BOOK REVIEW


Robert Pozen

This book examines the role of a special type of bank in the developmental efforts of African countries. One author presents case studies on development banking in three African countries with British ties; the other author presents case studies on development banking in three African countries with French ties (including two case studies on the Ivory Coast).

The strength of the book is its empirical data. The case studies contain a wealth of information about development banking which is very difficult to gather in most African countries. The case studies are also written quite lucidly, given the highly technical nature of the subject matter. Unfortunately, the two authors did not follow a uniform format for all the case studies and so there are some barriers to comparisons among different countries.

The main weakness of the book is its lack of an explicit theoretical framework. The book has no conclusions; it contains only an introductory chapter entitled "Some Problems of Development Banking in Africa." Nor do the case studies on the African countries with British ties have any conclusions. Although the case studies on African countries with French ties have conclusions, these are very short and conceptually inadequate. The authors specifically refuse to define what a development bank is (p. 17); indeed, they never define their idea of development. Thus, the reader is provided with a mass of data without much guidance as to what all these facts mean.

The authors occasionally do give hints about their conceptual focus. For instance, they make the interesting observation that development corporations often perform some of the same functions as development banks (p. 18), but this suggestion is not pursued systematically. The case study on Ghana fails even to mention the Industrial Development Corporation, which gave loans for manufacturing projects for ten years before the National Investment Bank was established. While two of the case studies deal with the Ivory Coast, one with a development bank and the other with a development corporation, the experience of these two institutions is not compared and contrasted.

More disturbing are the hints given by the authors about their ideas on development. They seem to feel that development banks are successful if they earn profits or at least bring about capital formation. Conversely, they frown upon lending money for "social benefits" or "unproductive" projects like housing (pp. 248-9). However, there are plausible theories of development which emphasize social or political factors over financial profits or capital formation. For example, it could be argued that the investment of bank funds in housing projects is appropriate because the construction of such projects will help
consolidate the position of the ruling party, and a strong ruling party is essential for the implementation of development programs (see, e.g., S. Huntington, Political Order in Changing Societies, 1968). The closest the authors come to a theoretical statement is: "a development bank or corporation best serves the economic growth of its country by taking over the functions of institutions whose non-existence or shortage are severe obstacles to development..." (p. 45). But this statement begs the question. What is "development" and what institutions are necessary for "development"?

The authors devote considerable attention to the charters establishing the development banks which they study. Yet again the book suffers from the absence of a theoretical framework - this time about the relationship between charter provisions and development banking. While the authors recognize that the legal form of a development bank does not necessarily indicate ownership or control (p. 21), they apparently believe that the charter provisions of these banks are important determinants of institutional performance. For instance, they maintain that the tension between profitability and development can "be resolved, once and for all, in the statutes of each development institution..." (p. 36). This is a very naive approach to the legislative problem involved. Conflicting interests often cannot be resolved in a statute and statutory provisions are often not enforced. Moreover, it would be extremely difficult to draft charter provisions on the financial obligations of development banks that would be politically acceptable to all relevant interest groups and practically applicable to the broad variety of loan recipients.

To provide more than an encyclopedia on development banking in Africa, the authors should have articulated a theory about the proper role of these banks in African development, used the case studies to test some of their arguments, and elaborated their conclusions in a final chapter.