.1		100.0	17.2	11.0	58.1	13.7		100.0
51.5	100.0	16.6	13.4	38.2	10.7	21.1	100.0	6.1	5.6	55.6	16.9	15.8	100.0	12.6	8.1	42.7	10.1	26.5	100.0
—	100.0	94.7	5.3	—	—	—	100.0	90.3	9.7	—	—	—	100.0	94.9	5.1	—	—	—	100.0
—	100.0	49.0	32.3	16.6	2.1	—	100.0	28.8	41.9	26.2	3.1	—	100.0	43.1	34.9	19.6	2.4	—	100.0
—	100.0	30.6	30.3	39.1	—	—	100.0	13.8	35.0	51.2	—	—	100.0	21.5	32.4	46.1	—	—	100.0
—	100.0	15.4	16.9	58.2	9.5	—	100.0	4.5	112.9	71.0	11.6	—	100.0	11.3	15.8	64.3	8.6	—	100.0
—	100.0	2.1	16.8	81.1	—	—	100.0	0.8	21.3	77.9	—	—	100.0	1.5	23.8	74.7	—	—	100.0
—	100.0	21.0	17.0	48.5	13.5	—	100.0	7.2	6.7	66.0	20.1		100.0	17.2	11.0	58.1	13.7		100.0
	100.0	16.8	13.7	32.9	36.6		100.0	3.9	6.8	59.2	30.1		100.0	12.1	9.6	41.7	36.6		100.0
	100.0	10.4	6.2	31.1	52.3		100.0	4.3	4.6	56.6	34.0		100.0	8.3	5.1	37.3	49.3		100.0

Table 7: Gross Domestic Income, Disposable Income, Saving and Capital Formation (cont'd.

	Group I						Group II						Group III				
	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid
D.																	
Structure of GDCF in %																	
Gross Domestic Capital Format.	18.0	8.0	27.1	46.9		100.0	16.8	13.7	32.9	36.6		100.0	3.9	6.8	59.2	30.1	
Depreciation	11.8	5.0	9.5	5.8		32.1	11.9	10.5	10.6	11.2		44.2	2.0	8.0	27.9	14.2	
Net Fixed Capit. formation	6.2	2.8	15.7	39.6		64.3	4.9	2.9	14.6	24.5		46.9	1.9	1.9	23.3	13.9	
Changes in Stocks	[illegible]	0.2	1.9	1.5		3.6	[illegible]	0.3	7.7	0.9		8.9	—	-3.1	8.0	2.0	
E.																	
Sectoral Contribut. to GDCF in %																	
Gross Dom. Capit. Formation	18.0	8.0	27.1	46.9		100.0	16.8	13.7	32.9	36.6		100.0	3.9	6.8	59.2	30.1	
Depreciation	36.8	15.6	29.5	18.1		100.0	26.9	23.8	24.0	25.3		100.0	3.8	15.4	53.6	27.2	
Net Fixed Capital Formation	9.6	4.4	24.4	61.6		100.0	10.4	6.2	31.1	52.3		100.0	4.8	4.6	56.6	34.0	
Changes in Stocks	1.1	5.9	52.9	40.1		100.0	0.3	3.3	86.5	9.9		100.0	—	-45.3	116.8	28.5	
F.																	
Sectoral Structure of GDCF in %																	
Gross Domestic Capital Format.	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0	
Depreciation	65.5	62.3	35.1	12.4		32.1	70.6	76.7	32.2	30.6		44.2	50.0	118.2	47.2	47.2	
Net Fixed Capital Format.	34.3	35.1	57.9	84.6		64.3	29.2	21.2	44.4	67.0		46.9	50.0	27.8	39.2	46.3	
Changes in Stocks	0.2	2.6	7.0	3.0		3.6	0.2	2.1	23.4	2.4		8.9	—	-46.0	13.6	6.5	
G.																	
Structure of Gross and Net Saving in % of Disposable Income																	
Gross Domestic Saving	4.4	4.1	10.6	-0.4		18.7	4.1	4.5	15.7	2.5		26.8	1.5	4.2	22.9	3.8	
Transfers Abroad b/	0.2	3.1	3.8	—		7.1	0.2	1.3	6.4	—		7.9	0.1	2.9	10.6	—	
Net Domestic Saving	4.2	1.0	6.8	-0.4		11.6	3.9	3.2	9.3	2.5		18.9	1.4	1.3	12.3	3.8	
Net Saving	4.2	1.0	6.8	-0.4	12.1	23.7	3.9	3.2	9.3	2.5	5.0	23.9	1.4	1.3	12.3	3.8	3.

b/ see table 7a

Gross Domestic Income, Disposable Income, Saving and Capital Formation (cont'd.)

up I			Group II						Group III						Aggregate					
Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages	Indigenous Population	Non-Indig. Population	Foreign Corporate Business	General Government	Foreign Aid	Totals or Averages
.9		100.0	16.8	13.7	32.9	36.6		100.0	3.9	6.8	59.2	30.1		100.0	12.1	9.6	41.7	36.6		100.0
.8		32.1	11.9	10.5	10.6	11.2		44.2	2.0	8.0	27.9	14.2		52.1	8.0	8.1	17.2	11.0		44.3
.6		64.3	4.9	2.9	14.6	24.5		46.9	1.9	1.9	23.3	13.9		41.0	4.1	2.5	18.2	24.1		48.9
.5		3.6	[illegible]	0.3	7.7	0.9		8.9	--	-3.1	8.0	2.0		6.9	[illegible]	-1.0	6.3	1.5		6.8
.9		100.0	16.8	13.7	32.9	36.6		100.0	3.9	6.8	59.2	30.1		100.0	12.1	9.6	41.7	36.6		100.0
.1		100.0	26.9	23.8	24.0	25.3		100.0	3.8	15.4	53.6	27.2		100.0	18.1	18.4	38.6	24.9		100.0
.6		100.0	10.4	6.2	31.1	52.3		100.0	4.8	4.6	56.6	34.0		100.0	8.3	5.1	37.3	49.3		100.0
.1		100.0	0.3	3.3	86.5	9.9		100.0	--	-45.3	116.8	28.5		100.0	0.3	-15.6	94.1	21.2		100.0
.0		100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0		100.0
.4		32.1	70.6	76.7	32.2	30.6		44.2	50.0	118.2	47.2	47.2		52.1	66.1	85.2	41.0	30.1		44.3
.6		64.3	29.2	21.2	44.4	67.0		46.9	50.0	27.8	39.2	46.3		41.0	33.7	25.9	43.7	66.0		48.9
.0		3.6	0.2	2.1	23.4	2.4		8.9	—	-46.0	13.6	6.5		6.9	0.2	-11.1	15.3	3.9		6.8
.4		18.7	4.1	4.5	15.7	2.5		26.8	1.5	4.2	22.9	3.8		32.4	3.1	4.3	17.5	2.3		27.2
-		7.1	0.2	1.3	6.4	—		7.9	0.1	2.9	10.6	—		13.6	0.2	2.4	7.5	—		10.1
.4		11.6	3.9	3.2	9.3	2.5		18.9	1.4	1.3	12.3	3.8		18.8	2.9	1.9	10.0	2.3		17.1
.4	12.1	23.7	3.9	3.2	9.3	2.5	5.0	23.9	1.4	1.3	12.3	3.8	3.5	22.3	2.9	1.9	10.0	2.3	6.1	23.2

..../....

39. It has been mentioned above that the criterion used for the assignment of individual countries to any particular group was the share of the foreign enclave in gross domestic income.27/ The thus measured relative size of the foreign enclave has a predominant impact on the performance of the economy as a whole, e.g., when measured by *per capita* GDP. Thus countries belonging to group III have an almost three times higher *per capita* GDP than countries belonging to group I (on the average). Nevertheless, this impact is much less felt by the indigenous population. There is no visible impact on the subsistence population income and little impact on the indigenous money sector population. Actually the *per capita* income of the indigenous population in countries belonging to group III is only 34 per cent higher than in group I (on the average) although the *per capita* GDP is 167 per cent higher.28/

40. Not only in respect of GDP *per capita* but also in terms of indigenous population gross income *per capita* (both overall and money sector population) the poorest countries are those belonging to group I and the richest are those of group III, confirming the demographic 29/ theories' hypothesis that the better off (in *per capita* terms) the population is, the higher is its growth rate. But simultaneously a more striking and disquieting feature appears. The "better off" the country (group of countries), the poorer is its

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27/ See Appendix, by definition equal to gross domestic product at factor cost.

28/ There is a very high correlation between the relative size of the foreign enclave (measured in terms of its share in gross domestic income) and (a) GDP *per capita*, and (b) average gross income *per capita* of the whole indigenous population. The first is represented by an exponential function $y_1 = 27.5e^{3x}$ (where y_1 - GDP *per capita* in US$ and x - share of the foreign enclave in gross domestic income (GDP = 1.0). The second - $y_2 = 27.5 + 0.01x + 0.008x^2$ (where y_2 - *per capita* income of indigenous population in US$ and x - expressed in per cent). The respective correlation coefficients are $r_1 = 0.910$ and $r_2 = 0.985$. Both are valid for the foreign enclaves' share in gross domestic income as between 10 and 80 per cent.

29/ E.g., H. Leibenstein's or D. Jorgenson's.

development performance expressed in terms of growth and GDP rate, which of course is only magnified when calculated on a *per capita* basis. This points up that there is a problem in the apparently "better off" countries which have relatively larger foreign enclaves.[30/] This is also confirmed by the lower gross domestic capital formation *ratio* (related to money sector GDP) in countries belonging to group III (which is, of course, below the sample's average) in spite of the highest *per capita* foreign aid flow to these countries. As expected these countries (group III) show the highest *per capita* outflow of capital.[31/]

41. More detailed insight into the situation may be derived from Table 7. Basic data on income and its disposal as well as on the structure of capital formation are given under headings A and B in absolute terms (i.e. US$ mln).[32/]

5. Direct taxation impact

42. Heading B of Table 7 supplies information on income, disposable income, transfers abroad, gross and net domestic savings, and net savings (i.e., domestic and foreign) in relative terms. Disposable income (gross domestic income less direct taxes, including royalties) is related to gross domestic income and all others are related to disposable income.

43. Although direct taxes alone do not properly reflect the tax effort of the economies in Africa where indirect taxation represents a much more important source of revenue, they represent a powerful policy instrument

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30/ We will not here follow this line of analysis, which has been presented in document E/CN.14/INR/183, *op.cit.*

31/ There is an apparent inconsistency in *per capita* income of the non-indigenous population of the group II countries. It is only apparent and is easily explained by the ethnic structure of this population which is largely composed of Asians many of whom have very modest standards of living.

32/ Official exchange rates [as used by the International Monetary Fund (IMF)] have been used to convert local currencies into US$.

closely related to the savings problem and therefore merit more detailed consideration. From Table 8, which in respect of African countries is a derivative of Table 7, some insight into the situation may be gained.

44. The major part of direct taxes is income tax[33/] in its different forms of application.[34/] Both corporate and personal net income are taxed in African countries. Each of them should be considered separately.

45. The strikingly high share of direct taxes paid by corporate business in the total amount of collected direct taxes duly reflects the presence and the size of the foreign enclave. Although it seems that the average level of these taxes is comparable to the levels prevailing in developed countries, the conditions prevailing in Africa in this respect should be considered as creating a tax paradise. There are two reasons for this: namely, (1) the rate of corporate profits in Africa if honestly accounted and declared is much higher than in developed countries, and (2) there is a widespread evasion of tax and foreign exchange control through extensive practice of over and under invoicing of import and export transactions, respectively.[35/] There is no data which will permit evaluation of the size of losses sustained by African countries as a result of these practices. Taxes, and especially income tax, as well as foreign exchange controls are less than adequately administered in Africa and possibilities for collusion, bribery and wholesale tax and foreign control evasion are easily found under such conditions.

33/ Income tax in African countries is applied in different ways. Frequently, forms are used which eliminate the necessity of estimating individual income tax returns and/or substitute estimation of wealth (e.g., number of cattle) for income estimation. Personal tax should also be regarded as a substitute for income tax.

34/ This analysis includes also royalties, which have been included in direct taxes when collecting and computing total data.

35/ A large number of foreign companies operating in Africa show low or non-profit (and losses) annual reports for several consecutive years. Nevertheless,none of them is considering the winding up of its operations.

Table 8: [illegible]ct taxes a/ incidence (1963 or thereabout)

(money sector only)

	Share in direct taxes collected		Apparent average level of direct taxes related to gross income b/				GDP per capita US$ (1963)
					other		
	Corporate a/	other	total	Corporate a/	indigenous populat.	non-indigenous populat.	
African sample							
Group I	32	68	4.4	12.0	3.2	4.1 d/	130
Group II	39	61	4.5	10.5	2.8	4.2 e/	182
Group III	53	47	11.2	22.0	5.4	9.3 f/	372
Comparative data c/							(1967)
U.S.	27	73	23.3	27.0	17.1		3680
U.K	12	88	16.4	12.4	17.1		1690
EEC	9	91	20.0	13.5	21.0		1627
Sweden	8	92	28.3				2665
Israel	18	82	16.1				1344
Japan	33	67	14.4				1080

Source: Yearbook of National Accounts Statistics 1968, UN New York, 1969 and Table 7.

a/ includes royalties

b/ i.e. before depreciation allowance

c/ 1964-67 averages (except GDP per capita which is for 1967)

d/ average per capita gross income US $ 2173

e/ average per capita gross income US $ 1052

f/ average per capita gross income US $ 1446

46. The personal income tax problem should be considered as even more difficult. In advanced countries the personal income tax is a powerful weapon for redistribution of income and for reducing economic inequalities. In less developed countries the redistribution of income and wealth has a constructive role to play in conditioning people to make the changes necessary for economic growth. Of course, there are opponents of this point of view who claim that this redistribution is likely to strike at some of the most important sources of capital formation and inhibit the exercise of special skills and initiative which are rare in all societies and particularly in under-developed ones. Such argument would be true if it could be proven that the Africans and the non-indigenous population living in Africa and belonging to the upper income brackets show thriftiness. However, this, from the national economy point of view, is not the case. The majority of the "better off" of the indigenous population show a propensity to consume increasing with their income.[36/] If some few individuals among them are thrifty and have propensity to save, this saving is usually directed to speculative activities, least desirable from the point of view of economic and social development. Usually this saving takes the form of investment in real estate, consumer durable or other durable assets including hoarding and even stock-piling of currency notes. The well-to-do indigenous strata an emerging new African bourgeoisie, is mainly composed of administrative employees and in some cases of rich farmers who very seldom represent entreprenurial driving forces. Seldom does a successful farmer, e.g., a coffee farmer in the Ivory Coast, show much interest in expanding his activities.[37/] Most show a propensity for conspicuous consumption. Such behaviour does not promote or contribute to development and should be limited

36/ This is confirmed by the analysis of available data below.

37/ It must be realized that he cannot expand coffee output because of demand limitation; however, he usually does not show interest in any other kind of investment (see: Semir Amin, Le développement du capitalisme en Côte d'Ivoire, Edition de minuit, Paris, 1967).

by means of adequate wealth and income redistribution measures. These measures should be flexible enough not to exclude incentives for private saving which are intended for investment compatible with development. Besides the tax policy should be designed to hold reasonably in check the inflationary pressures that a marked acceleration in investment tends to generate, especially in developing countries. John Due[38] says that the function of the tax system in a developing economy should be (1) to curtail consumption, (2) to reallocate resources from less to more beneficial investments, (3) to provide a flow of funds to government, and (4) to provide incentives to alter behaviour so as to facilitate growth.

47. Where people do not show thriftiness tax policy measures should correct this deficiency in the common interest of the society and its economy.

48. The case of the non-indigenous population does not differ much from the case of the indigenous "better off" population. In general the members do not display any higher propensity to save and if they save it is for the purpose of transferring their savings for investment abroad, outside Africa. Deducting from their gross savings the maintenance (depreciation) and replacement expenditure (provision for capital consumption) they transfer abroad 96 per cent of their net savings (on the average for the whole sample) thus contributing out of their own saving little to the domestic net fixed capital formation. The situation has other salient features. These people, or at least those who are entrepreneurs in their own right, show dynamic behaviour and their accumulation (i.e., net fixed capital formation) is relatively large, only this accumulation is financed not from their own savings (already transferred abroad) but from locally acquired resources, usually commercial bank credit. In the case of groups I and III, this segment of the population has transferred even more than it has saved

38/ Due, J., Taxation and Economic Development in Tropical Africa, Massachusetts Institute of Technology Press, Cambridge, Mass., 1963, p. 146.

(group I, US$ mln. 0.8 and group III, US$ mln. 7.0; only group II has retained US$ mln. 12.1 of its savings in Africa; its net fixed capital formation amounted in group I to US$ mln. 6.7, in group III to US$ mln. 7.0, and in group II to US$ mln. 16.8, thus local credits were used in total amount of US$ mln. 19.7 i.e., 83 per cent of their accumulation.[39/]

49. These data show that the foreign exchange control liberalism and income tax paradise created by the African governments for the non-indigenous population goes much too far and is incompatible with the development aims and efforts of these countries. Admittedly the skills of the non-indigenous population are necessary to make up for the shortage of skills in the indigenous population and it is necessary to offer some incentives to these immigrants to attract them. However, the privileges as given at present are excessive and reflect the persisting heritage of the colonial type of relationship between the non-indigenous and indigenous populations. Considering the situation described above and the average per capita gross income of this sector of the population (see footnotes to Table 8) which is higher than in advanced countries, the level of direct taxes which it pays is far too low (4 to 6 times lower than in developed countries with similar levels of income). This indicates the need for much more steeply graduated income tax rates than presently in use in African countries. In addition, an efficient barrier must be constructed to the extraordinarily large outflow abroad of almost total savings of this segment of the population.

50. The analysis of the situation of the indigenous population in respect of direct-income taxation leads to similar conclusions, although for slightly different reasons from those related to the non-indigenous population. Although this segment of the population is not responsible for transfer abroad of large amounts of foreign exchange, in relative terms these transfers should

39/ The amount of local resources borrowed by non-indigenous population for the purpose of capital formation was in group I, US$ mln. 7.5; in group II, US$ mln. 4.7; and in group III, US$ mln 14.0; in total US$ mln. 38.4; respectively their transfers abroad of savings amounted to US$ mln. 32.5 (I), US$ mln. 19.9, (II) and US$ mln. 52.7 (III) - in total US$ mln. 105.1. In addition, there was a considerable decline in the value of stocks held by this sector.

be regarded as significant (around 12 per cent of their net savings). The average is fairly similar for all of the groups but there are differences within individual countries (actual transfers vary from 0 to 28 per cent of net savings) reflecting locally adopted policies which are in need of revision.

51. The average level of direct taxation, which is low (2.8 + 5.5 per cent), provides little clarification if it is not disaggregated into several income level brackets. The striking disparities in income levels within the indigenous societies in Africa are well known. Nevertheless, the income rates are only mildly rather than steeply graduated. At the same time, as was mentioned above, the indigenous population in upper brackets of income shows a propensity to consume growing with increase of income. Clearly, changes in income tax policy are required to limit this propensity to reasonable levels and trends.

52. It should be understood that to effect solutions, more is required than changing the rates and complex laws governing income tax. High standards of administration are required to achieve minimally satisfactory results. The drawback is that in Africa the personal income tax may be reasonably effective in reaching wage and salary income where concealment is difficult, but may be far less effective in reaching business income where concealment is much easier, especially since many business transactions are carried out on cash basis. Property income may also be difficult to reach where bearer shares are common or where tax evasion is sanctioned by tradition (usually a heritage from the colonial past). The net result may be that a personal income tax bears more heavily on income from work than on income from ownership or other activities. For the time being this problem is relevant in only few African countries, but it should not be overlooked in others for reasons of principle and in terms of future development.

53. It should be pointed out that the history of personal income taxes in advanced countries reveals that these taxes nearly always began as class taxes on the higher-income groups and were only much later generalized by

reduced personal exemptions to strike the mass of income recipients.[40] The public must have confidence in the integrity and objectivity of the revenue service. Lacking all these essential conditions, a personal income tax will be inequitable, poorly administered, and generally unsuccessful.

54. Concluding the discussion on (direct) taxes it must be pointed out that in general in Africa these taxes are not up to date with the needs of development. There is a potential for governments to mobilize greater amounts of resources for development through taxation than they do at present and without endangering the level of private savings. The peculiarities of the plural structure of African economies have so far through ill adapted tax systems (and inefficient exchange control) not been in their favour and, moreover, have worked to their detriment. This situation should be reversed.

55. Another conclusion is that in Africa disposable income does not differ much from gross income because of the mild impact of direct taxes. But the problems of mobilization of domestic resources do not end here.

6. The features of capital formation in Africa

56. It is necessary, before continuing our analysis, to look more closely at the features of capital formation in African countries.[41]

57. At the beginning, it should be pointed out that in African countries the resources available for capital formation are not being fully used.[42] Strikingly enough the richer the country (in terms of *per capita* income in the money sector) the less fully are these resources used. An average of 94.3 per cent of these resources are used; but the group III countries use only 92.1 per cent, whereas in the group I countries 95.6 per cent are used. Whether the differences consist of idle balance or result from new money,

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40/ Due, J., *op.cit.*

41/ It should be reiterated that this analysis refers to only the money sector of the economy.

42/ Compare figures on Net Saving and Gross Domestic Capital Formation in Table 7 under headings A and C.

or up to what extent these two phenomena contribute to the gap is difficult to ascertain because of lack of necessary data. In any case the gap is too large to explain it by statistical discrepancies although one should not exclude these as a contributing factor, keeping in mind the reliability of data used. This problem will be analyzed more closely later in this study.

58. Another outstanding feature is the declinig ratio of capital formation to gross income, i.e., the negative correlation between capital formation and income. This negative correlation is even more outstanding in respect of net fixed capital formation, i.e., the real accumulation. The respective figures are compiled in Table 9.

59. These data show clearly the strong negative impact of the "oversized" foreign enclave on the development of African economies. The larger the foreign enclave the lower is the rate of growth[43/] and the lower is the net capital formation ratio. Dynamism is evidenced only the the group I countries, to a large extent because of foreign aid which apparently contributes almost 85 per cent to net fixed capital formation.[44/] It is not only the impact of the aid but also of more forward looking government policies that are producing these favourable results.

60. As was mentioned above the contribution of aid to net fixed capital formation amounts in group I to 85 per cent. This is understandable since the poorest countries belong only to group I. But in group III the contribution of aid amounts to 41 per cent, or in per capita terms to US$10.50 per capita of money sector population (or US$3.90 per capita of total population, the highest per capita contribution among the three considered groups)[45/] and in spite of that this richest group has the lowest net fixed capital formation ratio.

43/ This is perhaps not always true, namely, the case of the so called "resources surplus countries".

44/ This is not in fact correct because actually foreign aid is not allocated only to net fixed capital formation; however, but it may be accepted as a simplification for the purpose of providing a meaningful picture.

45/ The per capita foreign aid (net) amounts to (first figure US$ per capita of money sector population, second figure US$ per capita of the total population, i.e., including subsistence): 15.0/3.5 in group I; 8.3/2.7 in group II, and 10.5/3.9 in group III.

Table 9: Some structural features of capital formation (1963 or thereabout) (for African sample - money economy only)

	Gross domestic capital formation expresed as % of GDP a/				Structure of fixed capital formation		Finances of net fixed capital form. as % of GDP b/		Per capita GDP	GDP annual rate of growth
	Total	Gross Fixed capit. formation	Depre-ciation	Net F.C.F.	Depre-ciation	Net Not F.C.F	own resources	foreign aid	US $	1960-1966
African sample:										
Group I	21.7	20.9	7.0	13.9	33	67	2.2	11.7	128	5.4 c/
Group II	21.8	19.9	9.6	10.3	48	52	4.8	4.8	172	4.0 c/
Group III	18.2	17.0	9.5	7.5	56	44	4.4	3.1	335	3.6 c/
Developed countries										
U.K.	19.1	8.7	9.6	0.8	52	48			1397	2.8
France	24.8	9.6	12.7	2.5	43	57			1486	4.3
W. Germany	25.8	10.0	15.2	0.6	40	60			1420	4.6
Italy	28.2	9.7	17.2	1.3	36	64			841	5.0
Advanced developing countries										
Japan	43.8	14.5	25.4	3.9	35	64			631	9.8
Israel	38.1	12.3	23.6	1.7	35	65			960	17.8

Sources: Yearbook of National accounts statistics 1968, UN New York, 1969 and tables 5,6 and 7

a/ at factor cost (for African sample, money economy)

b/ assuming that foreign aid is fully and exclusively used for accmulation (a far going simplification, which is not fully correct)

c/ money economy only

The indexes characterizing the development performance of the countries belonging to the third group, from the point of view of their resources allocation for accumulation, show features of a stagnant economy spending (a) relatively more on consumption than the others, (b) surviving on past capital formation allocating more resources for its maintenace than for new accumulation.

61. All this is well reflected in the rates of growth (of the money sector economy) reproduced in Table 9.

62. The per capita (in absolute terms) contribution of the indigenous population to net fixed capital formation is on a similar level in all groups: group I, US$1.8; group II, US$2.0; group III, US$1.4.

63. If compared in relative terms (group I = 100) the situation will appear as follows:

Per capita	Group I	Group II	Group III
Net fixed capital formation	100	111	78
Gross income	100	111	134

64. In other words the performance of Africans in poorer countries is relatively better than in richer countries. Of course, the situation in group III certainly reflects the monopoly of the foreign enclave in the market and the difficulties which the Africans encounter under such conditions in developing their entrepreneurial capacities and in finding out what investment opportunities are open to them.

65. Similar indexes calculated for the foreign enclave are much worse:

A. Non-indigenous population (per capita terms)

Per capita	Group I	Group II	Group III
Net fixed capital formation	100	39	23
Gross income	100	48	67

B. Foreign corporate business (absolute terms)

	Group I	Group II	Group III
Net fixed capital formation	100	134	232
Gross income	100	205	728
Foreign enclaves' size in terms of share in gross money income (%)	35	47	66

66. These indexes speak for themselves. The larger and stronger the foreign enclave the less it appears to be concerned with the economic development of the host country and the larger (relatively) is the part of its gross income transferred abroad. This can be illustrated by the following figures depicting the disposition of the foreign enclaves' gross income (in per cent):

	Personal Income			Corporate Income		
	Group I	Group II	Group III	Group I	Group II	Group III
gross income	109.2	112.7	114.7	142.6	132.3	170.6
less depreciation	4.7	8.0	4.0	25.5	18.4	33.2
less direct taxes	4.5	4.7	10.7	17.1	13.9	37.4
net income	100.0	100.0	100.0	100.0	100.0	100.0
consumption	87.7	92.9	93.9	-	-	-
transfers abroad	12.8	4.4	7.0	45.1	49.1	61.7
capital formation a/	2.8	2.4	-0.6	47.1	38.8	37.1
balance b/	-3.3	0.3	-0.3	7.8	12.1	1.2

a/ i.e., net fixed capital formation and changes in stocks.

b/ Idle balances, local borrowing, etc., including statistical discrepancies.

67. It seems that the problem of transfers abroad is related more closely to the effectiveness of foreign exchange controls than to income tax policy. The

tax incidence being mildest in group II, the transfers out of personal savings are also the lowest. Corporate business transfers are much more dependent on agreements and/or concessions granted to foreign companies. Nevertheless in this case, again group II shows a substantial unutilized balance which may be presumed to result from exchange control restrictions.

68. Some special attention should be directed toward government investment for two reasons, namely, (1) the importance of government investment and (2) irregularities in the structure of government contribution to gross domestic capital formation.

69. Here again the larger the foreign enclave[46/] the less important is the government's share in capital formation.

70. So far, net fixed capital formation of the governments has seldom been directed to investment in production per se, having been almost exclusively used for provision of infrastructure, i.e., fixed capital commonly used by the community and business, whether national or foreign.

71. If for simplicity it is assumed that the utilization of this capital is proportional to gross income[47/] of each of the considered sectors, it will be seen that at present the government tends to support with its investment the development of the foreign enclave rather than the development of the national sector and that the larger is the size of the foreign enclave the more it benefits from public investment.

72. Such pattern can be changed only by the growth of the national sector which should be much faster than the growth of the foreign enclave. The

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46/ Its relative size being measured, as usual, by its share in gross income.

47/ This is a very crude simplification because the benefits accruing to large business (i.e., in the case of Africa, foreign corporate business) and to the population in the upper income bracket (i.e., again first of all the non-indigenous population) are relatively much larger than the benefits accruing to the relatively poor majority of the indigenous population.

private indigenous sector is weak in every respect. Its poverty stricken population (with the exception of the small group of upper income bracket "élite") cannot generate much savings. Therefore, no spectacular change can be generated by this sector by itself. There are other important factors which are at work greatly limiting the capacity of this sector for change - lack of skill and monopolistic control of the market by the foreign enclave should be regarded as major obstacles which cannot be easily removed. Only an effective government intervention through public productive investment either on its own or through private indigenous investors can generate changes. But the African governments are held back in this action. On one hand their own savings available for investment, if any, represent but a small part of the present investment, which should largely be regarded (there are exceptions) as indispensable for preventing virtual stagnation of the economy (per capita rates of growth of the national sector of the economy are dangerously close to zero). On the other hand government investment is heavily dependent on foreign aid, which, up to now, being politically biased, has not been directed for use in productive investment; thus the past colonial and present neo-colonial structures constructed to secure position and benefits for the foreign enclaves have been perpetuated.

73. Nevertheless, though to an insufficient extent, the government remains the most important investor; on the average (i.e., for the whole sample) 49.3 per cent of net fixed capital formation is contributed by the government (followed by the foreign enclave with 42.4 per cent). The predominance of the government is even more greatly accentuated in countries of groups I and II in which the government contributes respectively 61.6 and 52.3 per cent to net fixed capital formation. There is the ominous exception in countries belonging to group III where the government contributes only 34 per cent to net fixed capital formation whereas the foreign enclave contributes 61.2 per

cent to accumulation thus assuring the perpetuation of its predominance.48/

74. Nevertheless, there is one more very disturbing structural feature of capital formation by the government. This is the relatively low expenditure on maintenance of existing capital stock, which suggests that a decapitalization process is under way. This is certainly true49/ but perhaps not to the extent suggested by statistically recorded figures, which are distorted by poor accounting practices. Doubtless, a good deal of maintenance was carried on but the expenditure was accounted to recurrent expenditure, thus escaping being correctly recorded on the capital account.

75. A situation in which there are running parallel new investment (i.e., net fixed capital formation) and decapitalization gives rise to distortion of the whole appraisal of the economic situation and performance, because in this case the net fixed capital formation is not equal to capital stock increment, thus causing in macro-economic terms a lower than expected yield of apparent net fixed capital formation.

76. There is one more problem which should be mentioned when discussing the question of provision for capital consumption. It is well known that there is an important difference between the depreciation fund accumulation schedule and actual maintenance-cum-replacement (of capital) schedule. This difference is particularly apparent in cases of new basic industrial establishments. The depreciation fund is accumulated from the very first day of the

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48/ Meanwhile, Zambia, which belonged formerly to this neo-colonial élite, has broken out of this group, taking over majority interest in the copper industry thus modifying the share of the foreign enclave in gross income.

49/ Several cases of unchecked distruction of capital assets caused by lack of maintenance are well know, e.g., the Mali-Senegal railway for the rehabilitation of which large IBRD loans have been necessary. This is a typical case of lack of maintenance and non-accumulation of funds for this purpose over due course of time.

operational existence of the establishment which in its early days requires practically no maintenance expenditure which can be charged on capital account.

77. In a mature developed economy where growth is continuous and gradual and occurs against the background of a large volume of assets of different ages, the actual volume of "idle" depreciation money is relatively irrelevant as a source of financing for other purposes since it is continuously proportional to the total volume of activities. In a developing economy characterized by high rates of growth, in spite of inherently involved time lags in capacity utilization of capital assets which quickly double and triple and are of relatively low average age (compared with those in mature economies) i.e., implicitly in little need of maintenance and replacement, this "idle" depreciation fund grows rapidly in the early period of development, thus representing an important source of financing for new investment. The depreciation fund can be regarded as a revolving fund, which will diminish over time. Rough calculations show that this period of time is comparable to the period of time necessary to achieve conditions of self-sustained growth. The problem is only put here on the record for further consideration.[50/]

7. Personal savings of the indigenous population

78. The analysis of capital formation structure and pattern, especially when supplemented by some information on its sources of financing makes it possible to gain some insight into the volume and allocation of domestic resources and the complementary rôle played by foreign aid.[51/] Nevertheless,

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50/ So far, as it is known neither theoretical nor empirical analysis of this problem, at least in the context of African development, has ever been made. Clarification of the problem should be considered urgent from the point of view of development planning methodology as well as from the monetary point of view.

51/ A proper study of the role and impact of foreign aid on African development is still not available. Recent studies, e.g., the Pearson report (Partners in Development, Report of the Commission on International Development, with B. Pearson, Chairman, New York, Praeger Publishers, 1969), provided little clarification.

it does not provide an analysis of the process of saving against the background of income which generates it.

79. Table 7, besides basic data given under heading A, presents under headings B and C through I a series of structural analyses which consider the gross domestic savings, transfers abroad, net domestic savings and net savings in relation to sectors considered in the present study.

80. Let us first consider the personal savings of the indigenous population. Their relation to disposable income is presented under heading B of Table 7. Comparison between groups I and II does not disclose anything abnormal. With growing income the propensity to save grows also ($\Delta S/\Delta J = 0.19$). Group III, which has the highest average income saves relatively (and in absolute terms) less than the other groups.52/ This seems to indicate that the "better off" indigenous population tends to save less at higher income levels. But this conclusion may not be just, considering the presence of the foreign enclave, which exerts a relatively mild impact on the economies of groups I and II compared with its predominance in countries of group III.

81. This is a case in which the available data - still highly aggregated - do not supply the answer. As was mentioned above, the indigenous population is heterogenous. Not enough is known about either the income structure by sources or the income level of different population groups. Some hypothetical answer may be given by inference only basing it on differences in employment structure. Farmers' and landlords' income dominate in group I whereas in group III wage employment is the major source of cash income for the indigenous population. Group II should be regarded as the intermediary group between the other two groups. Indigenously owned enterprise in group I is

52/ Considering direct taxes (as a kind of compulsory saving) together with gross savings in relation to gross income, similar though less striking results are obtained.

largely limited to commercial farming. Group II is obviously more diversified, whereas in group III any kind of indigenous enterpirse is seriously limited by the presence of the foreign enclave. This is clearly confirmed by both the relative and absolute amounts of spending on capital maintenance (depreciation) which in per capita terms amounts in each group to:

Group I	US$3.34
Group II	US$4.73
Group III	US$1.32

82. Reflecting the amount of per capita capital owned by the indigenous population, these figures reflect also its occupational structure as well as the negative role played by the foreign enclave on development of indigenous entrepreneurship and enterprise.

83. Considering now disposable income as equal to gross income less direct taxes and less "depreciation" expenditure, the situation will appear more "normal". Group I saves 2.8 per cent of disposable income, group II 3.0 per cent, and group III 3.5 per cent. The propensity to save within such presentation increases with increasing income and concomitantly the more faster grows the income (comparing group II with group I $\Delta S/\Delta J = 0.045$ and comparing group III with group II $\Delta S/\Delta J = 0.060$). But should this be regarded as a positive conclusion? Certainly not, because this population would be able to earn more and save more if it were in a position to invest in its own enterprises, an opportunity of which the population of countries belonging to group III is to a great extent deprived. This limitation is felt less in the countries of group II. In countries of group I there appears a limitation resulting from widespread poverty of the masses of the populace combined with the social system which favour big landlords, who are generally not concerned with entrepreneurship and development of positive investment.53/

53/ In the analysed sample, group I is dominated by Ethiopia - its economic and socio-political structures are reflected in the aggregate and averages.

8. Personal savings of the non-indigenous population - transfer of savings abroad

84. Non-indigenous population behaviour appears in general rather unusual but, to an extent can be hypothetically explained by inference drawn from observation of the occupational cross-section of these communities.

85. At first glance it appears that this population has a declining propensity to save with growing income. This is true whatever presentation is chosen, i.e., independent of that which is considered disposable income and savings. It must be realized that the size (absolute or relative) of the foreign enclave has considerable influence on the occupational structure of the non-indigenous population. This becomes clear when considering income distribution within the foreign enclave. Where the enclave is small, personal income share is much more significant than corporate business income; the larger the enclave the lesser is the share of personal income (group I, 69 per cent; group II, 66 per cent; group III, 61 per cent). At the same time the salary component of personal income grows proportionately to the income of corporate business. This is confirmed by the figures of *per capita* "depreciation" expenditure by non-indigenous population which in group I amounts to US$93, in group II to US$75, and in group III to US$50. It should also be pointed out that non-corporate business is much less capital-intensive in group I (almost exclusively trade) than in group III, where large commercial farming is of great importance.

86. This discussion on the volume of saving has little relevance if it is not coupled with the problem of transfers of savings abroad which takes overwhelming proportions. More than 10 per cent of disposable income is transferred abroad (9.4 per cent of gross income, average for the whole sample).

87. In other terms after deducting "depreciation" expenditure from gross domestic saving not less than 58 per cent of savings are transferred abroad. (i.e., US$18.6 *per capita* out of which only US$11.3 *per capita* is compensated

for by official foreign aid net inflow; in other terms there is, in spite of foreign aid, a net outflow of US$7.3 per capita[54/]).

88. The situation differs in each group. Group I transfers 7.1 per cent of disposable income and receives in foreign aid 12.2 per cent (i.e., has a net inflow equal to 5.1 per cent of disposable income which represents almost 84 per cent of net fixed capital formation). Group II transfers 8 per cent of disposable income and receives 5 per cent of disposable income in aid (i.e.,has a net outflow of 3 per cent of disposable income; foreign aid being equal to 47 per cent of net fixed capital formation). Group III transfers 13.7 per cent of disposable income and gets in foreign aid 3.5 per cent, thus having a net outflow of 10.2 per cent of disposable income (net official foreign aid representing 42 per cent of net fixed capital formation).

89. In other terms transfers abroad are almost 95 per cent of actual net fixed capital formation of which more than 57 per cent are actually financed by foreign aid. This situation contains a kind of a paradox.

90. This drain of domestic resources is obviously not caused by the indigenous population's transfers which are rather modest and amount to 1.5 per cent of total net transfers (group I, 3.0 per cent; group II, 2.1 per cent; group III, 0.8 per cent, but in each group they represent only 0.3 per cent of disposable income, or 11.7 per cent of this population group's gross savings less "depreciation" expenditure - 13, 11.9, and 10.3 per cent, respectively, in each group). However, modest as apparently these transfers are, they are nevertheless important when compared with the actual accumulation of this population group because if they were retained in Africa they could increase the net fixed capital formation of the indigenous population by 17.5 per cent (15.6 per cent, 14.8 per cent, and 27.3 per cent respectively).

91. Once more the relatively high (in relation to actual accumulation) outflow of domestic resources owned by the indigenous population of group III countries is disquieting and confirms there is a lack of investment

54/ All figures refer to the money sector population.

opportunities open to indigenous entrepreneurship, caused by the presence of the foreign enclave which controls the market.

92. It follows that this outflow, though having little impact on the economies in aggregate terms, is very important when viewed from the aspect of speeding up the development of the indigenous money sector. There is visible evidence that these transfers slow down the vital process of the transformation and expansion of the indigenous (national) economy.

93. The core of the transfers[55/] problem is in the foreign enclave which is responsible for 98.5 per cent of these transfers (personal transfers 23.8 per cent and corporate business transfers 74.7 per cent).

94. For the purpose of inquiry into this problem the income of the foreign enclave should be divided into its two major parts on the basis of income source, i.e., personal income and corporate business income. Moreover, the former should be again divided into two parts: namely (1) income from paid employment and (2) income from non-corporate business.

95. It should be pointed out that the personal income of the non-indigenous population is represented by a much larger amount than the corporate business income - in average some 178 per cent greater than the latter (220 per cent in group I, 194 per cent in group II, and 160 per cent in group III - see Table 7, heading A).

96. Using the partial information available on the wage and salary income component of personal income and expenditure of its recipients, it is possible to divide this group of population into two parts.

55/ Throughout the discussion net transfers are considered because there are no other data available. There is also an inflow (and it can be supposed that a good part of foreign corporate business accumulation is financed from abroad) which is in part cancelled out by larger (than net outflow) transfers.

97. In general those who are employed save considerably less than those who are in business for themselves (on the average respectively 6.4 and 9.2 per cent of disposable income, depreciation deducted); in addition they transfer abroad less of their savings than the people in business (85.9 and 107.2 per cent of saving respectively). Generally people who are employed do not invest locally, or at least there is no information available about this; the non-transferred balance (14.1 per cent of saving) appears to be an idle balance. However, this may not be true, e.g., in cases where shares in local companies are bought, there is no possibility of tracing these transactions with the available data. In short the fate of balances is not known. If they are with banks they may be lent by them to other investors, e.g., non-corporate businesses which show consistently negative balances which can be explained only by their borrowing (they transfer more than they save and in spite of that they accumulate).

98. Data illustrating this discussion are produced in Table 10. There is a striking difference between the countries of group II and the others. This is explained by the ethnic structure of this non-indigenous population. In group II a large segment of this population belongs to the Asian community the behaviour of which differs widely from the pattern inherent in other non-indigenous groups of the population.

99. More interesting is the picture which reflects the situation of the non-indigenous population deriving its income from other than paid employment activities. The most striking feature is that these people transfer abroad more than they save (except for group II for reasons explained above, although here also on the average more is transferred than should be from the point of view of business needs). They transfer as much as they can relying on local credits for their business needs instead of using their own resources. Thus, instead of ploughing back their savings into expansion of their business, they use for that purpose locally available resources (bank credits) and transfer abroad more than they actually save.

Table 10: **Approximate structure of expenditure on personal inoome of non-indigenous population (in per cent)**

	Income derived from paid employment				Income derived from other activities			
	Group I	Group II	Group III	Total Sample	Group I	Group II	Group III	Total Sample
Gross Income	104.3	104.3	110.3	107.7	114.4	122.8	122.8	121.0
Less: Direct taxes	4.3	4.3	10.3	7.7	4.6	5.1	11.4	7.8
Depreciation	—	—	—	—	9.8	17.7	11.3	13.2
Disposable Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less: Consumption	85.9	94.6	95.2	93.6	89.7	90.7	91.4	90.8
Saving	14.1	5.4	4.8	6.4	10.3	9.3	8.6	9.2
Transfers abroad	12.6	3.4	4.5	5.5	12.9	5.7	11.6	9.8
Capital formation	—	—	—	—	5.9	5.4	-1.7 a/	2.3
Balance	1.5	2.0	0.3	0.9	-8.5	-1.8	-1.3	-2.9
Saving	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Transfer abroad	89.9	63.7	95.3	85.9	124.8	61.1	136.0	107.2
Capital formation	—	—	—	—	57.4	57.5	-20.0	24.7
Balance	10.1	36.3	4.7	14.1	-82.2	-18.6	-16.0	-31.9
Per capita gross Income US$	2364	1046	1458	1387	2009	1057	1426	1338
Imputed capital US$ mln					300	1000	750	2050
Disp. Income as per cent of capital					40.3	19.8	35.0	28.3

a/ Actually it is: fixed capital formation + 2.7 and charges in stocks - 4.4 per cent

100. There is one more interesting phenomenon, which occurs in group III, namely, negative capital formation. There is a very small fixed capital formation (2.7 per cent) and a decline in stocks (-4.4 per cent) which may be a conjunctural phenomenon, but rather should be regarded as fixed capital outflow (reflected in reduction of stocks held). It is difficult to make here a definitive statement about this phenomenon because it may also reflect the monopolistic tendencies of corporate business which have an adverse impact on development of small private non-corporate business.

101. The income of non-corporate business seems to be relatively high. It may be inferred from studying depreciation expenditure (roughly assumed to be on the level of 4 per cent of capital) that the net profit (disposable income) achieves on the average a level of 28 per cent (20+40 per cent) of interest, which should be considered as relatively high (see Table 10 bottom lines). How much this picture is distorted by illicit practices is not known, but it is to a considerable degree. And this business contribution to development is negligible. Its accumulation amounts to 0.1 per cent of capital increment - i.e. a stagnation level.

9. Foreign corporate business

102. Much less can be said about corporate business. Here again the volume of assets (capital) can be estimated by inference assuming depreciation to be on the level of some 4 per cent. Data computed using this assumption are presented in Table 11. Again, the degree of distortion due to use of illicit practices (mainly over- and under-invoicing) is not known, but is substantial. Actual income is obviously higher and transfers have much more bearing on the economy.[56/] Leaving aside these problems which cannot be quantified, the analysis of the available data is also enlightening.

56/ The official figures minimize the returns to capital, they do not allow for the widespread understanding of earnings for tax and other purposes. The problem has not been studied in Africa. But it is difficult to expect that the situation in this respect differs e.g., from India, rather it may be much worse. For more details on the situation in India see M. Kidron, Foreign Investment in India, Oxford University Press, London, 1965, and particularly pages 224-231.

Table 11: Approximate evaluation of foreign corporate business rentability and disposition of profits

		Group I	Group II	Group III	Whole Sample
	Imputed Capital US$ mln.	560	900	2600	4060
A.	in US$ mln.:				
	Gross Income	126.5	259.8	534.4	920.7
	Less: Direct taxes	15.2	27.3	117.3	159.8
	Depreciation	22.6	36.2	103.9	162.7
	Disposable Income	88.7	196.3	313.2	598.2
	Transfers abroad	40.0	96.4	193.1	329.5
	Capital formation	41.8	76.2	116.3	234.3
	Balance[a]	6.9	23.7	3.8	34.4
B.	in % of capital:				
	Gross Income	22.6	28.9	20.6	22.7
	Disposable Income	15.8	21.8	12.0	14.7
	Transfer abroad	7.1	10.7	7.4	8.1
	Capital formation	7.4	8.5	4.5	5.8
	Balance[a]	1.3	2.6	0.1	0.8
C.	% of disposable income transferred abroad	45	49	62	55

a/ These may be idle balances, as well as in part statistical discripancies.

103. Fixed capital increment should be considered as being far below what is consistent with national development plans and the outline of the United Nations Second Development Decade. A mere 5.8 per cent compared to the minimum of 10-12 per cent required is incompatible with the role which foreign investment is expected to play. All this operates within a framework of very mild direct taxation pressure, which is only a little stronger in group III.

104. It should be pointed out that the figures reproduced in Table 11 are not complete because they do not include dividends paid locally. Thus the actual gross and disposable income figures should be slightly larger and a fourth item should appear in the context of disposable income distribution, namely, "locally paid dividends". This difference represents roughly, in terms of gross income, less than 1 per cent in groups I and III, and 3 per cent in group II. In any case the figures presented in Table 11 are a low estimate.

105. A very large part of the profits of foreign corporate business is transferred abroad. It seems that the policy of the foreign companies operating in Africa is to pay their shareholders a good dividend in spite of expansion of activities. This is, however, an "aggregate" conclusion. Few foreign companies expand, rather new ventures are established. In other terms this means that some companies are actually transferring more, and new companies are bringing money in, and the latter are responsible for most of the recorded fixed capital formations. Thus the actual picture, if it could be disaggregated, is much worse than the aggregate-average situation presented.

10. The government

106. At this stage of the analysis a few words should be said about the role of government savings and investment. Whereas the government's savings play a minor role in the overall picture - group I shows lack of savings - a budgetary deficit - the government's capital formation represents a very large share of the total capital formation of the economies.

107. The government's part in gross domestic capital formation amounts on an average to 36.6 per cent. But this figure should be considered distorted by very low government spending on capital maintenance - a problem discussed above. In terms of net fixed capital formation, i.e., the real accumulation, the government's contribution amounts to 49.3 per cent in average, thus showing a significant disproportion considering that each of the countries of the sample (with the possible exception of Tanzania at the time) has a laissez-faire policy and has abstained from public investment in productive economic activities, concentrating on infrastructure in its broadest sense.

108. It is interesting to note the structure of financing of capital formation by the general government in the analysed sample. This may be seen from the following figures (in US$ mln.):

	Group I	Group II	Group III	Whole sample
gross savings	-4.7	38.1	68.1	101.5
less: depreciation a/	13.8	38.3	52.7	104.8
net domestic saving	-18.5	-0.2	15.4	-3.3
plus: foreign aid (net)	128.1	75.2	63.9	267.2
available resources	109.6	75.0	79.3	263.9
capital formation	97.6 (3.4) b/	86.7 (3.0) b/	59.1 (7.3) b/	243.4 (13.7) b/
unutilized c/ balance	12.0	-11.7	20.2	20.5

a/ As discussed the amounts are certainly too low, thus reflecting simultaneous decapitalization.

b/ In brackets - increase in stocks (included in the total amount).

c/ This balance should not necessarily be regarded as unutilized in the whole; part of it may be channelled to support private investment.

109. Only the governments of countries belonging to group II borrow on the local market (in the aggregate) for the purpose of capital formation; others show surpluses, which indicates that they have not been able to invest the money at their disposal. All the countries (but especially countries of group I and II) depend almost entirely on foreign aid and borrowing, thus

demonstrating clearly that under the present circumstances foreign aid is needed.

110. A similar table can be drawn for the economy as a whole (US$ mln.):

	Group I	Group II	Group III	Whole sample
gross saving	195.5	400.1	587.3	1,182.9
less: depreciation	76.4	151.0	193.7	421.1
transfers abroad	74.8	118.8	247.8	441.4
net domestic saving	44.3	130.3	145.8	320.4
plus: foreign aid (net)	128.1	75.2	63.9	267.2
available resources	172.4	205.5	209.7	587.6
capital formation	161.4	190.7	178.1	530.2
unutilized balances	11.0	14.8	31.6	57.4
per cent of gross saving less depreciation converted into capital formation a/	135.5	76.5	45.2	69.6
possible capital formation in case all transfers will be retained, all resources used excluding foreign aid:				
in % of actual capital formation b/	73.8	130.6	221.0	143.7
in % of GDP c/	10.9(14.7) d/	15.9(12.2) d/	19.3(8.7) d/	16.2(11.3) d/

a/ This includes foreign aid.

b/ Subject to availability of feasible projects.

c/ Money sector only.

d/ In brackets: actual capital formation as % of GDP.

111. The last three lines of figures represent at present a situation to be desired. But they show also that countries of group I cannot possibly develop without foreign aid in relatively massive portions. Obviously, it is not

possible to consider the complete elimination of transfers abroad. A reasonable portion of these transfers is unavoidable: (a) because of the need of private debt servicing and (b) because reasonable interest on foreign capital invested in Africa should be paid, and transferred if the owners are not living in Africa. Certainly personal transfers can be considerably curtailed without injustice being done to owners who by definition are living in Africa. Corporate transfers can also be substantially limited, at least for the period of time necessary for the countries to achieve conditions of self-sustained growth. Under present conditions the financial drain caused by these transfers is extremely great. The carrying out of alternative actions recommended is closely dependent upon the availability of feasible projects - and it seems that under present conditions such investment opportunities are in extremely short supply (except perhaps for two larger countries: namely Nigeria and UAR, which do not belong to the analyzed sample).

B. Dynamic approach

1. Generalities

112. All that has been discussed up to now has been limited to consideration of a static situation. It would be both interesting and illuminating to try a more dynamic kind of appraisal. Time series of data, as was mentioned above, are not available and so there is the temptation to use the data available in order to carry out some form of dynamic analysis.

113. Assuming that different countries of the sample represent different stages of development they may be regarded as a time series of data stretched over a period of time necessary to cover the development lag between the apparently most and least developed countries in terms of e.g., per capita gross income. Serious weaknesses of such approach should be recognized and therefore it should be realized that such analysis represents but a hypothetical approximation which can show only certain trends, and even they should be considered critically. Nevertheless, this analysis has proven to be illuminating and therefore will be presented here.

114. Two parallel analyses will be presented (1) relating to the indigenous population only, and (2) relating to the money economy as a whole.

115. A set of correlations between all relevant variables and the gross domestic income have been established. They are summarized in Tables 12 and 13. These tables are illustrated by Charts 2 and 3.

116. In most of these cases the correlations established are rather good. Less satisfactory are the levels of standard errors, but this is due to some few unexplained cases in which one or two countries of the sample incidentally deviate more greatly from the schedule, the others remaining consistent.

117. In the present analysis direct taxes are not considered separately. In the money sector analysis, "consumption" includes both private and public expenditure. In the indigenous money sector population analysis, direct taxes have been included in "consumption". This is a non-orthodox treatment; nevertheless it contributes to the clarity of the picture. The problem of direct taxation has been discussed above.

2. The dynamics of indigenous personal saving

118. Let us first analyze the situation of the indigenous population (money sector population), Table 12 and Chart 2. Its consumption schedule intersects with the gross income schedule at the gross income level of US$52. This is much below the averages of each of the three groups of countries, but above the averages of two countries: namely Malawi and Somalia, where the average gross income is about US$29 and US$48 *per capita*, respectively.

119. At lower income brackets the propensity to save increases as the income increases to reach the maximum at some US$600 *per capita* (gross income) and decline afterwards. Actually the country with highest *per capita* income (Gabon US$432) saves 7.1 per cent less than it should following the schedule (y_{14}). This is a very disquieting trend. Two major factors are in operation: (1) predominance of the foreign enclave on the market (in Gabon for example the foreign enclave's share in the money sector gross income amounts to 64 per cent), thus greatly impeding the development of indigenous

Table 12: Behaviour of variables (y_n) in relation to gross income (X_i)
(indigenous money sector population only, 16 countries sample, in US$ per capita)

Variable	n	Relation (Schedule)	Coefficient of correlation r=	Standard error of estimation Syx =	Remarks
Gross Income	10	$y_{10} = X_i$			
Net Income	11	$y_{11} = -02+1,007X_i-0,000097X_i^2$	0.997	1.0	
Consumption[a/]	13	$y_{13} = 13+0,759X_i+0,000197X_i^2$	0.995	10.7	"break through" point by $X_i = 52$
Gross Saving	14	$y_{14} = -13+0,241X_i-0,000197X_i^2$	0.849	8.8	
Net Saving	15				No correlation, erratic behaviour
Net Fixed Capital Formation	17	$y_{17} = -0,13+0,012X_i+0,000001X_i^2$	0.752	0.6	Poor correlation, erratic behaviour
Gorss (Dom) Capital Formation	19	$y_{19} = -0,45+0,043X_i+0,000158X_i^2$	0.994	0.1	

For $20 < X_i < 500$

a/ Private (including direct taxes)

BEHAVIOUR SCHEDULES (INDIGENOUS POPULATION)

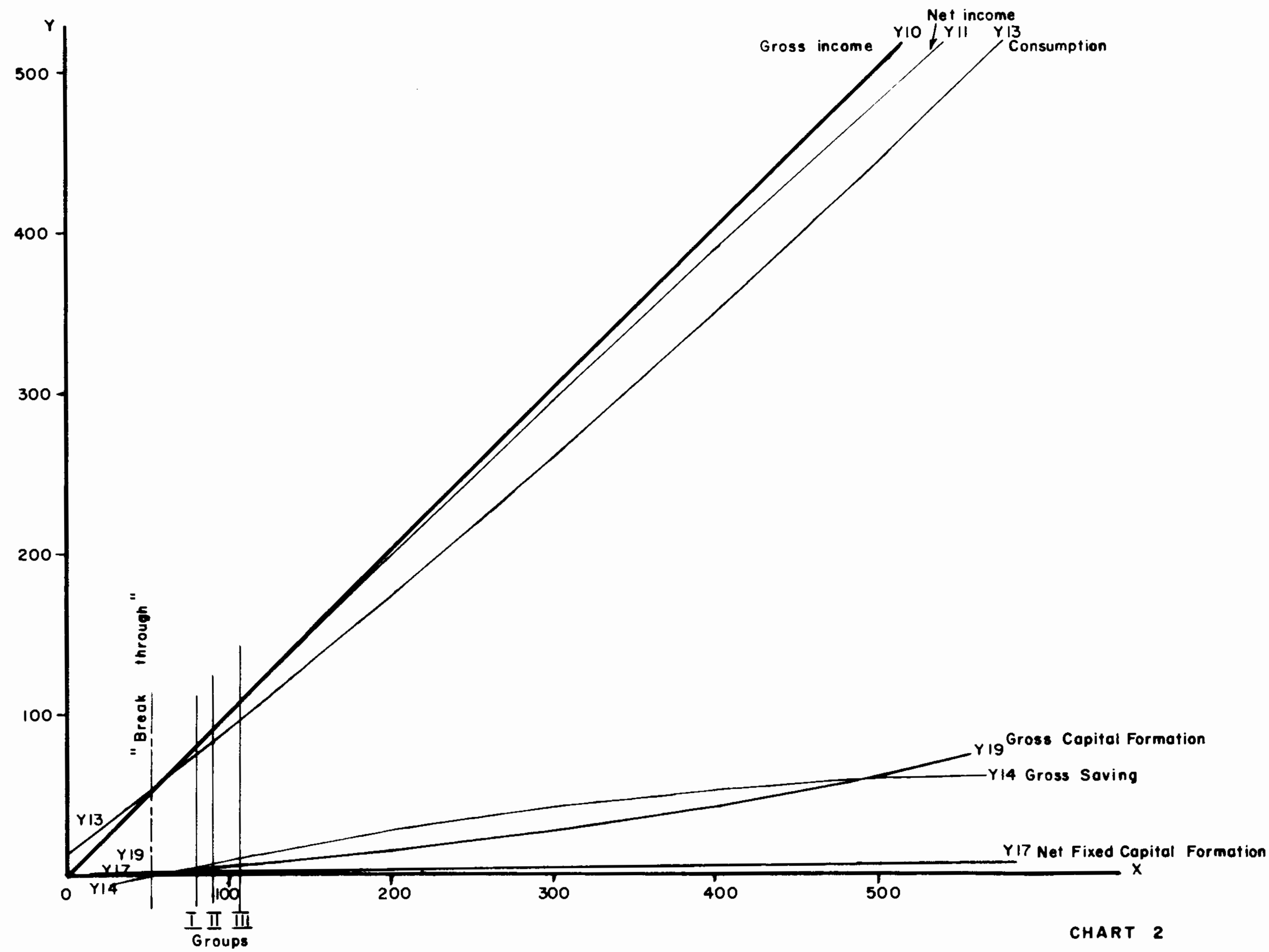


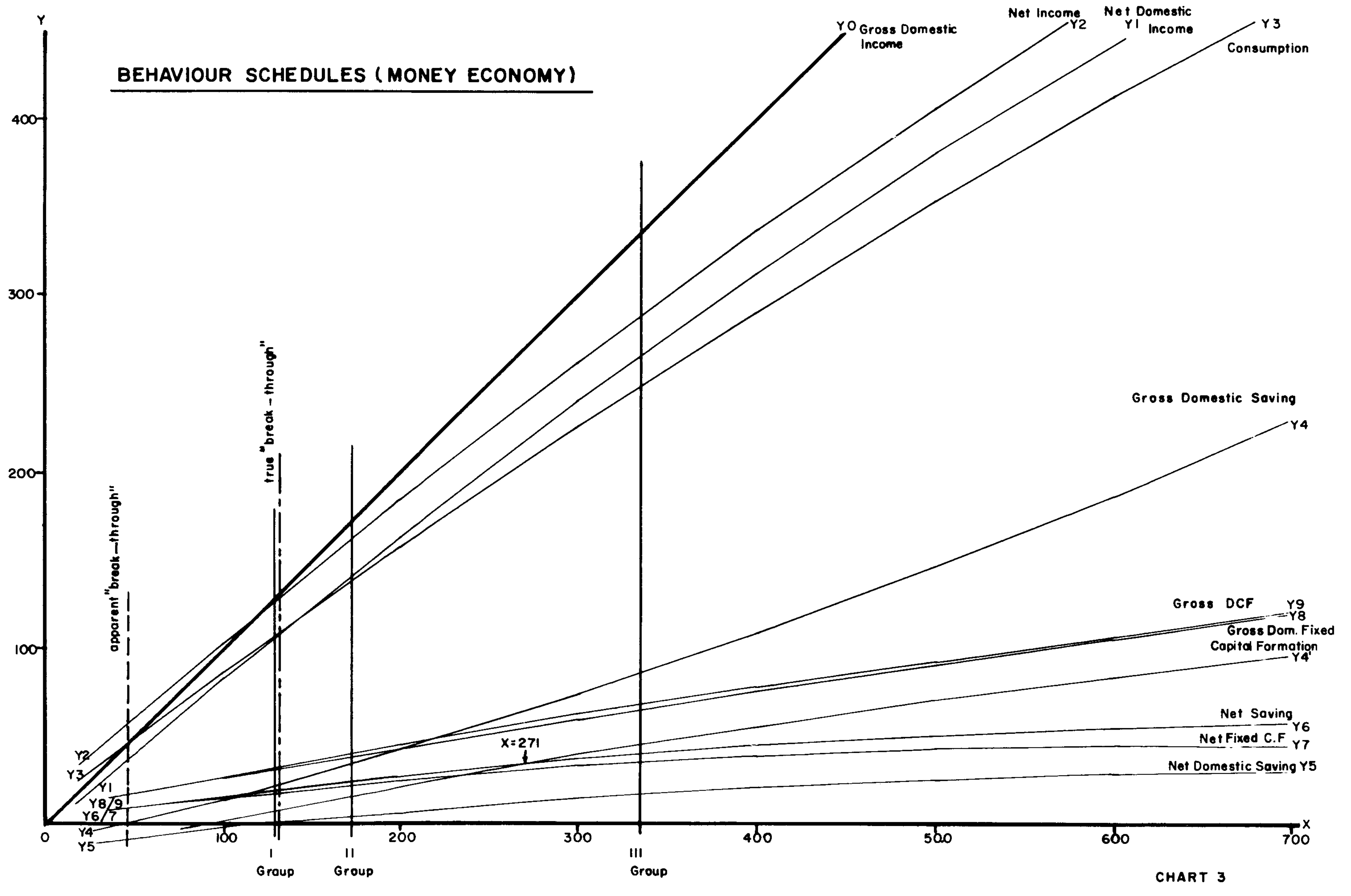
CHART 2

Table 13: Behaviour of variables (Y_n) in relation to gross domestic income (X)
(money sector only, 16 countries sample, in US$ per capita)

Variable	n	Relation (Schedule)	Coefficient of correlation r=	Standard error of estimation Syx=	Remarks
Gross Domestic Income	0	$y_0 = X$			
Net Domestic Income	1	$y_1 = -3 + 0,88X - 0,00023X^2$	0.993	8.4	
Net Income	2	$y_2 = 16.3 + 0,88X - 0,0002X^2$	0.977	21.7	
Consumption[a]	3	$y_3 = 11.4 + 0.76X - 0,00015X^2$	0.991	17.5	"break through" point $y_3 = y_0 = 46$ and $y_3 = y_5 = 131$[b] $y_4 = 0$ by $y_3 = X - 46$
Gross Domestic Saving	4	$y_4 = -14.4 + 0.27X - 0.0001X^2$	0.911	18.3	
Net Domestic Saving	5	$y_5 = -14.4 + 0.12X - 0.000080X^2$	0.801	12.3	Poor correlation, erratic behaviour Y5 = 0 by X=131[c]
Net Saving	6	$y_6 = 3.1 + 0.14X - 0.00009X^2$	0.794	8.8	Maximum between 700 and 800
Net Fixed Capital Formation	7	$y_7 = 3.3 + 0.13X - 0.0001X^2$	0.801	7.1	Maximum between 600 and 700
Gross Domestic Fixed Capital Formation	8	$y_8 = 8.3 + 0.18X - 0.00003X^2$	0.874	12.0	
Gross Domestic Capital Formation	9	$y_9 = 6.7 + 0.2X - 0.000054X^2$	0.845	12.6	
Gross Domestic Saving less Depreciation[d]	4'	$y'_4 = -19.4 + 0,22X - 0,00008X^2$			

for $40 < 700$ (1000)

a/ Private and pulic
b/ Also $y_3 = y_5 = 1368$ (discarded because of validity up to $X < 700$(1000)
c/ Also X = 1368 (discarded - see footnote b)
d/ Calculated as $y'_4 = y_4 - (y_8 - y_7)$ i.e. net domestic savings plus transfers abroad (excluding aid)



BEHAVIOUR SCHEDULES (MONEY ECONOMY)
Y
X
Y0 Gross Domestic Income
Net Income Y2
Net Domestic Income Y1
Y3 Consumption
Gross Domestic Saving Y4
Gross DCF Y9
Y8
Gross Dom. Fixed Capital Formation
Y4'
Net Saving Y6
Net Fixed C.F Y7
Net Domestic Saving Y5
apparent "break-through"
true "break-through"
X=271
Y2
Y3
Y1
Y8/9
Y6/7
Y4
Y5
400
300
200
100
0
100
200
300
400
500
600
700
I Group
II Group
III Group

CHART 3

entrepreneurship and limiting investment opportunities open to them,[57] and (2) demonstration effect and the phenomenon established by Duesenberry that consumption and saving can be enfluenced by the social class with which the individual identifies himself.[58]

120. In broad terms the indigenous economy is stagnating. This is shown by the fixed investment schedule (y_{17}) which is extremely flat - of US$500 per capita gross income, only slightly more than 1 per cent is accumulated (US$5.6 per capita) and there is a very high proportion of "depreciation" expenditure compared with new investment. Of US$100 per capita only US$1.1 is channelled into new investment i.e., 20.3 per cent of gross capital formation (US$5.4 per capita). And of US$500 per capita only 9.4 per cent of gross capital formation (US$59.5 per capita) is directed into new investment. The corresponding share of new investment in gross capital formation in the money sector of the economy as a whole is for the lower income bracket on the level of 50-60 per cent and for the upper income bracket (upper in African relative terms) between 30 and 40 per cent. Thus the indigenous money economy is stagnating in all countries but especially in the countries which are apparently "better off".

121. It may be argued that the low income levels of the African population makes any saving difficult. This is true for the large masses of the populace whose per capita income level does not differ much between countries - different averages of the countries reflecting rather the relative strength (size) of the "better off" group of the indigenous population. These people commanding relatively much higher per capita income (comparable to middle class incomes of the population in developed countries) do not save enough. Actually when compared with those of similar income level in developed countries, their thriftiness is relatively negligible.

57/ major part of fixed capital formation occurs in real estate (mainly speculative or sumptuous housing).

58/ Duesenberry, J., op. cit.

3. The money economy - in a dynamic context

122. This situation is duly reflected in the picture of the money sector as a whole - Table 13 and Chart 3.

123. The gross domestic income and the consumption schedules intersect at the per capita level of US$46. But this is only the apparent "break-through" point. The true one is defined by the intersection of the net domestic income 59/ and the consumption schedules. They intersect at US$131 per capita gross income level. Nevertheless, because of the presence of foreign aid there is no "break-through" point at all, i.e., this point is shifted beyond the area of the diagram's validity [$40 < x < 700 (1,000)$]. 60/

124. The absence of transfers abroad, i.e., the situation when flows in both directions are balanced, is conducive to considerable improvement in the situation. The "break-through" point shifts from US$131 down to US$57 per capita income. This does not solve the problem for all countries; there is still one country situated below the "break-through" point i.e., in need of foreign aid in spite of excluding from consideration the net flow of resources abroad: namely, Malawi. At present, in the presence of net outflow of resources not only Malawi but also Somalia, Ethiopia, Chad and Rwanda 61/ are affected; their per capita incomes being situated below "break-through" point.

125. Of course, decline in consumption will also shift the "break-through" point to lower income levels. Can consumption be reduced? Can the welfare regime of the population be more austere than it is today? Although a precise answer to this question can only be given after special, more detailed, country-by-country studies have been made, the preliminary answer is positive. These austerity measures certainly do not need to be directed to the whole of the money sector population.

59/ See Appendix: gross domestic income less "depreciation" expenditure and less transfers abroad (foreign aid excluded).

60/ The case of $Y_2 = Y_3$ occurs for abstract values for X, namely -40 and +2,440.

61/ These are given in order of need of foreign aid to maintain the present economic performance. Only countries belonging to the sample have been mentioned.

126. The indigenous money sector population in countries under consideration can be roughly divided into three groups, according to income level:

A.	Below US$70 per capita	75 to 60 per cent of population
B.	Between US$70 and 110 per capita	20 to 30 per cent of population
C.	Above US$110 per capita	5 to 10 per cent of population

127. The first set of percentage (i.e., 75 + 20 + 5) characterize poorer countries (e.g., group I), the second (i.e., 60 + 30 + 10) relatively "better off" countries (e.g., group III). It is hardly to be imagined that the consumption of group A of population is to be more restricted. The consumption of group B may be slightly restricted, and certainly group (average income per capita comparable to the middle class population in developed European countries) can and should be sharply restricted in its consumption, especially in respect of luxury and imported goods, many of them readily substitutable[62/] for by domestically available goods. Both direct and indirect taxation would contribute to the solution of this problem.

128. A "wishful thinking" curve Y_4' has been added to this diagram (Chart 3). This is an abstract curve of net domestic savings plus transfers abroad, i.e., it represents a situation in which the flows will be in balance (excluding foreign aid). This schedule intersects with the net savings (Y_6 - i.e., including foreign aid) curve at X = 271 (i.e., by per capita income level of US$271). Because of foreign aid, all countries below this income level enjoy a net inflow of foreign resources. All countries above this level suffer a net outflow of resources abroad. This is a highly theoretical point which changes along with many factors which are continually changing independent of the gross income level (following mainly the volume of transfers abroad).

62/ Having in view fast development of demand for domestically available goods - discrimination should be oriented primarily against imported goods and imported inputs based goods (with little domestic value added component).

129. Throughout the diagram (Chart 3) $Y_6 < Y_7$, i.e., net savings are larger than investment. Even if the increase in stocks is considered as investment (i.e., $Y_7 + Y_9 - Y_8$), net saving will not be fully utilized, and the higher the income level the larger is the gap. This feature, it is believed, merits a more detailed investigation.

130. For this purpose, investment schedules have been established for the sample as a whole (denominators) as well as for each of the three country-groups (denominators I, II and III, respectively) following their development performance in the period of 1960-1966. They are given in Table 14 which contains also the main relevant growth parameters.

131. For comparative purposes schedules and parameters for accelerated[63/] growth have been also worked out. They are presented in Table 15.

132. These schedules together with basic curves (reproduced from Chart 3) are plotted on Charts 4a, 4b, 4c and 4d.[64/] One more curve has been added (when compared with Chart 3) to these diagrams, namely, the curve Y_6', which presents net savings (Y_6) plus transfers abroad (i.e., gross domestic savings plus foreign aid less "depreciation"). This abstract (or "wishful thinking") curve was added for the purpose of further discussion.

133. Two (shifted) "acclerated" investment schedules have been presented (Y' and Y''). The first represents "immediate acceleration" and the second "gradual acceleration" or rather "delayed acceleration", a more realistic approach.

63/ This represents a highly mechanical and abstract approach. The adopted rate of growth (5.2 per cent p.a.) for the whole economy may be realistic for the sample's average. See E/CN.14/INR/183, Some Features of Development in Africa, Tables 11 and 12, and the relevant portion of the text (Version III). But it can hardly be regarded as realistic for individual countries or for the groups.

64/ For the purpose of giving a clear presentation, the vertical scales of these diagrams have been distorted (2:1 as compared with horizontal scale).

Table 14:

Main Parametres and Calculated Investment Schedules for 1960 - 1966

(Money sector of the economies)

	Gross Income US$ Per capita	Average recorded growth Rate in per cent per annum			Average population Growth rate in per cent per annum			Investment Schedules
		Total Economy	Money Economy	Subsistence Economy	Total Population	Money Sector Population	Subsistence Sector Populat.	
Whole sample	198.4	3.7	4.0	2.8	2.4	2.5	2.3	$y_s = 0.6 + 0{,}124X$
Group I	128.4	4.2	5.4	2.4	2.1	2.1	2.1	$y_I = -0{,}3 + 0{,}145X$
Group II	172.2	3.5	3.6	3.0	2.5	2.1	2.7	$y_{II} = 0{,}132X$
Group III	335.4	3.5	3.6	2.9	3.0	3.6	2.6	$y_{III} = 0.4 + 0.105X$

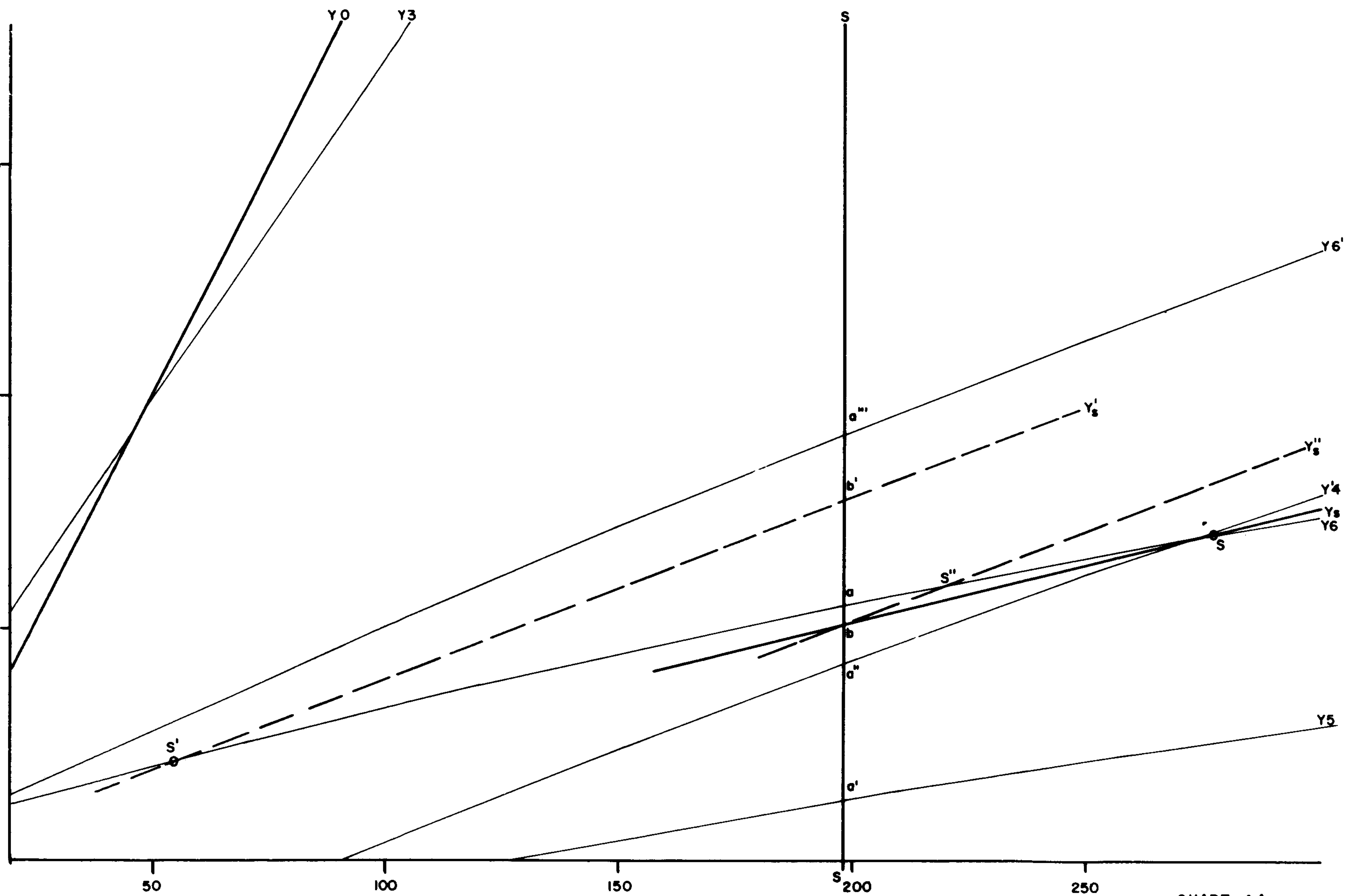
Table 15:

Main Parametres and calculated investment schedules for accelerated average Growth rate of 5.2 per cent per annum[a/] (1963 onwards)

(Money Sector Economy)

	Gross Income US$ Per capita	Average recorded growth Rate in per cent per annum			Average Population Growth rate in per cent per annum			Investment Schedules	
		Total Economy	Money Economy	Subsistence Economy	Total Population	Money Sector Population	Subsistence Sector Populat.	Immediate acceleration	Gradual acceleration
Whole sample	198.4	5.2	6.2	2.1	2.4	3.8	1.8	$ys' = -0{,}2 + 0.195X$	$ys'' = -13.5 + 0{,}195X$
Group I	128.4	5.2	7.6	1.3	2.1	5.1	1.0	$y_I' = -31.9 + 0.407X$	$y_I' = -33.9 + 0{,}407X$
Group II	172.2	5.2	6.2	2.1	2.5	3.9	1.8	$y_{II}' = 0.7 + 0.19X$	$y_{II}'' = -10{,}0 + 0{,}19X$
Group III	335.4	5.2	5.4	3.6	3.0	2.5	3.3	$y_{III}' = 0.297X$	$y_{III}'' = -64.4 + 0.297X$

a/ for the whole economy



(VERTICAL SCALE DISTORTED)

S–S 198.4

CHART 4A
(WHOLE SAMPLE)

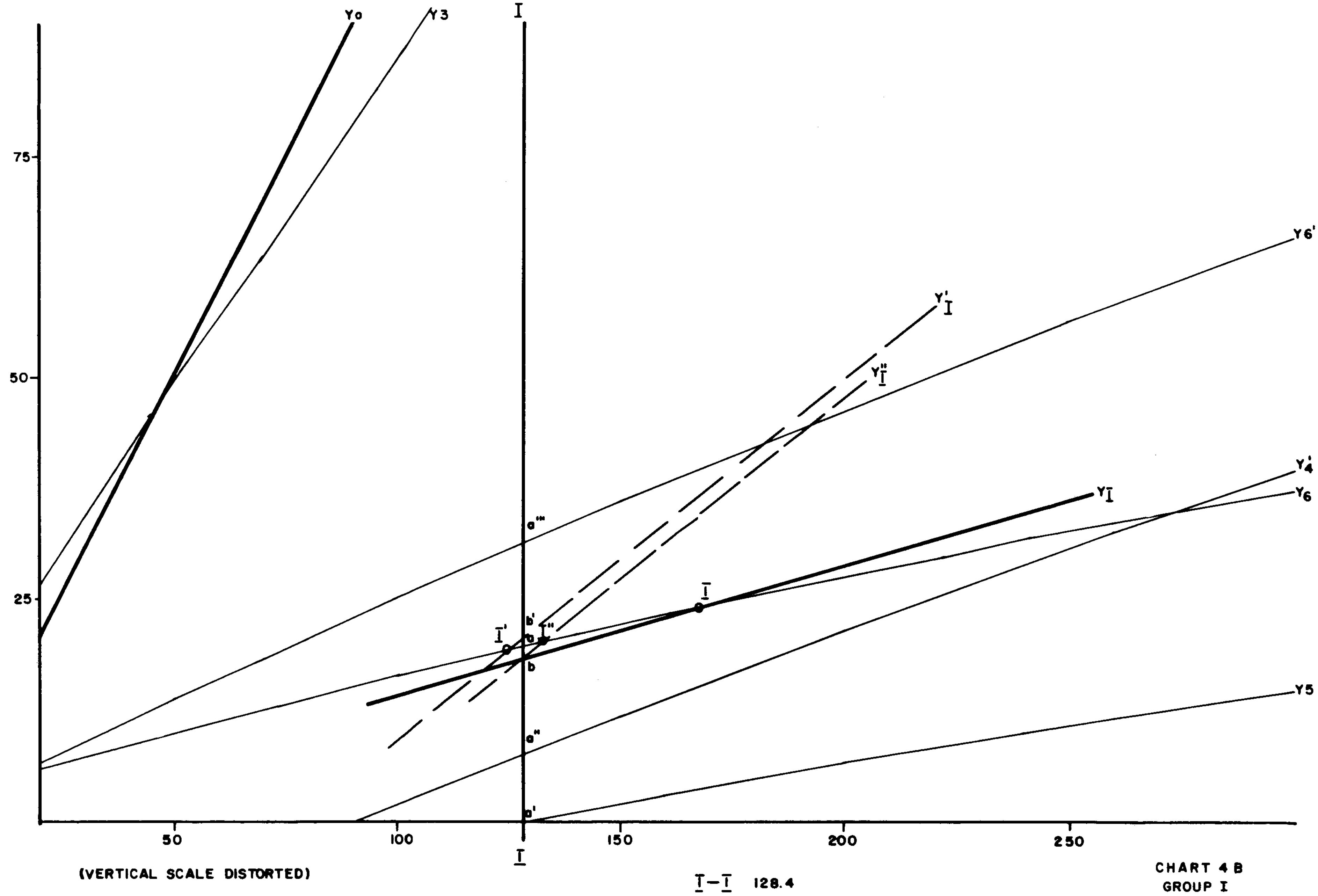
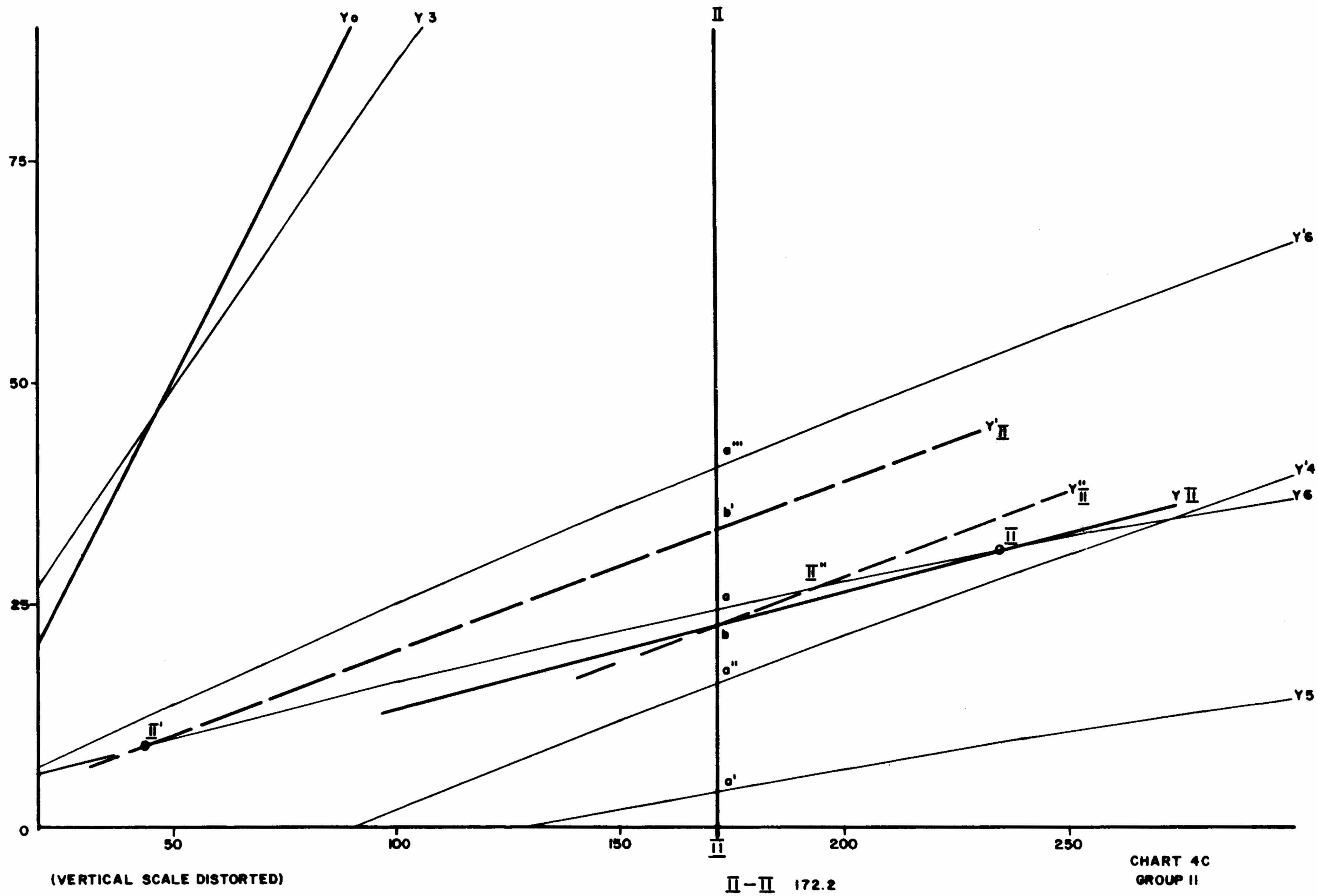
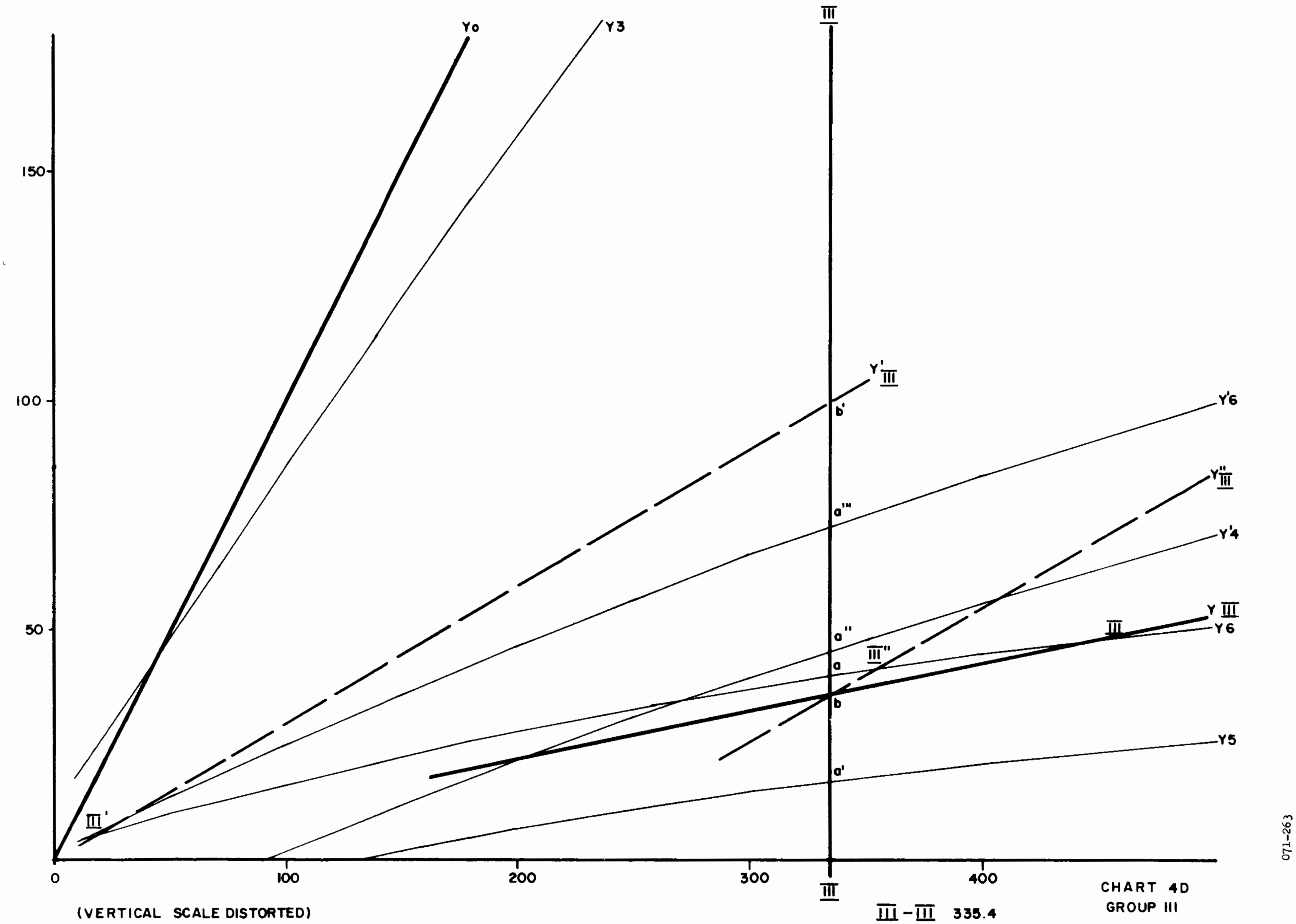


CHART 4 B
GROUP I


Yo
Y 3
II
75
50
25
0
Y'6
Y'II
a'''
b'
Y''II
Y II
Y'4
Y6
II
II''
a
b
a''
Y5
II'
a'
50
100
150
II
200
250
(VERTICAL SCALE DISTORTED)
II – II 172.2
CHART 4C
GROUP II



Yo
Y3
III
Y' III
b'
Y'6
a'''
Y'' III
Y'4
a''
a
III''
b
Y III
Y6
a'
Y5
III'
150
100
50
0
100
200
300
400
III
(VERTICAL SCALE DISTORTED)
III - III 335.4
CHART 4D
GROUP III
071-263

134. There is one apparently unusual feature of these diagrams, namely, the course of investment and savings schedules. In diagrams typical for developed economies the investment schedule "approaches" the saving schedule from above, i.e., the former is more "flat" than the latter. In the diagrams considered there is a reversal of this picture - the investment schedule "approaches" the saving schedule from below. The explanation is very simple: as long as the economy does not achieve the self-sustained growth condition, the picture will remain as it is at present - the picture should reverse when the analyzed economies are on the path to self-sustained growth. Therefore, the usual conclusions in respect of the position of the equilibrium point (intersection of investment and saving schedules) should also be reversed. The growth generating deviation of the equilibrium point is to the east of the income vertical, and the recession conductive disequilibrium occurs when the equilibrium point is on the west side of the vertical. This is the reverse of that to which all are accustomed (teaching based on developed economies' patterns).

135. All these diagrams, although different in details, present a fairly consistent picture. All the investment schedules are far above the net domestic saving schedules (Y_5) and they do not intersect with them, showing a heavy dependence on foreign aid. Actually in all cases a major part of investment is financed by foreign aid, domestic resources playing a minor role.

136. More generally, although in a somewhat speculative way, the position of the investment schedule can be discussed in relation to: (1) net savings (curve Y_6), (2) net domestic savings (Y_5), (3) net domestic savings plus transfers abroad[65/] (Y'_4), i.e., a case where all transfers abroad are retained

65/ Or gross domestic saving less "depreciation" expenditure.

by the African countries but no aid is given, (4) net savings plus transfers (Y'_6), i.e., a case such as the previous (3) but in which aid is given - all in recorded amounts. This is somewhat abstract but it is illuminating.

137. First approach, i.e., net savings (Y_6) and the actual investment schedules (Y_S, Y_I, Y_{II}, and Y_{III}). This is the actual situation. All intersections of investment schedules and net saving schedules are to the east of the respective gross income verticals, thus showing a degree of lack of utilization of resources, i.e., the disposable resources could finance more investment than they are financing. The gap corresponds to the difference in the position of points a and b. The intersection of the investment and saving schedules can be considered as corresponding to the equilibrium point (S and I, II and II). This being on the eastern side (and in all cases fairly far away from the present gross income level - vertical line S - S or I - I, II - II, or III - III) confirms that the considered economies are far from the equilibrium position, thus generating conditions favourable for development. These conditions cause producers to expand production and to undertake measures which prevent depletion of inventories, but may in the short run cause also increase in imports if unchecked. This situation should be considered highly vulnerable and unstable because it results exclusively from the presence of foreign aid. Should there be no aid or less aid,66/ the situation may reverse - producers will cut their production.

138. These non-equilibrium situations, which exist, although positive, should be regarded as precariously unstable and thus hardly conductive to private investment and production expansion; they are rather conductive to high pressure on import expansion.

66/ Expressing the a-b gap as per cent of aid ([illegible]^{1}) if aid should decline by more than 16.1 per cent for the whole sample the equilibrium point will shift to the west side of the gross income vertical thus completely reversing the situation. Respective percentages are: for group I - 6.5 per cent, for group II - 8.7 per cent, for group III - 18.9 per cent. This shows the great vulnerability of poorer countries. Only group III may be considered relatively a little less vulnerable.

139. Second approach, i.e., net domestic savings (Y_5) and the investment schedules. None of the present schedules intersects the net domestic saving (Y_5) schedule, thus showing the dependency of the investment programme on foreign aid. Without aid and with the present level of net domestic savings, investment would be reduced to meaningless proportions causing in all cases a decline in per capita income. The conclusion is short: under present circumstances (ceteris paribus) the absence of aid would be a catastrophe.

140. Third approach, i.e., net domestic savings plus transfers abroad (i.e., the flows are balanced) - no aid is present and the investment schedules remain as they are (intersections of Y_4' and investment schedules Y_S, Y_I, Y_{II}, and Y_{III}). Once again the importance of aid for most of the countries is confirmed. The whole sample (i.e., the sample average) as well as groups I and II are still in need of aid. But this is not the case of "better off" countries, belonging to group III. They will obtain in this way more of the resources available for investment. Point a" is situated not only above b but also above a', i.e., in spite of the absence of aid they will dispose of more resources than at present and they will have to invest more - i.e., their investment schedule will have to shifted upward under the pressure of the economy - to liquidate the supply-demand gap by means other than imports.

141. The fourth approach is the most optimistic and at the same time less realistic than the third - it assumes both: (1) no transfers abroad and (2) aid in unchanged volume ("wishful thinking", of course). The case is represented by saving schedule Y_6', which is located far above Y_6 and its intersections with investment schedules. In all these cases the investment schedules "approach" the saving schedule from above (i.e., the overall pattern of this picture resembles a self-sustained growth pattern, it is not due to the presence of aid) or in other terms the equilibrium points being on the west side of the vertical indicate the presence of growth promoting forces within the economy. The availability of such an amount of resources will make possible much more intensive accumulation, and, thus,

fast development. A comparative picture of these four approaches is given in Table 16.

142. As mentioned above, investment schedules for accelerated development have been introduced into the diagrams (Y' and Y" with denominators S, I, II, and III). The first set of them (y') implies an immediate jump in continuous higher rate of growth - i.e., in the average (for the whole sample) some 53 per cent more of investment than at present (by groups it will be an increase of 11 per cent,[67/] 47 per cent, and 180 per cent, respectively). This is an unacceptable proposition and, therefore, these schedules have been shifted so as to start from present investment levels and follow the path dictated by the position of the schedule (angle which whey form with the horizontal line). So adapted, the diagram yields something realistic which can be discussed.

143. As expected, all of this changes the location of the equilibrium point (intersection of Y_6 and the investment schedule Y"). Unutilized resources permit all groups of countries to start accelerated growth but this growth will soon lead to deadlock because the resources which may be expected under present conditions will be exhausted soon.

144. Either more aid will be needed or a substantial increase in net domestic savings should take place. Let us now try to make some more general considerations.

IV. GENERAL APPRAISAL

1. General impressions

145. The analysis, preliminary though it is, shows that there is a need to increase the amount of saving available for investment. It has shown also that savings can be increased. Moreover, this analysis has identified

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67/ A more gradual acceleration has been considered from the beginning in the case of group I.

Table 16: The four approaches: The level of available resources and its foreign aid component (presently available resources (y_5) = 100)

	First Approach available Net Savings(y_5)	Second Approach Available Net Savings(y_5)	Third Approach available (y'_4) Net Domestic savings(y_5) plus Transfers abroad	Fourth Approach available (y'_6) Net Domestic savings (y_5) plus Transfer abroad and Foreign aid
Sample: avaialable resources	100	23	95	168
Aid component as per cent of resources	21.1	0	0	45.8
Group I: available resources	100	-2	58	159
Aid component as per cent of resources	101.5	0	0	63.7
Group II: available resources	100	16	80	164
Aid component as per cent of resources	84.0	0	0	51.2
Group III: available resources	100	42	120	178
Aid component as per cent of resources	58.0	0	0	32.5

several factors which are either decisive or have great influence on the volume of saving available at present and in the future. No claim for either precision or universality is advanced, The path is hardly cleared, yet it indicates, it is believed, a way to better understanding of the subject of the present study.

146. The most important single fact about saving and investment activities is that they are generally undertaken by different people and for different reasons. This is particularly true in the case of industrial investment in Africa, where, except for small-scale industries, only corporate forms of business can be considered.

147. In such condition the problem evolves immediately into the problem of money market, or, more precisely, capital market. Business saving is generally not motivated directly by business investment. But, saving is also done by individuals, by families, by households. Whatever the basis of the individual's motivation to save, it has often little to do with society's investment opportunities. Moreover, in developing societies saving is frequently done in the form of hoarding. It should also be pointed out that the truth is obscured by the fact that in everyday language "investment" does not always have the meaning it has in economics. The "net investment" or "net capital formation" is defined as the net increase in the community's real capital (equipment, buildings, inventions). But the layman speaks of "investing" when he buys a piece of land, an old security, or any title to property. For economists there are clearly transfer items. What one man is buying, someone else is selling. There is net investment only when additional real capital is created.

148. It is frequently suggested that a capital market virtually does not exist in Africa, and especially in developing Africa south of the Sahara. This is only partially true. Wherever there is a money economy there is also a money market. Of course it is imperfect, perhaps more imperfect than any one other market in Africa; nevertheless, it exists and corresponding to the marked differences among the basic sectors of the plural economy, it shows a similar degree of differentiation. Nevertheless, it should be

recognized that it is true a capital market in the sense of such a market in a developed economy, i.e., with a busy stock exchange and with a high degree of specialization of financial institutions, de facto does not exist in Africa. The existence of this market is witnessed by the facts described above about the financing of non-indigenous, non-corporate business which expands using domestic resources that do not belong to the particular business and which transfers abroad more than it saves. Therefore, not only de nomine but also de facto this market exists in Africa. The question only exists: for whom? This market is certainly accessible to the foreign enclave, also to the government which invests more than it saves, but it is less accessible to the indigenous population, although in the past decade obvious but still unsatisfactory progress was made in this respect.

149. This situation is mainly related to the institutional set up of the money market in most of the African countries[68] which for the most part should be considered as an integral part of the foreign enclave by which and for which it was developed. Some countries have nationalized banking, previously exclusively foreign. Others are trying to develop a network of financial institutions devoted to taking care of indigenous savings and credit for the indigenous members of the community. Some progress has been made, but to an unsatisfactory degree. An unofficial, uncontrolled money market still exists, usury is widely practised.

150. There are several major obstacles which hamper the development of the money market. Political instability and inflation pressure do not encourage savings. There are obstacles inherent in cultural and social traditions. There are religious practices, customs and habits which are wasteful; relatively exorbitant amounts are spent on funerals, festivals and particularly marriages. There are family ties which oblige the "better off" member to support his kinsman which under present pressures of living in urban centres may make for ruinous difficulties for an otherwise successful, modest and well managed household.

68/ This is no longer the case in the majority of North African countries.

151. Thriftiness so far has not become a characteristic of Africa's indigenous population, and voluntary saving still plays a minor role in the total balance. It is impossible for African countries to rely on capital imports and savings of the foreign enclave. Private voluntary saving of the indigenous population should be promoted by the government, schools, financial institutions, post offices, and other organizations, using all the methods which are found to be feasible in Africa.

152. Such process will not yield results overnight - it is slow but lasting. But efforts must be made to demonstrate to the African that it is intended he will benefit from the development for which his savings are needed. He should come to regard savings as a civic duty to be voluntarily accepted. This is closely related to the need for conveying to the population the content of the national development plan, its aims and goals, and its modus of implementation.69/

153. Before this slow process will start to yield more substantial return, the governements in Africa must intervene to restrict domestic consumption and mobilize saving. But in Africa there is not only the problem of increasing savings. The other problem is to retain as much of these savings in the country as possible and to channel them into productive investment. Reduction of transfers abroad and prevention of all other kinds of leakage is a problem which should be solved by the governments themselves.

154. The bulk of savings comes (in the analyzed sample) from the private sector of the economy. The public sector saves relatively little (less than 10 per cent of gross domestic savings on the average: group I has a negative saving, i.e., the government is in deficit; for group II the government contribution to gross saving is less than 10 per cent; and in group III little more than 11 per cent). The private sector provides the major share of

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69/ The methods of developing thriftiness among Africans, may and should be the subject of a separate multidisciplinary study which is urgently needed.

savings, whereas the role it plays in capital formation is relatively much less important. This highlights the importance of the question of transfer of resources from the private sector to the public sector for capital formation. However, this problem is much complicated by the fact that (on the average) more than 87 per cent of the private savings (gross) are generated within the foreign enclave. Despite the fact that the ideological orientation of most countries favours private initiative and private enterprise (frequently laissez-faire concepts and a heavy reliance on foreign private enterprise with relatively little concern for African indigenous entrepreneurship), in the present circumstances of private, predominantly foreign, saving-investment behaviour, the State has no choice but to take initiative action to mobilize resources and to transfer them from the private sector for capital formation (public or private-indigenous). The instruments used for this purpose, namely, taxation, foreign exchange control, public borrowing, meet with many problems which in the final analysis originate because of the structural pluralism of these economies.

2. Taxation and exchange control

155. The weight of public revenue varies from 7.5 to 25.9 per cent (sample average 17.1 per cent: group I, 11.2 per cent; group II, 11.5 per cent; and group III, 23.4 per cent - all related to total GDP including non-commercialized output).[70/] In a developed economy where all the elements are well-integrated into a highly responsible system, a public revenue weight of this proportion would have been more than adequate[71/] for a remote-control system to generate and guide the development process by operating solely at the state level.

70/ Measured in terms of "tax effort" all countries of the sample belong to the middle and low effort groups (among developing countries) see: Lotz, J.R. and Morss, E.R., Measuring Tax Effort in Developing Countries, International Monetary Fund (IMF) Staff Papers, Vol. XVI (1967), pp. 478-499.

71/ This applies to the average and to group II and III, but not to the case of 11.2 per cent in countries of group I, where the minimum goes down to 7.5 per cent.

Unfortunately, the absence of integration and the presence of perverse articulation among the various elements create conditions where the responses are often the opposite of what is expected.

156. Direct taxation represents in average 32 per cent of government revenue (group I, 27 per cent; group II, 21 per cent; and group III, 41 per cent). Commodity taxes consitute the major element of the tax structure, because of the difficulty of tax collection. The tax structure of the African countries was never designed to serve the purpose of economic growth and equity; it was conditioned by considerations of administrative convenience and revenue yielding capacity. Moreover, it was never intended to prevent the reaping of excessively high returns by the foreign enclave, which for all purposes was regarded as the periphery of the metropolitan economy. Times have changed. Obviously, this structure must be re-examined and re-designed to serve better the objectives of economic and social development.

157. The job of re-designing the taxation system is a complex and difficult task and cannot be discussed in abstract theoretical terms, especially considering the potential ability of African fiscal authorities to implement and enforce any system which is apparently suitable. It is beyond the scope of this study to go into this matter. Nevertheless, a few points should be mentioned which arise as conclusions of the analysis carried out above.

158. Leaving aside consideration of the subsistence sector of the population, within which no impressive increase of tax yield nor any impact yielding saving expansion can be expected, let us consider the other sectors.

159. Let us consider first the indigenous money sector population. The problem has been discussed above. This population shows a declining propensity to save (and implicitly increasing propensity to consume) at higher income levels. This, of course, clearly calls for much more steeply graduated income tax rates than are presently in use. Simultaneously customs duties (or excise taxes) much higher than those levied at present should be applied on luxury goods, all goods for which domestic production can be substituted, in order to curb the propensity to consume of the population

in the upper income brackets. At the same time considering the tendency of this group of the population to invest in speculative real estate, taxation of wealth should be introduced or tax rates should be adjusted in order to channel more resources to productive investment.

160. Considering the vital importance of expanding the participation of the indigenous group in productive business, a system of tax incentives as well as easily accessible credit facilities should be provided, to compensate for their loss of savings (through increased taxation). The expansion of saving institutions will be discussed below. These facilities should be conceived exclusively for indigenous business.

161. The non-indigenous population should be considered in two separate groups. The group which derives its income from paid employment should be considered as very mildly taxed (on an average). But, this may be a premature conclusion because the information on tax exemptions of many vitally important expatriate professionals is missing. Therefore, further inquiry into this problem is required. At first glance it seems that the more steeply graduated income tax combined with heavier indirect taxation proposed for the upper income brackets of the indigenous population should be applied in this case also. Tax exemptions should be reconsidered on a selective basis, separately for persons employed by the government and for those employed by private (or mixed) enterprises. In the first case there is actually no problem except for accounting and statistics aspects. In the second case there is a real problem, which falls under the heading of government subsidies to private enterprise. And it should be supposed that such treatment as mentioned above would be the most proper for the purpose.

162. The non-indigenous population which derives income from sources other than paid employment presents a much more complicated case, which was analyzed and described above. In this case, direct taxation, because of widely practised tax evasion and the weakness of the fiscal apparatus, can hardly be expected to yield positive results. In this case a major role should be played by exchange control and application of a code of rules regulating transfers abroad less liberal than the present code. Simultaneously

a tighter control of import and export licensing including price control of the present illicit outflows through over- and under-invoicing should be introduced and enforced. Both measures are not easy to implement in practice. Required are personnel of high professional and ethical integrity, working with great efficiency. Such people must be found for otherwise it will be difficult to resolve this problem. Of course, direct taxation should not be excluded from consideration but this will not be a really efficient measure for some time to come.

163. Corporate business represents a major problem. In general African countries have inherited laws and regulations granting privileges to foreign (metropolitan) busines , which includes also a mild taxation incidence. In general busines. in Africa is more profitable than in developed countries[72/] (in terms of gross profit) - see Table 11 - and is much less burdened by taxes - see Table 8. Moreover, different unco-ordinated systems of *inter alia*, tax incentives, were introduced during the last decade, resulting in a virtual tax paradise for foreign corporate business in Africa. Nevertheless, these systems of incentives, so far, have not yielded any appreciable results. The reason is obvious - tax incentives cannot substitute for the smallness of the market which makes most conceivable projects not viable, with or without tax incentives. Taxation should be fair and there is no reason to make gifts to private foreign entrepreneurs at the cost of the African society.

72/ It is not easy to compare profits across the frontiers; accounting conventions and coverage differ, and international operation provides firms with opportunities to modify their accounts which few are willing to forego. Such modifications are made to avoid taxation, understate profits in particular areas for political reasons, shunt funds from one currency area to another, and so on. Nevertheless, there is ample evidence that the returns to foreign capitals overseas are consistently better than the average at home (studies of the US Department of Commerce or by the Reserve Bank of India). M. Kidron (*op.cit.*) presents such comparison for three Indian and Parent Companies (page 247) all having higher net profits (in per cent of net worth): Unilever 14.1 (at home) and 20.9 (in India); ICI 7.2 and 13.1, and Metal Box Co. Ltd. 9.8 and 17.5, respectively.

164. Higher average profitability of corporate business in Africa than in developed countries is itself a very effective incentive, and there is no good reason why taxes on corporate income should not be levied to secure an adequate share in profits for the African society, i.e., higher or at least similar corporate income tax rates as in developed countries. This is of course especially important for countries of groups II and I which have relatively low corporate income tax rates.

165. But taxation can only partially resolve the problem, the core of which is related rather to the outflow of the net profits abroad. This is not only a problem of foreign exchange control. Undeniably the regulations are by far too liberal and have too many exemptions. Transfer guarantees etc. have been and still are granted, under the pretext of incentives. It was already mentioned above that fiscal measures and related transfer facilities cannot substitute for the smallness of the market. If there is a viable project the capital will come, given any reasonable framework of arrangements and will not require any special incentives of the types which have proliferated - and few serious businessmen believe that all the benefits promised will be granted for long. It is time to stop all this underbidding which goes on to the detriment of African interests.

166. On the other hand the higher than average profits available abroad have seldom been sufficient to precipitate a major flow of capital to developing countries without a deeper economic rationale.73/ In colonial times, this was provided by the need to augment supplies of raw materials in the developed countries (metropolies). Although that need persists today, it has been overlaid and largely supplemented by another - the need to defend markets. There are two major elements in this shift. One is the emergence of giant

73/ This view gains indirect support from detailed investigations of decision-taking in companies: "the relationship between profits and growth", writes Barna, "is not a casual one; but rather that both growth and profitability are reflections of the character of the firm". (Barna, J., Investment and Growth Policies in British Industrial Firms; Cambridge Univ. Press, 1962).

multinational corporations. The other is the proliferation of independent States, each reaching out for economic independence; each pursuing these goals to some degree by controlling relations with the world economy. Some of the methods adopted - inter alia, currency and capital control and protection - are bound to affect the operations of large exporting firms, and particularly the multinational corporations. The conflict between these two elements, the growing internationalism of the arena of competion of these firms and the sharpening nationalism within it, can be eased in practice only if they undertake manufacturing abroad. There is nothing new here - "The story of Lever's European development is largely concerned with attempts to defeat the tariff legislator".74/ Import restrictions always have fathered some of the largest lived and most strongly-based industries, provided that the market was large enough to secure a viable operation. India is a good example: "Every tightening of import controls has provoked a rush of foreign applications for industrial licences, capital issues consents and so on".75/

167. Truthfully the core of the problem is hidden elsewhere. It is the lack of rapid enough expansion of opportunities for existing foreign business in Africa, which demands more opportunities for investment than are available at present. There is also a virtual lack of new viable investment opportunities in Africa because of the smallness of the market. The capital market is virtually non-existent in Africa, mainly because of the smallness of business volume and the smallness of the market, which can accommodate but few ventures.

168. Export-oriented manufacturing must be excluded as a possibility for some time to come because of lack of skills and high unit costs of production resulting from high labour costs (combination of lack of skills and low productivity of indigenous labour and high cost of expatriate labour); in addition capital costs relatively higher than elsewhere.

74/ Wilson, C., The History of Unilever, Vol. 1, p. 192 (2 vols.), Cassel & Co., London, 1954.

75/ Kidron, M., Foreign Investment in India, Oxford Univ. Press, London, 1965, p. 255.

169. Furthermore, the truth remains that people in one particular line of business tend to stay with it and are not likely to invest in any other branch which is not familiar to them. An international business corporation considers its world-wide special business activities as one whole and it transfers money made in one country to another where it sees opportunities to expand or to introduce itself. It usually remains in its line of specialization. For these companies it is natural to drain all the profits to reuse them elsewhere immediately. Such is the nature of the type of business which owns the bulk of the foreign business in Africa - and this nature cannot be changed. If restructuring is attempted, these businesses may prefer to withdraw than to adapt. And this should be regarded as a major dilemma which Africa faces when dealing with foreign business.

170. This is again where the problem of the smallness of the African markets emerges as an insuperable obstacle in dealing with any serious foreign business, and only inter-African economic co-operation can resolve the problem: mobility of capital, labour and goods (all on selective basis) are preconditions to keeping foreign capital in Africa, multiplying itself as well managed capital will do. Only in such circumstances can the transfer of corporate profits abroad be substantially reduced (within a sub-regional or regional context) if not virtually stopped for the period requested for development.

171. The other solution is the one which is becoming gradually more and more popular in Africa - nationalization of foreign enterprise. This undeniably yields marked positive results. But a more widespread implementation of this measure will substanitally reduce, at least for some time, foreign investment in Africa.

172. There is a strong temptation to distinguish between the "old capital" established in Africa under colonial rule and the "new capital" which came after the African countries achieved political independence. Apparently, this "new capital" behaves more in conformity with African development goals and in a generally less abusive way. But as the "old capital" cannot always be held responsible for its "misbehaviour" so also the "new capital" did not acquire

any "holy" pattern. Practices known under the general name of "crude private neo-imperialism" are widespread in Africa.76/ There are three general forms of it. "The first involves unabetted or non-collusive dishonesty, i.e., the hoodwinking or cheating of African countries by expatriate firms without any collaboration on the part of African leaders. The second involves collusive dishonesty, i.e. fraud and hoodwinkery in collaboration with venal elements in the African élite. The third form may be called sharp bargaining or taking candy from a baby".77/

173. New codes of foreign enterprise behaviour in Africa, strengthening of exchange controls and less liberal regulation can and should, of course, be introduced, but these will be no more than palliative.78/

174. Having said all this it should be pointed out that the decline of the relative share of the foreign enclave will be a symptom of development, but this is not to say that positive measures to reduce the foreign enclave will be a cause of development. Pluralism has many dimensions, not only financial, all of which are important: technological, educational, social (e.g., birth control), etc. The foreign enclave can and should be used as a domestically owned export enclave - or almost as much - to "sembrar el petroleo" as the Venezuelans say, but it will not be effectively used to this end unless a series of other steps is taken. It would be wrong to focus exclusively or too sharply on financial pluralism as the prime obstacle.

3. Deficit financing

175. Although deficit financing has been used by African governments as a means of transferring real resources to the government, in only few cases was this done on a large scale and inadvertently was conducive to uncontrollable

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76/ Schatz, Sayre P.,"Crude Private Neo-Imperialism: A New Pattern in Africa", The Journal of Modern African Studies, Vol. 7, No. 4, December 1969, pp. 677-688.

77/ Ibid, p. 678.

78/ It is necessary to ensure that foreign investment does not become the vehicle for misdirected import substitution.

situations. The theory is that if the real resources thus obtained were invested in commodity production, the flow of goods would soon catch up with the flow of money generated by deficit financing, the inflationary effects of which would automatically be counteracted. But the structural rigidities of the African economies as well as the smallness of their markets prevented the flow of goods following the flow of money in quick succession, and the inflationary pressures are becoming unbearable. Therefore, in African conditions, in general, it is impossible to advocate deficit financing. Nevertheless, moderate, close to deficit financing may be regarded as permissible, within a "safe" limit - and it is used in such a way in Africa although data on how this process works are not available.

176. There is one alternative method which can be applied in African conditions where unutilized resources exist as it has been shown above. The concept of this method is to fix the quantum of deficit financing in relation to the saving surplus of households and of corporate business. This surplus, defined as the excess of saving over fixed capital formation (and transfers abroad, which if curtailed will only magnify this excess) could constitute the "safe" limit for the economy's overall credit creation. If, however, the saving surplus of these sectors is not invested in bonds or saving deposits but takes the form of money, the government should be careful to compensate dishoarding by reducing the bank credit granted to the government.[79] This alternative is used in Africa at present in several countries. But, the difficulty of keeping the credit creation within the "safe" limits resides in the pressure of rising expenditure on the government on the one hand, and, in structural rigidities on the other. The structural rigidities make it altogether uncertain whether credit created on the basis of estimated surpluses will in fact be channelled into productive uses and thus add to the commodity flow. If the government undertakes the investment

79/ See, United Nations Economic Commission for Asia and the Far East (ECAFE), Report on Seminar on Problems of Economic Development: Financing Public Sector Investment, E/CN.11/L.217, August 1968, pp. 15 and 16.

directly, it will be necessary to sterilize these savings and to prevent their being used in speculative and inventory investment or dishoarded in the form of cash, as pointed out above.

4. <u>The bottlenecks - a special case</u>

177. Too frequently foreign aid and foreign investment which was expected by the planners to be forthcoming but which did not materialize has been held responsible for the failure of development plan implementation. Planning for resources which were to fall like manna from the sky was a typical feature of African development plans in the past decade. Little attention was devoted to mobilization of domestic resources, including prevention of leakages of resources abroad, both legal and illicit. Though it is customary to consider domestic and foreign resources as perfectly complementary, frequently with fixed proportions, in reality one can to a large degree substitute for the other. That foreign resources can largely substitute for domestic resources is too readily seen; what is not often realized is that, by adopting a suitable import substitution policy and choice of technologies, foreign resources can also be considerably economized and substituted for by domestic resources. The question of foreign resources did not belong to the scope of the present study although the problem has to be touched upon frequently in order not to lose contact with the reality.

178. Looking at the economy as a structure of flows, the saving-investment flow is such that investment should finance itself. Hence, there should be no "financing" problems <u>per se</u>. To the extent, therefore, that there is one, it will be a financial bottleneck.

179. The African experience demonstrates the importance of agriculture in this respect. Unless bottlenecks of food and agricultural materials are resolved the investment-income-saving link cannot become operative and the whole development process will fail to become self-generating. The crucial link is the control over the market surplus of agricultural output. This is due to the fact that the ability of the economy to break the barrier of inelastic food supply depends on its sustained ability to channel investments

toward altering the rigidities of the agricultural production function (which is rigid qualitatively and quantitatively). Mobilizable agricultural savings can be realized only in the form of marketed agricultural products. If these marketed surpluses fail to provide original accumulation and development, the life of the sector becomes disorganized. This is the case of African agriculture in respect of food and all non-export items. In the past the foreign enclave developed several fairly differentiated and flexible organizational means, but also rigidly restricted the sphere of action and impact to export crops in which it had exclusive interest. Adequate care was also given to the activities of expatriate farmers who were producing not only export crops but also food for local markets. But virtually nothing was done in respect of the indigenous food market. Shortcomings were made good by imports. The situation did not change during the past decade. Leaving aside the problem of export crops it should be pointed out that in the remaining segment of African agriculture the requisite savings have failed to be generated. Part of this failure is explained by the rise in population, i.e., a rise in consumption. Although there has been considerable population growth in the urban areas, the rural population has been also growing rapidly, exercising an indirect influence on the structural rigidity of the rural economy by increasing the skewness of the rural income and wealth distribution structure, including distribution of landholding.

180. High rates of interest, advance sale of standing crops, the subsistence needs of the farmer, the monopolistic control of traders and money lenders, transport agents,[80/] and above all the vastness of rural underemployment make the distribution not only of rural income but also of marketed surplus much more skewed than do any other factors. Such a skewed distribution of income, rural assets and marketing power should normally produce a higher rate of saving and capital formation in the agricultural sector. But this

80/ In some African countries the existence of tenancy and high rent for land should be added.

is not the case because the savings so generated are intercepted by those who themselves are not agricultural producers and who actually in a speculative way substitute for the non-existing marketing-cum-credit institutional network. The highly seasonal nature of peasants' income and expenditure increases their vulnerability.81/

181. The "upper strata" of the rural society is frequently closely bound to the foreign enclave, particularly to companies interested in supplying the rural market with imported goods and thus involving a two way business, which has no interest in rural development per se. Although at the lower end of this trade chain, the mentioned "upper strata" has been and is subject to the powerful influence of the consumption revolution witnessed in urban centres in Africa during the past two decades. Besides having a pattern of conspicuous consumption, the "upper strata" usually uses its surpluses for speculative inventory investment or investment in real estate. A common use is in high-yielding usury and trade. This of course contributes largely to the proliferation of the tertiary sector. This and the highly skewed distribution of income in the rural sector which is due to the presence of activities unconnected with productive enterprise constitute the basis for the persistence of the bottleneck in savings. Moreover, they also account for the inability to alter the product-mix for domestic consumption (food) so as to minimize imports or increase the exportable non-traditional items of agricultural origin.

182. This somewhat lengthy discussion of this particularly important bottleneck within the saving-investment process apparently is of no interest for a study which concentrates particularly on mobilization of resources for industrial investment. However, this only apparently is the case; for two important reasons this bottleneck should be considered.

81/ It follows that well-conceived co-operatives can play an enormous, if not a key, role in changing this situation.

183. There is a widespread conviction if not consensus, particularly among the Western politicians and economists, that African agriculture should be developed and yield savings for the development of the industrial sector of the economy.

184. The reverse of this proposition is the truth. Actually, if the secondary sector of the African economy is to develop, and the whole development process is not to grind to a complete halt, capital should be pumped into the agricultural sector from outside the sector, over a long period of time; this is necessary for the implementation and for the bringing to fruition of basic reforms which are needed, problems of land tenure and land reform being only one area which requires attention.

185. Before basic reforms can be implemented in realistic terms and their effects mature, some interim measures are necessary to decrease at least the volume of capital which must flow to agriculture from the rest of the economy and from abroad through interception to a large extent of the wasted agricultural savings presently intercepted by the described "upper strata". Besides specific fiscal measures which already have been discussed, several institutional arrangements can be gradually introduced, thus altering the present highly undesirable situation which is a result of the plural structure of African economies.

5. Institutionalization

186. Since market imperfections are one of the major impediments to the mobilization of savings, the policy objective should be directed toward institutionalization[82/] of the market in general, and perhaps particularly for agricultural produce. Open market operations and creation of buffer stocks can prevent inventory investment and speculation. These operations

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82/ The forms of institutionalization are as multi-fold as methods and techniques to be employed by them; those selected depending upon the soci-political structure of the country, development levels of the economy and society and other environmental factors. The problem is too broad and complex to be considered here in any detail.

can gradually be extended to introduce a competitive element into the rural market, thus reducing the monopoly gains from trade, usury and credit business and inventory speculation. Once this is achieved, the structural rigidities will loosen, making it possible for the indirect measures of monetary controls - interest-rate changes, credit policies, taxation and subsidies, and price policies - to be more effective in resource mobilization than are at present.

187. In the urban sector, monopolistic influences are no less pronounced than in the rural areas. This is particularly due to the foreign enclave, the direct impact of which in the rural areas is rather minor (there is, as explained, an important indirect impact), which has an impact of great proportions in urban areas, where they command practically the whole of the economic life. Concentration of ownership and wealth in the foreign enclave is an all pervasive feature of the situation; moreover, in countries where the relative size of the enclave is large and where detrimental *laissez-faire* policies are still followed, its predominance is growing. It does yield some impressive aggregate GDP *per capita* and growth rates figures suggestive of an economic boom, but this contributes little to the development of the indigenous economy and to the welfare of indigenous societies.

188. The mobilization of private sector savings into investment largely depends on a limited number of entrepreneurs who provide leadership to the rest of the business community. This leadership has up to now, with few exceptions, been provided for foreign enterprises and by foreign entrepreneurs frequently living outside Africa, and usually little concerned with the welfare of African economies and societies. Moreover, there is evidence that larger foreign enclaves (generally connected with larger foreign enterprises) tend to pay a relatively higher dividend and reinvest proportionately smaller amounts in production than their smaller counterparts (see Table 11: group I has paid abroad 45 per cent of disposable income whereas group III has paid 62 per cent). The non-indigenous recipients of personal income show similar behaviour. This confirms that the influence of the foreign enclave goes far beyond business *per se* and has a considerable impact on the economy of the country as a whole, stimulating the development of strategies and policy measures convenient to themselves.

V. SUMMARY AND CONCLUSIONS

1. General remarks

189. The African region as a whole has shown a lower rate of growth during the last decade than in the 1950s. Several factors contributed each to a different degree in this slow-down of economic growth. Excessive reliance was placed on foreign aid and technical assistance and on foreign private investment which have not been forthcoming in the volume expected. Dynamic exogenous forces, active in the colonial past, have substantially slackened and sufficiently strong domestically-generated development drive has not been substituted. Foreign aid, which should be an auxiliary tool used to generate growth of domestic resources, often comes to be regarded and used as its substitute. In spite of attempts made to increase the flow of domestic resources in many African countries, the saving ratio has declined and the balance-of-payments position of these countries has deteriorated. It is believed that structural pluralism, which is a common feature of most African countries, is the basic cause underlying African economic problems.

190. The policies which have so far been generally advocated and proposed for the mobilization of savings in Africa, based as they are on the model of western, developed countries, often create the opposite of the desired effects in the African milieu. Market imperfections and rigidities are well recognized by economists but their impact on resource mobilization and resource allocation, within a structure of plural economies, has never been systematically investigated, at least in the African context which is strikingly different from that of other developing regions.

191. The endemic scarcity and frequent unreliability of statistical data in Africa should be recognized as a serious limitation of the present study. Nevertheless, the collected data and information have made possible the analysis which has here been made. No claim, either for precision or universality is advanced. The path is hardly cleared, yet it indicates already, it is believed, a way to better understanding of the subject of the present study.

192. The analysis, preliminary though it is, indicates clearly the necessity and a possibility of increasing the amount of saving available for investment.

2. The money market

193. The most important single fact about saving and investment activities is that they are generally undertaken by different people and for different reasons. In this context the problem evolves into the problem of money market, or, more precisely, capital market. It should be recognized that a capital market in the developed economy sense i.e. with a busy stock exchange and with a high degree of specialization of financial institutions, de facto does not exist in Africa. Nevertheless, if there is a money economy there is also a money and capital market, and such market does exist in Africa. It is highly imperfect and, corresponding to the striking differences among the basic sectors of the plural economy, it shows a similar degree of differentiation. Roughly it can be divided into an official organized market and an unofficial market. The official market is certainly accessible to the foreign enclave and also to the government but is almost inaccessible to the indigenous population, although in the past decade evident but still unsatisfactory progress was achieved in this respect.

194. This situation is related mainly to the institutional set up of the money market in most African countries, which in bulk should be considered as an integral part of the foreign enclave, by which and for which it was developed. Some countries have nationalized banking, or have established nationally owned banks, previously exclusively foreign owned. Strenuous efforts are being made to develop a network of financial institutions devoted to taking care of indigenous saving and credit for indigenous members of the community. Some progress have been achieved, but to an unsatisfactory degree. An unofficial, uncontrolled money market still exists, usury is widely practised and the savings of the poorer strata of the population, mainly the peasants are intercepted and diverted from rural areas and are directed mainly into unproductive investment.

195. But the problem is not limited to the network of financial institutions serving broad masses of predominantly rural population. There is a general bottleneck of food and agricultural materials and unless the investment--income--saving link can become operative the whole development process will fail to become self-generating. The crucial link is the control over the market surplus of agricultural output. That is because the ability of the economy to break the barrier of

inelastic food supply depends on its sustained ability to channel investment toward altering rigidities of the agricultural production function (which is rigid qualitatively and quantitatively). If the marketed surplus fails to provide original accummulation and development, the life of the sector remains disorganized, and this is the case of African agriculture, in respect of food and all non-export items. Virtually nothing was done in respect of the indigenous food market. Shortcomings have been supplemented by imports and not only did the situation not improve but it deteriorated during the past decade. High rates of interest (usury), advance sale of standing crops, the subsistence needs of the farmer, the monopoly control of traders and money lenders, transport agents, in some countries the existence of tenancy and high rent for land, and above all the vastness of rural underemployment, make the distribution not only of rural income but also of marketed surplus much more skewed than do any other factors. Such a skewed distribution of income, rural assets and marketing power should normally produce a higher rate of saving and capital formation in the agricultural sector. But this is not the case because of savings so generated are intercepted by those who themselves are not agricultural producers and who actually in a speculative way substitute for the non-existant marketing-cum-credit institutional network. The highly seasonal nature of peasants' income and expenditure increases their vulnerability to the described circumstances.

196. In Africa the bulk of savings comes from the private sector of the economy. The public sector saves relatively little. But, although the private sector provides the major share of savings, the role it plays in capital formation is relatively much less important. This highlights the importance of the question of transfer of resources from the private to the public sector for capital formation. However, this problem is complicated by the fact that in the analyzed sample more than 80 per cent (87 per cent on the average) of private savings (gross) are generated within the foreign enclave. Moreover 80 per cent of the foreign enclaves' savings are generated by (foreign owned) corporate business (i.e., 65 per cent of

total gross savings, public and private). The indigenous population contributes only 13 per cent to the private saving fund (11 per cent of total gross savings).83/

197. Despite the fact that most African countries favour private initiative and enterprise, under the circumstances of private, predominantly foreign, saving-investment behaviour existing at present, the State has no choice but to take initiative action to mobilize resources and to transfer them from the private sector for capital formation, public and private indigenous.

3. Sectoral saving

198. The (imputed) income of the population in the subsistence sector represents about 27 per cent of gross domestic income, out of which only less than 10 per cent is monetized. Apparently the members of this sector save some 0.2 per cent of their (imputed) income (or less than 3 per cent of their monetized income) which will represent 0.4 per cent of the total gross domestic savings. This is a purely theoretical figure and is much smaller than any reasonable order of magnitude of error of the magnitude with which the whole analytical exercise is burdened. Neither can the potential savings of this sector of population have any significant relevance for the economy in the whole. Direct taxes paid by this sector of the population have more significance (they represent in average more than 4 per cent of all direct taxes collected) especially in some countries where they represent up to 20 per cent of all direct taxes collected. Nevertheless with progress in development these contributions should decline by definition. Therefore, the subsistence sector cannot be regarded as having potential for a greater than present contribution to disposable domestic resources.

199. Within the indigenous money sector the situation is different with regard to both GDP and income *per capita*. The level of *per capita* income changes with its sources. Low average levels are associated with farmers' and landlords' income whereas higher average levels are associated with the large component of income derived from paid employment. On the other hand higher income levels are associated

83/ All the figures refer to the analyzed sample of African developing countries south of the Sahara.

with the presence of the foreign enclave, the sector which creates paid employment. Indirect evidence (per capita capital maintenance expenditure) shows that in the apparently "better-off" countries the income derived from indigenous entrepreneursh represents also a relatively much smaller part of income earned by indigenous population than in the apparently "poorer" countries. It seems that in countries with relatively medium-sized foreign enclaves the indigenous entrepreneurship is relatively most developed and is engaged not only in farming but also in other activities. Sheer poverty of the rural masses and the peculiar general disinclination of landlords to engage themselves or their capital in productive activities explains the situation in "poorer" countries. Monopolization of the market by the foreign enclave limits sharply the access of the indigenous population to productive investment and entreprenial activities in the apparently "better-off" countries. Both limitations have much less impact on the development of indigenous entreprenial activities in the middle average level income countries.

200. In average and in absolute terms the indigenous population of the "better-off" countries saves more. In the "poorer" countries it saves 2.8 per cent of its disposable income, and in the "better-off" countries 3.5 per cent (in average). But this apparent increase in the propensity to save is by any standard very low, only 5.7 per cent, thus confirming the above made conclusion that the shortage of and/or limitations of access to investment and entreprenial activities seriously impedes the development of thriftiness among the African money sector population.

201. Dynamic behavioral analysis confirms these conclusions. At lower income brackets the propensity to save increases but it reaches its maximum at some US$600 per capita (gross income) and decline afterwards. This is a very disquieting trend. Certainly besides the above described limitations to the development of indigenous entrepreneurship, other factors are operating, namely, the negative "demonstration effect" and "phenomenon" that consumption and saving are influenced by the social class with which the individual identifies himself.

202. Moreover, the same dynamic analysis shows that the indigenous money economy is stagnating, the net fixed investment schedule is extremely flat, and there is a very high proportion of capital maintenance expenditure. This supports the correctness of the conclusion that over-sized foreign enclaves have a negative impact on the development of indigenous economies.

203. It is often argued that the low level of income of the African population makes any saving difficult. This is true for the large masses of the populace whose *per capita* income level does not differ much between countries - the countries' different averages reflecting in fact the relative strength (size) of the "better-off" groups of the indigenous population. Thus people commanding relatively much higher *per capita* incomes (comparable to middle class incomes of the population in developed countries) display a much lower propensity to save than their much poorer compatriots. Actually when compared with those at similar income levels in developed countries, their thriftiness is relatively negligible. Moreover, these groups of population are responsible for the transfer of a relatively large part of their savings abroad (approximately 20 per cent of gross savings or 1.5 per cent of their disposable income). These transfers although negligible from the point of view of the whole burden of transfers (they represent only 3.5 per cent of the net transfers abroad) represent nevertheless a highly negative behavioural feature of the "*élite*" of the African indigenous societies. Currency over-valuation provides in several countries a strong incentive to transfer savings abroad.

204. The income structure of the non-indigenous population varies characteristically with the relative size of the foreign enclave. The larger (relatively) the enclave the more significant are the numbers of non-indigenous community members deriving income from paid employment.

205. The propensity to save of the employed non-indigenous population is relatively low (it saves little more than 6 per cent of its disposable income in average) but its behaviour is normal, i.e., the propensity to save increases with increasing income. It transfers abroad a relatively large part of its savings (86 per cent in average) although there are wide variations caused by different national and status structure of this population which reflects also its position *vis-à-vis* foreign exchange regulations.

206. A fairly different pattern is presented by the other group of non-indigenous population - that which derives its income other than from paid employment, i.e., mainly from non-corporated business activities. The average *per capita* income level of members of this group although varying from country to country, does not

differ much from the _per capita_ income of the group in paid employment. Their propensity to save is higher (more than 9 per cent of disposable income) although low when compared with standards of developed countries. But most striking is the fact that they transfer abroad more than they save[84/] and at the same time they accumulate relatively sizable amounts of capital, thus expanding their activities by means of locally borrowed money (some 3 per cent of their disposable income). Nevertheless, their contribution to net fixed capital increment is meaningless - 0.1 per cent _per annum_ - thus they contribute little to the economy's development.

207. It is important, however, to mention that this group of population in countries with relatively large foreign enclaves is also yielding under the impact of the monopolistic position of foreign corporate business. They actually decapitalized (they transfer abroad 136 per cent of their gross savings out of which 20 per cent comes from the decapitalization process).

208. Foreign corporate business on the average flourishes. Its disposable income (i.e., after depreciation and taxation) amounts to 15 per cent approximately (on the average) of interest on imputed capital. On the other hand it represents almost 65 per cent of gross domestic savings. On the average 55 per cent of disposable income is transferred abroad and some 40 per cent goes into capital formation,[85/] thus contributing about 37 per cent to overall accumulation. It should be pointed out that this presentation is not definitive because of its aggregate character. The lack of data does not permit us to show the gross outflows and inflows, only net flows. Obviously a large part of fixed capital formation is financed by new capital inflows from abroad and actual remittances of profits abroad assume greater proportions than it would appear to be the case from the above-mentioned figures.

84/ On the average, with the exception of countries in which this group of population is largely made up of Asians, and where the foreign exchange regulations effectively limit transfer possibilities (in the group II countries this population transfers only some 60 per cent of their savings).

85/ This includes also changes in stocks but _excludes_ depreciation.

209. The government contributes but little to gross domestic savings, on the average 8.5 per cent (foreign aid excluded). But in several countries the government is in deficit, i.e., shows dissavings, or, in other terms the government's recurrent expenditure is larger than its revenue.

4. Capital formation and foreign aid

210. The features of capital formation in African countries are peculiar. Although resources are scarce, currently they are not entirely utilized - only less than 95 per cent (aid included) are actually used. The other peculiarity is the declining ratio of capital formation (to gross income), i.e., the negative correlation between capital formation and income. The negativeness of this correlation is even more striking in respect of net fixed capital formation, i.e., the real accumulation. The analysis shows clearly that this is caused by the impact of the relative size of the foreign enclave.

211. The contribution of foreign aid (foreign private investment excluded) to net fixed capital formation is very important (57 per cent, on the average). In "poorer" countries this contribution amounts to 85 per cent and in the "better-off" countries to 41 per cent.

212. In *per capita* terms more aid went to the "better-off" countries with large foreign enclaves (US$3.90, whereas the average was US$3.32). But the efforts of the "poorer" countries to channel their own resources (i.e., foreign aid and foreign corporate business excluded) into net fixed capital formation was stronger than in the "better-off" countries. In *per capita* terms and related to the money sector population[86/] twice as much accumulation was achieved in the "poorer" countries than in the "better-off" (US$9.57 and US$4.73, respectively).

213. The government, mainly because of foreign aid, should be regarded as the most important investor. On the average, government was responsible for 49.3 per cent of net fixed capital formation, followed by the foreign enclave with 42.4 per

86/ Both indigenous and non-indigenous population as well as government performance was better. The figures refer to money sector population, the subsistence sector being virtually idle in this respect.

cent (37.4 per cent foreign corporate business and 5 per cent non-indigenous population). The governments' predominance was even more accentuated in the "poorer" countries (61.3 and 52.3 per cent in groups I and II, respectively) the ominous exception being "better-off" countries (group III) where the governments contributed only 34 per cent to net fixed capital formation and the foreign enclave 61.2 per cent, thus assuring the perpetuation of its predominance within these economies.

214. The governments only seldom happen to be involved in productive investment *per se*. They concentrate on infrastructure in the belief that this will stimulate the activities of the private sector. But market imperfections and rigidities combined with the virtual absence of indigenous agents of production and distribution have prevented these expectations from materializing and the indigenous agents have been only partially substituted for by foreign private initiative. This is not to deny the importance of infrastructural development but to point out that public sector activities cannot be limited to this activity if African economies are to become independent.

215. The private indigenous sector is weak in every respect. Its poverty sticken population (with the exception of the small group of "*élite*") cannot generate much saving. Therefore, no spectacular change can be triggered by this sector itself. Besides there are other important factors which are in operation greatly limiting this sector's capacity for change. Lack of skills and the virtually monopolistic control of the market by the foreign enclave should be regarded as major obstacles which cannot be easily removed. Only an effective government intervention through public investment into production *per se* and distribution either on its own or through private indigenous investors can generate change.

216. But it should be recognized that the African governments are hampered. On one hand their own savings available for investment, if any, represent but a small part of funds needed. On the other hand their investment is heavily dependent on foreign aid, which is subject to many restrictions imposed by the donors in respect of the purposes for which it can be used. And these restrictions virtually do not permit the use of the aid for productive investment in the public sector.

217. Nevertheless, in spite of its modest volume and the restrictive terms under which it is forthcoming, foreign aid is immensely important to virtually all African countries. A dynamic behavioural analysis proves beyond doubt that without aid and with the present level of domestic resources available for accumulation, net fixed capital formation would be reduced to meaningless proportions. Under present conditions (ceteris paribus) the absence of foreign aid would be a catastrophe. Moreover, even if there were no net flow of transfers abroad (i.e., the flows "out" and "in" were balanced) the economic growth of most of the countries (except the "better-off", i.e., the countries of group III) would decline substantially, and become in some countries negative in terms of per capita growth rates. In other words the population growth would outrun the economic growth.

5. Limiting factor - the size of the market

218. The analysis has shown (paragraph 210) that not all the resources gathered and retained by African countries could be converted into net fixed capital. Besides it is well known that optimum use is not made of resources available for accumulation thus satisfactory reproduction effects are not forthcoming. Inefficient use of resources should be regarded as the most outstanding deterrant to their mobilization - both domestic and external resources. The continuing outflow of private resources (the net transfers abroad) makes evident the fact that there is more effective demand for resources elsewhere, outside Africa, than in Africa. There is lack of rapid enough expansion of opportunities for existing foreign business in Africa, and there are very few new investment opportunities which can attract (or keep) foreign capital in Africa. This is the major cause of the net outflow of private capital from Africa. There is no reason to hold owners of foreign capital established in Africa at fault for remitting their profits abroad where they could be used optimally from the point of view of these owners, in cases in which they cannot expand in other business lines in Africa. They came to do business, i.e., to make profits and to make optimum use of these profits. Africans should rather hold responsible first of all themselves for their inability to create adequate investment opportunities both for themselves and for foreign investors.

219. The problem may be reduced to the well known constraint to development of African countries - the smallness of African national markets. They are small in terms of population numbers; they are even smaller than they appear since only the monetary sector population generates effective demand, which in aggregate terms is by any standards very small because of the low level of average <u>per capita</u> income. What is required is an overall increase in aggregate demand to an extent which will simultaneously encourage the whole body of economic activities, provide opportunity and speed up expansion. The promoting role was formerly carried out mainly by export activities, thus stimulating the development of the export sector in colonies, which became the foreign enclave of independent African countries. But exports no longer play the same dynamic role in Africa as they once did. Export of hydrocarbons and other products of mineral origin may provide resources, especially the badly needed foreign exchange component but will not create effective demand, i.e., provide for expansion of the domestic market to the extent of yielding viable investment opportunities.

220. Transformation of the traditional subsistence sector of the African societies and its integration with the modern part of the African socio-economic structure will, of course, change the whole picture and dramatically increase the aggregate effective demand of any single African country. But, this process will take a considerable time to be accomplished, and the resulting market will still remain small by any standards. Thus only a limited inadequate volume of investment opportunities will be created. Moreover, this volume will be stretched over an unacceptably long period of time.

221. In such circumstances there is only one solution: economic co-operation for development among African countries, through which, if co-operative arrangements embrace a large enough number of countries, the African markets can be satisfactorily expanded and almost infinitely multiply the number and volume of investment opportunities viable in commercial and profitable in social terms.

222. The proposition is well known and widely accepted throughout Africa yet little has been done to implement this solution. Existing arrangements are limited in scope and only half-heartedly pursued. There are, of course, obvious exogenous forces which work to impede development of economic co-operation in Africa but it remains with Africa to minimize their effects.

223. Mobilization of resources is in need of a potent stimulating force and this can be provided first of all by effective demand for resources, i.e., in pragmatic terms, abundant volume and choice of viable investment opportunities at all levels of financing capacity and entreprenial activity - opportunities open to everybody with no discrimination as long as his activities are compatible with African development goals.

6. Mobilization of domestic resources

224. Assuming that this major problem has been solved, it is necessary to go back to the subject of this analysis: the mobilization of domestic resources.

225. Thriftiness so far has not become a characteristic of the African indigenous population and its voluntary saving still plays a minor role in the total balance. In the long run it is impossible for African countries to rely on capital imports and savings of the foreign enclave. Private voluntary saving of the indigenous population should be promoted by all means. Of course, this will not yield results overnight; it is a long slow process. But steps should be taken to make it possible for the African to realize that it is intended that he should benefit from the development for which his savings are needed. He should come to regard savings as a civic duty to be voluntarily accepted. This is closely related to the need for conveying to the population the content of the national development plan, its aims and goals, and its modes of implementation.

226. Before this slow process will start to yield more substantial returns, the governments in Africa must intervene and mobilize savings by using compulsory and quasi-compulsory methods - in short restrict consumption policies. But this

is not the only problem. The other is to retain as much of these savings in the country[87/] as possible and to channel them into productive investment. Reduction of transfers abroad and prevention of all kinds of leakages are problems which should be solved as soon as possible.

227. The bulk of savings comes from the private sector of the economy. But, as was stated above, although the private sector provides the major share of savings, the role it plays in net fixed capital formation is relatively much less important. This highlights the importance of the question of transfer of resources from the private to the public sector for new capital formation. However, this problem is complicated by the fact that (on the average) 87 per cent of the private savings (gross) are generated within the foreign enclave. The State has no choice but to take initiative action to mobilize resources and to transfer them from the private indigenous and non-indigenous sectors for capital formation (in public and private indigenous sectors).

228. The instruments used for this purpose are taxation, foreign exchange control, and public borrowing on the domestic market. But the use of these instruments is beset by many problems which in the final analysis originate because of the structural pluralism of the African economies and societies.

229. The "tax effort" of African countries should be regarded as low or medium - in the average the weight of public revenue represents 17 per cent of GDP (7 to 26 per cent in individual cases). In a developed economy where all the elements are well integrated into a highly responsive system, a weight of this proportion would have been more than adequate for a remote control system to generate and guide the development process by operating solely at the State level (with the possible exception of countries in which this weight is particularly low 10 per cent or less). Unfortunately, the absence of integration - i.e., in view of the structural pluralism - and the presence of perverse articulation among the various elements, especially the foreign enclave, create conditions where the responses are often the opposite of those which would normally be expected.

87/ Or rather within the co-operating group of countries and within the region.

230. Direct taxation represents a strikingly low component of the governmental revenue - 32 per cent in average. Commodity taxes constitute the major element of the tax structure because of the difficulty in collection of direct taxes. The tax structure of the African countries was not designed to serve the purpose of economic growth, development, and equity; it was conditioned by considerations of administrative convenience and revenue yielding capacity. Moreover, it was never intended to prevent the reaping of excessive profits by the foreign enclave, which for all purposes was regarded as the periphery of the metropolitan economy. Times have changed. Obviously these tax structures must be re-examined and re-designed to serve better the objectives of economic and social development.

231. The subsistence sector of the population may be left out of consideration: neither impressive increase of tax yield nor any impact yielding saving expansion can be expected to come from these poverty stricken people.

232. The indigenous population of the money sector shows a declining propensity to save at higher income levels. Besides as was stated above this "élite" is responsible for transferring abroad a relatively large part of its savings and seldom channels them to local productive investment. This, of course, clearly calls for a much more steeply graduated income tax rate than is presently in use. Simultaneously, much higher commodity taxes than those levied at present should be applied on luxury and non-essential goods, particularly imported or domestically produced but with large imported inputs components. In short, the propensity to consume of the population in the upper income brackets must be curtailed. At the same time, considering the tendency of this group of the population to invest in speculative real estate, taxation of wealth should be introduced or tax rates adjusted in order to channel resources to productive investments. Nevertheless, considering the vital importance of expanding the participation of the indigenous group of population in productive business, a system of tax incentives as well as easily accessible credit facilities should be provided, thus efficiently compensating them for their losses of savings (through increased taxation).

233. The non-indigenous population should be considered in two separate groups. The group which derives income from paid employment and the other group which derives income from other than paid employment activities.

234. The group in paid employment is very mildly taxed (on an average). But this may not be a correct observation because the information on tax exemptions of many vitally important expatriate professionals is missing. Therefore enquiry into this problem is required. Nevertheless it seems that a more steeply graduated income tax, as for the upper brackets of the indigenous population, should be applied also in this case. The system of tax exemptions should be abolished and higher salaries paid in compensation. This will give a more accurate picture of the cost of employing expatriate manpower. For employment paid from budgetary sources it will not matter - a purely accounting problem. In cases of other types of employment the present tax exemptions have in fact been government subsidies which have been granted for which no accounting has been given. It will be difficult to deny to some of these expatriates the favour of allowing them to transfer their savings home, up to a reasonable limited extent, of course. Many of them are welcome in Africa and their skills are vital, for the time being, to African development. They have come having been invited by Africa and are usually attracted by the financial conditions offered. But there are also many among them who can be more or less easily replaced by Africans; there is no reason to grant them any special treatment. Therefore, the right to transfer personal savings abroad should be granted on a strictly selective basis.

235. The other group of non-indigenous population, those deriving income from other than paid employment activities presents a much more complex case. Direct taxation, because of widely practised tax evasion and the weakness of the fiscal apparatus, can hardly be expected to yield much more positive results than at present. The presence of these people in African countries has minor, if any, importance to African development, although many among them are loyal citizens and have deeply rooted ties with Africa. But if they consider themselves loyal citizens - and in a way Africans - then there is no logical explanation for their transfers of savings abroad - although there may be some exceptions, e.g., education of their children abroad in cases where ~~there~~ are no satisfactory

local educational facilities. Therefore, permits for transfer abroad should be granted only in specific exceptional cases. In several countries such apparently tight foreign exchange control has been established (although there are serious doubts about its effectiveness) but in many countries there is still no foreign exchange control, or an extremely liberal one. However, foreign exchange control in its simple form is insufficient as long as tight control of import and export licensing combined with rigorous price control is not efficiently introduced. Over- and under-invoicing, wide-spread practice, not only in Africa, is not only an illicit method of transferring money abroad but it is also tax evasion thus it damages African economies in two ways. It should be pointed out that over- and under-invoicing is practised not only in countries which have introduced foreign exchange control but also in those which have not, just for the purpose of tax evasion. Certainly all that is required is a relatively highly skilled personnel of high professional and ethical integrity, working with great efficiency.

236. Foreign corporate business represents a major problem. In general African countries have inherited laws and regulations granting privileges to foreign (metropolitan) business, which includes also a mild taxation incidence. Moreover, different unco-ordinated (throughout Africa) systems of, inter alia, tax incentives were introduced during the last decade, resulting in a virtual tax paradise for foreign corporate business in Africa. Nevertheless, these systems of incentives, so far, have not yielded any appreciable results. This is obvious: tax incentives cannot substitute for the smallness of the markets which makes most conceivable projects not viable with or without tax incentives. Corporate profits in Africa are much higher than in the developed countries, and there is no good reason why the tax incidence should be milder. Besides it is well known that the higher profits have seldom been sufficient to precipitate a major inflow of capital without a deeper economic rationale. The major stimulus to overseas investment is created by the need to defend markets. There are two major factors: one is the emergence of giant multinational corporations, the other is the proliferation of independent States, each reaching out for economic independence, and thus promoting disintegration of the world market. Every country is pursuing its goals to some degree through controlling relations with the world economy, using for the purpose, inter alia, currency and capital control and protection,

and these methods are bound to affect the operations of exporting firms. The conflict between these two elements, the growing inter-nationalism of these areas of competition of these firms and the sharpening nationalism within them, can be eased in practice only if they undertake manufacturing abroad. For example, India's experience has shown that every tightening of import controls has provoked a rush of foreign enterprises for industrial licenses, capital issues consents, and so on. Of course, all this is valid only to the extent to which an investor can locate a market which permits a viable size for his type of operation - every one of which has its optimum size. Sub-optimum operations under adequate protection may be commercially viable to the detriment of the economy and being subsidized by the consumers, contributes to their impoverishment. Such operations, if vital and of key importance for development may as exceptions be considered but in the past decade they became a characteristic feature of the African industrialization pattern.

237. Transfer abroad of foreign owned corporate business profits should be regarded as an unavoidable consequence of their presence in the country. The profits being high and taxation mild they appear large and are much higher than interest on the hardest of loans. Up to a certain reasonable extent this can be legitimate as compensation for know-how, managerial skills, access to export markets, etc., but limits must be set. However, these limits cannot be imposed rigidly and mechanically they should be subject to negotiations.

238. Considering this problem, sharp distinction should be made between export-oriented and import-substitution-oriented foreign enterprises. In the first place the African country must secure for itself a maximum of net foreign exchange inflow as its share in the operation. In the second case adequate care must be given to achieve effective savings of foreign exchange otherwise needed for imports. This points out that import substitution operations by foreign owned enterprises are worthwhile considerations of African authorities only in cases of essential commodities. Import substituting activities oriented toward production of non-essential and luxury goods should be reserved exclusively for indigenously owned enterprises so that these activities do not result in a foreign exchange drain which may be avoided.

239. Strategy should be developed to achieve a balance between the outflow of corporate business profits (and interest) abroad and the inflow of foreign capital for expansion and establishment of new enterprise. The availability of new investment opportunities is the key for the achievement of such conditions, and this depends on the size of African markets, which can be expanded only through economic co-operation for development.

Note on terminology used in the study

240. Serious semantic problems were encountered during this study. They arise mainly in connexion with the differences in approach which are unavoidably encountered in a study of this kind and the basic concepts underlying the system of national accounts as currently standardized.[88/]

241. It would be sterile to engage the reader in a discussion which more or less would be a repetition of the famous discussion between Robertson and Keynes. Keynesian definitions are employed in national accounting. This is so because in national accounts it is essential that all the variable apply to the same period. But Robertson was right pointing out that "today's consumption is function of yesterday's income",[89/] and his approach involved period analysis which envisaged the process of capital formation "as taking place over a period of time subject to time-lags of undetermined length."[89/] This analysis was not available to Keynes.

242. The present study to be realistic approaches the problem step-by-step, which involves time lags and makes quite clear the difference between (1) saving and investment being "equal" (identity equations - national accounts approach) and (2) saving and investment being in "equilibrium" (behaviour equations). Of course, the behavioural approach is at the core of the present study although features of the "identity" approach are also discussed in it.

243. Use of these two approaches makes the semantic problems complicated because currently both of them use the same terminology. Saving remains saving but the amounts saved will not be identical in both cases, i.e., when calculated in different ways governed by each approach. Although, for example, Pigou has given us a beautiful definition of saving: "the excess of total income received over income received for services in providing for consumption", not much has been made clear by this definition for practical

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88/ A System of National Accounts. "Studies in Methods", Series F, No. 2, Rev. 1, United Nations, New York, 1960.

89/ Samuelson, P. A., Robertson, D. H., (1890-1963), The Quarterly Journal of Economics , Vol. 77, No. 4, November 1963, pp. 517-536.

purposes. It has become customary, however, to consider as saving proper 90/ only saving out of net income, after allowance has been made for the maintenance of capital, a usage which again leads to dangerous confusion between the supply of new free capital and the total free capital available for investment. It is extremely difficult to draw a clear line of demarcation between the two, for this would require, particularly under conditions of technical progress, a satisfactory definition of what is meant by maintaining capital intact.

244. Again, in African conditions, the application of this customary approach has inherent dangers. How much money should be put aside as provision for capital consumption? Only actual data are available, i.e., how much has been put aside, and it is certain that this amount is much less than it should be, particularly in the public sector. 91/ If the customary considerations are observed, this will result in inflating both saving and capital formation part of which compensate for the losses caused by the lack of maintenance, i.e., provision for capital consumption. Further confusion arises in this connexion because the national accounts consider provision for capital consumption as being equal to actual replacement or maintenance which, of course, in reality can happen only incidentally. Putting aside provisions for capital consumption, may create idle balance and in many respects these can be considered a kind of saving because they are intended for future expenditure, unavoidable, of course, and predetermined. Again in this case the national accounts data will not reflect the actual situation.

90/ As distinguished from "compulsory monetary saving" which has a peculiar characteristic: that in fact in this case the money for investment is not provided by any kind of saving but is created for that purpose. The use of the word saving in this connexion can be explained only by the misleading practice of treating it as equivalent to formation of capital. Nevertheless, in practice it is sometimes very difficult to prove how much of such money has been actually created for this and not another purpose.

91/ The apparent gap is obviously magnified by bad accounting practices, part of maintenance of capital being accounted with the recurrent (i.e., consumption) expenditure.

245. To distinguish the terms related directly to national accounts, i.e., relevant for the "identity" approach, from others they will all bear the adjective "apparent". The others related to the "behavioural" approach will not bear this adjective. Otherwise the terminology will be the same for both sets of variables.

The following set of terms will be used:

(1) Gross Domestic Income - equal to Gross Domestic Product at factor cost.

(2) Net Domestic Income - equal to Gross Domestic Income less depreciation and less transfers abroad.

(3) Net Income - equal to Net Domestic Income plus Foreign Aid.

(4) Transfers[92/] abroad - comprises all flows over a country's border, i.e., private transfers, flows of migrants' capital, private debt servicing and amortization, general government transfers, general government debt servicing and amortization, and non-profit institutions' flows excluding official foreign aid and flows related to aid.[93/]

(5) Foreign aid - grants-in-aid and aid loans (official, i.e., to the general government) less aid loans servicing and amortization.

(6) Depreciation - an abbreviation which means either provision for capital consumption or actual replacement and maintenance expenditure out of the depreciation fund, depending on the approach to which it refers (this inaccurate abbreviation was chosen to avoid the lengthy descriptive terminology, which, of course, as was mentioned above, is still not definitive).

92/ This is theoretically not correct (e.g., customarily debt servicing is not regarded as transfer).

93/ Grants-in-aid and aid loans, i.e., comprising servicing of these loans including their amortization.

(7) Gross Domestic Saving - saving of households, non-profit institutions, private and public corporations and statutary bodies and the general government including Depreciation.

(8) Net Domestic Saving - Gross Domestic Saving less Depreciation and less transfers abroad.

(9) Net Saving - Net Domestic Saving plus Foreign aid.

(10) (Net) Fixed Capital Formation - value of purchases and own-account construction of fixed assets by households, enterprises, non-profit institutions, and the general government (except depreciation "expenditure").

(11) Changes in stocks - purchased materials, work in progress and finished products if held by households, enterprises or as part of the stockpiling operations of the general government.

(12) Gross Domestic Fixed Capital Formation - Net Fixed Capital Formation plus Depreciation.

(13) Subsistence Population - population, i.e., households or individuals whose income comprises less than 50 per cent of money (cash) income.

(14) Indigenous Money Sector Population - indigenous population, i.e., households or individuals whose income comprises more than 50 per cent of money (cash) income.

(15) Non-indigenous Population - all other members of country's population including expatriate residents as defined in the manner adopted by the International Monetary Fund.

(16) Foreign Enclave (income) - income of non-indigenous population and foreign corporate business.

A few further explanatory remarks are given to avoid unnecessary discussion in the study:

(a) Personal Gross Income - includes dividends received as well as income of non-profit institutions.

(b) Corporate Gross Income - excludes dividends paid locally but includes dividends remittable abroad (i.e., due to foreign shareholders). Of course, it excludes dividends paid to the general government in cases of mixed ventures.

(c) Foreign Corporate Business - business in which the majority of capital is foreign owned (this includes non-indigenous population).

(d) Royalties are considered together with direct taxes.[94]

(e) Indirect taxes except those paid on export, on imported inputs, or otherwise incurred by corporate business are accounted to consumption.

(f) Disposable Income - gross income less direct taxes and royalties[94] (includes depreciation).

(g) Gross Income (whether personal, corporate, etc.) refers to domestic income, i.e., the sum of gross income of all types equals Gross Domestic Income.

(h) Government income (*per se*) - excludes tax and similar revenue and transfers other than mentioned at (iii) below; i.e., comprises only (i) income from government enterprises, (ii) income from property, and (iii) dividends or shares in profits from the government's participation in mixed ventures.

94/ Although they should be regarded rather as income from property (an arbitrarily accepted simplification).