MONETARY RELATIONS AMONG AFRICAN COUNTRIES

BY

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I Introduction

Prior to our disastrous intensive contact with Europeans, Africa was developing in accordance with her own inner logic and her own dynamics. Prior to European intrusion gold (gold dust, mithqals), cowries and many other articles served as money in various parts of Africa (1). These currencies were not only generally acceptable as means of exchange but also served the other purposes which are today normally attributed to money. Besides producing gold for her own use Africa (in particular West Africa) had to produce more and more gold to enable the Arab world to adopt the gold coinage in the eleventh century as well as to make possible the replacement in the thirteenth century of silver by gold as the main currency in Europe. From the eleventh to the seventeenth century West Africa, as the leading producer, supplied about two-thirds of the world's gold (2).

With the intensification of the originally rather tenuous contact between Europe and Africa as from the fifteenth century a new situation gradually arose, which eventually led to the nineteenth century scramble for Africa and colonisation.

2 The Monetary Systems in Colonized Africa

During the earlier phase of the African encounter with Europe «trade» was carried out partly by barter and partly through the use of money of African origin. With the colonisation of Africa however, the colonial powers (the United Kingdom, Germany, Portugal, Spain, Italy etc.) began to transplant some aspects of their own institution into their colonies. The political splitting up of Africa thus came to be followed by monetary fragmentation. Precolonial African monetary units were replaced by European currencies or new local currencies chained to those of the colonial powers, so that a relationship of superimposition and subordination emerg emerged which today is generally appropriately known as «centre-periphery» relationship. One of the decimating results of our subjugation was the superimposition of alien monetary zones on the African continent, upon which this essay now intends to focus attention.

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* The Editors of AFRICA DEVELOPMENT have just been informed of the sudden death of the author of this article. The Editorial Board of the journal present its condolence to Dr. Mensah's family and to the University of Nigeria, Nsukka, where Dr. Mensah was a Senior Lecturer.

2.1. The Monetary Fragmentation of Africa

During the colonial period the following foreign monetary zones came into existence in Africa: the sterling zone, the French franc zone, the escudo zone, the dollar zone, the peseta zone, the Belgian franc zone and the lira zone (3). *The Sterling Zone was* divided into four subzones. The countries of the *former West African Currency Board* consisted of Ghana, Nigeria, Sierra Leone and the Gambia. Their monetary unit and institution were the West African Pound and the West African Currency Board. The former *Central African Currency Board* zone comprised Zambia, Malawi and Zimbabwe. Their colonial currency was called the Central African Pound and their colonial monetary authority the Central African Currency Board. The countries of the *former East African Currency Board* included mainly Tanzania, Uganda and Kenya (4). Their local currency was known as the East African Shilling; their colonial monetary authority was the East African Currency Board. The countries of the *South African Rand Currency* were South Africa, Namibia, Botswana, Lesotho and Swaziland. Their monetary authority was the South African Reserve Bank and the currency in circulation, the South African Rand.

Seychelles and *Mauritius* also belonged to the Sterling Zone. Their local currencies were the Seychelles Rupee and the Mauritius Rupee and the Monetary authorities were their respective colonial governments.

Egypt, Libya and the *Sudan* were also members of the Sterling Zone. *The French Franc Zone* also had several subgroups and has largely remained intact. *The Maghreb States* of Morocco, Tunisia and Algeria had each their own currencies as well as two central banks. The currencies were the Moroccan franc, which was issued by the internationally owned Banque d'Etat du Maroc, the Tunisian franc and the Algerian franc, for the issue of both of which the privately controlled French Banque de l'Algérie et de la Tunisie was responsible. *The Union Monétaire Ouest Africaine (UMOA)* was a currency union whose members were Dahomey (now Benin) Guinea, Ivory Coast, Mali, Mauritania, Niger, Senegal, Togo and Upper Volta. Their common currency was known as the CFA-franc and their common central bank, whose head office was then located in Paris, was the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

The States of the Currency Union of Equatorial Africa were Chad, the Central African Empire, Congo (Brazzaville), Gabon and Cameroun. Their common currency was also called the CFA-franc and their collective central bank was the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (BCEAEC), whose head office was also located in Paris.

The Republic of Djibouti used Franc-Djibouti, for whose issue the French treasury was responsible.

The Escudo Zone comprised Cabinda, Angola, Mozambique, Cape Verde, Sao Tome - and Principe Islands and Guinea Bissau. The Angolan escudo was issued by the Banco de Angola, a Portuguese institution with headquarters in Lisbon. Issuing authority for the Cape Verde - , Guinea - and Mozambique-escudo was the Banco Nacional Ultramarino, also a portuguese - owned institution located in Lisbon.

The Dollar Zone was made up of Liberia where the U.S. dollar circulated since 1944 and where the Bank of Monrovia, subsidiary company of the First National City Bank of New York, regulated the volume of money.

The Peseta Zone stretched to Annoben Island, Equatorial Guinea, Ceuta, Canary Islands, Melila and so called Spanish West Africa (« Spanish » Sahara). It was a homogenous currency area, the valid currency of which was the Spanish peseta which was issued by the Banco de Espana.

The Belgian Franc Zone had as African members Congo Kinshasa (now Zaire) and Ruanda-Urundi. They shared a common central bank by name Banque Centrale du Congo et du Ruanda-Urundi which issued the Congolese currency and the Ruanda-Urundi one too.

The Lira Zone extended to « Italian » Somaliland. The monetary authority was the Cassa per la Circolazione Monetaria della Somalia and the monetary unit was the Somalo.

2.2 Features of the Foreign Monetary Zone System

At the core of all such zones was an imperial power (e.g. United Kingdom, France, Portugal etc.) whose monetary unit (e.g. pound sterling, franc, escudo) played the role of « master currency » (5). The colonies of the imperial power then built the inner circle of the zone. During the colonial period « British » West Africa, « British » Central Africa, « British » East Africa and « British » Southern Africa belonged, for example, to the inner circle of the sterling zone. Likewise « French » West Africa, « French » Equatorial Africa and « French » North Africa reckoned to the inner circle of the French franc zone. The currencies of these territories, servile or satellite currencies, were chained to the master currency, which then became the standard money (i.e. money in which ultimate payments are made even by monetary authorities) (6) in the satellite territories. The servile currencies were thus on an exchange standard (i.e. they were tied to a foreign currency which itself was fixed value in terms of a metal, e.g. gold) (7). There was also an outer circle which normally consisted of « white outposts » and or independent member countries. Initially, the « white outposts » of Australia, New Zealand, South Africa and Southern Rhodesia, for example, belonged to the outer circle of the sterling zone. After independence, India, Pakistan and Burma, for example, gradually « graduated » to it. Generally, the nearer a peripheral territory was to the core the more it was chained monetarily to the imperial power.

The decisive institutions of the system were based in the metropole. The satellite members were normally not allowed to establish their own (8); but when eventually they did, such institutions were located usually in the centre and were mainly manned by metropolitan citizens. Such institutions included the currency boards, the marketing boards, the dollar pool of the sterling zone, which were based in London, as well as the institutions of issue, the operations account and the exchange control authority of the French franc zone, which were located in Paris. Even when due to pressures emanating from the periphery such institutions were transferred to the periphery many of them still remained largely under the management of « skilled personnel » from the centre (9).

Characteristic of the foreign monetary zones was also the institution of pooling together foreign exchange. Examples are the « dollar pool » of the sterling zone and the « operations account » of the French franc zone (10). This pooling institution was supposed not only to bring together the foreign exchange earnings of the members but also to enable control of the economy in the use of foreign exchange. But indeed, through it the colonized territories individually and compulsorily surrendered their foreign exchange earnings in form of gold, the U.S. dollar etc. to the centre (11).

Another important feature of the colonial monetary system was that the decision-making organs in the metropole as well as the administrative apparatus in the periphery were manned mainly by metropolitan citizens (12) to whose high remunerations the peripheral territories had to contribute substantially. Not only did this practice ensure the running of the institutions in the interest of the centre but it also meant preventing the periphery from training its own people as well as from acquiring its own experience while at the same time depleting its resources.

2.3. Inter-African Monetary Relationships in the Colonial Set Up.

Since, as we have said, all colonized members of the system were strictly bound to the metropole all relationships and transactions were practically directed to or carried out at the centre. The colonies entertained as a rule, no direct interaction among themselves even when they belonged to the same subzones. In other words, in terms of monetary interaction it was not possible, for example, to remit money directly from Lagos (Nigeria) to Dar-es-Salaam (Tanzania) although both belonged to the same zone. Similarly, it was not possible to send money directly from Nigeria to the Republic of Benin with which Nigeria shares a common border. Remittances of the former type must pass through London while those of the latter type had to go through London (England) and Paris (France). Furthermore, the colonies were cut off from all countries of the world which did not belong to their monetary zone so that the system became synonymous with cumbersomeness.

Two examples should serve to illustrate this point:

(i) An individual in Lagos (Nigeria) who wanted to make payments to another individual in Kampala (Uganda) had to send the money through his bank (say Bank of British West Africa) located in the periphery from where it went to its main office in the centre (i.e. London). Here a transfer of the corresponding amount from the West African Currency Board to the east African Currency Board took place. Since the main office of the Bank (say Barclays Bank DCO) of the recipient was also in London the amount was credited to it by the latter board. This main branch then remitted or credited the money to the branch in Uganda whose customer was the ultimate recipient.

This was the « simple » case involving subjects belonging to the same monetary zone (sterling zone). When two foreign monetary zones were involved it became really intriguing as the second case below shows.

(ii) *An individual in Nsukka (Nigeria) had during the late colonial period payments to make to another individual at Lome (Togo) and therefore instructed his bank to effect the payment from his bouyant current account. The money was first of all sent to the regional main branch of the bank at Enugu from where it was transferred to the headquarters at Lagos. The headquarters remitted the money to the Central Bank of Nigeria which in turn sent it to the Bank of England. The Bank of England transferred an equivalent amount to La Banque de France which then made it available to the Banque Centrale des Etats de l'Afrique de l'Ouest then located in Paris by crediting the latter's operations account at the French treasury. This multinational central bank then sent the money to its branch in Lome which in turn remitted it to the bank of the recipient which finally credited him with the amount.*

Various hypothetical cases of such financial transactions are illustrated in the diagrams on page 6. And if the Nigerian example is anything to go by money remitted from Nsukka via Enugu and Lagos (all in Nigeria) through London, Paris (both in Europe) and Dakar (Senegal) to Lome (Togo) took several months to reach the recipient.

2.4. The Role of Foreign Monetary Zones in the Economics of Colonialism in Africa

One of the main objectives of colonialism, it should be remembered, was to secure unhindered access to raw materials. In order to achieve this aim the imperial powers found it expedient to prohibit the colonies from trading with other countries of the world directly (13). All export goods emanating from a colony were taken by the imperial power, usually at prices much below « world market prices » (14). The metropole then retained the desired quantity of those goods it needed and sold the rest to other countries at « normal prices ». Similarly, the centre supplied the colony with all import goods, including those it did not itself produce. In this way, not only all trade but also all monetary and financial transactions of the colonized territory were channelled through and processed largely in the metropole by mainly metropolitan citizens. Thus it was possible for the centre to commit financial pillage of the colonized territory at various levels:

(i) *The imperial power paid below the « world market prices » for the goods it retained, thus reducing the earnings due to the periphery.*

(ii) *The centre sold a sizable portion of the raw materials at prices well above what was credited to the periphery and appropriated the differences, thus once more creaming away earnings of the periphery.*

(iii) *Marketing boards, especially in West Africa, paid the peasant producers and farmers only a minor portion (often less than 50%) of the export earnings in local currency and retained the rest allegedly for the purpose of price stabilisation. In reality, such resources found their way back to the metropole where they were used to acquire long-term and low-dividend securities, thus making funds sapped from the satellite cheaply available to the metropole.*

(iv) *The earned foreign exchange (15) itself was surrendered to the pooling system (i.e. dollar pool or operations accounts) located in the centre, where the periphery was deprived access to it while the centre decided what to do with it; at the same time the appropriate satellite monetary authority was credited with metropolitan assets.*

(v) *A portion of the meagre remuneration that eventually reached the peasants and farmers, the middlemen and the emergent bureaucrats in the colony was mopped up by foreign commercial banks, insurance companies, post office savings banks etc. and transferred to the centre for investment since according to these institutions peripheries were insecure, they lacked investment opportunities and were filled with people who were not creditworthy.*

(vi) *For every amount of satellite currency issued the colonized territory had to possess an equivalent amount in metropolitan (reserve) assets; with this 100% backing for the local currency in circulation the colony was denied the right to fiduciary issue while at the same time the centre could expand its own fiduciary issue (i.e. the unbacked portion of money in circulation) which was standard money in the periphery.*

The services of this colonial system became synonymous with cumbersomeness and prohibitive costs. As has been shown above basically simple financial transactions became unnecessarily opaque, tedious and time-consuming.

As far as costs were concerned, the one-dimensional orientation of the colonized territory, which has given birth to a round-about routing as well as multifaceted processing of the monetary and financial transactions of the colony, led to the employment of more labour than would have hitherto been necessary. Financial transactions and management having been tagged « very sensitive, complex and complicated », and in the colonial situation having been made more nontransparent than normal, it is obvious that much of this additional skilled labour or experties did not come from the periphery but rather from the metropole, especially since it was part of the strategy of the imperial power to ensure that colonized people did not acquire such skill (16). Apart from the high basic salaries which these « experts » were paid and for which the colonized territories were in part responsible, additional fringe benefits in form of « induement allowance », « bush allowance », « inconvenience allowance » « horse allowance » as well as « pet (i.e. dog, cat etc.) allowance » accrued to them besides the normal higher superannuation benefits, higher housing allowance, higher vehicle allowance etc. Furthermore, higher costs were generated through long distance communication between the servile periphery and the decision-making centre by way of higher postage, telephone, telex, passage costs etc. Little wonder then that bank charges were and are still considered to be extremely high in the periphery even by apologists of the system both in the centre as well as in the periphery (17).

In short the system functioned to the advantage of the imperial power and to the disadvantage of the colonies. The foreign monetary zone system in effect compelled all satellite members to surrender immense financial resources to

the metropole. Assured of the regular in-flow of these funds the centre was able to fake solvency and liquidity when in fact it was long bankrupt and nonliquid in some cases (18). Such funds were used by the centre to cover its own deficits as well as to develop itself technologically and economically. In other words, the metropole was not only able to live over and above its own means but was also able to increase the technological and economic gap between it and the periphery, a gap which has become apparent since the days of our enslavement.

On the other hand, the periphery accumulated resources which it dared not and could not use to promote its own economic and technological development or even for consumption. As far as African farmers and peasants were concerned the system ensured that they were in general deprived of the greater part of their income or of the results of their labour. What reached them was scarcely enough to sustain them; many of them might have financially bled to death but for the much ridiculed subsistence agriculture which sustained them. While this symphoning of funds from the periphery was going on protagonists of the system were claiming that the periphery enjoyed advantages of stability and convenience allegedly present in the system. In other words, while Africans and others in the periphery were financially bleeding to sustain the material comfort of Europeans and their dogs, cats etc (19), they were being fed with psychological categories.

3. The Monetary System in Neo-Colonial Africa.

It is quite obvious that such an exploitative system as described above cannot continue to exist in that form indefinitely, especially when the colonized territories become formally politically independent and some of the leaders of the newly sovereign states recognized and identified themselves with the existential interests and aspirations of their people. As nationalist consciousness became manifest and uncompromising especially in the 1950s Europe's colonial empires in Africa began to crumble and with them the corresponding monetary zones.

Indeed, during the latter part of the colonial period certain subjugated territories had made attempts to persuade the imperial powers to allow them to establish their own monetary institutions. Such attempts met, as was to be expected, with vehement opposition from the imperial powers until it was obvious that such territories were due to become politically independent in the near future (20). With the attainment of political independence by many of the former colonies changes began to take place in the colonial monetary systems operating in Africa.

3.1. Changes in the Foreign Monetary Zones

As far as the sterling zone in Africa was concerned a process of disintegration set in. Ghana, Nigeria, Sierra Leone and Gambia, one after the other, erected their own separate central banks and introduced their own national currencies, which thus replaced the West African Currency Board and the West African Pound. In Central and East Africa the common currency boards and the common currencies suffered the same fate. Zambia and Malawi (21) established national central banks which took over from the Bank of Rhodesia and Nyasaland, the successor of the Central African Currency Board. In East Africa the East African Currency Board had to fold up after Tanzania, Uganda and Kenya had in 1966 floated separate central banks. Both in Central and East Africa national currencies were substi-

tuted for the common currencies which were withdrawn from circulation. With regard to the rand currency sub-area Lesotho and Swaziland in 1974 signed an agreement with South Africa whereby they affirmed the supremacy of the rand but at the same time obtained the right to issue their own local currencies. Botswana, on the other hand, withdrew from the talks and decided to create its own separate central bank and currency (22).

In the French franc zone in Africa the established colonial monetary institutions and currencies remained largely intact until relatively recently. Nevertheless, the Maghreb states replaced, between 1958 and 1964, their satellite versions of the franc and their foreign-owned issuing authorities with national currencies and central banks and opted out of the operations accounts system and thus attained a relatively substantial measure of autonomy. Besides, the Republics of Guinea and Mali expressly questioned the rational of the French franc system in Africa in the early 1960s and in consequence established their own separate central banks and monetary units (23). And in the Malagasy Republic an « Institut d'Emission Malgache » was established while the CFA-franc there was redesignated « franc Malgache ».

By 1969, however, various other African member states of the zone had begun to demand modifications of their monetary arrangements with France. The mounting general discontent eventually compelled France in 1972/1973 to introduce « reform » measures, among which were the following (24) :

(i) *the headquarters of the two multinational central banks, the BCEAO and the BCEAEC, were transferred from France to Africa after the latter had been redesignated « Banque des Etats de l'Afrique Centrale » (BEAC);*

(ii) *the number of French representatives in the Board of each of both banks was reduced and their chairmanships devolved on the African members;*

(iii) *both banks could make use of the 35% of their foreign exchange holdings, which could be in currencies other than the French franc, to finance trade with other countries;*

(iv) *the Banks could float loans and issue treasury bills as well as grant loans to member states and specialised institutions.*

The 1972/73 « reform » measures notwithstanding, two African member states, Mauritania and the Malagasy Republic, eventually decided to quit the French franc zone. Mauritania established its own central bank and introduced a new national currency.

As far as the other alien currency areas were concerned the Belgian franc and the Italian lira zones in Africa completely collapsed in the 1960s while the Portuguese escudo zone in Africa was only recently liquidated after the attainment of political independence by Guinea Bissau, Mozambique and Angola. No substantial changes have taken place in the dollar and peseta zones in Africa except that Ifni now belongs to Morocco while the Western Sahara has become a disputed territory.

3.2. The Emergence of National Monetary Systems.

With the collapse, disintegration and shrinking of many of the foreign monetary areas there emerged national currency zones in Africa. Such national monetary systems presently include Ethiopia, Egypt, Sudan, Guinea, Somalia, Zaire, Burundi, Rwanda, Mauritania, the Malagasy Republic, Guinea Bissau, Mozambique and Angola. Common formal characteristics of these systems are that the countries concerned are no longer legally compelled to hold reserves in a particular metropolitan currency or give preferential treatment to any particular foreign country in their foreign exchange and commercial transactions. In consequence they have the tendency to sign bilateral payments agreements, to repatriate the resources carted away from them and kept in the metropole in the past, to impose general restrictions on the drain of funds as well as not to appreciate or depreciate their currencies automatically in accordance with the dictates of the former colonial master.

3.3. Inter-African Monetary Relationships in the Neo-Colonial Era.

Inter-African monetary relationships have undergone some degree of complication as well as simplification in this era. Factors responsible for the changes included the commencement or expansion by many African countries of trading activities with one another the introduction of central banks as well as new ones, unattached currencies and the striving for monetary autonomy.

As far as intrazonal financial transactions (i.e. financial transactions between two or more members of the same monetary zone) were concerned, the replacement of subzonal currency boards by separate national monetary institutions (25) meant a further complication in processing procedure. For example, a remittance due to an individual in Accra (Ghana) from a person in Nigeria still went through London (England) to its destination. But although the same activity was handled in the colonial era by only one currency board to which Ghana and Nigeria belonged in the neo-colonial peried three central banks (i.e. Bank of Ghana, Bank of England and Central Bank of Nigeria) served as intermediaries. Similarly, the Central Bank of Nigeria, the Bank of England and the Bank of Uganda intervened when a remittance was intended for an economic subject in Kampala from a debtor in Lagos (Nigeria).

Circuitous routing of monetary transactions reached its peak in African interzonal relations (i.e. relations between African members of two or more different alien monetary zones). For instance, a transfer of funds from Lagos (Nigeria) in the sterling area to Lome (Togo) in the French franc zone reached the recipient only after passing through the Central Bank of Nigeria (Lagos), the Bank of England (London), La Banque de France (Paris), Banque Centrale des Etats de l'Afrique Occidentale headquarters (Dakar) and its branch (Lome) although both Nigeria and Togo are quite near each other and Lome is just about 250 miles from Lagos (26).

With the emergence of national monetary systems a third mode of financial interaction came to be established between some African states. This involved the signing of bilateral trade and payments agreements whereby clearing and payments were directly effected by the partners (27). In such a case the central bank of each of the partners to the agreement opened and maintained an account in the name of

the other partner to which exports were debited and imports were credited. Either partner's currency (28) or a third currency acceptable to both served as unit of account. In case of trade imbalance or excess balance above fixed credit limit settlement was directly effected at intervals in the specified convertible or other currency.

3.4. The Role of the Monetary Systems in Africa in the Neo-Colonial Era.

The role of monetary organizations in Africa in the post colonial era cannot be said to have been basically quite different from the colonial experience. This statement is not surprising because neo-colonialism is a modified form of colonialism.

The erection of national monetary institutions during this period served in the first instance to increase the need for skilled labour in banking and finance. And since the newly independent African countries could not provide it the leadership of their emergent monetary institutions was recruited largely from Europe, preferably from the former colonial power. Thus more employment opportunities were opened to European labour than the demolished common boards could offer. (29).

The filling of sensitive leadership positions with their citizenry on the other hand, enabled the metropolitan powers to subordinate the new institutions to similar metropolitan organs, and to direct them primarily in consonance with metropolitan interests. Not surprising therefore, the imperial currencies continued to function as international trading and reserve currencies while London, Paris etc. remained financial centres for their respective former colonies. In consequence while American, German, Swiss, British, French etc. banknotes and travellers' cheques were easily exchangeable at bank counters in the various African countries this was not the case with banknotes emanating from African countries themselves. (30).

Furthermore, as has been shown above, the introduction of new central banks has not only not served to reduce the round about routing of financial transactions but has indeed meant in this connection a proliferation of intermediaries and as such an unnecessary increase in the cost of processing (31).

Besides the greater outlay for the employment of foreign skilled labour and the higher costs incurred through the intervention of more intermediaries several other cost elements must be taken into account. The newly sovereign states, for instance, continued to hold metropolitan currencies and securities as backing for their own currencies. But while in the colonial era the imperial currencies attained a reasonable measure of stability this has not been the case in the more recent past. The persistent gyratious in the money and capital markets of the capitalist countries have led to equally persistent fluctuation in value of the imperial currencies. Thus the value of foreign reserve assets held by most African countries has consistently depreciated over time. But not only that; while such resources continued to be made available to the imperial powers and at the same time borrowed funds from Europe and America at « world market rates » (i.e. higher interest rates).

Clearly, in the neo-colonial era it was no longer possible for an imperial power to legislate the sapping away of the resources of an ex-colony. Indeed, it was some of the ex-colonies that this time introduced stringent foreign exchange control measures to curb further excessive and indiscriminate drain of funds out of their territories whereby not even the former colonial power was exempted. Thus, even though marketing boards, banks and other financial intermediaries continued to deprive the peasants and the rest of the populace of substantial resources, such funds remained largely within the national boundaries of the African countries concerned. In consequence the mainly foreign financial institutions that operated in these territories employed such resources to fund local subsidiaries of giant foreign companies. Partly in this way they were able to bring the emergent industrial sectors of these peripheral economies under alien control as well as use them to outwit the exchange control authorities (32).

From the perspective of inter-African monetary relationships it should be emphasized that bilateral payments and clearing arrangements, by focussing on direct contact and eliminating all intermediaries between the partner states, have done away with circuitous connections and round about routing of remittance as well as reduced the attendant costs. Although bilateralization of payment and clearing simplifies processing procedure, is coupled with some degree of independence and has other attractions for African nation states, it also has some shortcomings, one of which concerns economy in the use of funds. This problem should be theoretically illustrated below.

Let us assume that Nigeria (N), Togo (T), Zaire (Z) and Mozambique (M) each operated a bilateral payment and clearing agreement with the other, whereby they cleared bilaterally at the end of each month. Further let us suppose that at the end of a typical month the following claims matrix emerged:

Claims (1) Matrix ('000UA (2))

Partners	N	T	Z	M
N	x	320	240	80
T	80	x	160	120
Z	40	360	x	240
M	320	80	40	x

(1) Columns represent claims while rows represent counter claims.
2UA – units of account

As a result of the transactions incorporated in the claims matrix the following clearing and payments processes necessarily took place at the end of the month in thousands of units of account.

Partners	Claims	Counter Claims	Clearance and Payment
N and T	80	320	N paid 240 to T
N and Z	40	240	N paid 200 to Z
N and M	320	80	M paid 240 to N
T and Z	360	160	Z paid 200 to T
T and M	80	120	T paid 40 to M
Z and M	40	240	Z paid 200 to M
			1120 UA

From the above it can be seen that the four countries required a total of 1120000 units of account in order to be able to settle their claims and counter claims. Furthermore, each of the partners had, in one case or more, to provide specific amounts of the proper currency to compensate the creditor state, since each country was at least once in debt.

If, however, the four countries concerned operated a multilateral clearing system and had the same claims matrix as above settlement in thousands of units of account would have taken place as below:

N: − 240 − 200 + 240 = − 200

T: + 240 + 200 − 40 = + 400

Z: + 200 − 200 − 200 = −− 200

M: − 240 + 40 + 200 = −

In this case M, whose account was indeed summarily balanced, would have neither received from nor made net payments to any of the other three members. N and Z, whose accounts showed a deficit of 200000 UA each, would each have had to provide the corresponding amount. The only country in overall credit position was T, which would have then received 400000 UA net payment. In all, only 400000 UA would have been concretely needed to effect a full settlement of accounts among the four partner states. Compared with multilateral clearing bilateral payments and clearing arrangements appear rather uneconomical since they normally require a greater volume of the specified means of payment (in our case 720000 UA more) to effect a clearance. In other words, multilateral clearing normally brings about a reduction in the quantity funds needed for the ultimate settlement of accounts. Funds released in this way could then be utilized for other purposes.

Not surprisingly the foreign monetary zones of the colonial past were multilateral payments and clearing arrangements, which were usually restricted to an imperial power and its colonies and other satellites. Unfortunately, resources saved in these systems through multilateral clearing became available solely to the imperial power and its privileged white outposts. Partly as reaction to this many of the former colonies have opted for national monetary systems with the attendant bilateral payments and clearing arrangements which, as has been shown above, tend to tie up relatively more funds (33).

The foreign nature of the imperial monetary zones, the proliferation of national currency systems as well as the problems of bilateral payments and clearing systems obviously lay at the centre of calls and attempts to organize monetary cooperation at continental level in Africa for almost two decades now. Three major continental institutions, the formation of which would have substantially altered the mode of monetary interaction and improved cooperation among African nation states have long been suggested and remain, in our view, extremely important, namely:

i. an African Payments and Clearing Union,
ii. an African Monetary Zone and
iii. an African Central Bank (34).

Unfortunately, after many years of reporting and debating on them none of them has materialised. Instead, a loose Association of African Central Banks and an African Centre for Monetary Studies, none of which is competent to make binding policy decisions, were established. Besides, a West African clearing arrangement, which groups together the English - as well as the French-speaking countries of Western Africa, was created (35).

4. Concluding Remarks.

Inter-African monetary relationship is not a new phenomenon; it existed already in the pre-colonial era. Nevertheless, it underwent fundamental changes during the colonial period and these changes included the fragmentation of the continent into foreign monetary zones, the imposition of imperial currencies or local monetary units chained to imperial currencies and the prevention of direct interaction between or among the colonial territories. The resultant circuitous routing of financial transactions was fraught with heavy costs, the burden of which the colonies had to carry.

With the achievement of political independence by many African territories, the foreign monetary zones in Africa, which in the past have operated to the benefit of the imperial powers, were subjected to some modifications. Indeed, some of the alien currency zones have shrunk others have disintegrated. At the same time Africa has experienced a proliferation of national monetary systems. Although the measures taken have served to erode the power and influence of the erstwhile imperial powers, obviously they have not been primarily directed at the basic economic issues. Even today inter-African monetary relationships remain largely indirect and circuitous, highly time consuming and expensive as well as largely beneficial to neo-colonial powers. The establishment

of an African payments and clearing union, an African monetary zone and an African central bank would represent momentous steps towards a lasting solution of these problems. Loose regional or continental debating or study associations are, therefore, at best feeble and rather unsuitable substitutes or first steps.

FOOTNOTES

(1) Cf. Hopkins, A. G., An Economic History of West Africa. Longman Group Ltd. London 1973, p. 67-69.

(2) Cf. ibid., p. 82.

(3) The following overview of the various foreign monetary zones in Africa is based on *Mensah A.*, Panafrikanismus oder Wirtschaftliche Unterentwicklung - Ein wahrungs-und bankwirtschaftlicher Beitrag zum Problem der wirtschaftlichem Entwicklung und Unterentwicklung Afrikas unter besonderer Berucksichtigung von Ghana, Nigeria, Tanzania, Uganda und Kenya - Verlag Udo, Breger, Gottingen 1974, pp. 6-17.

(4) Aden, Somalia and Ethiopia Temporarily belonged to this subzone.

(5) Cf. *Mundell, R.A.*, African Trade, Policies and Money. In: Tremblay, R. (ed), Afrique et Intégration Monétaire (Africa and Monetary Integration). Les Editions HRW. Montreal and Toronto 1972. p. 29.

(6) Cf. *Thomas, R.G.*, Our Modern Banking and Monetary System. 4th ed., Prentice-Hall, Englewood Cliffs 1964, p. 22.

(7) Cf. *Chandler,L.V.*, op.cit., p. 28.

(8) The experiences of Ghana and Nigeria are typical examples.

(9) For details cf. for example *Mensah, A.*, op.cit., pp. 357-365.

(10) Cf. ibid., pp. 32-35. - *Engberg, H. L.*, The Operations Account System in French-Speaking Africa. « The Journal of Modern African Studies ». London Vol.II, No. 4 (1973), pp. 537-545.

(11) Cf. Mensah, A., op.cit., pp. 28-36. - Engberg, H. L., op.cit.

(12) Cf. Mensah, A .op.cit., pp. 357-365.

(13) Cf. *Nkrumah, K.*, Towards Colonial Freedom. Heinemann, London, Melbourne Toronto 1962, p. 10.

(14) Cf. for example *Bauer, P. T.*, West African Trade. A Study of Competition, Oligopoly and Monopoly in a Changing Economy. Routledge and Kegan Paul, London 1963, pp.300-318.

(15) This was usually in gold or US dollar.

(16) Cf. *Nkrumah, K.*, op.cit., p. 10. For further details see *Mensah, A.*, op.cit., pp. 377-382.

(17) Cf. *Bauer, P. T.*, op.cit., pp. 17 and 181. - *Jucker-Fleetwood, E.E.*, Money and Finance in Africa. The Experience of Ghana, Morocco, Nigeria, the Rhodesias and Nyasaland, the Sudan and Tunisia. From the Establishing of Their Central Banks Until 1962. (Basle Centre for Economics and Financial Research, Series B, No.6). London 1964, p. 234. - *Brown, C.V.*, The Nigerian Banking System. Allen ad Unwin Ltd., London 1966, p. 77.

(18) Cf. Without doubt this was the case with the United Kingdom. For details see *Mensah,A.*, op.cit., pp. 28-36.

(19) Cf. Chinweizu, The West and the Rest of Us. White Predators Black Slavers and the African Elite. Vintage Books, New York 1975, p. xiii.

(20) Ghana and Nigeria were typical examples.

(21) (Southern) Rhodesia, the third territory, is still a hotly disputed area.

(22) Cf. *The Economist Intelligence Unit.* Quarterly Economic Review: Southern Africa: Republic of South Africa, South West Africa, Botswana, Swaziland. London No. 1 - 1975, p. 19.

(23) However, after the military take-over in 1968 the national currency of Mali was attached to the French franc.

(24) Cf. *Economic Commission for Africa.* Survey of Economic Conditions in Africa, 1973. New York 1974, pp. 173-174. - Ibid., Survey of Economic Conditions in Africa, 1972. New York 1973, pp. 209-211.

(25) The West African Currency Board, for example, was succeeded by the Bank of Ghana, the Central Bank of Nigeria, the Bank of Sierra Leone and the Gambia Currency Board.

(26) Even if the transaction was between Lagos (Nigeria) and Cotonou (Benin) the route was the same except that Cotonou replaced Lome although Nigeria and Benin share a common boundary.

(27) Although such agreements were mostly resorted to in trading with socialist countries some African countries have found it useful in trade between each other.

(28) Although this was quite rare nonetheless, Egypt signed such bilateral agreements with Guinea and Sudan in which the Egyptian pound was the specified means of settlement.

(29) For a detailed study of this for selected African states cf. *Mensah, A.*, op.cit., pp. 356-367.

(30) Probable exceptions are the CFA-franc and the rand subzones.

(31) Exceptions were cases where bilateral clearing agreements were operated.

(32) Through over-invoicing, falsification of documents as well as the active collaboration of some indigenous partners the alien parent companies with the co-operation of the subsidiaries have been largely successful in symphoning away more resources than legally permitted from such countries. For good example of how foreign firms defraud African countries see, for example, *Ngango, G.*, Les investissements d'origine extérieure en Afrique Noire Francophone: Statut et incidence sur le développement (Présence Africaine) Paris 1973, pp. 335-339.

(33) - This should in no way be misconstrued as an argument for a return into the colonial fold.

(34) Cf. *Cervenka, Z.*, The Organisation of African Unity and its Charter. Hurst and Co., London 1969, pp. 71-72. The importance of these envisaged institutions must, however, remain the subject matter of another study.

(35) Cf. To assess this arrangement it should be remembered that most of the Francophone states concerned belong to French franc system dominated by France.