# Commercial Banking Systems:
# The Neglected Variable in Political and Economic Development

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ABSTRACT

This study underscores the strategic role – both political and economic – of banking sector reform in the overall pursuit of economic development and democratization. It compares trajectories of banking sector reform in Middle Eastern and African countries that have remained on the margins of the new global economy. A close look shows that their governments' willingness to embrace reform has differed across contexts, as has the extent and pace of reform. Meanwhile, the effects of reform – whether and how legal change produced the developmental changes predicted by liberalization's proponents – have also been very uneven.

We model this variation in reform trajectories and its outcomes, propose a theoretical explanation for it, and use a set of case studies to illustrate the contrasts and causal dynamics that we have identified. Our main claim is that structural features of national political economies go far in defining actual trajectories of banking sector reform and liberalization. Structural features of national political economies that we define as key are the strength of indigenous private sector, and how it is linked to the state and foreign capital. The politics of banking reform is deeply conditioned by already-achieved levels of financial sector development (including the local embeddedness of law and of the market itself) and private capital's diversity, strength, and political autonomy vis-a-vis the state. We propose a typology of banking structure and reform trajectories and use case studies from the Middle East and Africa to illustrate variation in the politics of banking sector reform.

## *Introduction*

This study compares trajectories of banking sector reform in countries that have remained on the margins of the new global economy. In parts of the developing world that did not experience spectacular financial booms and busts in the 1990s, or that have simply lagged behind the capital-hungry Asian tigers, banking and finance have not be the focus of much literature on the political economy of reform. This may be because analysts have assumed that there is not much cross-national variation in either banking structure or banking reform across these cases, or perhaps because banking is assumed to be the last sector in which the real politics and long-term effects of reform will be seen. In this study, we challenge both propositions, and in so doing hope to underscore the strategic role —both political and economic— of banking sector reform in the overall pursuit of economic development and democratization.

Since the mid-1980s, governments in the Middle East and Africa have been subject to pressures for financial sector reform coming from global markets and the International Financial Institutions (IFIs). A close look shows that there has been significant cross-national variation in how governments have responded to these pressures. Governments' willingness to embrace reform has differed across contexts, as has the extent and pace of reform. Meanwhile, the effects of reform —whether and how legal change produced the developmental changes predicted by liberalization's proponents— have also been very uneven, sometimes yielding the perverse results of financial sector contraction and disintermediation, sometimes producing little real change in the operations of domestic finance, and other times going far in introducing real competition into formerly uncompetitive banking sectors.

In this paper, we model this variation in reform trajectories and its outcomes, propose a theoretical explanation for it, and use a set of case studies to illustrate the contrasts and causal dynamics that we have identified. Our approach locates the determinants of change in state-society relations and balances of state and market, rather than in the narrower institutionalist factors that have been the focus of so much of the literature on economic reform. We believe that we transcend some inherent limitations of standard institutionalist theories of banking reform and, in the process, underscore some of the deeply political and social-structural determinants of reform trajectories in much of the late developing world.

The basic premise of our approach is that there is a need for theories of reform that capture variation in market structure and state-society relations. Much

of the "political economy of economic reform" literature has been framed in terms of Institutionalist theory. Following Douglass North and others, institutionalism proposes that if you change the rules of the game, actors will adjust their behavior to the new structure of incentives. When it comes to economic reform, the theory suggests that liberalizing the rules of market competition will stimulate actors to become more competitive and market investments necessary to innovate. Players that cannot keep up with the demands of the market will be flushed out of the game.

In the literature on financial sector liberalization, Institutionalist logic finds expression in financial repression theory.[1] Oppressive government regulation keeps markets and market actrors down: liberalize the rules of the game by lifting restrictions on interest rates, credit allocation, and market entry, and financial markets will become more dynamic, more responsive to local demands for capital, and more efficient.

One problem with both theory and policy framed in these terms is that they have proven highly inadequate in predicting when or where substantive reforms will actually take place, and in anticipating what the product of any *de jure* reform will actually be. In many ways this mirrors a limitation inherent in all Institutionalist theory: these approaches are not good at explaining institutional origins or change (as Robert Bates put it, "Institutions cannot explain their own origins"), or why the same institutional innovation will produce different results in different settings. Broader and deeper economic and social structural factors go a long way in explaining how and when political actors decide to change the rules of the game, and what the effects thereof will be.

Our main claim is that structural features of national political economies go far in defining actual trajectories of banking sector reform and liberalization. Structural features of national political economies that we define as key are the strength of indigenous private sector, and how it is linked to the state and foreign capital. The politics of banking reform deeply is conditioned by already-achieved levels of financial sector development (including the local embeddedness of law and of the market itself) and private capital's diversity, strength, and political autonomy vis-a-vis the state. In the next sections of this paper, we try to operationalize these propositions and use them to construct a model of how cross-national variation in macro-social and macro-political context works to produce different paths of banking sector reform.

Much of the first-wave literature on globalization and neo-liberal reform emphasized outside-in pressures for globalization (dependence on external private capital) in explaining cross-national converge (and variation) in the pace of and style of finance sector reform. This paper underscores the importance of the nature, strength, and positioning vis-a-vis the state of the indigenous private sector in determining the pace, extent, and outcomes of reform. The analysis stresses the historically-shaped embeddedness of banking sectors in political economies that are

[1] See discussion in Nissanke and Aryeetay, 1998: 6.

defined by different balances of state and private capital, competition and oligopoly, and local and foreign capital. The argument highlights links between financial sector and broader political reforms (and non-reform), and in so doing underscores the extent to which banking reform, the development of modern legal systems, political liberalization, and financial sector institution-building are interdependent. Many of our cases underscore these interdependencies by way of a counterfactual: where markets and democratic institutions are weak, financial sector reform is likely to produce unintended or perverse results.[2]

Part I proposes a four-part typology of reform trajectories in the Middle East and North Africa (MENA) and sub-Saharan Africa, including South Africa (SSA). Our typology of bunker/bully/oligopoly/liberalizing reformer (conditional democracy) regimes is drawn from Henry and Springborg (2001). It describes variations in regime responses to pressures for political and economic opening in the 1980s and 1990s (pace, extent, effects).

Part II shows that variations in the politics of reform correlate well with variations in banking structure and financial sector development in these two regions. To describe commercial banking structure, we look at concentration (HHI), ownership structure (GB20), and the commercial banks' share of total banking system assets ("Assets"), all defined below. These variables are pretty good indicators of the strength, diversity, and autonomy of private capital vis-a-vis the state. We find that comparison of commercial banking structures in terms of concentration and ownership structure produces a result that maps remarkably well onto our four-part typology of bunkers, bullies, oligopolies, and liberalizing reformers. Banking structure is sort of a mirror of the distribution of political and economic power within the national system at large. Part II also shows that variation across our four "types" is registered in broader political and economic variables (Freedom House measures of civil liberties; indicators of institutional accountability and transparency[3] developed by Henry and Springborg; and an index of "financial intermediary development," or FID). Countries that follow the liberalizing reform trajectory tend to register better Freedom House scores for political openness, and score higher on the measures of institutional accountability and transparency. These are variables appear to play an important role in determining the success of financial sector reform.

Part III presents case studies from the MENA and SSA. Banking structures, reform politics, and the outcomes of reform are largely comparable across the two regions, despite differences in per capita income and financial development.

[2] As Stein and Lewis (1997:6) said in a study of banking reform in Nigeria, cases can "illustrate what happens when reform is pursued without sufficient attention to political and institutional variables. The results are often unintended or perverse".

[3] The two indicators of institutional credibility and transparency in Henry and Springborg (2001) were CIM and newspapers, but in this article we use a better indicator of Information that also includes telephones and internet usage.

Part IV discusses the various obstacles to reform in the each of the four political and commercial banking contexts, and concludes with some broader observations.

### *Part I: Four Paths of banking sector reform in SSA and MENA*

The MENA economies tend to be wealthier and financially more developed than most SSA economies. They generally started from higher levels of financial intermediary development —resulting from their greater oil wealth, per capita income, and proximity to Europe. Yet virtually all of the economies in both regions are heavily dependent on external trade, and on the export of primary products in particular. They are all open, trade-dependent states. MENA and SSA countries were subject to similar pressures for financial sector reform in the 1980s and 1990s. Although the wealthy oil states of the Gulf Cooperation Council (GCC) managed to survive the downward plunges in the price of oil in the 1980s and again in the late 1990s, many of the other MENA countries suffered major debt crises and were obligated by structural adjustment programs.

SSA countries have been in the throes of economic upheaval since the beginning of the 1980s. Since about 1980, Africans have suffered declines in living standards and levels business activity that are comparable to those experienced by Americans and Western Europeans during the Great Depression of the 1930s. Most analysts' attention has focused on the destabilizing effects of fiscal crisis in the 1980s, and the dramatic economic dislocations set in motion by the SAPs in the 1980s and 1990s. Volatility in commodity prices in the last 20 years (oil) —and especially secular declines in the terms of trade for many African exports (cocoa, coffee)— have also been major contributors to macroeconomic instability in these states.

In both regions, financial sectors are state-dominated. Outside the GCC virtually all of the MENA banking systems were nationalized in the 1960s and 1970s —Morocco and Jordan being interesting exceptions. In SSA, 60% of total banking assets were state-owned in 1990s, according to the African Development Bank. Private banks do limited long-term lending, and medium and long-term public sector investment is heavily dependent on multilateral funding institutions, especially the World Bank. Appendix 2 offers basic information about commercial bank credit and stock market activity in the MENA and SSA countries, along with comparable information from comparators in other regions.

Although these are not very propitious conditions to build or rebuild viable commercial banking sectors, African and Arab governments have been forced to accommodate internal and external pressures for financial sector restructuring. SSA is the only world region that relied mostly on public funding inflows, but much of the MENA also depended heavily on foreign aid and strategic rents reflecting its centrality in global politics. IFIs have been deeply involved —indeed prime architects— of financial sector restructuring. Yet even in cases of heavy external

pressure on weak and vulnerable African states, there has been considerable variation (limited convergence) in banking sector reform trajectories. As most of the political economy of international finance literature insists, "there is a strong role for the state and domestic politics in determining outcomes like market liberalization. ...[B]anking politics remains an essentially domestic political concern; ... balance of domestic forces that stand to win/lose from change plays a determinant role".[4]

Within our range of MENA and SSA cases we see four distinct trajectories of banking sector reform: 1) stubborn state resistance, despite possible lip service to reform, to giving up virtually total control of the banking system, 2) continuing state resistance to full financial and economic liberalization, but with some reform and the opening of controlled spaces for private capital, 3) reform that reproduces private banking oligopolies that operate in close collusion with public authorities, 4) healthy adaptation by relatively competitive and autonomous commercial banking systems (Henry and Springborg, 2001).

The first category is comprised of <u>bunker states</u> in which private capital is far too weak to mount any noticeable challenge to state-domination of the financial sector. In the MENA, bunkers' responses to pressures for globalization have often been brutal. When looking at the SSA states, it is hard to miss the presence of a sub-group of states in which the security of property is patently insufficient to guarantee the accumulation of capital, and in which there is really no [formal] private sector to speak of. In these states, which we will call the SSA bunkers, private business activity is conducted underground. Reno's "shadow states" fit into this category: most "business" is actually conducted in cooperation with profiteering government officials and political insiders who profit by subverting the state.[5]

Second are the authoritarian clientelist regimes that fear competition from the private business sector (or oppositional factions therein). They have a hard time undertaking financial sector liberalization and resist liberalizing reforms. In the MENA and SSA, we find "<u>bully states</u>" that defiantly maintain a firm grip on banking sectors to discipline private sector enemies and reward cronies and friends.

Third is a category of cases in which state and private sector have long existed in cozy collaborative relationship. In these cases, de jure reform may come more easily but be accompanied by subtle controls that help protect and reproduce a tight-knit political class. In these cases, de jure political and economic liberalization has contributed to the rise of <u>commercial banking oligopolies</u> that cultivate cozy relationships with the state.

Fourth, the relatively liberal political regimes of the MENA and SSA are based on relatively stronger private sectors reflected in their respective banking systems. Here we see the <u>neo-liberal conformers</u> and the most successful liberalization scenarios.

[4] Lavalle 2001; Haggard, Lee, Maxfield 1993; Hutchcroft 1998; Pauly 1997; Perez 1998.
[5] Reno 1998.

## Part II: Reform Trajectories and Commercial Banking Structure

### *A. The typology mirrored in commercial banking structure*

For the cases for which we have data, we find that regime type tends to correlate with variation in commercial banking structure. Figure 1 locates cases for which we have data in a two-dimension space that describes levels of government ownership and concentration in the commercial banking sector. (Appendix 1 gives the country names that correspond to the three-letter codes in the figure).

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Figure 1 here.

Figure 1 notes:

GB20: The total assets of commercial banks that are at least 20% owned by the state divided by the total assets of the top ten commercial banks. (Ji-Hyang: please check and get the correct definition)

HHI: The Herfindahl-Hirschman Index is the sum of the squares of the shares of deposits held by each bank in the system. It measures the degree of concentration of the industry and varies in practice from .06 in a country like Lebanon that has a large number of banks, none of which has over 10 per cent or so of the market, to 1 in a country that has only one bank. Imagine a system with only 3 banks, each equally large. HHI would be three times .33-squared, or .33 (or with 4 banks: HHI=.25, or with 5 banks: HHI=.2). Banking systems with HHI of greater than .15 are considered relatively concentrated and prone to oligopolistic behavior whereas the banks in less concentrated systems may act more competitively, in keeping with neo-liberal orthodoxy.

"Assets." Commercial banks' share of total assets of the banking system (commercial bank assets plus central bank assets). If a central bank's share is large, this means either that the government is printing money, or that the central bank is lending a lot to the government.

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Bunkers, bullies, oligopolies, and the liberalizing reformers (conditional democracies) were all faced with comparable economic pressures, but responded in different ways. Variations in response tend to map onto variations in underlying banking structures.

The bunkers have high HHI and High GB 20. High concentration of the banking sector (HHI), if either a Central Bank that is very large compared to the commercial banking system (low "Assets") or banks are virtually all owned by the government (GB20), means that there is very little "formal private sector" in banking. Algeria, Iran, Iraq, Libya, and Syria fall in this category: they are all former socialist states in various stages of readjustment to the new world order. To which, in consideration of the disproportionate size of their respective central banks compared to their domestic banking systems, should be added: Angola (HHI=1), Equatorial Guinea (HHI=1), Sierra Leone (HHI=.54), Yemen (HHI=.25), Zaire (HHI=.54).[6] Other SSA cases are Liberia and Rwanda. In bunkers, the security of property is insufficient to guarantee much accumulation of capital. The weakness of capital, and indeed of markets and economic institutions in general, is reflected in low proportions of Contract-Intensive Money (CIM).[7] There are several oil states in this category: where states have oil, they can stifle the private sector and ward off pressures for broad economic liberalization for a long time.[8] Almost all SSA's war-torn states of the 1990s are also here. Tanzania appears in Figure 1 as a bunker par excellence, but it seems to have moved out of the bunker camp over the course of the 1990s. HHI and GB20 both fell with liberalization of the rules governing market access, entry of new banks and NBFIs, and the privatization of the largest state-owned commercial bank.[9]

[6] The Democratic Republic of Congo, formerly Zaire, does not quite technically fit into the bunker category because of high score on "Assets" (.58), but this is an anamoly. Assets reach .58 but, examining the IMF records in 1995 more closely, virtually the only assets held by any banks are in foreign exchange, whereas 1684 of total reserve money printed in 1995, the last year for which statistics are available, lay outside the local banking system. This is a extreme case of bunkerism.

[7] CIM: Contract Intensive Money is all of the M2 money supply, consisting of reserve money and demand, time, savings and foreign currency deposits, excluding currency circulating outside the domestic banking system (IMF, International Financial Statistics, line 14a), divided by the M2 money supply (lines 34 and 35). In other words it is that part of the money supply that is held in banks rather than in people's pockets or under their mattresses. Conveniently, the IMF has been estimating the amounts of currency held outside domestic banking systems on a monthly basis ever since 1948.

[8] Chaudhry 1997; Karl 1997.

[9] Decribing Tanzania, Nissanke and Aryeetey (1998), writing apparently in 1992, wrote that, government ownership of the banking sector has been near-total, and government "interference in the day-to-day operation of formal financial institutions has been pervasive... These institutions have lent mostly to parastatals, with little or no repayment prospects. Government restrictions on entry to the banking sector have given each institution within a functionally-organized financial system a virtual monopoly in its domain of operations". The largest of Tanzania's three, government-owned commercial banks is the National Bank of Commerce (NBC); "it virtually monopolized commercial banking in Tanzania [as of 1992]; ... It has long been used by the government as a agency to channel funds to parastatals. Most of the major financial institutions have long been technically insolvent" (Nissanke and Aryettey, 1998: 82, 81). In 1993, two new foreign commerical banks began operations: Standard Chartered and Meridien BIAO. Citibank and Stanbic also entered after 1993. In 1999, the F T (31 March 1999 at www.ft.com/ftsurveys/country/sc583e.htm) reported that the international banks controlled 30% of the market, although it is not clear that this refers to deposits. The same source reported that the state owned banks and the Cooperative and Rural Development

Bullies tend to have low HHI but High GB 20 (eg. Egypt, Ghana, Kenya, Tunisia, and Zimbabwe). In bullies, the structural power of capital is noticeably greater than in bunkers. Where the private sector is more developed (as reflected in higher CIM, more lending to the private sector) and politically independent, but state-sectors are large and rulers rely on economic dirigisme to maintain the upper hand**,** authoritarian regimes have been reluctant to privatize and cleanse the financial sector. It is clear that the authoritarian nature of the regimes constrains their capacity to globalize. Backlash against would-be reformers, both domestic and external, and political retrenchment have been part of a syndrome of growing isolation from the international community, both political and economic. While less isolated today, Egypt and Tunisia nationalized their colonial legacies in the 1960s and continue out of habit to bully their emerging indigenous bourgeoisies for purposes of political control.

The comparable cases in SSA were countries in which stronger indigenous private sectors were a legacy of settler colonialism and/or virbrant agricultural export sectors. We see clear examples of "bully behavior" in Kenya and Zimbabwe.[10] Ghana, Nigeria and Cameroon may be categorized as bully states as well. For most of the postcolonial period, the state in Ghana has been under the control of a political class at odds with powerful planter-trader interests rooted in the cocoa sector. (The balance of power in Ghana may have shifted with the 2001 elections, however.) Nigeria and Cameroon are West African oil states under the political control of Northerners who fight hard to ward off the advances and challenges of indigenous southern(agro- and trade-based) bourgeoisies. Comparable regional disparities are visible in Tunisia, where the Sousse and Tunis-based politicians keep the entrepreneurs from Sfax in check (but less visible in Egypt).

Oligopolies have high HHI and Low GB 20. In these cases, de jure political and economic liberalization has contributed to the rise of commercial banking oligopolies that developed in hand-in-glove relationship with the state. Generally, CIMs here are relatively high. In Morocco, we see an oligopoly run by an indigenous capitalist clique in collaboration with their French partners. In Senegal, and Côte d'Ivoire, there are foreign banking oligopolies whose involvement in France's neocolonial projects —both political and economic— in West Africa is long and deep, and in which domestic political classes maintained a secure niche.[11]

Bank have 45-50% market share. "The rest is in the hands of a dozen SME". In 1999-2000, 70% of the NBC was sold to ABSA (Amalgamated Banks of South Africa), after protracted, on-again, off-again, negotiations. With this privatization, 70% of NBC workers were made redundant. The bank's negative net worth was estimated at Tsh 5 billion (FT, 21 May 1999: 22). In 1992, The People's Bank of Zanzibar operated only in Zanzibar, where it served as the sole commercial bank and as a quasi-central banker to the Zanzibar government (Nissanke and Aryetey, 1998: 80). It would be interesting to know what is going on with this bank, given steadily intensifying tensions between Zanzibar and the mainland over the course of the 1990s.

[10] In Kenya and Zimbabwe, GB20 is slightly lower than in our other bullies.

[11] French political commitment to that goal now seems to be largely exhausted. The goal is also challenged by France's own neoliberal project.

It is clear that reform can create or shore up private sector banking oligopolies. Our cases show that the chances that this will happen —or conversely, that reform with enhance banking sector competition— are conditioned by the relationship between private capital and the state. Possibilities for economic opening can be constrained by ruling elites intent on retaining their own political and economic privileges. In MENA monarchies, both state and market have more continuity than in the bullies with their socialist/nationalist legacies. In the MENA monarchies, indigenous commercial elites survived the colonial era, like the ruling elites themselves. Political systems are more open than in the bullies, and ostensibly more competitive, but the hegemony of long-standing political classes and their economic allies limits political competition in a de facto way. SSA cases wherein private sector oligopolies help protect/accommodate the political and economic interests of the political class include Senegal and Côte d'Ivoire, where neocolonial elites have developed close collaborative (and rent sharing) relationships with neocolonial business interests. Swaziland and Botswana also fit in to the oligopoly category, given their low GB20s and high HHI: they are in fact monarchies, like the MENA states that fit in this quadrant of our typology.

Liberalizing reformers, or conditional democracies, score low on both dimensions (Lebanon, South Africa [ZAF]). Here we see the most successful liberalization scenarios. They are better positioned to allocate credit on economic rather than political criteria and to support more financial liberalization. These more competitive, private-sector dominant systems come closest to the neo-liberal ideal. They have stronger and more politically-autonomous private sectors, and more open political systems. MENA cases that come closest are Turkey, Lebanon, and Israel, each with due qualifications. SSA cases (duly qualified) are South Africa since 1995 and Mauritius. The neo-liberal conformers tend to be the countries that had, in the pre-reform period, the best developed private sectors and the highest levels of financial intermediary development. IFI medicine works best on the countries that already have the strongest private sectors and best developed market institutions —that is, in those least in need of market- and institution-building!

In 16 of our 24 cases, banking structure (ie., location on the GB20 x HHI map) and "regime type" align in the ways we would predict. Of the remaining eight, only two are real outliers in the analysis: Israel and Nigeria. Israel, despite its high ratio of government ownership and commercial bank concentration (see Figure 1), does not quite fit into the "bunker" company despite its socialist past. While far from being a perfect democracy, Israel's political system has an important liberal component that differentiates it from the bunkers. Israel is privatizing large state-owned banking institutions; still-high levels government ownership reflect the residue of that country's bail out of its banking system in 1983. As for Nigeria, economic policy and politics are both more "bullyish" than the country's location in the figure above suggests. (That bullyishness does register in the "Assets" variable, as we will note below.) Turkey is borderline, as are five others (Saudi Arabia, UAE, Kuwait, Qatar, Morocco). In Turkey, state ownership of commercial banking

remains relatively high, but its relatively free, regular elections qualify it as a conditional democracy. Its stock market, though less capitalized than South Africa's, has the highest turnover in the two regions (see Appendix 2).

*B. Incorporating broader, contextual variables into the typology*

So far, we have shown that there is a correspondance between regime type and reform trajectory, on the one hand, and commercial banking structure on the other hand. Commercial banking structure tends to be a fairly good mirror of the distribution of power in the political-economy at large. Commercial banking strucfure contains basic clues about relations between the state and the private sector, and about the robustness and competitiveness of the private sector.

In this section, we show that the typology proposed above taps into cross case variations that can be measured by four additional political economy variables.

The first two variables tell us something about political capacity. To promote growth and adapt successfully to pressures for economic liberalization, countries need not only the ability efficiently to extract taxes that has traditionally been conceived as a measure political development (Migdal 1988), but also at least two other "distinct vectors of political capacity" (Henry and Springborg, 2001): credible institutions, and reliable information. Credible institutions include enforceable contracts, transparent and enforceable banking and commercial law, mechanisms to allow banks to seize the assets of delinquent debtors, good bank supervision, good credit rating agencies and institutions that can support banks in their lending operations, and transparent records of company health and profit to allow stock markets to operate.

In our analysis, we operationalize the "credible institutions" variable as Contract-Intensive Money, or CIM. CIM is in the proportion of the money supply contained within the commercial banking system. It is measured by (M2-currency outside the system)/M2, the outside money being found for virtually all countries on line 14a of the IMF's International Financial Statistics. Following Lewis Snider (1996), we can view CIM as a proxy for the credibility of a country's economic institutions. As Snider explains,

> The adequacy of institutions [to protect property rights and to guarantee contracts and the rule of law] can be approximated by the relative use of currency in comparison to "contract-intensive money" ….Where institutions are highly informal, i.e. where contract enforcement and security of property rights are inadequate, and the policy environment is uncertain, transactions will generally be self-enforcing and currency will be the only money that is widely used. Where there is a high degree of public confidence in the security of property rights and in contract enforcement, other types of money that are held or invested in banks and other

> financial institutions and instruments assume much more importance. The reason is that the same institutional deficiencies that make any non-self-enforcing transactions risky also make the acceptance of other forms of money hazardous (Snider 1996: 8-9).

"Information" is a variable that includes newspaper readership, internet usage, and telephones. To construct the "Information" variable, factor scores were generated by the regression method from three interrelated variables (World Development Indicators 2001): newspaper readership in 1996 (the latest year available), and telephone lines per thousand inhabitants in 1998, and internet use per capita in 1998. These variables were selected rather than radios or TV sets because they better indicate a society's horizontal linkages. One can choose whether or not to buy a newspaper whereas turning off a radio or TV set does not reduce the number of sets.

The third variable measures banking development, or "Financial Intermediary Development" (FID). Following Beck et al (2000), we developed an index of banking development consisting of their three measures, banking credit to the private sector as a percentage of GDP, the "Assets" variable discussed above that measures the weight of the central bank in the commercial banking system, and the money supply M2 as a percentage of GDP. We averaged these to generate FID scores for the years 1980, 1995, and 1998.

Fourth, we incorporate an expressly political variable: We also used the Freedom House scores for "Political Liberties" and "Civil Liberties" (Civ) for 1998. Civil liberties are important because they condition the flow of information that is vital to any rational scheme of credit allocation. While banks, by contrast to stock markets, operate with confidential information that may be congruent with political authoritarianism, financial development is also correlated in practice with the development of other capital markets that depend more heavily on the free flow of information. Despite the confidentiality of information respected by commercial banks, even bankers need independent checks on their clients. So also, political liberalization enables institutions of accountability and restraint (anti-corruption inquires and commissions, prosecution of politicians who loot banks, audits of SOE so that they can get a credit rating, banking oversight and regulation, banks have to be allowed to cut off deadbeat debtors w/o fear of political reprisal, banks have to be protected from political pressure).[12] But, as we will see, the liberal political order that bankers need may be better captured by our vectors of political capacity, combinations of CIM and the Information Factor.

As we have shown, our political typology of bunker, bully, oligopolist, and liberalizing reformer (conditionally democratic) regimes fits fairly well with the commercial banking structure matrix of government ownership and market concentration. For the next step in this analysis, we place the outliers (Israel and

[12] In some cases, like Algeria, there can be de jure reform (laws look good on the books), but not much happens where private sector banking is minimal.

Nigeria) in cells that seem most appropriate (Israel becomes a reformer, and Nigeria is a bully) and made judgement calls on the six cases that appear on the borderlines in Figure 1.[13]

Country-by-country scores on each variable are presented in Appendix 3.

*C. Broader contextual variables: Mean scores by political/policy type*

Now we can show that the political/policy differences are also strongly associated with different levels of financial intermediary development, as well as with CIM, Information, and Civil Liberties. In Table 1, we compare the means of the different political/policy types on financial intermediary development in 1995, as well as the three other variables, also in 1995. To see which countries we've included in each cell of our four-part typology, see Appendix 3.

Table 1: Political/Policy Differences Reflected in Broader Political-Economy Variables

Table 1 here

In Table 1, the means of the various indicators of financial development, political capacity, and civil liberties cluster into our four-fold typology. As might be expected, our starting point for Financial Intermediary Development in 1980 is not highly correlated with our regime/policy types as we have defined them for the 1990s. In the intervening years a number of countries have changed politically, but rarely in a democratic or liberalizing direction. Table 2 shows that the variations in the means of the remaining variables clustered by political/policy type are all statistically significant. There is more variation between the categories than within them. The same holds for variation in the level of Contract-Intensive Money, our proxy for credible economic institutions. Bunker regimes are especially prone to institutional deficiencies, whereas the democracies and even oligopolies do significantly better.

(Table 2, Analysis of Variance, about here)

[13] The borderline cases are Turkey, Saudi Arabia, United Arab Emirates, Morocco, Qatar, and Kuwait.

Our typology captures almost half of the variation in the Freedom House rankings, and the means constitute neat progressions from bunker to bully to oligopoly and democracy. Some of our bunkers hit 7 or "totally unfree" scores. The liberalizing reformers tend to score high on both indices, with Israel at 1 and 3 and South Africa at 1 and 2, on political and civil freedom, respectively. With respect to information, too, there seem to be clearcut distinctions between bunkers and bullies, on the one hand, with low average mean scores on our information factor, and the oligopolies and especially the democracies, which do much better.

Table 1 also shows that bunkers tend to have the lowest scores for Financial Intermediary Development; liberalizing reformers, the highest. Bunkers tended to score lower on FID in 1998 than in 1980, when many of them had not yet destroyed their private sectors. Liberalizing reformers, by contrast, started, on average, from a level of FID that was not appreciably higher than that of the bullies and bunkers. Their mean score of 81.6% in 1998 was more than twice that of the authoritarian regimes.

The best predictor of financial intermediary development in 1998 was a country's starting point in 1980, before international pressures for adjustment -- including structural financial reform -- mounted with the debt crises of the 1980s. The regression of FID 1998 on FID in 1980 captures 42% of the variation (adjusted r-squared) of the dependent variable (see Table 3). The striking differences in the mean scores of FID at the end of the period raises the possibility, however, that the political attributes associated with the respective types of regime decisively affected the success or failure of the reform efforts. The data suggest that underlying vectors of political development, namely the credibility of economic institutions ("CIM") and transparency as reflected in horizontal information flows ("Information Factor"), are factors that may shape financial reform. Perhaps, too, the Freedom House variables of political and/or civic freedom help to explain variations in financial intermediary development, although these variables were less closely captured by our broad policy/regime typology than CIM and Information.

To assess the strength of the relationships between financial and political variables, we first regressed FID 1998 (controlling for FID 1980) on CIM 1998 and Information. These political development variables captured an additional 23% of the variation in FID 1998. When the Freedom House variables were added to the regression, only political freedom was marginally significant, explaining an additional 2.5% of the adjusted r-squared. Table 3 registers the results of the various regression models. It can be readily seen that more of the variation in FID 1998 is predicted by CIM and Information than by the Freedom House indicators. Model 4 shows that Freedom House's civil liberties scores, though closely correlated with political freedom, turn out to be insignificant and to add little adjusted r-square to Model 2. In fact the impact of Civil Freedom on financial intermediary

development remains insignificant even if either CIM or Information is removed from Model 4. Models 5 and 6 show that Political Freedom also has less explanatory power than either development variable. In conjunction with CIM (and FID 1980) it explains less of the adjusted r-squared in financial intermediary development than Model 2. Coupled with Information, the effects are even less impressive.

(Tables 3 and 4, Regressions, about here)

Another way of testing the significance of these variables is to examine their direct association with changes in financial intermediary development scores between 1980 and 1998. As expected, the results told the same story, but with one slight variation. CIM and Information 1998 together capture 37.1% of the variation in financial intermediary development as measured by the difference between a country's scores in 1998 and in 1980. Political Freedom adds an additional 4.8%, but at the expense of the information factor, the significance of which is weakened to the .125 level (t = 1.6) in Model 2 of Table 3. Still, however, the two development variables in conjunction with one another (Model 1) better explain the variation in financial intermediary development than does Political Freedom in conjunction with either one of them. And as in Model 4 of Table 2, Civil Liberties fail in Model 3 to offer any explanatory power.

Another negative finding deserves to be reported. We had expected that the degrees of government ownership and of commercial banking concentration would be associated with levels of financial intermediary development. The greater the government ownership and higher the concentration of the market, the less developed were financial intermediaries expected to be. After all, our regime/policy typology emerged with only slight variations from the commercial banking ownership-concentration matrix. And the typology -- inferred from commercial banking structures in the mid-1990s -- did reveal distinctly different means of FID and its other determinants. However, neither variable is related to changes of FID over 1980-1998, and only concentration, not government ownership, was significantly correlated with levels of FID in 1998: the more competitive the market, the more financially developed are the intermediaries, as expected.[14] With a larger sample of non-OECD countries for which the government ownership data were available, however, the (negative) correlation of government ownership with FID, was statistically significant.

[14] Regression were run of FID 1998 on HHI and GB20, for MENA alone as well as for MENA and SSA, but the results for government ownership (surprisingly) were not significant. There were only 8 MENA cases and 6 SSA ones, but for all 46 non-OECD cases the results were also insignificant. In the MENA and SSA, however, concentration was significant. Data were available for 41 countries, and concentration explained 15.7% of the adjusted R Square.

What we have presented so far are suggestive correlations between political and economic variables, and suggestive patterns across cases. The case studies that follow help tease out causal connections between regime type and trajectories of banking sector reform.

## *Part III: Discussion of Case Studies*

### *A. The MENA and SSA Bunkers:*

Algeria, Iran, Iraq, Libya, and Syria are MENA bunker states: all are former socialist states in various stages of readjustment to the new world order. Several SSA states can be added to the bunker category, even though they do not yet appear in Figure 1. Given the disproportionate size of their respective central banks compared to their domestic banking systems, and high concentration (HHI) in their banking sectors, the following qualify as "bunkers": Angola (HHI=1), Equatorial Guinea (HHI=1), Sierra Leone (HHI=.54), Yemen (HHI=.25), and the ex-Zaire (Democratic Republic of the Congo)(HHI=.54). In Liberia, Guinea Bissau, and Central African Republic, and Eritrea, CIMs are low and HHI=1, reflecting very low levels of financial development.[15]

In some of the SSA cases, low CIMs and "bunker" attributes in the financial sector (concentrated banking structure, high government control) may reflect small market size and the absence of much economic development over the last 30 years. Low levels of financial development cannot be seen as simply a "default" outcome in most of these cases, however. Politics gone awry has much to do with lack of financial sector development —and indeed, manifest economy decay— in these states over the last 15 years. The region's leading bunkers, the ex-Zaire and Angola, are two of SSA's biggest and richest countries. Ex-Zaire, Angola, Guinea Bissau, Sierra Leone, Liberia, and Eritrea have all have been wracked by internal war in the the 1990s; in all cases but Eritrea, both state and economy have been carved up by warlords. Low CIMS reflect the limited reach of the modern sector of the economy, but this is partly a product of extensive and quite deliberate evasion of the state. The corollary of low CIMs is the existence of large informal sectors ("shadow economies"), which may flourish with the complicity or even deep participation of government officials.

Some bunker states in the MENA still monopolize oil rents: Algeria is a dramatic case. Bunker regimes in Angola, Liberia, and the ex-Zaire are also propped up by monopoly rents on mineral extraction, oil in the case of Angola, diamonds in Liberia, and copper and other metals in the DR Congo. In Algeria, and in SSA

[15] CIMs for 1997: Yemen (.57), Sierra Leone (.54), Liberia (.37), Guinea Bissau (.46), Angola (.74).

bunkers as well, any tacit "social contract" —suggesting an exchange of welfare and security for allegiance to the state— has been revised. Their menu of state services has diminished with the decline in oil revenues and/or other external rents, and the rising costs of defending the regime against internal challenge. Their way of keeping up any tacit "social contract", or even of gaining acquiescence to state authority, has been to increase the value of security.

In Algeria, this has been accomplished by "empowering" a bit of insecurity. The mindless massacres of tens of thousands of civilians have enabled the regime to carry out draconian economic policies. Algeria in some respects has adjusted further, as well as more quickly in the late 1990s, than Egypt and other favored MENA pupils of the IMF (Nashashibi 1998: 64, 66).

But Algeria raises the question of whether any bunker regime, whatever its revenue sources, can adapt to the global economy without massive suffering. The economy undergoes structural change while a hard core of illegitimate military rulers retain power on the pretext of widespread insecurity. Raw struggles of power between the ruling factions as well as between them and Islamist guerrilla forces divert attention from the economic policies being implemented with advice from the IMF, leaving the policy makers with a relative autonomy of sorts.

In bunkers, private sectors are too weak to support much civil society. Bunker states disorganize their middle classes into masses. Trade unions and business associations exist but are not permitted to acquire roots in their societies from which to negotiate with governments or render them accountable. Civilian entrepreneurs, whether in business or politics, must remain loyal to their protectors. There is extensive capital flight.

The bunker states still have to adjust, as Algeria illustrates, once they become heavily indebted yet dependent on imports for their necessities. Lacking in strategic depth, however, the best they can do is to serve as gunships for the IMF. Their nineteenth century predecessors were the British and French fleets which patrolled the southern Mediterranean, collecting Ottoman debts and establishing colonies or protectorates. In 1995 Algeria adjusted more quickly than its neighbors because it rode roughshod over its budget deficits under cover of an insurrection. Iraq between the Gulf wars also rammed through many reforms of economic liberalization (Chaudhry 1992: 152-158). In the Yemen, too, civil war enabled Colonel Saleh not only to crush his oppositions but also to engage in a major IMF structural adjustment program.

Most economic reforms of bunker regimes appear to be hollow exercises. The missing piece is the export-oriented private sector that is supposed to benefit from trade liberalization and to be the internal dynamo attracting investment and generating employment. In a bunker state, however, any dynamic sector outside the official rent-producers must stay underground. The bunker state, whether or not it also has mineral wealth, is politically as well economically disconnected from other economic sectors. Efforts of economic liberalization therefore cannot promote greater productivity outside its enclaves. In Algeria manufacturing value added,

measured in constant dollars, declined by more than half from 1990 to 1997 (WDI 1999). Algeria strikingly illustrates the negative impact of economic liberalization and adjustment on economic growth, but neither Sudan (unable because of war to exploit its oil resources) nor Yemen (unified largely for the sake of oil) can expect better results. Not oil and possible "Dutch disease" but politics determines these outcomes.

Globalization may strengthen civil society and its underlying financial flows, but these new forces escape the bunkers' reach. These states seem destined to decay amid their internal wars unless they cultivate their private sectors. The longer they stagnate, the greater the social fragmentation, the rise of social movements in defiance of the economy, and the greater the violence as the movements in turn are suppressed. Algeria may be exceptional only in that it is so close to Europe and has such a vibrant "European" civil society inside and outside the country that the external pressures to change may prove irresistible. Syria and Libya, also facing the Mediterranean, may face greater pressures as their excuses for the bunkers —war with Israel and international sanctions— are removed. Syria, like Algeria, has substantial human and capital resources outside the bunkers that might facilitate reform. So for that matter does Iraq, were the sanctions and bunkers to be removed.

SSA bunkers start a lower levels of financial development, with less diversified and developed economies overall, and weaker civil societies. It is clear that war and state-breakdown create conditions not conducive to investment or accumulation. No social or economic progress can come without the resolution of these: wars with have to exhaust themselves, winners will have to be declared, and the business of state building will have to move forward. As Jeff Herbst and Robert Bates suggest in recent works, in some cases, national units as presently constituted will probably have to be redefined before there is a chance of real progress. Chronically unviable territories (including perhaps the ex-Zaire [DRC]) will have to be carved up and absorbed by states capable of imposing order.[16] Where warlords reign but are incapable of consolidating, institutionalizing, and legitimating their rule (eg. Sierra Leone, perhaps also Guinea Bissau and Liberia), stalemate may be possible, but not productive economic activity.

Countries like Angola, Eritrea, and Tanzania face a rather different challenge, for there, legitimate states do exist. (Angola must however extinguish the

[16] A final point about bunker regimes is that they sharply limit the possibilities of fruitful economic integration with their neighbors. Algeria shattered efforts in the late 1960s to build a Maghreb; the final blow was Qaddafi's coup in Libya. The UMA, proclaimed in 1988 when Algeria and Morocco had repaired their relations, is stillborn. Since Chadly's removal from power in 1992 by his fellow officers, Algerian-Moroccan disputes over the ex-Spanish Sahara have intensified. Relations may further deteriorate as a way for President Bouteflika, fictitiously elected in April 1999, to reinvent a Boumediene image and acquire some real authority. Syria and Iraq, despite a common Baa'thist legacy, have waged their internal wars since each bunker was consolidated, and the Iraqi bunker is surrounded by hostile neighbors. Libya has been at odds with all of its neighbors; and Iran has been at loggerheads with Iraq. The political economy of bunker states explains a significant part of the problem. Having castrated their private sectors and civil societies, the bunkers lack the cover of non-governmental intermediaries to cushion processes of economic integration and develop mutual interests.

warlord Savimbi.) Whether these already-viable states can escape from the low-level equilibria that bunkerdom imposes will be highly contingent on politics – that is, on rulers' ability to select and stay the course of political openness even when civil society is too weak to impose this outcome. There is no "private business class" or private capital in these countries to threaten "capital strike" if rulers decide to hunker down. Even the capacity of international private capital to "discipline" rulers' choices in these cases is weak, since international capital plays such a limited role in the day-to-day functioning of these national political economies.[17]

In Tanzania, the IFIs are important actors and have influence.[18] This is less true in oil-rich Angola, where the state itself, at least, can survive on its own resources. The weakness of capital in these contexts creates a paradoxical form of "state autonomy" that makes political volatility and destructive, predatory state behavior an ever-present possibility.

### *B. The Bullies*

Unlike the bunkers, the bully states of the MENA, Egypt and Tunisia, have strong, established administrations relatively independent of social forces although these states also depend principally on military/security forces and have large public sectors. Despite some reform and selective privatization in recent years, their commercial banking systems remain largely state-owned. Their comparators in SSA include Kenya and Zimbabwe and Nigeria.[19] Despite a government ownership score that would qualify it as a conditional democracy, Zimbabwe is a "bully" on financial criteria because its central bank dominates (Assets ratio) its commercial banking system. Kenya would normally be classified as a conditional democracy, with a government ownership ratio lower than Turkey's, Ghana's or Qatar's and a concentration ratio less than South Africa's. Politically, however, Kenya's trajectory parallels those of Zimbabwe and, in a certain sense shared with Zimbabwe, those of the MENA bullies. Whereas the latter reflect victories over earlier capitalist classes, the SSA cases reflect ongoing struggles with white settler

[17] see Minushkin 2000; Lukauskas and Minushkin 2000.

[18] There is civil society in Tanzania as well, in the form of labor and professional unions, and cultural and neighborhood associations.

[19] Ghana also qualifies as a bully, at least in 1995, by virtue of the high degree of government ownership of its banking system —a relic of successive Nkrumahist regimes; now however it may be moving toward conditional democracy in the post-Rawlings era. Eyeballing the FH 1998 data, we see movement in the Ghana case. In 1998, its score on the civil liberty scale is 3, improved from 4 in 1995. The score of 3 is better than what you would expect, given its 1995 commercial banking structure. We need HHI and GB20 for 1998 to know whether the political and banking variable actually move together. Meanwhile, although Ghana remains very low on FID, it made more progress than most in its factor scores on financial intermediary development between 1980 and 1999.

elites and emergent African bourgeoisies. Politics give government ownership a higher value than conventional financial indicators suggest.

In both Egypt and Tunisia state planning in the 1960s displaced both indigenous and foreign bourgeoisies and, reflecting the priorities of public sector finance, the commercial banking systems fell under state control. In Egypt the entire system was rationalized under four large public sector banks, whereas in Tunisia the process of economic decolonization left a semblance of private ownership including French as well as Tunisian interests. The Tunisian Central Bank, however, directly controlled all credit allocation by vetting all loans of over $100,000. In the 1960s the Central Bank tried in this way to limit some of the exuberant investments of the state planners.

As first Tunisia, then Egypt, moved away in the 1970s from state-led development toward the "opening up" of their respective economies to the remnants of their private sectors, to new entrepreneurs promoted by earlier state investments, and to foreign capital. They undertook various measures of economic liberalization and financial reform, discreet reforms in 1969 in Tunisia and Anwar Sadat's more flamboyant infitah (opening up) of the Egyptian economy after the 1973 war. Responding to balance of payments crisis in 1986, Tunisia led the way to major bank reform, during the final year of Habib Bourguiba's rule (1956-1987). Egypt followed suit in early 1990s, pursuing a "second opening up" to qualify for the international debt relief promised for its participation in the coalition against Iraq in 1990-91. Neither country, however, has been able, despite continued entreaties from IFIs, to engage in more than cosmetic privatization of their respective banking systems.

The basic stumbling block for these established bully regimes seems to be patronage. Command of the banks gives the authorities to ability to disperse loans to keep their clienteles in line. The story of one little bank's demise in Tunisia is perhaps illustrative. The Banque Franco-Tunisienne (BFT), Tunisia's oldest bank (established 1878), was managed for many years by the Société Tunisienne de Banque (STB), a state bank founded after independence. In efforts to attract Arab capital in the early 1980s, the STB sold half the shares of the BFT to what was expected to be a silent Saudi partner. After many years and many law suits, however, the Saudi's Tunisian agent succeeded in opening up the BFT to independent external auditors. Although the results of the investigation were never published, they indicated that the STB had used the bank as a slush fund for many years (Henry 1996: 189-199). When they were finally uncovered in 1987, non-performing loans amounted to over half the bank's loan portfolio. The parent bank had perhaps not been equally mismanaged, but "Non-performing loans still amounted to 22 per cent of GDP at the end of 1998, after six years of efforts to consolidate and restructure the financing of the public enterprises" (Henry and Springborg, chapter 5, citing IMF 2000: 9, 35-37). Egypt, with probably at least as much to hide, did not follow Tunisia's sudden show of transparency and permit the IMF to publish its Economic Review.

Since commercial banks offer their managers the resources to build political as well economic clienteles, bully regimes must insist on their unconditional loyalty (Tunisia) or keep their banks weak (Egypt). In Tunisia bank managers had to be vetted by the ruling party as well as the financial authorities, and, whether their banks were publicly or privately owned, they could not display independence. When Mansour Moallah, a former minister and previously a planning director, was perceived to be becoming too independent —and his privately owned bank too ambitious, representing the aspirations of many private entrepreneurs, especially from Sfax— the bank suddenly lost the deposits of important parastatal enterprises such as Tunis Air. Moallah was obliged to resign in 1993, so that the bank could recover.

In subsaharan Africa, Kenya, Zimbabwe, and Nigeria are perhaps less established bullies because they have not yet triumphed over their potentially dissident private sectors. These cases have lower GB20s and HHI than some of the MENA bullies, but in terms of social structure and political trajectories, they resemble the other bullies in our set.[20] As in the MENA, the SSA bullies have relatively strong private sectors (at least as compared to the bunkers in each region). And as in the MENA, SSA bully regimes view market liberalization as a threat. This is partly because liberalization streamlines state control over the economy, and thus diminishes rulers' ability to use economic controls to punish enemies, reward friends, and generate rents which can be allocated as patronage. Liberalization also threatens bullies because it promises to empower independent private capital, and opposition forces linked to local private capital, at rulers' expense.

Kenya, Zimbabwe, and Nigeria have more vibrant private sectors than most SSA countries, and higher levels of financial development.[21] In all three, the state maintains the upper hand in relations with local private capital. The dominant factions of the local business class in all three cases have arisen in the postcolonial period from within the state itself. However, each regime also contends with potentially more independent factions of the African bourgeoisie, which have been coopted, bullied, or stifled —or all three, varying across time or place— depending on the vicisstudes of domestic political competition.

[20] Also in the SSA bullies, the central bank dominates the commercial banking system. This is registered in low Assets ratios.

[21] In 1998, Kenya and Zimbabwe had the highest levels of domestic credit to the private sector as % of GDP in SSA, excluding RSA and Mauritius (30.3 and 38.8, respectively) (WDI 2000). Most other SSA countries fell in the 10-15% range on this indicator. Nigeria in 1998 was at .9. Kenya and Zimbabwe also have high CIMs (.87 and .88, respectively): by our calculations, there is more CIM in Kenya and Zimbabwe that could be expected in light of the place's human development index. The CIM s are high by SSA (or indeed, much of MENA) standards. Of Zimbabwe, Harvey writes "The country had a relatively sophisticated range of financial markets and institutions which began to develop before 1960, and therefore many years before Zimbabwe's full independence in 1980". A stock exchange opened in 1946, and a central bank was established in 1956 (before Rhodesia's Unilateral Declaration of Independence from Britain) (Brownbridge and Harvey, 1998: 165; on Kenya, see ibid, p. 79.

In Nigeria, for example, the dominant faction of the business class is made up of active and retired military officers, mostly Northerners, linked to Nigeria's successive ruling juntas, state-owned industry (including oil), and government contracts. They are locked in antagonistic competition —political as well as economic— with the longer established and more market-based Yoruba and Igbo bourgeoisies of the south.[22]

In Kenya, the political bourgeoisie that has been nurtured under the Moi dictatorship since the early 1980s stands on the backs of the older, agriculturally-based economic elite that emerged in Kenya the 1940s and 1950s. Moi's cronies have grown rich via primitive accumulation (plunder of state assets, in large part through the banking sector) and appropriating the businesses and wealth of Kenya's older, Kikuyu bourgeoisie. The older bourgeoisie, which awaits angrily in the wings to reclaim its birthright, was a backbone of the more respectable Kenyatta regime of the 1960s and 1970s, and shared in the economic fruits of neo-colonialism and state-directed development in Kenya in the 1960s and 1970s.[23] Asian capital (ie., investment by Kenyan citizens of Asian [Indian] descent) dominates the medium-scale manufacturing and service sectors in Kenya.[24] It has always existed on tenderhooks, ever-vulnerable to scapegoating, extortion on the part of state agents (police, tax collector, inspectors), and anti-Asian diatribes.

In Zimbabwe, Mugabe came to power at about the same time as Moi (1980), and has followed a political course much the same as that of his Kenyan counterpart. Mugabe inherited a regime composed of two competing political factions, each rooted in a distinct ethno-regional base. The two factions of Zimbabwe's nationalist movement struggled for position within a economy still under control of the white Rhodesians who, under the Rhodesia apartheid state, had been defeated in a guerilla war that ended in 1980. Mugabe left the "commanding heights" of the economy in white hands, but he used state intervention in the economy, including in the development finance sector, to promote his leading supporters and leading party politicians into the core of a "black bourgeoisie" linked to the regime. Relations with more entrepreneurial and professional segments of the African middle and business class have steadily deteriorated over the course of the 1980s and 1990s, as have relations with the core of the old white settler population (especially those in the commercial farming sector, which is still under white control).

Regimes in all three states since 1980 are real bullies vis-a-vis local private capital, not to mention vis-a-vis other segments of civil society (labor unions, professional, intellectuals, journalists, lawyers, rural communities, human rights and democracy advocates, NGOs) that dare to question or challenge rulers' prerogatives. Regimes in all three countries have relied mostly on patronage and clientelism to cultivate support, but they have not hesitated to expropriate, kill, massacre, arrest, torture, or exile opponents. All have become worse over the course of the late 1980s

[22] See Forrest 1992.
[23] Leys 1994; Bates 1989; Widner 1992.
[24] Himbara 1994.

and 1990s. In the mid-late 1990s, thuggish gangs —brown shirts— enforced rulers' will at the grassroots level, in villages and neighborhoods, in all three states. In their political demeanor, all grew to resemble the fascist bullies of Europe in the 1930s. *The Economist* (24 Feb. 2000:48) called Mugabe Africa's Mussolini.

By the second decade of independence in all three, British and South African banks operated alongside state banks, and/or in business partnership with the state itself. In Nigeria, the "big three" banking oligopoly of British and South African banks was nationalized in 1977, making government majority partner. In Kenya by the mid-70s, foreign-owned banks existed alongside 3 large state-owned commercial banks.[25] The government-owned Kenya Commercial Bank (KCB) rose to become the largest bank in East Africa (Kenya's next two banks, ranked in terms of market share (deposits), are both British). In Zimbabwe after 10 years of independence, the pre-existing commercial banks were untouched, but the government had assumed full or part ownership of a couple of new commercial banks.[26] In each of the three countries, the explicit politicization of finance in the first decade of independence happened mostly or most obviously in the arena of development finance institutions and foreign exchange allocations, rather than in the commercial banking sector. Brownbridge and Harvey argue that foreign ownership (partial or full) and foreign management of most of the largest commercial banks was a check on political interference in their operations. Locally-owned banks and of course the DFIs proved far more vulnerable to political pressure.

In Kenya and Nigeria, the first waves of financial liberalization came in the early to mid 1980s. Liberalization's main targets were barriers to market entry and

[25] The first two commercial banking parastatals were the Co-operative Bank (1965; in 2001 its chairman was Moi's political crony and nephew, Hosea Kiplagat) and National Bank of Kenya, NBK (1968). In 1970, the commercial banking operations of National and Grindlay's Bank were nationalized: this outfit was renamed the Kenya Commercial Bank (KCB). In 1990, two more government-owned commercial banks were established: the Consolidated Bank (to take over and restructure nine private FIs which had failed during the 1980s) and the Post Office Savings Bank, which was then closed down in 1993 after it became clear that it had been used mostly to channel funds from the National Social Security Fund into the ruling-party's electoral campaign in 1992 (Brownbridge and Harvey, 1998: 84). In the 1990s, the KCB and Barclays are the two largest commercial banks. The KCB at the end of 1993 had 22% of commercial bank deposits. The NBK is the fourth largest, with 9.7% of deposits.

[26] In the 1980s, banking sector reform was not on the agenda in Zimbabwe. The government's policy toward the banks was cautious (The Zimbabwe economy "was exceptionally vulnerable to a loss of white confidence", Brownbridge and Harvey, 1998: 168). It did by a 62% share in the Netherlands Bank of South Africa (Nedbank), apparently because the foreign owners wanted to withdraw. It bought a 47% share in a new commercial bank, ZCCB, in partnership with BCCI. According to Harvey this is because the government did not think that new entrants should be 100% foreign-owned, even though it was prepared to let the preexisting foreign owned banks continue as such. When BCCI failed in 1991, the government bought the remaining shares and changed the name to the Commercial Bank of Zimbabwe (CBZ). Harvey (ibid) calls this an "accidental nationalization", more or less along the lines of the Nedbank deal, consistent with the government's policy of buying failing companies to prevent closure and protect jobs.

interest rate controls; removal of these resulted in explosive and reckless growth in the number of locally-owned commercial banks and NBFIs in both countries.

In Kenya, about 30 locally-owned commercial banks opened over the course of the 1980s, along with about 37 locally-owned NBFIs[27]. Many of these were known in Kenya as "political banks", and included prominent politicians and ministers among their CEOs and shareholders. "Political connections were used to obtain public sector deposits, thus overcoming one of the major impediments to the viability of newly established FIs – the difficulty and cost of mobilizing funds" (Brownbridge and Harvey 1998: 89). A good number of the new FIs created in Kenya in the 1980s were also independent (of politicians) Asian- and (in lesser numbers) African-owned.[28] Nigeria had 29 commercial banks on the eve of SAP-driven financial sector liberalization in 1986, all owned or part-owned by the Nigerian Federal Government or state governments. About 100 new privately-owned commercial banks and a comparable number of new NBFIs sprung up over the course of the next five years. Many relied on political connections to take advance of the government's foreign currency auctions, which generated large profits for the owners of what were often fragile and undercapitalized institutions.[29] Something along these lines (on a lesser scale) took place in Zimbabwe after 1991, when under that country's first SAP barriers to the creation of locally-owned banks and NBFI's were removed.

In all three countries, liberalization occurred in the absence of adequate legal and regulatory structures (and prudential requirements). Operating licenses were allocated on deeply political terms to Kenyan political bosses, Nigerian military officers, and close associates of the Mugabe regime in Zimbabwe. In effect, early reforms of banking rules and liberalization of interest rates, undertaken in compliance with SAPs in all three cases, generated patronage resources for clientelistic authoritarian regimes whose traditional sources of political rents had begun to contract in the 1980s.[30] Lewis and Stein (1996:5), writing on Nigeria, wrote that "[financial sector] liberalization was quickly captured by a clientelist state as a means of reallocating rents to strategic clients".

In each case, exuberant proliferation of locally-owned private banks lowered GB20 and HHIs. In Nigeria in 1992/3, government ownership fell dramatically with the denationalization (privatization) of the big-three commercial banks that had been taken over by the government in 1977.

[27] Brownbridge and Harvey (1998: 88) report that 17 locally-owned commercial banks were in operation in 1994, but many banks in this category had already been closed down by that time. They report that the locally-owned commercial banks held almost 25% of commercial bank deposits in 1994 (ibid).

[28] On the Asian-owned FIs, see Brownbridge and Harvey, 1998: 89.

[29] Lewis and Stein, 1996; The Banker 30 Dec. 92; FT, "The Roller Coaster Ride, 2 June 1998.

[30] All this was very clear in Nigeria (see Lewis and Stein) and Kenya (Brownbridge and Harvey, Popiel). However, we need more info. on Zimbabwe.

As in Latin America's Southern Cone in the 1970s, financial sector over-expansion in Kenya and Nigeria in the 1980s was followed by collapse and disarray in the banking sector in the 1990s. In Nigeria in 1995, 2/3 of assets and close to 75% of all deposits in the commercial banking system were at risk.[31] Dozens of new banks collapsed in Kenya in the late 1980s and 1990s; many of them were bailed out or restructured by the government only to collapse again a few years later. Insider lending was endemic. The Kenyan Central Bank reported in 1999 that one-third of the banking sectors Ks 240B in loans was non-performing; "it released dozens of names of influential figures —including the president's son— who owned the [state-owned banks] billions of shillings".[32]

So it was that in the 1990s, all three regimes confronted the need for banking sector clean-up, as well as and continuing internal and external pressures for economic and political reform. As the decade wore on, it became obvious that each of these SSA bullies was most reluctant to relinquish state control over the flow of resources in the financial sector.[33] Each also proved most reluctant to let the market arbitrate the fate and fortune of "political banks" that had sprung up during the phases of exuberant liberalization, or to clean up the balance sheets of state-owned commercial banks. In all cases, the government continues to use the commercial banks to finance parastatals and huge state deficits. Central banks continue to control large shares of banking sector assets. One net effect has been the crowding-out of lending to the private sector. Borrowing to finance government deficits, combined with the effects of currency devaluations and general macroeconomic instability/decay, has sent interest rates sky high. In Zimbabwe in the mid 1990s, normal lending rates were at about 40%.

It is clear that solutions to financial sector problems in each of these three cases will have to await progress in the political domain. Total economic log-jam has been created by the intransigent refusals of Moi and Mugabe to leave office.

[31] Lewis and Stein, 1996: 5.

[32] Ft, 21 May 1999: 22.

[33] In Kenya, pillage of the banking sector for political purposes has become a standard ploy in Moi's strategic repetoire. Kenya has experienced three waves of banking sector crisis since Moi came to power in 1979. Political banks owned by ruling-party bosses receive injections of funds from the Central Bank and the KCB (a parastatal and E. Africa's largest), government banks including the KCB routinely channel money into "polilitical banks" to ward off their collapse, make loans to politicians and ministers, and fill Moi's reelection campaign coffers. Judges appointed by the president restrain the banks from seizing and selling the assets of politically-powerfull debtors to recover bad loans. In Nigeria, the Federal Government sold most of its share of the commercial banking sector, but the state governments continue to own and run their own banks. Under Abacha, core elements of the SAPs were scrapped, the foreign exchange market remained instensely politicized, interest rate controls were reimposed twice (in 1991 and 1994). Rulers threatened to re-nationalize the largest commercial banks in 1994. Some allocative controls, including credit-allocation guidelines, have not been removed. "There is strong domestic opposition to the dismantling of controls over financial markets. ... There are clearly political constraints on the degree to which government is prepared to disengage from banking markets and confine its role to that of prudential regulation" (Brownbridge and Harvey, 1998: 124-5).

The new democratically-elected Nigerian regime, for its part, has so far proven unable to free itself from the powerful, hugely-corrupt, and deeply-compromised brokers in the ancien regime who endorsed Obasanjo's electoral victory in 1999.

### *C. The monarchies and private oligopolies: Jordan, Morocco, Côte d'Ivoire, Ghana, and Senegal.*

In the MENA a number of the little Gulf Cooperation Council (GCC) statelets (Qatar, Kuwait, Oman) as well as Jordan and Morocco have banking systems that qualify as more or less privately owned oligopolies. Like Swaziland and Botswana, also with banking systems that qualify as private olipopolies, they are monarchies. Senegal and Côte d'Ivoire, by contrast, are republics. All regimes in this category (with perhaps the exception of Côte d'Ivoire), tolerate a certain political pluralism. Jordan and Morocco have also nurtured capitalist classes that cooperate closely with their respective governments. Senegal and Côte d'Ivoire cultivated the rise of indigenous business classes linked closely to the state, often as a way of coopting already-powerful elements in indigenous society, and sometimes as a means of rewarding and controlling the regimes' own clients. In contrast with the bullies, in these cases state and local private sector are not locked in antagonistic relations, either because of close imbrication of political and economic power (as in the monarchies), or because the weakness of indigenous capital at the time of regime consolidation allowed rulers to "create" local capitalist classes on their own terms.

A common thread in the francophone cases (Côte d'Ivoire, Morocco, and Senegal) is the enduring economic relationship with the métropole. In Senegal and Côte d'Ivoire, this had the effect of moderating postcolonial economic policy (ensuring neocolonial kind of conservatism) and perpetuating close ties with France, the French Socialist Party, and French banking, industrial, and construction interests. Within the narrow spaces left open for local private capital, rulers in Senegal and Côte d'Ivoire could promote the rise of local business under the aegis of, and sponsorship of the state. Business did not emerge as a politically-independent force.

In Jordan, by contrast, king and president work closely with a capitalist class that enjoys relative autonomy and distinctive ethnic roots (Palestinian), mediated by wealthy members of the respective ruling families and their retainers. Business enjoys relative autonomy and structural power, but it is mediated patrimonially through family power.

These countries did not escape the debt and adjustment crises of the 1980s but they were better equipped to deal with them than the bullies. Morocco from 1983 and Jordan from 1989 could be "good" students of the IFIs and early adjusters because their patrimonial rulers could more successfully pursue their political interests by engaging in SAPs than by opposing them. What they lost in administrative control, they gained back in oligopolistic control of private sector

markets, enhancing patronage networks that were unsustainable under the old systems of administrative controls.

Figure 2 here

Figure 2 plots change in FID, 1980-1998, by Bank Ownership (GB20). It shows that Moroccan banks improved during the period of structural adjustment more than any other banking system in the MENA or SSA, but other oligopolies were less fortunate. On the 3 dimensions of financial intermediation —private credit, M2, and Assets— Morocco forged ahead with Turkey and Egypt, whereas Côte d'Ivoire and Senegal, from less developed starting points, seriously declined. Figure 3 plots FID levels in 1998 by GB20.

Figure 3 here

By 1998 Morocco had caught up with the other early MENA adjusters, Tunisia and Egypt, although it was still some distance from the more compact and wealthier oligopolies of Jordan and Kuwait, not to mention Israel, Lebanon and South Africa.

Indeed, after hesitating from 1983 to 1991 to engage in serious financial reform, Morocco suddenly opened the doors while suffering the political fallout from the Gulf War in which the elder Bush had enlisted King Hassan despite the massive protests of his subjects. The Bank Al Maghrib, Morocco's central bank, released the commercial banks from the credit rationing that had held them in check since 1976 and further deregulated interest rates. The ground had been carefully prepared because the king's big holding company had previously acquired control over Morocco's leading private commercial bank and had bought into a number of others. Other business conglomerates enjoying royal favor shared major stakes in the banking system. Moreover, despite the Moroccanization of commerce decreed in 1976, the major French banks still held significant shares and management positions in most of Morocco's five big private banks. Subsequently it would be relatively easy to privatize the BMCE, Morocco's second largest bank, and put it safely in the hands of a trusted member of Morocco's Fassi business elite (while blocking bids from an upstart who was less trustworthy). The oligopoly has acquired strategic positions in the new Moroccan Stock Exchange and positioned itself to withstand foreign competition that has acquired new advantages from Morocco's entry into the WTO. Local banks may become further concentrated through friendly mergers to withstand the challenges of globalization.

The Côte d'Ivoire and Senegal were hardly positioned as the MENA monarchies to engage in financial reform. Their entire financial systems were deeply embedded in the political and economic arrangements that underpinned neocolonial ties with France, and that produced postcolonial political stability. Indeed, banking and finance were integral parts of the machinery that sustained moderate pro-French regimes in both states, and that made possible forms of postcolonial developmentalism that helped legitimate and stabilize postcolonial regimes in both countries. Banking sector liberalization has done much to upset these old arrangements. It has been part and parcel of a structural reordering not only of business-state relations in Senegal and Côte d'Ivoire, but also of the domestic political machinery in both states, and of relations between these two ex-French colonies and France.

Côte d'Ivoire and Senegal were granted independence in the early 1960s as part of the West African "franc zone": they were members of a seven-country monetary union that shared a common currency, the CFA franc, that was tied to the French franc at a fixed rate, and that was managed by the French Treasury. A central bank for the zone, the BCEAO, was not created until the end of the 1960s. In the 1970s, its headquarters was transferred to Dakar (Senegal), but the French Treasury continued its role as direct manager of the operations accounts of the Franc Zone. One major effect was overvaluation of the African currency (encouraging imports from France). Another effect was to cushion these countries from the day-to-day pressures that world markets can exert on monetary policy, for France covered balance of trade deficits and ensured free convertibility of the CFA franc (making it a de facto hard currency).

The French banks in Senegal and Cote d'Ivoire maintained their colonial-era banking oligopolies in the 1960s and 1970s. During this era, the BNP,[34] Société Générale, and Crédit Lyonnais were pillars of France's own directed-credit system (Zysman), and also leading members of the cozy, collusive business-state oligopolies by which France managed Franco-African ties.[35] African governments brought minority partnerships in newly-created local affiliates of the French banking groups in the 1970s. [36]

In the 1960s, French banks in Senegal and Côte d'Ivoire had concentrated mainly on business with established foreign enterprises, and on financing the import-export trade. In the 1970s, they also engaged in directed-lending to "priority sectors" on behalf of African governments in both countries (often in projects in which the World Bank was a partner). They remained dependent for liquidity on the

[34] In W. Africa, the Banque Nationale de Paris (which became France's biggest bank in 1999), generally operates as BICI (Banque Internationale du Commerce et de l'Industrie), as in BICIS [Senegal], BICICI [Côte d'Ivoire]). It's share of the national market of the UMOA countries averages 30-50%. The BNP now operates across most of the continent, usually through j-v's with German and Belgian banks (African Business, April 1999: 19).

[35] Zysman 1983; Rocheteau 1982.

[36] African Business reports in April 1999 (p. 19) that the BNP share of the markets of the West African franc-zone countries is a staggering 30-50%, on average.

BCEAO,[37] which refinanced loans deemed to have developmental value, and on the French parent banks.[38] In these ways, the banks (SG, BNP, Credit Lyonnais) remained deeply implicated in the implementation of France's West Africa policy, as they had been in the colonial period. They maintained close political relations with the French Socialist party and the French Treasury.

Governments in both countries also diversified their domestic financial sectors in the 1970s by creating development finance institutions and, in Côte d'Ivoire, a majority state-owned commercial bank (BIAO). Credit to the private sector surged, rising from about 20% of GDP in 1970 to about 40% in 1980 in both cases. In the 1980s, local private and non-French financial institutions cropped up, making banking more competitive and, in theory, more responsive to the needs of local private business. In both countries, many of the new locally-owned financial institutions were closely tied to members of the ruling elite.[39]

Parastatals and DFIs in the banking sector were deeply politicized and played an integral part in the build-up of the clientelist networks that underpinned ruling parties in Senegal and Côte d'Ivoire (the PS and PDCI, respectively). Close collaboration between French banks, the regional central bank, and the African and French governments helped underwrite these arrangements.

In Côte d'Ivoire, for example, the French banks, especially Société Générale and BICICI (BNP), made large profits financing the state-controlled cocoa purchasing and export business. The foreign-controlled banks "made badly conceived loans to politically-connected commodity trading companies with poor management, which attempted to extend themselves into other sectors".[40] In this way, the foreign banks benefited from cozy deals with the Ivoirian ruling elite, and from de facto insider lending to political cronies and relatives of President Houphouet-Boigny. With the liberalization of the cocoa trading sector, this mutually-profitable collaboration came to an end "and the banks now have to clean up their bad debts".[41]

In Senegal and Côte d'Ivoire, credit expansion peaked in the mid-1980s. Financial sectors in both countries were in trouble by that time, but reform was delayed until the end of the decade.[42] Regimes struggled to retain control over the

[37] In 1981-90, Central Bank refinancing provided 35% of intermediated funds in the West African franc zone (UMOA) countries (Popiel 1994: 47).

[38] Popiel 1994: 57.

[39] On BCS in Senegal and its ties to members of the Abdou Diouf family, see Boone 1992.

[40] FT, 21 May 1999: 23.

[41] FT, 21 May 1999: 23. The government's cocoa export board, the Caistab, was dissolved in Jan. 1999 and the cocoa-purchasing and –export business in CI was effectively privatized. The foreign banks' bad debts to the cocoa sector generated large losses in profits in 1998 and 1999. SGBCI, AIAO, and BICICI were damaged in 1998 by huge bad loans to SIIC, a coffee-exporter with close links to the Bedie family. About $20m in unsecured loans to the SICC hurt all three banks. BIAO had heavy exposure to SICC. Provision again bad loans to the SICC cut Societe Generale's net profits by 2/3s in CI from 1996 to 1997. (from CFA 9B to CFA 3.5B). Mark O'Dwyer, "CI: Bankers burn their fingers on Cocoa", FT, 2 June 1998: IV-4.

[42] In Senegal, By 1980, bad debts to the state DFIs totalled 19% of GDP.

commercial banks and DFIs, which were valuable political and economic assets. The sword of reform fell however at the end of the 1980s, when the IFIs and France finally come to agreement that banking clean-up was a top priority for the leading West African members of the franc zone. Change was quick and sweeping. Both regimes have been destabilized by the loss of political and economic controls afforded to them by the old system.

Central bank and external financial support (and political muscle) goes far in explaining the speed and sweep of reform in these cases, especially when what happened in Senegal and Cote d'Ivoire (and Ghana, too)[43] is contrasted with state responses to banking sector crashes in Kenya and Nigeria. In 1989, national governments' discretion in Senegal and Côte d'Ivoire was basically usurped by the BCEAO, which undertook bank restructuring and a re-write of regulatory rules for the entire West African franc zone. All the state development banks in both countries were reigned in and liquidated between 1989 and 1992; unprofitable banks were liquidated; and the BCEAO's role in issuing loans to the commercial banks at governments' request (lending capital for "approved projects" to the banks at preferential rediscount rates) was mostly eliminated. Virtually all of the locally-owned private banks and FIs were among the first institutions to be closed down.

The BCEAO oversaw the transfer of most of the bad debts of the banking system to the governments of Senegal and Cote d'Ivoire.[44] With help from the World Bank, the BCEAO recapitalized the 3-4 banks that remained in each of these countries. The banks left standing were affiliates of the same French groups —BNP, SG, and C— that had dominated finance in the West African franc zone at the end of the colonial period.

French Treasury officials and the IFIs thus sponsored the transformation of bad loans into public debt.[45] The bail outs and banking-sector restructuring were very expensive, absorbing a large share of the resources allocated by the IFIs to these two states in the early 1990s. As Popiel wrote in 1994

> Now the BCEAO carries on its balance sheets a considerable amount of assets representing the bad loans of financially distressed institutions that it refinanced to

[43] Here, IFI support (political pressure and cash infusions) also helps explain the speed and sweep of reform. Important too is the fact that Rawlings led what was, basically, a revolutionary regime. The generals and cronies responsible for the pillage of Ghana's state-owned commercial banks were members of Ghana's *ancien regime*: they wre not Rawlings' allies or strongment that Rawlings wanted to protect or support. On the contrary, it was in Rawlings interest to expose their misdeeds and discredit them for ruining state institutions and the national economy. In Ghana, bad loans were transferred to the public sector agency NPART. (See Kraus, 2000).

[44] "The Central Bank provided strong support for restructuring through the consolidation of loans at a subsidized rate of 3% over a 15 year period. Also, international French banks were asked to recapitalize the restructured banks. Governments were also asked to recapitalize banks... The BCEAO kept the failing banks liquid... injecting liquidity into failing banks through "refinancing" and later consolidating short-term loans into long-term assets. Popiel 1994: 58-9, 78

[45] As of 1998, exchange controls in remained in place in the UEMOA to protect the French Tresury from the effects of capital fight.

> keep the institutions afloat... The total of these assets is equal to at least the net worth of the regional central bank. Logically, most of these assets are claims on governments".[46]

With divestment of most of the African states' shares in these banks in the mid-1990s,[47] commercial banking in Senegal and Côte d'Ivoire reverted (almost) to the foreign oligopoly that it had been at the beginning of the developmentalist era. In Cote d'Ivoire, four commercial banks controlled 75% of the market at the end of the 1990s. Société Générale, the largest bank, had 35% by itself.[48] In Senegal in 1997, banking was only slightly less concentrated, with the top four banks controlling about 67% of the market.[49] HHI remained above the .2 cut-off point, qualifying these markets as oligopolies by most analysts' standards.

Devaluation of the CFA franc in 1994 led to a further contraction of commercial bank lending and further financial disintermediation in both cases. (M2/GDP and CIM fall in Senegal and Côte d'Ivoire).[50]

Regimes must now deal with the politics of loan recovery, which has been slow (stalled, it seems) and plagued with legal and administrative obstacles and half-hearted commitment on the part of the authorities.[51] (One benefit regimes can still offer their clients; is protection from reprisals or attempts to recover loans.) Financial sector changes have surely played some role in the fracturing of ruling parties in Senegal and Cote d'Ivoire, intensification of competition within the political class, and ruling parties' electoral defeats in both countries in 1999 and 2000.

In these cases, private banking oligopolies are certainly far more autonomous from local political elites than they are in the MENA cases described above. In Senegal and Côte d'Ivoire, members of the African political class do not own the banks (or private enterprises financed by the banks). Some political big wigs in Senegal and Côte d'Ivoire may benefit from privileged access to commercial banks' resources, but this is probably not systematic enough to sustain regimes, or even important factions thereof. Foreign owned commercial banks surely invest heavily in financing government deficits in both cases, and in this sense there is a private-public alliance that helps support political order. (This statement would hold for Côte d'Ivoire until the end of 1999: with near-total regime breakdown in late

[46] Popiel 1994: 58-9, 75.

[47] Cote d'Ivoire's shares in the leading French banks by the late 1990s was down to about 20% each.

[48] The four leading banks are SGBCI, BICICI, SIB (a Credit Lyonnais affiliate), and BIAO (state-owned). FT, 2 June 1998.

[49] MTM, 28 Feb. 1997, n. 2677: 415.

[50] Parks, Dec. 1998.

[51] Popiel, 1994:61.

December 1999, followed by virtual political anarchy for over a year, it is hard now to say what is happening there.)[52]

### *D. Liberalizing Reformers, or Conditional democracies: Israel, Lebanon, South Africa, Turkey*

Our argument is that there is a correlation between regime type, banking structure, and level of financial intermediary development, and that these variables have conditioned rulers' willingness/ability to liberalize banking sectors since the mid-1980s.

We thus expect that, for the countries in MENA and SSA, liberal democracy will to "go together" with politically-autonomous and competitive banking sectors (low government ownership, low concentration in the banking sector). Figure 1 generates some support for this, but the overlap is not perfect. Saudi Arabia and the United Arab Emirates fall into the quadrant that, by our hypothesis, should contain the democracies. For reasons discussed above, however, these two monarchies better fit politically with the other Gulf Cooperation Council family regimes. Kenya and Zimbabwe, given their low levels of government ownership in banking, and low concentration ratios in this sector, also fall into our fourth quadrant. Yet if we take into account the actually course of domestic political change in Kenya and Zimbabwe, they are really better classified as "bullies". We also seeing bullying in these regimes' resistance to economic liberalization in the 1990s, and in the presence of overbearing central banks.

Israel, Lebanon, Turkey, and South Africa are conditional democracies that do have some of the banking sector characteristics that we expect to find with this regime type. We take these cases as ones that offer some support for our initial hypotheses. Banking structures in Israel and Turkey, are, however, marked by some bunker and bully characteristics; and South Africa still comes close to oligopoly.

South Africa and Israel had relatively high levels of FID at the beginning (1980), and ranked highest in 1998, followed by Kuwait and Jordan, as Figure 3 indicates. Israel and South Africa did not increase their scores of financial development between 1980 and 1998 quite as much as Egypt or Morocco (Figure 2). Politics surely placed limits on possibilities for financial sector development in the Israeli and South African case, although it would be hard to quantify the effects. In Israel a financial crisis obliged the government to bail out and take over most of the commercial banks in 1983. After almost two decades the privatization of the system is still incomplete, although liberal reforms undertaken in the 1980s have somewhat dismantled the traditional state and Histadrut controls over the economy. In the

[52] In both countries, however, one or two African-owned private commercial banks had begun to operate by the end of the 1990s. The one in Senegal is owned by a long-established political wheeler and dealer, with close links to ruling elite since the days of Senghor (Mimran). In CI, we are talking about the CI affiliate of a regional bank based in Togo, so it appears that the owners/operators are "outsiders" to CI politics (Ecobank).

1980s and early 1990s, South Africa was governed by apartheid regimes that nurtured, protected, and in some ways bullied Afrikaner and British capital in the private sector. The racist dictatorship in place until the end of 1994 impoverished and disenfranchised (economically and well as politically) 70% of the nation's population. The constraints this imposed on the development of wide and deep consumer and skilled-labor markets in that country have been discussed extensively in the literature. It follows that apartheid also constrained processes of financial deepening.

Weighed down by a heavy state sector in both banking and the real economy, Turkey displayed a score of financial development in 1998 that was less than Kenya's and just a bit better than Algeria's. Turkey, however, also had the most vibrant stock market in the MENA, with turnover rates eclipsing even those of South Africa despite Turkey's much lower market capitalization and numbers of listed companies (see Appendix 2). During the period from 1980 to 1998 its level of financial development in Turkey dramatically increased, almost as much as Morocco's (Figure 2). During this period, in fact, Turkey made a more convincing transition from ISI to export-oriented growth than any of the bullies or monarchies. It did so, however, under conditions of military rule that lasted from 1980 until the special regulations were progressively dismantled in the mid-1980s. Until 1986 Turkey's "democracy" was very conditional, but arguably the return to democracy helped to consolidate the reforms.

Turkey's trajectory in some ways resembled Morocco's because reforming Prime Minister Turgut Özal relied on close ties with industrial conglomerates and big business (TUSIAD) in the early to mid 1980s. Using state banks as well as alliances with conglomerates controlling major banks, he disciplined the business community and transformed Turkey's political economy. Yet, like Egypt, Turkey also periodically resorted to bully tactics, just as on the political level an authoritarian military conditioned its domestic politics. Like Egypt and Tunisia, Turkey evaded serious privatization and thus experienced chronic budget deficits due to transfers to prop up failing public enterprises as well as to the military expenses of suppressing Kurds in southeast Anatolia**.**

As of this writing (April 14, 2001) Turkey is in the midst of a major economic crisis caused by an overvalued foreign exchange that caught the deregulated banks short, as in Thailand in 1997: too many outstanding loans in dollars to enterprises with cash flows in vastly depreciated Turkish lire. The crisis threatens to transform Turkey politically and in its banking structure back into the bully state it used to be. Although the bourgeoisie nurtured since the 1930s is relatively autonomous and distinctly Turkish, it faces prospects somewhat similar to Kenya's or Zimbabwe's domestic bourgeoisies. In Turkey, the brunt of the bullying may fall upon the Islamist segment of this bourgeoisie, reflecting political crackdowns on Turkey's Islamist Virtue Party as well as on the Kurds. Both the secular and Islamist bourgeoisies, however, seem committed to the European Union,

and they bolster the political consensus needed for Turkey's conditional democracy to become more consolidated, paving the way for entry into the EU.

Turkey's precarious situation can be read as a warning, however, for some of the other conditional democracies, notably South Africa**.**

Commercial banking in South Africa is highly concentrated. By some measures, it appears to be more concentrated than in Senegal and Côte d'Ivoire: in South Africa in 1996, the top four banks controlled 90% of the banking industry's assets.[53] Since the demise of the apartheid regime, there has been a wave of entry of new banks, but none large enough to make in dent in the market of the top four. Many of the new domestically-owned banks cater to black populations that were severely underserviced in the earlier era. Foreign banks, for their part, have concentrated on corporate finance, treasury operations, and investment banking and have avoided retail commercial banking ("foreign banks flocked to South Africa after 1994").[54] Heightened competition in the banking sector (and deregulation) drove further consolidation among the top ten largest commercial banks in the 1990s. Commercial banks remain tied to big business in the mining and industrial sectors.[55]

Ending apartheid also fueled the expansion of the Jo-berg stock exchange. It is the developing world's third largest stock market (capitalized at $261 billion), second only to Hong Kong and Taiwan and accounting for 15-20% of the value of all emerging markets.

South African companies rely on bank credit rather than the stock market for financing, but the banks prefer to lend to the government since returns on securities are very high. Interest rates run at over 20%. As a result, there is a huge unmet demand for capital, while the banks are underlent. Progressive political sources argue that the banks are not playing their part in building a post-apartheid South Africa. ANC governments, for their part, have been very conservative in their policies toward business (fueling criticism from the Left that they are coddling big business and thereby only prolonging South Africa's economic misery and stagnation).[56] It is not clear how long this situation can be sustained. More populist elements within the ANC are pressing for more *dirigiste* economic policies that can deliver long-promised jobs and improvements in standards of living to South Africa's majority. Countervailing forces are the regime's respect for the autonomy of the private sector in general, its interest in maintaining an investment climate that will attract international capital, its interest in encouraging South African capital to maintain its leading position in southern and eastern Africa, and its commitment to

[53] African Business, Oct. 96: 19. The top four are ABSA, Standard Bank, First National, and Nedcor. FT (2 June 1998) reported that these four control 80% of the retail banking market. ABSA (Amalgamated Banks of South Africa) itself formed from the merger of four banks in 1991. In 1992 it swallowed up a fifth, Bankorp, the weakest of the country's top five banks.

[54] Financial Times 2 June 1998.

[55] Johnston and Murray 1997.

[56] In about 1998, about .95 of banking sector assets in South Africa were in the private sector.

projecting a moderate image that will help sustain international goodwill. The two faces of liberal democracy —economic liberalism and "people power"— maintain an uneasy relationship in South Africa, as in the rest of the globalizing world.

### *Conclusions*

Our argument is that there is a correlation between regime type, banking structure, and level of financial intermediary development, and that these variables have conditioned rulers' willingness/ability to liberalize banking sectors since the mid-1980s. As fitting the IFI conventional wisdom, the relatively pluralistic and competitive systems are better positioned for reform than other systems.

Where political and economic elites are imbricated in cozy alliances (private oligopolies), de jure reform can come without great political conflict, but may not do much to really depoliticize the banking sector, much less to enhance its internal competitiveness or efficiency. In countries like Morocco, Jordan, Ivory Coast, and Senegal, financial sector reform in the sense of clean-up has moved forward. The old state institutions have either been liquidated (Senegal and CI) or, where they were relatively clean, as in Morocco, they were privatized more completely. In the SSA cases, there is a startling ascendancy of foreign banks, many of which trace their origins to the colonial period. In the "oligopolies", incumbent political classes seem to have survived banking restructuring, but their ranks have narrowed; the best-placed members of the political-economic elite now find new ways to use state power to protect the gains of the past (Hibou 1998). Where the political class has long been marked by internal factures and factions, reform can destabilize the old oligopoly structure based on pacts, power-sharing agreements, ethno-regional "arithmetic", etc. Côte d'Ivoire at the end of the 1990s is a case in point. Saudi Arabia could be another: a more competitive and privatized financial system could exacerbate divisions within the ruling family (Henry and Springborg, 2001: chapter 6).

Bullies have stronger and more independent bourgeoisies than the "oligopolies": they thus enjoy good long-run prospects for developing vigorous banking sectors, but this will only come after protracted social and political struggles —and political transformations of these clientelistic authoritarian regimes.

In some of the better developed economies of our sample, political reform has stalled and even been reversed, especially in the North African states. Pervasive clientelism is a major factor limiting progress in banking sector clean-up/privatization/reform. Kenya and Zimbabwe provide very stark examples of this: banking sector clean-up and privatization have not gone as far as in West African states having weaker domestic bourgeoisies. So also in the MENA, Egypt and Tunisia have blocked significant privatization and liberalization of their financial systems. Clean-up cannot go far as long as the old bullies are in place, since banking is so deeply embedded in well-institutionalized systems of patronage and corruption. Therefore technical financial reforms may be on the books (eg. higher

reserve requirements and deregulated interest rates), but they cannot produce much real change in the way business is done (or in the health and autonomy of the banks) in the absence of political liberalization, that tends to be very uneven and to progress in fits and starts.

The scenario whereby political liberalization is gradually reflected in financial sector development is being played out in Turkey. It seems to be making the transition from bully to a pluralistic and competitive system. Turkey may be the future of Kenya, Zimbabwe, Egypt and Tunisia. In these cases, even the fight over banking sector reform produces political effects. In the African cases, struggles over banking changes have played a role in destabilizing the political networks linked to the old ruling cliques, exacerbating divisions and tensions in old ruling parties, freeing up political resources (including leadership in the form of experienced and well-known politicians) for the opposition, and shedding light on the financial misdeeds of the old elite. In the MENA cases the bullies have greater resources and, waving the menace of Islamist political oppositions, tightened their regimes and have so far delayed privatization of their big public sector banks.

Even where reform and restructuring proceeds relatively successfully, MENA and SSA banking sectors do not play the developmental role that was envisioned by reform's most enthusiastic proponents and architects. Formal sector banking has contracted and retrenched in much of SSA. In contrast to neo-liberal expectations, "freeing markets" has led to disintermediation and explosion in the size of informal sector (rather than expansion of the formal sector at the expense of the informal, which was supposed to be a product of "repression" in the first place). By Zysman's 1983 typology, these remain bank-credit dominated financial systems (they are not stock-market dominated or organized around universal banks), but the banks don't do much lending. There are not really local markets for medium —and long—term finance. As in Eastern and Central Europe, including Russia, these failures of reform —or the incomplete success of banking sector reform— highlight an effective banking system's embeddedness in, and dependence on a system of institutions (juridical, political) that is, by definition, a public good that can only be supplied by the state.[57]

This array of cases shows that the IFI formula —so-called SAP medicine — only really works as its proponents envision on the more developed financial systems. It is not really the right medicine for many/most of the cases in our sample, in which bullies and bunkers appear so prominently. Those cases need (1) political reform, and (2) institution building to enhance two basic components of capacity: good information flows and institutional credibility.

[57]

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Appendix 1: Country names and codes

| name | code | name | code | name | code |
|---|---|---|---|---|---|
| Algeria | DZA | Gabon | GAB | Niger | NER |
| Angola | AGO | Gambia, The | GMB | Nigeria | NGA |
| Bahrain | BHR | Ghana | GHA | Qatar | QAT |
| Benin | BEN | Guinea | GIN | Rwanda | RWA |
| Botswana | BWA | Guinea-Bissau | GNB | Saudi Arabia | SAU |
| Burkina Faso | BFA | Iran, Islamic Rep. | IRN | Senegal | SEN |
| Burundi | BDI | Iraq | IRQ | Seychelles | SYC |
| Cameroon | CMR | Israel | ISR | Sierra Leone | SLE |
| Cape Verde | CPV | Jordan | JOR | Somalia | SOM |
| Central African Republic | CAF | Kenya | KEN | South Africa | ZAF |
| Chad | TCD | Kuwait | KWT | Sudan | SDN |
| Comoros | COM | Lebanon | LBN | Swaziland | SWZ |
| Congo,Dem. Rep. | ZAR | Lesotho | LSO | Syria | SYR |
| Congo, Rep. | COG | Liberia | LBR | Tanzania | TZA |
| Cote d'Ivoire | CIV | Libya | LBY | Togo | TGO |
| Djibouti | DJI | Malawi | MWI | Tunisia | TUN |
| Mauritania | MRT | Maldives | MDV | Turkey | TUR |
| Mauritius | MUS | Mali | MLI | Uganda | UGA |
| Egypt, Arab Rep. | EGY | Morocco | MAR | United Arab Emirates | ARE |
| Eq.Guinea | GNQ | Mozambique | MOZ | Yemen, Rep. | YEM |
| Eritrea | ERI | Namibia | NAM | Zambia | ZMB |
| Ethiopia | ETH | Nicaragua | NIC | Zimbabwe | ZWE |

**Figure 1: Commercial Banks Ownership and Concentration Ratios**

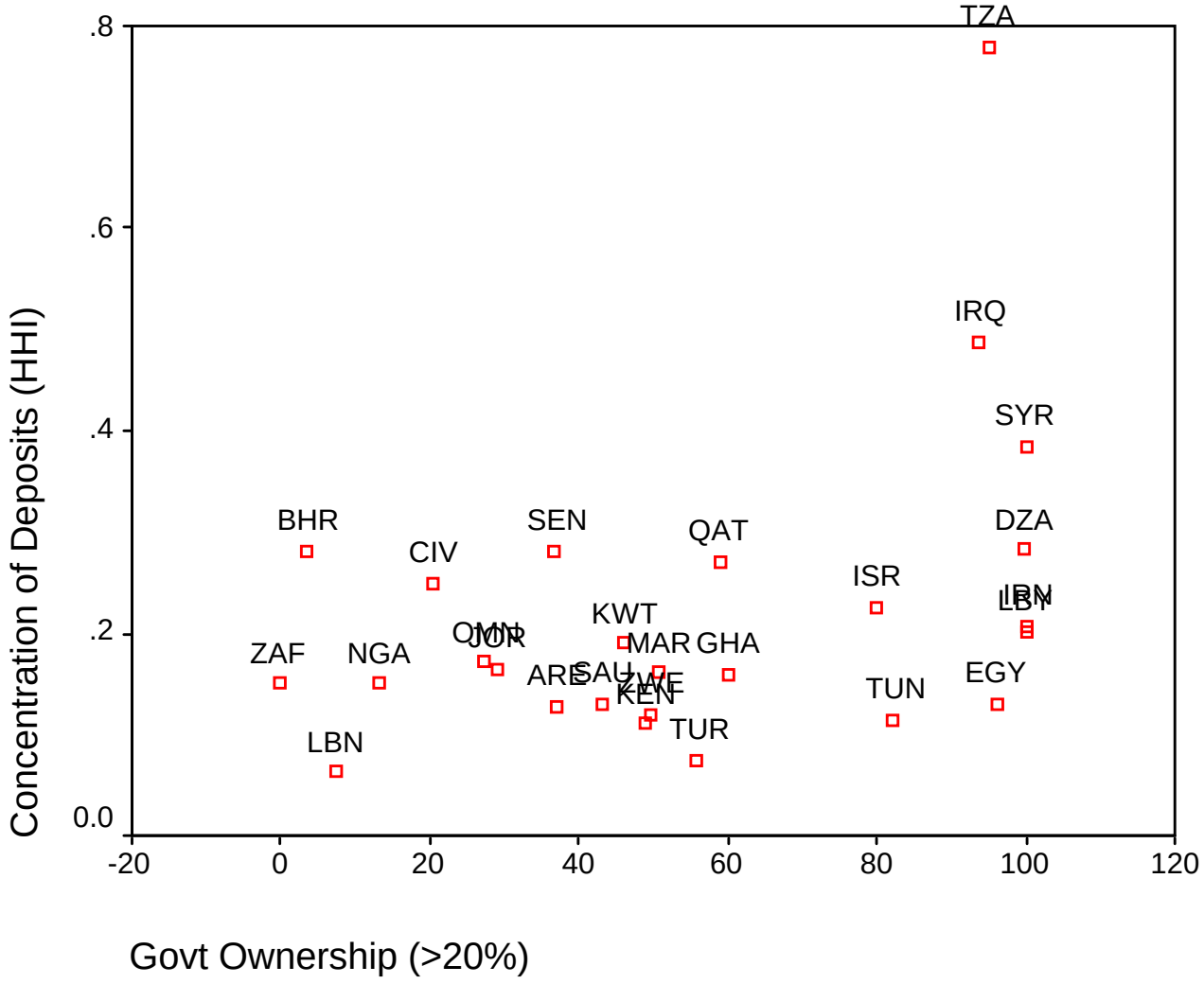


**Figure 2: Financial Intermediary Development 1980-98 by Bank Ownership**

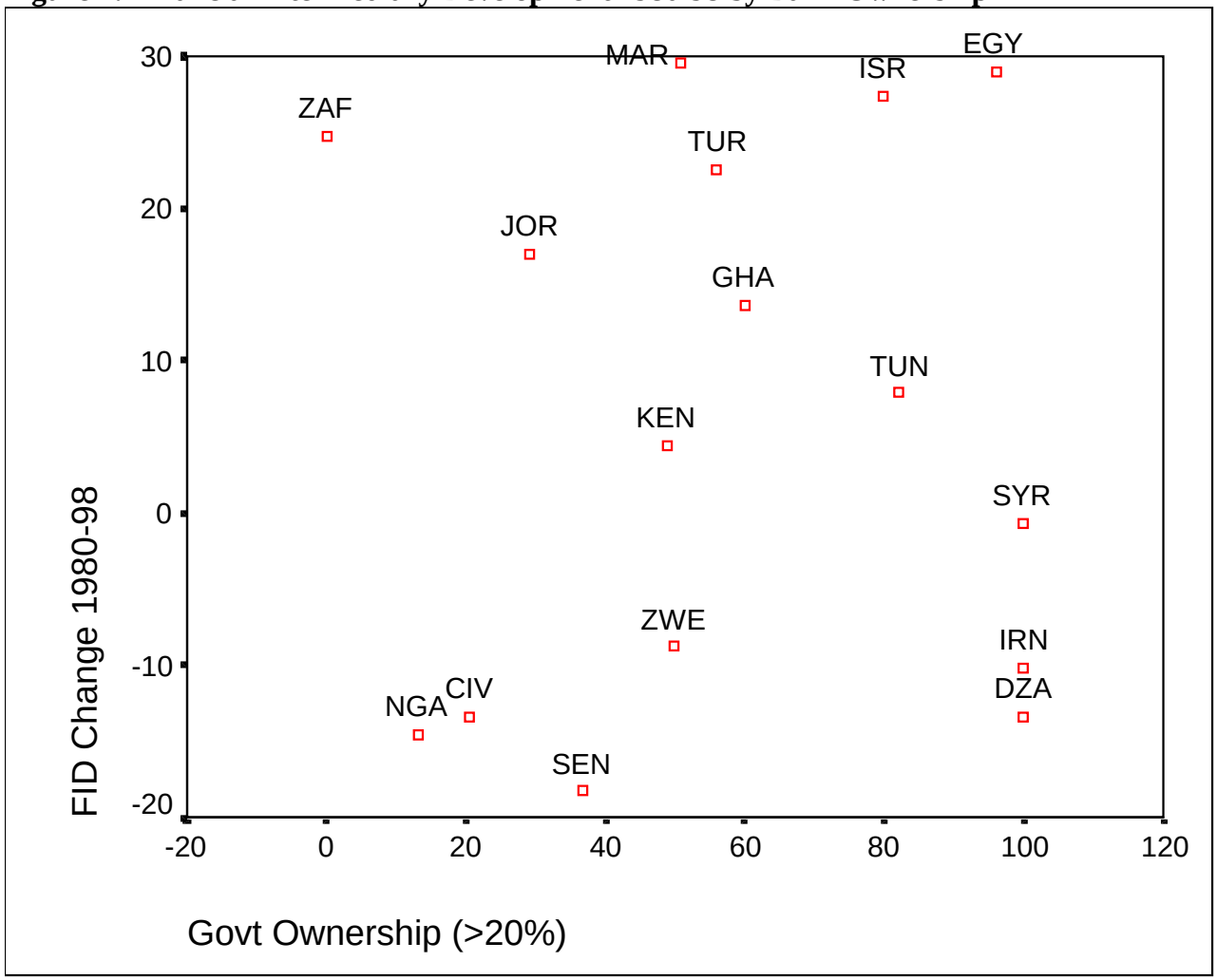
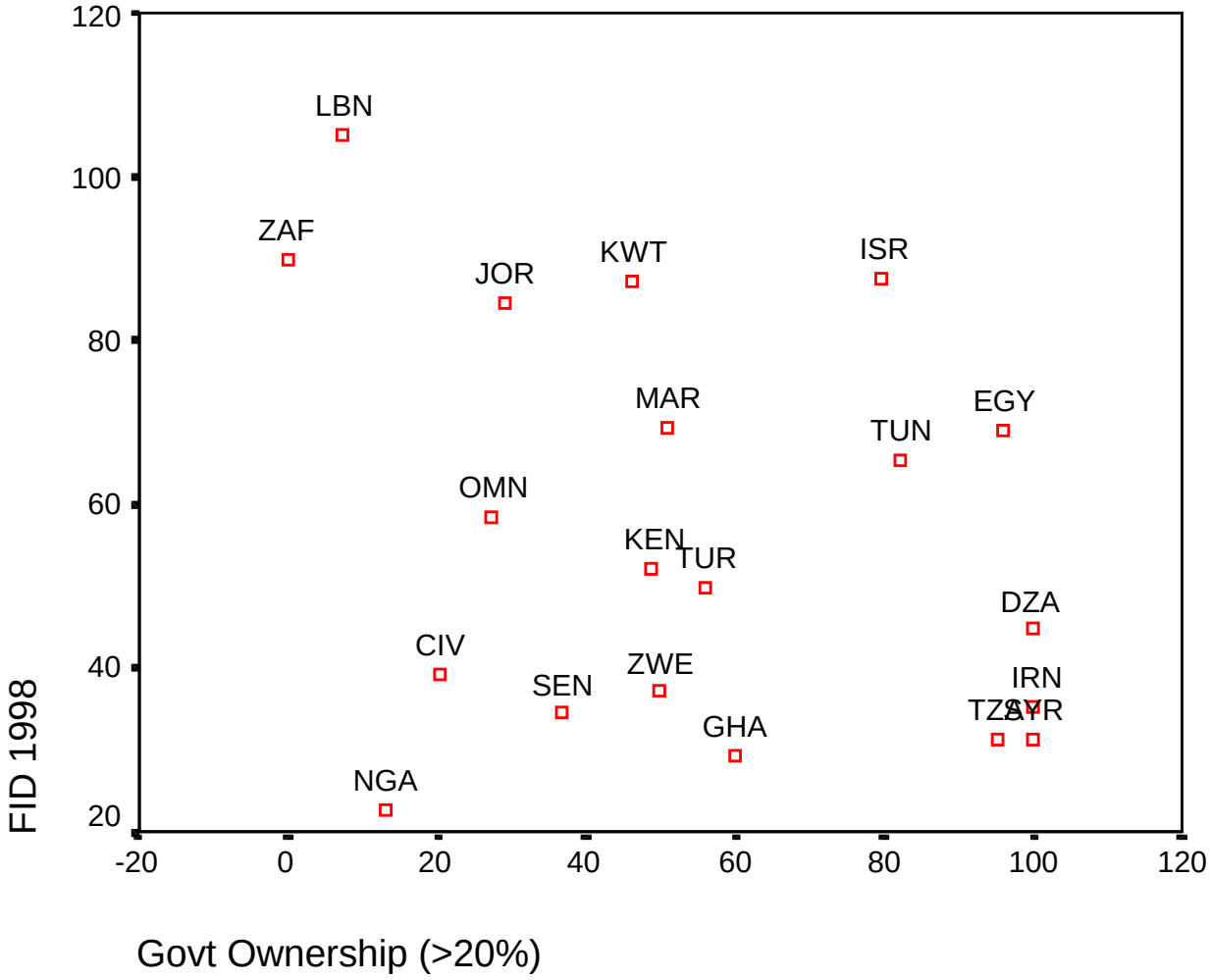


**Figure 3: FID Scores in 1998 by Bank Ownership**



## Table 1: Political/Policy Differences Reflected in Broader Political-Economy Variables

**Report**

| Regime Type | | FID80 | FID95 | FID98 | Govt Ownership (>20%) | Concentration of Deposits (HHI) | Contract Intensive Money 1998 | Political Freedom 1998 | Civil Liberties 1998 | Information Factor 1998 |
|---|---|---|---|---|---|---|---|---|---|---|
| Bunker | Mean | 37.5121 | 24.1919 | 25.7551 | 98.1583 | .4770 | .6787 | 6.4615 | 6.3846 | -.7045815 |
| | N | 7 | 10 | 10 | 6 | 13 | 11 | 13 | 13 | 10 |
| | Std. Deviation | 12.2089 | 11.2996 | 10.5875 | 2.8745 | .2964 | .1037 | .7763 | .6504 | 9.451E-02 |
| Bully | Mean | 41.6606 | 39.8372 | 43.5405 | 58.2700 | .1561 | .7927 | 5.7143 | 5.1429 | -.6953169 |
| | N | 7 | 7 | 7 | 6 | 7 | 7 | 7 | 7 | 7 |
| | Std. Deviation | 13.1338 | 21.3605 | 18.6911 | 29.0040 | 7.037E-02 | 8.490E-02 | 1.3801 | 1.0690 | 8.210E-02 |
| Oligopoly | Mean | 51.0895 | 58.4577 | 62.1975 | 35.3100 | .2170 | .8616 | 5.4167 | 4.8333 | -.2669060 |
| | N | 6 | 8 | 6 | 10 | 12 | 12 | 12 | 12 | 12 |
| | Std. Deviation | 9.3797 | 17.9605 | 22.2877 | 16.0858 | 6.609E-02 | .1038 | 1.5050 | 1.3371 | .5316494 |
| Democracy | Mean | 48.6325 | 75.5817 | 81.5940 | 35.7775 | .1765 | .9537 | 2.6000 | 3.4000 | .1137546 |
| | N | 4 | 5 | 5 | 4 | 5 | 5 | 5 | 5 | 5 |
| | Std. Deviation | 17.4319 | 22.1504 | 20.6209 | 38.4235 | .1263 | 1.959E-02 | 2.3022 | 1.5166 | .5835844 |
| Total | Mean | 43.9698 | 45.5450 | 47.9817 | 55.1838 | .2913 | .8035 | 5.4595 | 5.2432 | -.4278568 |
| | N | 24 | 30 | 28 | 26 | 37 | 35 | 37 | 37 | 34 |
| | Std. Deviation | 13.1896 | 25.4205 | 26.6870 | 33.2262 | .2300 | .1325 | 1.8196 | 1.4607 | .4810458 |

**Table 2: Variation of Political/Policy Means by Regime Type**

**ANOVA**

| | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| FID80 | Between Groups | 720.342 | 3 | 240.114 | 1.464 | .254 |
| | Within Groups | 3280.840 | 20 | 164.042 | | |
| | Total | 4001.182 | 23 | | | |
| FID95 | Between Groups | 10632.514 | 3 | 3544.171 | 11.366 | .000 |
| | Within Groups | 8107.369 | 26 | 311.822 | | |
| | Total | 18739.883 | 29 | | | |
| FID98 | Between Groups | 11939.763 | 3 | 3979.921 | 13.103 | .000 |
| | Within Groups | 7289.585 | 24 | 303.733 | | |
| | Total | 19229.347 | 27 | | | |
| Govt Ownership (>20%) | Between Groups | 16594.108 | 3 | 5531.369 | 11.057 | .000 |
| | Within Groups | 11005.333 | 22 | 500.242 | | |
| | Total | 27599.441 | 25 | | | |
| Concentration of Deposits (HHI) | Between Groups | .708 | 3 | .236 | 6.518 | .001 |
| | Within Groups | 1.196 | 33 | 3.623E-02 | | |
| | Total | 1.904 | 36 | | | |
| Contract Intensive Money 1998 | Between Groups | .325 | 3 | .108 | 12.409 | .000 |
| | Within Groups | .271 | 31 | 8.742E-03 | | |
| | Total | .596 | 34 | | | |
| Political Freedom 1998 | Between Groups | 54.413 | 3 | 18.138 | 9.240 | .000 |
| | Within Groups | 64.776 | 33 | 1.963 | | |
| | Total | 119.189 | 36 | | | |
| Civil Liberties 1998 | Between Groups | 36.010 | 3 | 12.003 | 9.708 | .000 |
| | Within Groups | 40.801 | 33 | 1.236 | | |
| | Total | 76.811 | 36 | | | |
| Information Factor 1998 | Between Groups | 3.044 | 3 | 1.015 | 6.629 | .001 |
| | Within Groups | 4.592 | 30 | .153 | | |
| | Total | 7.636 | 33 | | | |

Table 3: Models of Financial Intermediary Development Scores of 1998

| Models of FID 1998 | | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| Regressions on: | | | | | | | |
| | | | | | | | |
| | FID80 | 0.66 | 0.43 | 0.44 | 0.42 | 0.5 | 0.49 |
| | | (t=5.3) | (t=3.9) | (t= 4.1) | (t= 3.8) | (t= 4.8) | (t= 4.4) |
| | | | | | | | |
| | Information | | 0.34 | 0.24 | 0.31 | | 0.35 |
| | | | (t=2.8) | (t= 1.9) | (t= 2.6) | | (t= 2.8) |
| | | | | | | | |
| | CIM98 | | 0.30 | 0.28 | 0.29 | 0.35 | |
| | | | (t= 2.5) | (t= 2.4) | (t= 2.4) | (t= 3.2) | |
| | | | | | | | |
| | Pol Freedom | | | -0.21 | | -0.26 | -0.24 |
| | | | | (t= -1.9) | | (t= -2.4) | (t= -2.0) |
| | | | | | | | |
| | | | | | | | |
| | Civil Freedom | | | | -0.12 | | |
| | | | | | (t= -1.1) | | |
| | | | | | | | |
| | Constant | | | | | | |
| | | (t= -.48) | (t= -.37) | (t= .23) | (t=.21) | (t= -1.1) | (t= 3.1) |
| | | | | | | | |
| | Adjusted $r^2$ | 0.419 | 0.654 | 0.679 | 0.656 | 0.634 | 0.629 |
| | Fstatistic | 27.7 | 22.4 | 19.0 | 17.2 | 22.3 | 20.2 |
| | n | 37 | 34 | 34 | 34 | 37 | 34 |

Table 4: Models of Financial Intermediary Development Change 1980-1998

| Models of FID change 1980-1998 | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Regressions on: | | | | | | |
| | | | | | | |
| | Information | 0.39 | 0.26 | 0.35 | | 0.41 |
| | | (t= 2.4) | (t= 1.6) | (t= 2.2) | | (t= 2.6) |
| | | | | | | |
| | CIM98 | 0.35 | 0.32 | 0.33 | 0.44 | |
| | | (t= 2.2) | (t= 2.1) | (t= 2.1) | (t= 3.1) | |
| | | | | | | |
| | Pol Freedom | | -0.29 | | -0.34 | -0.32 |
| | | | (t= -1.9) | | (t= -2.4) | (t= -2.0) |
| | | | | | | |
| | | | | | | |
| | Civil Freedom | | | -0.13 | | |
| | | | | (t= -.9) | | |
| | | | | | | |
| | Constant | | | | | |
| | | (t= -1.0) | (t= -.3) | (t= -.4) | (t= -1.4) | (t= 4.0) |
| | | | | | | |
| | Adjusted $r^2$ | 0.371 | 0.419 | 0.369 | 0.359 | 0.356 |
| | Fstatistic | 11 | 9.2 | 7.6 | 11.4 | 10.4 |
| | n | 34 | 34 | 34 | 37 | 34 |

Appendix 2:
Commercial Bank Credit and Stock Market Activity, 1998

| | Total Domestic Credit as % GDP | Domestic Credit to private sector as % GDP | Market Capital as % GDP | Value traded % GDP | Turnover Ratio | Listed Domestic Companies |
|---|---|---|---|---|---|---|
| **MENA Region** | 65.2 | 34.3 | 26.6 | 5.8 | 17.9 | 1619 |
| Algeria | 45.8 | | | .. | | .. |
| Bahrain | 41.8 | 57.9 | 18 | 1.5 | .. | 38 |
| Egypt, Arab Rep. | 94.9 | 54 | 29.5 | 6.1 | 22.3 | 861 |
| Iran, Islamic Rep. | 46 | 19.3 | 13.1 | 1.2 | 9.3 | 242 |
| Israel | .. | 81.9 | 39.4 | 11.2 | 26.4 | 650 |
| Jordan | 91.2 | 72.7 | 79 | 8.8 | 11.6 | 150 |
| Kuwait (1) | 116.8 | 62.6 | 8.6 | 114.5 | 144.9 | 74 |
| Lebanon | 134.9 | 74 | 13.8 | 1.9 | 12.4 | 12 |
| Morocco | 83.8 | 50.4 | 44.1 | 3.9 | 10.1 | 53 |
| Oman | 44.7 | 44.6 | 29.4 | 13 | 33.8 | 131 |
| Qatar (2) | 65.4 | 37.3 | .. | .. | .. | .. |
| Saudi Arabia | .. | 33.3 | 33 | 10.6 | 26.9 | 74 |
| Sudan | 6.8 | 2.1 | .. | .. | .. | .. |
| Syrian Arab Republic | 28.9 | 8.9 | .. | .. | .. | .. |
| Tunisia | 53.2 | 50.8 | 11.4 | 0.9 | 0.9 | 38 |
| Turkey | 36.6 | 23.4 | 16.9 | 34.5 | 154.9 | 277 |
| United Arab Emirates | 58.9 | 59.1 | 0.1 | .. | .. | 44 |
| Yemen, Rep. | 35.7 | 6.3 | .. | .. | .. | .. |
| | | | | | | |
| **East Asia & Pacific** | 110.5 | 103.3 | 33 | 30.3 | 124.2 | 3702 |
| Indonesia | 59.2 | 53.9 | 23.5 | 10.3 | 59.4 | 287 |
| Malaysia | 159.8 | 151.1 | 136 | 39.8 | 30.9 | 736 |
| Singapore | 86.4 | 109.7 | 112 | 60.1 | 50.5 | 321 |
| Korea, Rep. | 78.1 | 74.2 | 35.7 | 43 | 184.7 | 748 |
| Thailand | 164.9 | 156.6 | 31.4 | 18.6 | 71.2 | 418 |
| | | | | | | |
| **Latin America & Caribbean** | 43.7 | 30.3 | 20.8 | 10.7 | 41.8 | 2166 |
| Argentina | 32.6 | 24.2 | 15.2 | 5.1 | 30.2 | 130 |
| Brazil | 54.6 | 34.6 | 20.7 | 18.8 | 70.9 | 527 |
| Chile | 66.3 | 61.6 | 65.9 | 5.6 | 7.3 | 277 |
| Mexico | 36.1 | 19.7 | 23.3 | 8.6 | 28.5 | 194 |
| Venezuela, RB | 18.1 | 13.4 | 8 | 1.6 | 14.2 | 94 |
| | | | | | | |
| **Sub-Saharan Africa** | 70.9 | 57.9 | 80.3 | 26.3 | 19.9 | 1117 |
| Angola | 15.2 | 3.1 | .. | .. | .. | .. |
| Botswana | -78.5 | 11.9 | 14.8 | 1.4 | 1.1 | 14 |
| Cameroon | 16.8 | 8.2 | .. | .. | .. | .. |
| Cote d'Ivoire | 28.2 | 18.6 | 16.5 | 0.4 | 4.5 | 35 |
| Gabon | 22.5 | 10.2 | .. | .. | .. | .. |
| Ghana | 27.7 | 9.4 | 18.5 | 0.8 | 6.5 | 21 |
| Kenya | 49.5 | 30.3 | 17.5 | 0.7 | 0.3 | 58 |
| Malawi | 6.4 | 6.1 | .. | .. | .. | .. |
| Mali | 14.4 | 15.9 | .. | .. | .. | .. |
| Mauritius | 78.6 | 59.2 | 44 | 2.4 | 2.9 | 40 |
| Mozambique | 2.5 | 14.2 | .. | .. | .. | .. |
| Nigeria | 14.2 | 9.1 | 7 | 0.4 | 5.2 | 186 |
| Senegal | 22.5 | 16 | .. | .. | .. | .. |

Source: World Development Indicators 2000.

Appendix 2:
Commercial Bank Credit and Stock Market Activity, 1998

| | | | | | | |
|---|---|---|---|---|---|---|
| South Africa | 140 | 118.9 | 127.6 | 43.8 | 30.4 | 668 |
| Sudan | 6.8 | 2.1 | .. | .. | .. | .. |
| Tanzania | 13.3 | 4.7 | .. | .. | .. | .. |
| Togo | 24.9 | 18.2 | .. | .. | .. | .. |
| Zambia | 63.5 | 6.8 | 8.7 | 0 | 2 | 8 |
| Zimbabwe | 64.6 | 38.8 | 20.7 | 2.6 | 9.2 | 67 |
| | | | | | | |
| **High income OECD** | 140.7 | 118.8 | 116 | 95.3 | 89.5 | 20320 |
| United Kingdom | 129.5 | 124 | 174.9 | 86 | 53.4 | 2399 |
| France (2) | 103.1 | 83.6 | 69.5 | 40.1 | 68.7 | 711 |
| Germany | 146.4 | 119.1 | 51.3 | 65.2 | 144.9 | 741 |
| Japan | 139.4 | 117.8 | 66 | 25.1 | 40.3 | 2416 |
| United States | 162.2 | 137.9 | 163.4 | 159.8 | 106.2 | 8450 |
| | | | | | | |
| (1) 1997 data on stock market | | | | | | |
| (2) 1997 data on bank credit. | | | | | | |

Source: World Development Indicators 2000.

Appendix 3: Country-by-country scores on the broader, political economy variables

| | Fin Intermediary Dev. | | | FID change | Regime | | | | | Freedom | | Information |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1995 | 1998 | 1980-95 | Type | Assets98 | HHI | GB20 | CIM 98 | Polit 98 | Civil 98 | Factor 98 |
| **Middle East and North Africa** | | | | | | | | | | | | |
| Algeria | 58.09 | 39.64 | 44.71 | -13.38 | 1 | 0.87 | 0.28 | 99.96 | 0.7 | 6 | 6 | -0.61604 |
| Bahrain | . | . | . | | 3 | . | 0.28 | 3.4 | 0.95 | 7 | 6 | 0.06631 |
| Egypt, Arab Rep. | 40.06 | 62.76 | 69.06 | 29 | 2 | 0.78 | 0.13 | 96.02 | 0.86 | 6 | 6 | -0.58209 |
| Iran, Islamic Rep. | 45.36 | 34.09 | 35.15 | -10.21 | 1 | 0.47 | 0.21 | 100 | 0.9 | 6 | 7 | -0.52867 |
| Iraq | . | . | . | | 1 | . | 0.49 | 93.77 | . | 7 | 7 | . |
| Israel | 60.07 | 79.46 | 87.47 | 27.4 | 4 | 0.97 | 0.23 | 79.81 | 0.97 | 1 | 3 | 1.13446 |
| Jordan | 67.51 | 85.54 | 84.53 | 17.02 | 3 | 0.8 | 0.16 | 28.96 | 0.82 | 4 | 4 | -0.44008 |
| Kuwait | . | 75.92 | 87.16 | | 3 | 1 | 0.19 | 46.19 | 0.95 | 5 | 4 | 0.73438 |
| Lebanon | . | 91.64 | 104.99 | | 4 | 0.98 | 0.06 | 7.4 | 0.97 | 6 | 5 | -0.07116 |
| Libya | 40.42 | . | . | | 1 | 0.44 | 0.2 | 100 | 0.69 | 7 | 7 | . |
| Morocco | 39.85 | 64.89 | 69.35 | 29.5 | 3 | 0.88 | 0.16 | 50.89 | 0.79 | 5 | 5 | -0.63684 |
| Oman | . | 51.57 | 58.43 | | 3 | 0.95 | 0.17 | 27.27 | 0.89 | 6 | 6 | -0.52161 |
| Qatar | . | 67.28 | . | | 3 | . | 0.27 | 58.87 | 0.94 | 7 | 6 | 0.16588 |
| Saudi Arabia | . | . | . | | 3 | . | 0.13 | 43.3 | 0.84 | 7 | 7 | -0.46149 |
| Sudan | 35.22 | 14.79 | 14.03 | -21.19 | 1 | 0.32 | 0.09 | . | 0.6 | 7 | 7 | -0.71827 |
| Syrian Arab Republic | 31.92 | 38.64 | 31.28 | -0.64 | 1 | 0.51 | 0.38 | 100 | 0.54 | 7 | 7 | -0.57939 |
| Tunisia | 57.63 | 70.72 | 65.52 | 7.89 | 2 | 0.99 | 0.11 | 82.12 | 0.84 | 6 | 5 | -0.57459 |
| Turkey | 27.16 | 39.27 | 49.74 | 22.58 | 4 | 0.96 | 0.08 | 55.9 | 0.95 | 4 | 5 | -0.03719 |
| United Arab Emirates | 45.58 | . | . | | 3 | . | 0.13 | 37.08 | 0.92 | 6 | 5 | 0.63705 |
| West Bank and Gaza | . | . | . | | . | . | . | . | . | . | . | . |
| Yemen, Rep. | . | 21.83 | 26.08 | | 1 | 0.29 | 0.25 | . | 0.58 | 5 | 6 | -0.73415 |
| | | | | | | | | | | | | |
| **Subsaharan Africa** | | | | | | | | | | | | |
| Angola | . | . | 16.93 | | 1 | 0.3 | 1 | . | 0.73 | 6 | 6 | -0.75817 |
| Benin | 46.22 | 35.74 | 33.38 | -12.84 | . | 0.72 | 0.37 | . | 0.75 | 2 | 2 | -0.78008 |
| Botswana | . | . | . | | 3 | . | 0.31 | . | 0.94 | 2 | 2 | -0.58598 |
| Burkina Faso | 41.19 | 31.52 | 35 | -6.19 | . | 0.7 | 0.44 | . | 0.54 | 5 | 4 | -0.78842 |
| Burundi | 25.43 | . | . | | . | 0.7 | 0.47 | . | 0.63 | 7 | 7 | -0.78564 |
| Cameroon | 47.38 | 29.73 | 28.85 | -18.53 | 2 | 0.65 | 0.31 | . | 0.72 | 7 | 5 | -0.76935 |
| Cape Verde | . | 59.62 | 58.73 | | . | 0.79 | . | . | 0.84 | 1 | 2 | . |
| Central African Republic | 34.27 | 24.5 | 25.54 | -8.73 | . | 0.55 | 1 | . | 0.32 | 3 | 5 | -0.78907 |
| Chad | 36.14 | 20.4 | 20.22 | -15.92 | . | 0.46 | . | . | 0.3 | 6 | 5 | -0.79576 |
| Comoros | . | 36.51 | 32.55 | | . | 0.65 | . | . | 0.66 | 5 | 4 | . |
| Congo, Dem. Rep. | . | 21.15 | . | | 1 | . | 0.57 | . | . | 7 | 6 | -0.79084 |

Sources: World Development Indicators 2001, International Financial Statistics, Freedom House

Appendix 3: Country-by-country scores on the broader, political economy variables

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Congo, Rep. | 36.43 | 28.19 | 27.35 | -9.08 | . | 0.56 | . | . | 0.58 | 7 | 5 | . | |
| Cote d'Ivoire | 52.7 | 41.66 | 39.3 | -13.4 | 3 | 0.74 | 0.25 | 20.46 | 0.61 | 6 | 4 | -0.732 | |
| Djibouti | . | . | 66.99 | | . | 0.95 | . | . | 0.83 | 5 | 6 | . | |
| Equatorial Guinea | . | 12 | 21.81 | | 1 | 0.53 | 1 | . | 0.72 | 7 | 7 | -0.75838 | |
| Eritrea | . | . | . | | . | . | 1 | . | . | 6 | 4 | . | |
| Ethiopia | . | 51.98 | 34.16 | | . | 0.58 | 0.5 | . | 0.78 | 4 | 5 | -0.78968 | |
| Gabon | 39.63 | 33.34 | 31.5 | -8.13 | . | 0.68 | 0.44 | . | 0.73 | 5 | 4 | -0.65727 | |
| Gambia, The | 44.12 | 33.68 | 40.21 | -3.91 | . | 0.81 | 0.86 | . | 0.74 | 7 | 6 | -0.74812 | |
| Ghana | 15.73 | 14.02 | 29.42 | 13.69 | 2 | 0.62 | 0.16 | 60 | 0.67 | 3 | 3 | -0.74718 | |
| Guinea | . | 17.46 | . | | . | 0.22 | 0.53 | . | 0.53 | 6 | 5 | . | |
| Guinea-Bissau | . | 24.53 | . | | . | 0.44 | 1 | . | 0.47 | 3 | 4 | -0.77132 | |
| Kenya | 47.66 | 43.98 | 52.1 | 4.44 | 2 | 0.86 | 0.11 | 48.74 | 0.86 | 6 | 6 | -0.75462 | |
| Lesotho | 43.74 | 48.23 | 47.72 | 3.98 | . | 0.89 | . | . | 0.91 | 4 | 4 | -0.76169 | |
| Liberia | 18.92 | . | . | | . | 0.04 | 1 | . | 0.7 | 4 | 5 | -0.76207 | |
| Madagascar | 26.72 | 27.96 | 27.84 | 1.12 | . | 0.56 | . | . | 0.7 | 2 | 4 | -0.78001 | |
| Malawi | 35.27 | 28.47 | 25.41 | -9.86 | . | 0.55 | 0.49 | . | 0.79 | 2 | 3 | . | |
| Mali | 32.68 | 33.46 | 36.48 | 3.8 | . | 0.71 | 0.35 | . | 0.62 | 3 | 3 | -0.79074 | |
| Mauritania | 15.31 | 35.25 | 35.72 | 20.41 | . | 0.71 | 0.52 | . | 0.79 | 6 | 6 | -0.78543 | |
| Mauritius | 42.04 | 72.88 | 75.76 | 33.72 | 4 | 0.93 | 0.37 | . | 0.92 | 1 | 2 | -0.10832 | |
| Mozambique | . | 39.63 | 43.81 | #VALUE! | . | 0.98 | 0.44 | . | 0.83 | 3 | 4 | -0.78308 | |
| Namibia | . | 57.76 | . | | . | . | 0.26 | . | . | 2 | 3 | -0.62481 | |
| Niger | 40.27 | 23.12 | 19.02 | -21.25 | . | 0.46 | 0.51 | . | 0.69 | 7 | 5 | -0.79501 | |
| Nigeria | 37.31 | 18.11 | 22.78 | -14.53 | 2 | 0.46 | 0.15 | 13.05 | 0.72 | 7 | 6 | -0.72897 | |
| Rwanda | 32.46 | 23.72 | 26.77 | -5.69 | 1 | 0.57 | 0.41 | . | 0.74 | 7 | 6 | . | |
| Sao Tome and Principe | . | . | 27.01 | | . | 0.44 | . | . | 0.78 | 1 | 2 | . | |
| Senegal | 52.72 | 32.7 | 34.41 | -18.31 | 3 | 0.65 | 0.28 | 36.68 | 0.75 | 4 | 4 | -0.75419 | |
| Seychelles | 48.05 | 39.94 | 60.78 | 12.73 | . | 0.82 | . | . | 0.91 | 3 | 3 | -0.1445 | |
| Sierra Leone | 19.11 | 6.28 | 9.41 | -9.7 | 1 | 0.12 | 0.54 | . | 0.56 | 7 | 6 | -0.7803 | |
| Somalia | . | . | . | | . | . | . | . | . | 7 | 7 | -0.79295 | |
| South Africa | 65.26 | 94.66 | 90 | 24.74 | 4 | 0.98 | 0.15 | 0 | 0.96 | 1 | 2 | -0.34902 | |
| Swaziland | 48.19 | 48.1 | . | | 3 | . | 0.27 | . | 0.94 | 6 | 5 | -0.67431 | |
| Tanzania | . | 29.77 | 31.39 | | 1 | 0.7 | 0.78 | 95.22 | 0.7 | 5 | 5 | -0.78161 | |
| Togo | 47.02 | 38.21 | 36.78 | -10.24 | . | 0.7 | 0.29 | . | 0.67 | 6 | 5 | -0.69486 | |
| Uganda | 18.32 | 11.63 | 15.49 | -2.83 | . | 0.3 | 0.14 | . | 0.71 | 4 | 4 | -0.78522 | |
| Zambia | 27.81 | 14.12 | 11.65 | -16.16 | . | 0.12 | 0.19 | . | 0.84 | 5 | 4 | -0.74992 | |
| Zimbabwe | 45.85 | 39.54 | 37.05 | -8.8 | 2 | 0.48 | 0.12 | 49.69 | 0.87 | 5 | 5 | -0.71042 | |

Sources: World Development Indicators 2001, International Financial Statistics, Freedom House