A MODERN HISTORY OF MONETARY AND FINANCIAL SYSTEMS OF CONGO 1885 – 1995

EDOUARD MAMBU MA KHENZU

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ABSTRACT

This thesis addresses the modern history of money and finance in Congo from 1885 to 1995, against a background of pre-colonial traditional monetary practices observed since the 15th century and still in use today in some regions of the Congo basin within the current Democratic Republic of the Congo. The work makes use of historical research methods and is aimed, firstly, at interpreting the survival of the pre-colonial monetary tradition and its influence on the Congolese modern monetary and financial systems and, secondly, at explaining major monetary and financial developments that have occurred in Congo since 1885.

First of all this study explores a series of devices that were used as money in the ancient Kingdom of Congo (13th–17th century). Two devices used as currency in the Kingdom of Congo – the *nzimbu*, a seashell as small as a coffee bean, and the *lubongo*, a small mat made of raffia fibre – are analysed. *Mbongo*, the common term for money or wealth in today's Congolese languages, derives from *lubongo*. The *mitako*, a brass rod of different lengths, which was granted the quality of legal tender by the authorities of the Congo Free State (1885–1908) in 1886, alongside the state currency, is explored in the process of introducing modern currencies in Congo. New light is shed on some controversial issues, such as the origin and genuine identity of the *nzimbu*. Also explained are the significance and limits of the monetary functions of devices used for these purposes in traditional communities accustomed to essentially barter-based mechanisms of exchange.

Secondly the study addresses monetary and financial provisions set up for the Congo Free State, and analyses the six main strands of King Leopold II's financial and development policy: (1) designation of non-occupied lands as State property; (2) setting up of a vast royal property as Crown land for the purpose of generating income for the King; (3) granting of concessions to various companies, in which the King took substantial shareholdings; (4) regime of labour-tax intended to ensure a sufficient workforce for both the State land and Crown land; (5) joint ventures with private businesses to carry out investments that required large amounts of capital; (6) placing trade activities under an absolute State monopoly.

Thirdly, exploring the colonial period (1908–1960), the study demonstrates that depending on what was at stake, the Belgian colonial power addressed Congolese monetary and financial issues regardless of the legal separation established by the 1908 *Charte Coloniale* (Colonial Charter) between Belgium and its Colony as two distinct entities.

Lastly the major political events that occurred in the Democratic Republic of the Congo from the start of the 1960s onwards resulted in a very high cost for the country in terms of waste of resources and inflation, among other adverse effects. The Congolese monetary and financial crises that started in 1960 were a consequence of irrelevant and inefficient policies combined with a lack of long-term vision in the management of public affairs. The monetary and financial developments of the early 1990s onwards were characterised by political imbroglio and hyperinflation that undermined people's trust in the national money. This study recommends further research on a number of issues, such as the use of foreign currencies in the economy that resulted from this mistrust, the development of street money markets and the coexistence of different monetary zones in the same country.

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Over the first half of the 1970s I was in charge of the establishment of the Société Financière de Dévelopement (SOFIDE), the first development bank set up in Congo, with significant support from the World Bank and the financial and banking institutions of many developed countries. This position offered me the opportunity to extend my interest and learn more from professionals in the field of financial and development policies. During that period I had the chance to team up with Mr Serge I. Guetta, the first Managing Director of SOFIDE, who inspired me with confidence and courage in financial risk-evaluating within the framework of the uncertainties inherent in the Congolese economic environment. I express my gratitude to him.

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Soon after my arrival in Britain in August 1997 I was admitted as a part-time postgraduate mature student to read for a Master of Science degree in Accounting

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LIST OF ABBREVIATIONS

ABIR:Anglo-Belgian India Rubber Company

AEF: Afrique Equatoriale Française

BBA: Banque Belge d'Afrique

BCB: Banque du Congo Belge

BCC: Banque Commerciale du Congo

BCCBRU: Banque Centrale du Congo Belge et du Ruanda-Urundi

BEAC: Banque des Etats de l'Afrique Centrale

BENELUX: Belgique, Netherlands, Luxembourg

BF: Belgian Franc

BNCI: Banque Nationale pour le Commerce et l'Industrie

BNB: Banque Nationale de Belgique

NBB: National Bank of Belgium

CA: Circa

CAC: Crédit Agricole Contrôlé

CADECO: Caisse Générale d'Epargne du Congo

CADEZA: Caisse Générale d'Epargne du Zaïre

CCCE: Caisse Centrale de Coopération Economique

CCCI: Compagnie du Congo pour le Commerce et l'Industrie

CCP: Comptes Chèques Postaux

CF: Congolese Franc

CFA: Coopération Financière Africaine

CFL: Compagnie du Chemin de Fer du Congo Supérieur aux Grands Lacs Africains

CNECI: Caisse Nationale d'Epargne et de Crédit Immobilier

CNKi: Comité National du Kivu

CNS: Conférence Nationale Souveraine

COFIKI: Compagnie Financière de Kinshasa

COMFINA: Société Commerciale et Financière

CRA: Congo Reform Association

CRISP: Centre de Recherches et d'Information Socio-Politiques

CSK: Comité Spécial du Katanga

EEC: European Economic Community

F: Franc

FBI: Fonds du Bien-Etre Indigène

FF: French Franc

FLNC: Front pour la Libération Nationale du Congo

GBP: British Pound

GDP: Gross Domestic Product

GECAMINES: Générale de Carrières et des Mines

GECOMIN: Générale Congolaise des Mines

GNP: Gross National Product

HCR-PT: Haut Conseil de la République-Parlement de Transition

IBLC: Institut Belgo-Luxembourgeois du Change

IDA: International Development Association

IFAN: Institut Français d'Afrique Noire

IFC: International Finance Corporation

IMF: International Monetary Fund

INS: Institut National des Statistiques

INTERFINA: COMFINA + Intertropical Anglo-Belgian Trading Co

IRCB: Institut Royal Colonial Belge

IRES: Institut de Recherches Economiques et Sociales

K: Likuta

MOBIMO: Société Mobilière et Immobilière

MPR: Mouvement Populaire de la Révolution

N.: Number

NE: North East

NZ: Nouveau (New) Zaïre currency

OCA: Office des Cités Africaines

OGEDEP: Office Gestion de la Dette Publique

ONL: Office National du Logement

ONUC: Organisation des Nations-Unies au Congo

RPI: Retail Price Index

s: Sengi

SDR: Special Drawing Rights

SE: South East

SF: Swiss Franc

SGM: Société Générale des Minerais

SOFIDE: Société Financière de Dévelopement

SONAS: Société Nationale d'Assurance

SUERF: Société Universitaire Européenne de Recherches Financières

UEBL: Union Economique Belgo Luxembourgeoise

UMHK: Union Minière du Haut Katanga

USD: US Dollar

VAT: Value Added Tax

Z: Zaïre currency

Chapter One:
INTRODUCTION

1.1. Scope of the Study

This study, entitled *A Modern History of Monetary and Financial Systems of Congo, 1885-1995*, aims at providing a contribution to a comprehensive analysis and interpretation of the monetary and financial experience of Congo, the country nowadays known as the Democratic Republic of the Congo. It begins by looking at the pre-colonial traditional monetary practices observed in the Congo basin since the 15th century. The aim in this respect is to assess whether and to what extent this monetary tradition affected the monetary and financial system set up by the Belgian colonial power in the late 19th century. The study examines at first a series of devices in use as a medium of exchange among traditional communities of the western Africa coasts known in the 15th century as Lower Guinea, especially in the territory of the ancient Kingdom of Congo (13th –17th century) discovered by the Portuguese since the late 15th century.

Against this historical background, the study explores the monetary and financial provisions belonging to the colonial period. Then follows an analysis of the major developments that marked the Congolese monetary and financial system after attainment of independence in June 1960. The study is carried out with a particular focus on the monetary and financial crises characterising the post-1960 era.

The issue of money and finance in Congo has been explored by numerous scholars. Without being a monetary or financial study, the work on Congolese numismatics by Mahieu (1924) contains useful information on a large number of devices used as a medium of exchange in Congolese traditional communities prior to the colonial era. Cuvelier (1946) and Dartevelle (1953) looked at many aspects of the monetary practices in use at the time of the Kingdom of Congo. Monetary and financial regulations issued at the time of the Congo Free State, during the colonial period and after independence have been explored by many scholars, who are mentioned frequently in this study and in the bibliography section. However, their studies relate to specific aspects and isolated episodes. They do not offer a global view of the subject of money and finance in Congo over a long period of time.

The originality of this study lies in its scope, which covers a period stretching back over several centuries. This retrospection enables a link to be established between the distant past and the contemporary period by means of analysing patterns peculiar to the monetary experience of Congolese traditional communities since pre-colonial times. Chapter two of this study focuses particularly on a set of selected traditional monetary devices that dated from the 15th century, and were still in use at the start of the colonial period (and still today are used in connection with certain traditional customs). The Belgian colonial authorities made use of some of these during the process of introducing modern currencies in Congo.

If the Latin term *pecus*, which means "a single head of cattle", is the root of the English term "pecuniary" meaning "relating to or consisting of money, wealth or property", it is because the ancient Greeks used cattle as a medium of exchange (Beecham, 1986). Similarly, the Congolese common term for "money" is *mbongo*, a word derived from *lubongo*, the name in the Kikongo language for a small mat made

of raffia fibre. These mats were used as "money" in the north region of the Congo river mouth, as far back as at the era of the Kingdom of Congo. In the same region of Congo, "money" is also called *nzimbu* (also spelled *n'zimbu*), another Kikongo language word, which is the name of a small seashell used as currency over centuries since the time of the Kingdom of Congo (see: Cardoso, 1623).

On the one hand, the term "pecuniary" brings back nothing but a distant, if not forgotten, memory of a cow being used as a medium of exchange in ancient times. On the other hand, the use of *nzimbu* and *lubongo* as money since the era of the Kingdom of Congo remained in force in Congo until modern times, for several decades after the introduction of European-style currencies in the late 19th century. This evolution serves to justify the place given to those forms of ancient monies in this study. Among the questions to be answered are the following: (1) how did the Belgian metropolitan power treat the traditional monetary devices in the process of introducing European-style currencies? (2) how did the traditional communities react to this process?, and (3) what is the significance of the survival of the use of those traditional devices?

The objective of this work is to provide an interpretation of the modern monetary and financial experience of Congo. To define the beginning of modern times it refers to scholars such as Carr (1961), McNeil (1967), Kennedy (1988) and Roberts (1989). McNeil (1967) considers the 1500s to be the landmark that best establishes a separation between modern and pre-modern times in European as well as in world history. Kennedy (1988) also defines the modern period as starting in 1500. This starting date is in line with the commonly accepted definition of the modern history as history up to the present day, starting from some arbitrary point taken to represent the end of the Middle Ages or the fall of Constantinople in 1453,

which marked the end of the Eastern Roman Empire (New Oxford Dictionary of English, 1998). What can be considered a turning point in 1500 is the establishment at around that time in the mind of Western Europeans of the conviction that "their continent was poised to dominate much of the rest of the earth" (Kennedy, 1988: 3). The fall of Constantinople (1453) caused a shift of the centre of power, leadership and initiative from the Eastern Mediterranean to Western Europe and the rise of new States. Modern times are, therefore, considered to have started around 1500 (Carr, 1961).

In the case of Congo, there are historical written sources from the 15th century onwards relating to that region of Africa. These sources report on the first known contact between the Portuguese and the Kingdom of Congo, which they discovered in the late 15th century, as mentioned earlier. And yet, the era of prosperity observed around the 1650s did not survive the slave trade which was expanding at that time all over the continent, and which significantly contributed to the collapse of the Kingdom of Congo itself in the late 17th century (Thornton, 1982). The fall of the Kingdom plunged back into obscurity this part of the African continent, which continued to be destabilised by the atrocities of the slave trade until the mid-19th century when West European nations launched the colonisation of Africa on a large scale. This study considers, therefore, the mid-19th century to be the starting point for the modern history of Congo, a country whose origins are briefly traced in the next section.

1.2. From the Kingdom of Congo to the Democratic Republic of the Congo

According to the legend, Nimi a Nzima reigned over the right bank of the river Congo as a powerful chief, from the late 13th century (Goffin, 1953). Wene, the

youngest of his numerous sons, gave up all hope of becoming King of his ancestors' land, and he went up the river and founded a new country he called the Kingdom of Congo. He took the name of Ntinu Wene, *Ntinu* meaning King in the Kikongo language. The new King went to war against his neighbours and expanded his territory. Congolese annals do not tell us very much about Wene's descendants. These are supposed to have been sixteen Kings (Bontinck, 1972). Nevertheless, it is well known that the Kingdom of Congo continued to develop to such an extent that by the early 15th century it comprised around 300,000 square kilometres, not including territories that willy-nilly pledged their allegiance (Cuvelier, 1946).

Beyond the legend, it emerges from most ancient sources referred to by Pigafetta (1591), such as Duarte Lopez who visited the region in 1578, that by the early 1500s the Kingdom of Congo was composed of five major regions, namely, Loango, Congo, Angola, Dongo and Benguela. These main regions were subdivided into a number of provinces that the Portuguese named according to European feudal organisation, such as grand duchy, dukedom, earldom, and marquisate. The King of Congo, known as Manikongo (also spelled as Mani Congo), held authority over the region from the Atlantic in the west to the river Kwango in the east (Cardoso, 1623).

According to some other sources, such as Felner (quoted by Cuvelier, 1946) and Cardoso (1623), the founder of the Kingdom of Congo, King Weze (or Wene as the legend says), also known as Nimi Lukeni, is likely to have reigned around 1270. The Kings of Congo have originated from the region of Kwango where their ancestor Ne Kongo (or Ne Congo) is supposed to have reigned. The name of the latter was given respectively to the city founded by his descendants, Mbanza Congo (City of Congo), the country that they inhabited, *Congo*, and the great river of that country, Nzadi Congo. The same river is called Lualaba in the eastern part of Congo where it

flows northeastward from its source before flowing northwestward and then southwest to the Atlantic Ocean (Dartevelle, 1953).

It is well known that the Portuguese were the first Europeans to influence that part of the western coast of Africa comprising a large territory of the current Democratic Republic of the Congo (Goffin, 1953). They began trading with the Kingdom of Congo in 1483. This trade principally involved ivory. The Portuguese, however, soon started trading in slaves. This rapidly outstripped any other trade in both volume and importance, and continued almost without interruption until it reached a peak and ended in the 19th century (Slade, 1962).

Despite their early presence in the Kingdom of Congo, Portuguese explorers failed to go further into the heart of the continent, due to a number of obstacles, such as the tribes' hostility, impenetrable rain forest, waterfalls and rapids (Slade, 1962). However, the main obstacle stemmed from an obvious lack of interest, since further exploration into the continent required conquest, occupation and pacification. As will be seen later, this was not in their economic interest, since internal tribal conflicts, which most often they themselves instigated, proved to be the most efficient slave provider (Shillington, 1989, 1995).

The Dutch superseded the Portuguese in 1641, followed by the English, French and Arabic groups in subsequent years. They all came seeking silver mines which they believed to be located on Luanda Island, supposed to be the main source of the King of Congo's wealth (Dartevelle, 1953). Later on, as will be highlighted in Chapter two, it was admitted that the *nzimbu* seashells were the only source of wealth from the island. However, both the Europeans and Arabs all turned to and participated in a prosperous slave trade that lasted for about four centuries (Goffin, 1953).

In a speech made on 17 February 1860 the future King Leopold II, then Duke of Brabant, filled with admiration for the Dutch pattern of colonisation, praised the virtue of external trade and the benefit of exports for Belgium, with a particular emphasis on colonies (Descamps, 1903). Later on when he became King Leopold II, he was attracted by the results of several expeditions into different areas of Africa, including the Congo basin. This comprised the territory known today as the Democratic Republic of Congo, which includes approximately one-third of the ancient Kingdom of the Congo, as can be seen from the map in the Appendix section. Leopold II obtained agreements from numerous local chieftains, by which they were supposed to cede to him their territorial rights, which in aggregate covered most of the Congo River basin. In 1884, King Leopold II urged various European nations to recognise the Association Internationale du Congo (International Association of Congo) that he had created for the purpose of managing his African enterprise. In 1885, he proclaimed himself sovereign of a new state he called L'Etat Indépendant du Congo, translated sometimes as the Independent State of Congo and sometimes as the Congo Free State, which he treated as his personal property (Slade, 1962).

In 1908, the Belgian Parliament and Government decided on the annexation of the Congo Free State as a colony, which was subsequently known as the Belgian Congo. This annexation was primarily a result of the financial difficulties that burdened the Congo Free State. It was also partly, if not mainly, a consequence of the campaign conducted in Europe and the United States against atrocities committed by the representatives of the King upon the local population between 1885 and 1908 (Stengers, 1989).

During the colonial period the supply of various agricultural and mineral products to the metropolitan power was given priority. After half a century of

colonial rule, Congo experienced growing nationalistic sentiment, which culminated in the January 1959 riots. Independence was granted on 30 June 1960. At the time of independence Congo lacked strong political, economic and educational foundations for sound self-government. In addition, as a result of the ethnic separation policy implemented by the metropolitan power during the colonial era, the country fell rapidly into ethnic and regional strife, making national unification more difficult. The 1960–1965 period was marked by political instability and outbursts of violence. In November 1965 a parliamentary impasse developed between President Joseph Kasa-Vubu and Prime Minister Moise Tshombe. The Armée Nationale Congolaise (the Congolese National Army) seized this opportunity to take control and General Joseph-Désiré Mobutu assumed power for an announced period of five years to re-establish domestic order.

On 27 October 1971, President Mobutu changed the name of the country to République du Zaïre. Zaïre was the name given to a new currency created to replace the Congolese Franc (CF) in a monetary reform launched on 24 June 1967, and which is analysed in Chapter five of this study. On the same date of 27 October 1971 the River Congo also took the name of Zaïre. As a matter of fact Zaïre is the Portuguese corruption of the word *Nzadi*, a Kikongo common name for any large river, but the Portuguese mistakenly adopted it in 1482 as the name of the River Congo, as can be seen in a number of 16th-century maps that refer to the River Congo as "Zaïre". In this study Congo is the term used to name the country even over the period when it was called Zaïre.

Mobutu ruled the country absolutely, under a fierce dictatorship. He remained in power without a break until early 1997. May 1997 marked the end of Mobutu's regime and the coming to power of Laurent Joseph Kabila, as well as the country's

return to its former name as the Democratic Republic of the Congo. Kabila was assassinated in January 2001. His son Joseph Kabila replaced him as a compromise solution set up by a Government rather caught out by the sudden death of the President, and yet anxious to avoid internal conflicts of succession and manage instead to preserve power.

1.3. Theoretical Issues Relating to the Study

To explain the origin of money, scholars generally agree that man's growing dissatisfaction with exchange by barter led him to evolve a less direct system of transaction (Polanyi, 1977). Surpluses were exchanged for one generally acceptable commodity, and stores of that commodity were used in exchange for whatever good was needed. Since all goods were exchangeable for the commodity, the commodity itself became the means of exchange. This view served as a basis for the theories of some scholars of the German historical school, such as Hildebrand (cited by Kindleberger, 1984), who stated in 1864 that evolution in economic relations had proceeded from a barter economy to a money economy and, finally, to a credit economy (Kindleberger, *ibid*). As a consequence, barter was reckoned to be a transaction process that existed in primitive communities where money was unknown. And yet this study considers this concept of economic evolution inaccurate since it has been observed that the three stages – namely, barter, money and credit – coexisted well into modern times in modern European countries, such as France, as late as the 19th century. Indeed, the rural economy in European countries used barter on a large scale. The national economy that depended on, for example, roadside markets, used silver, while the international economy operating in ports and major

financial centres used bills of exchange – a credit instrument – and settled balances that could not be cleared by bills in gold and silver payments (Braudel, 1977).

Any commodity that happened to serve as a medium of exchange was expected to meet the following characteristics highlighted by scholars such as Begg (1984) Beecham (1986), and Beardshaw (1992) in standard economics textbooks. The first characteristic of money is its *acceptability*. It should be generally accepted by virtue of its intrinsic value; if not because of that, then by decree, convention or convenience. The second is its *scarcity*. To be scarce, the supply of the commodity used as a medium of exchange should remain less than its demand; but it should not be too scarce, otherwise it would be hoarded and would not circulate freely. Essentially its supply must in some way be controlled. The third characteristic, named *recognisability*, serves to avoid unfair practices. Furthermore, the need to have recourse to special expertise or to spend time identifying a money substance would seriously undermine its usefulness as money. In other words, the more easily recognised the better is its quality as money, other things being equal (Goacher, 1990). As the fourth characteristic, its *divisibility* should enable the device intended for monetary functions to be capable of being divided into small units. The fifth characteristic refers to its *stability* in the sense that the conditions of its supply and demand should remain stable, i.e. in relation to what it obtains today, it obtained in the past, and would obtain in the future. As the sixth characteristic, its *homogeneity* means that each of its units should be exactly the same as every other unit, otherwise people would hold on to the more valuable units, thereby destabilising its supply and demand conditions. Its *portability*, defined as the seventh characteristic, means that each unit should have small weight and bulk compared with its value, so that it could be easily carried about. Lastly, by virtue of its *durability*, defined as the eighth

characteristic, the device should not be a wasting asset either physically or in terms of its value; no one wants to hold on to a wasting asset (Beecham, 1986).

The above characteristics are required for a commodity to perform the functions of money defined as follows. Firstly, as a medium of exchange, it divides exchange into two parts: a process of sale of one's goods and services for money, and a process of purchase of the goods and services wanted in exchange. It should "act as wealth with liquid purchase power, giving its possessor the freedom of choice in the satisfaction of wants, and enabling him to save and lend easily" (Beecham, 1986: 4). Secondly, as a unit of account or standard of value, it measures the value of all other things because they are exchanged for it. Price is the value of a good in terms of money. By comparing the prices of various goods their value can be compared (Beecham, 1986). As the unit of account, it enables account to be kept in money-measurable terms, costs to be assessed precisely and choices to be made between competing projects by comparing their money-measurable costs and returns. Thirdly, as a store of value, it enables wealth to be stored up indefinitely without deterioration in value, without loss in purchasing power, for acquiring other goods. And lastly, as a standard for deferred payments, it enables an immediate assessment of contracts to be fulfilled in the future, thereby equating present and future values. The equation of present and future value is crucial to lenders making loans to borrowers who contract to repay an agreed sum regularly over several months or years (Beecham, 1986).

From the characteristics mentioned earlier it emerges essentially that money has two basic functions: it is to serve, firstly, as a means of payment and, secondly, as a unit of account. Each function has two dimensions in time. In the short term, as a medium of exchange, money eliminates the necessity of barter, which is inefficient.

Over time, money is a store of value that enables production and consumption to be temporally independent; this is another gain in efficiency as one does not have to spend simultaneously with earnings or earn at a given moment in order to spend. As a unit of account, money simplifies comparison of values. "Over time, the unit of account functions as a standard of deferred payment, used in contracts involving payments or debts" (Kindleberger, 1984: 20). The development of money appears as a process shaped by continuous innovation sought in order to better discharge the functions for which money was required. There was no object or commodity predestined to serve as money. It was up to the users, regardless of the object or commodity concerned, to decide which device could qualify to fulfil the functions of money and to what extent it could do so.

With regard to the financial constituent of the study, reference is made to the classical structure of a contemporary financial system comprising the following components: 1) central monetary authority; 2) banking system; 3) financial markets and 4) financial instruments (Šević, 1999). In this context, on the one hand, the study tracks the evolution of public financial institutions and public finance to analyse the raising and spending of public funds. On the other hand, it follows the development of private financial institutions and mobilisation of private funds to explain the origins, forms and development of private wealth (Kindleberger, 1984). The study refers to this theoretical background to explain the chain of cause and effect of the Congolese monetary and financial experience across the period analysed.

1.4. Significance of the Study

This study refers to a series of patterns that contribute to confer on the case of Congo an acknowledged degree of specificity, if not uniqueness, such as the following, highlighted by Slade (1962) Salmon (1988) and Stengers (1989).

(1) As a territorial entity, Congo was created in 1885 not as a colony but as a private property of a single person, the Belgian King Leopold II. It was known at that time as the largest territory in the continent, if not in the world, to be recognised under international agreement as privately owned land – eighty times larger than the Kingdom of its owner.

(2) Unlike all other European territorial possessions in Africa, Congo was formed not as a colony but as an internationally recognised free State. This status meant that within Congo's boundaries there was to be, for all nations, free trade, free movement of persons, free movement of goods, free movement of capital flows, and free circulation of the currencies of major colonial powers (Wack, 1905). Nevertheless, the French name given to the territory, L'Etat Indépendant du Congo, literally translated as Congo Independent State, was merely misleading.

(3) At its creation, the Congo Free State was the only African territory prevented from levying import and transit dues, as a consequence of its status as a free land.

(4) In comparison with most of the other colonies created in Africa at that time, Congo was created at a very low cost, as the occupation of the territory was carried out with little resistance from the local peoples and did not, therefore, necessitate conquest war expenditures.

(5) As a result of an immediate exploitation of abundant natural resources, such as ivory and, in particular, rubber, the payback period for funds invested in the Congo Free State proved to be exceptionally short.

(6) The status of King Leopold II in his capacity as the Belgian constitutional King, and the Sovereign of the Congo Free State with absolute power, resulted in an ambiguity, which affected monetary and financial affairs in Congo.

(7) On the other hand, starting from the creation of the Congo Free State in 1885, Belgium was already acting as a metropolitan power in many respects, and tended to treat the royal possession as a colony even prior to the formal annexation in November 1908 (Stengers, 1989).

(8) Belgium was unlike all other colonial powers settled in Africa in the 19th century, in that it held only one colony on the continent and had no other colonial possession anywhere in the world.

(9) Congo became a Belgian Colony in November 1908. And yet, unlike other African colonies, the Belgian Congo remained, formally at least, open to all nations for free trade and free circulation of people, goods, financial resources and currencies. From this perspective the Belgian Congo appeared rather as an international colony (Salmon, 1988).

1.5. Methodology and Organisation of the Study

This study makes use of historical research methods to explore the monetary and financial experience of Congo starting from the second half of the 19th century with a preliminary review of traditional monetary practices known since the 15th century. It refers to a large range of secondary sources of data, such as books, journals, annual reports and periodical bulletins of specialised institutions, archive documents, most

of them gathered with the assistance of the Bibliothèque Scientifique de la Banque Nationale de Belgique, and unpublished notes kindly provided by private sources.

The annual reports of the Banque Nationale du Congo/Banque du Zaïre, in particular, were cited frequently as they are reckoned to be the most reliable source of data, to which most of the works on the Congolese economy refer to systematically. Most of the sources consulted for this study are written in French. To avoid any distortion of the meaning, names of institutions and a number of specific terms were kept in French, with, sometimes, a suggested English translation into brackets.

Furthermore, as far as the post-colonial period is concerned, the study focused on the banking system and deliberately ignored non-bank financial institutions. This option is justified by the insignificant share of non-bank financial intermediaries in the process of money creation, as a source of inflation, which has been the dominant factor in the development of monetary and financial crises in Congo from the 1960s onwards.

Lastly, the study did not consider the emerging informal financial sector comprising various forms of small savings institutions, such as the *coopératives d'épargne et de crédit*, which developed from the late 1970s and became widespread throughout the country over the 1980s. However, regardless of their large number these savings institutions did not play a significant role on the Congolese money market. As a consequence of a lack of managerial effectiveness they failed to establish a solid network of branches and to collect a noteworthy volume of savings.

The study is conducted on the basis of the ensuing plan. Following this introductory chapter, the second chapter looks at the major devices in use over the centuries as a medium of exchange among traditional communities settled in the

Congo basin territory, as observed since the first contact with the Portuguese. The reason for this retrospective survey is to track the history of devices that survived into the late 19th century. In order to urge the population to accept the European-style currencies introduced at that time the colonial authorities made use of some of those traditional devices as a medium of exchange over a transitional period. The analysis developed in this chapter challenges some generally accepted ideas, such as the claim put forward by Mahieu (1924), Cuvelier (1946) and Wertz (1952), among others, that the Portuguese introduced the use of seashells as money in this part of Africa. It also clears up the confusion in which cowries are considered identical to the seashell *nzimbu*. In conclusion, Chapter two suggests an answer to the question of why, beyond a short transitional period of time, traditional monetary devices could not have a place within the colonial economic order.

Chapter three is devoted to the issue of money and finance in the era of the Congo Free State. It considers the ambivalent position of Leopold II, mentioned earlier, as the Belgian constitutional King and the Sovereign of the Congo Free State. This chapter also addresses the transitional period during which traditional monetary devices, such as the *mitako*, a brass wire cut into rods of variable lengths, played a key role in the process of introducing the European-style State currencies.

Chapter four examines the major features of monetary and financial organisation in Congo during the colonial period. It analyses the development of the monetary and financial system in the context of a *dual economy* consisting of a small number of industrial development centres where monetization grew at a fast pace, settled in larger areas where the process of monetization had scarcely begun. The study reveals a number of contradictions between the legal provisions defined by the metropolitan power for the colony, such as the separation of Belgium and Congo as

legal entities, and their implementation in the real world, marked by conflicting interests and balance of power *a priori* unfavourable to the Colony. This chapter explores the monetary and financial impact of these contradictions.

What emerges from Chapters three and four is that, contrary to a widespread view, as echoed by Wertz (1952) and Heenen (1955), monetary and financial provisions set up for the Congo Free State were so incomplete and grafted on to the Belgian monetary and financial system that it can hardly be considered a genuine and distinct monetary system. On the other hand, the monetary and financial system of Congo as a Belgian colony showed a number of shortcomings similar to those observed at the time of the Congo Free State. As a result, it should not be considered a complete monetary and financial system prior, for instance, to the promulgation, in the early 1950s, of a Decree that granted the Banque Centrale du Congo Belge et du Ruanda-Urundi (BCCBRU) control over banking and financial institutions. Furthermore, this part of the study comments on the limits of the introduction of money and money-based transactions within large areas of the colony, due to the dualist structure of the economy.

Chapter five is devoted to the post-independence era starting in 1960. It looks at the changes that occurred in the monetary and financial constitution of the country, following the major political and sociological changes that accompanied its attainment of independence. This chapter points out how the fragility of political institutions and the inefficiency of monetary policy instruments resulted in endemic inflation, essentially due to ineffectiveness of public revenue and expenditure policies. These were the main reasons for a dramatic inflationary credit expansion in favour of an unproductive public sector. The chapter explains how, apart from a small number of short-lived periods of ephemeral stabilisation, the Congolese

monetary and financial experience has been subject to chronic crises. It analyses how an ongoing economic and political fragmentation of the national space into several isolated areas, together with the juxtaposition of a legal economy and an unofficial one, has fuelled those hyperinflationary crises. The chapter analyses the coexistence, within the national boundaries, of several monetary areas with separate local currencies in circulation, but using foreign currencies – mainly the US Dollar (USD) – which are accepted all over the country as a means of payment, medium of exchange, unit of account, store of value and standard of deferred payment, or, in brief, as a real money, in view of the continuing collapse of the national currency.

Chapter six is the concluding part of the study. It presents a summary of the work, assesses the outcome of this research project in the light of considerations developed in the concluding sections of chapter two to five, and underlines the limits of the interpretation and meaning of any findings. The chapter also suggests some recommendations and directions for further research.

Chapter Two:

TRADITIONAL MONEY AND EXCHANGE MECHANISMS IN PRE-COLONIAL CONGO (15TH–19TH CENTURY)

2.1. Introduction

This chapter addresses the issue of money as a medium of exchange in pre-colonial Congo. The analysis begins in section two with an outline of monetary traditions that the Portuguese observed in the Kingdom of Congo in the late 15th century. The interest of this review lies in the survival of those practices. More than five hundred years later, the same devices used as money at the time of the Kingdom of Congo continue today to play a monetary role for some traditional transactions in those Congolese regions that were part of the ancient Kingdom (Dartevelle, 1953).

European nations that had been interested in the West African coastal region, including the western part of the current Democratic Republic of the Congo, since the 15th century were in search of silver mines that they expected to find in that area, especially near Luanda Island. As mentioned in Chapter one, what they found instead, as the King of Congo's main source of wealth, was nothing but a local device, a shell named *nzimbu*, which was used as the main currency of the Kingdom (Cardoso 1623). The analysis carried out in this chapter focuses, therefore, on the *nzimbu*, the Kikongo name of a small seashell, as one of the best-known traditional currencies in this part of the African continent. It also concentrates on a number of

other monetary devices, among those the *libongo* and *mitako,* for the reasons explained in Chapter one.

Moreover, the slave trade that developed as the main commercial activity between Europe and Africa starting from the early 16th century is implicitly addressed. This is because the funding of this trade and settlement of the related transactions in the region covered by this study were carried out in local currency, namely the *nzimbu*. The development of the slave trade required an increasing volume of funds. This led to the import of cowries as a substitute, due to their similarity to the *nzimbu*, from other countries such as Brazil, Gabon and Madagascar. This import on a massive scale resulted in significant inflation in the Kingdom of Congo (Cuvelier, 1946).

The analysis of the major local means of exchange in use in the Kingdom highlights the prominent role of the *nzimbu* in the history of pre-colonial monetary practices in Congo. A clear distinction is made between the *nzimbu* and other shells, local and imported, and various other devices, local and imported, such as fabrics, metal items, slaves, livestock, salt and pearls. It emerges from the analysis carried out in this section that a very large number of diverse devices were used as a medium of exchange. This multiplicity and diversity resulted in a lack of standardisation and was a consequence of poor communications between traditional communities. It also explains the small volume of money-based transactions on account of the mechanisms of exchange established in the traditional communities.

Section three addresses the cultural dimension of exchange mechanisms among Congolese traditional communities. The analysis highlights the relatively limited role of money in these exchange mechanisms compared with other means of settling debts in traditional communities. It consequently leads to a consideration of

the whole social role of the device used as a medium of exchange beyond its monetary function, which explains the survival of some of the devices still in use today in a number of traditional transactions.

Section four analyses the role of one of the traditional currencies, namely the *mitako*, made of brass rods, in the process of introducing European-style currencies issued by the Congo Free State. The analysis explores the provisions set up by the State administration to manage a transitional period during which the *mitako,* as a traditional means of exchange, was declared legal tender in the same capacity as modern currencies issued by the State. Section five concludes the chapter and introduces Chapter three, which explores the monetary and financial history of the Congo Free State.

2.2. Early Money in Pre-Colonial Congo

2.2.1. Shells as a Medium of Exchange

2.2.1.1. *Nzimbu* Shells

For centuries, as in other parts of the world, the people of Angola and Congo dealt with various kinds of molluscs in their everyday life. While the body of the creature was consumed the shell was used for a number of purposes, such as ornament, finery, symbol, ceremonial, fetish and currency (Fisher, 1949). The *nzimbu* seashell, scientific name *olivancillaria nana* (Dartevelle, 1953), adopted as currency by the Kingdom of Congo, was not the only shell used for that purpose. Shells of other snails that were eaten also played the role of money in the Congo basin as well as in other parts of the world, including other regions of Africa (Chinn, 1945; Adriaens, 1951).

Nevertheless, for the purposes of the present study, the interest in tracking the history of the *nzimbu* lies in the particular way this device influenced the modern history of money in Congo. In this respect, although the survival of the monetary function of the *nzimbu* is limited to some specific transactions, as will be seen later, the term has become the common name in the Congolese current language for money-measurable wealth and any European-style currency. Similarly, "*mbongo*", the Congolese common term for "money", derives from "*lubongo*", the Kikongo name of a small mat made of raffia fibre, that had also been used as money in the northern region of the Congo River mouth known as Mayumbe, since the era of the Kingdom of Congo (Dartevelle, 1953; Bontinck, 1987).

Old maps, such as those in an atlas in the National Library of Madrid referred to by Mirales de Imperial y Gomes (1952), mentioned Luanda Island as *Ilha de Dinheiro*, or Money Island. In the section devoted to the Kingdom of Congo the Atlas of Mercator (1608) notes that the whole region of the Kingdom of Congo was rich in precious metals, such as silver. The belief in the existence of silver mines, especially in the area of Luanda Island, explains the keen interest taken by European nations, such as Portugal, Holland, France, Britain and Spain, in the region. This resulted in a war of conquest, among other confrontations, in the 17th century, when Holland attempted to replace Portugal as the ruler.[1]

As a matter of fact it was discovered later on that Luanda Island was mentioned in old maps as a money (or silver) island for its quality of being the main provider of the seashells called *nzimbu* used as money in the Kingdom of Congo. Various sources reported by Dartevelle (1953), such as Bowdich (1824), Duarte Pacheco Pereira (1750) and Nobre (1909), establish that apart from Luanda, the

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[1] See: *Arquivos de Angola* (1945) N° 2, 3, 6, & 8: *Principais datas da chronologia luso-hollandaisa*, reported in Dartevelle (1953: 97).

nzimbu seashells were also collected from Benguela to be sent to the King of Congo. Manuel Cerveira Pereira, a Portuguese governor and founder of the city of Santo Philipe de Benguela, mentioned above, indicated in a report written some time between 1617 and 1622 that the *nzimbu* was "used as legal tender in the Kingdom of Congo where it was known as the best currency existing in that area" (Dartevelle, 1953: 95).

From a comprehensive study carried out by Dartevelle (1953) relating to the seashells of West African coasts it emerges that the *nzimbu* (*olivancillaria nana*) could be found exclusively on the Angola coasts between Luanda and Benguela. This clears up the confusion created by some authors, such as Cuvelier (1946), who indiscriminately treated the *nzimbu* and cowries as identical. It also explains how, as discussed later in this chapter, due to a strong likeness, the cowry shell was introduced into the Kingdom of Congo in large quantities and gradually replaced the *nzimbu* in almost all its functions.

With regard to the use of the *nzimbu* as a medium of exchange, Pigafetta (1591) reports that at the time of Duarte Lopez's visit in 1578, the local people had no recourse to gold or silver or any other metal as a medium of exchange. To explain the monetary function of the *nzimbu* shell it is worth mentioning the Bakongo people who in the early 14th century lived as farmers in villages spread across the fertile uplands just north of Malebo Pool on the lower river Congo. The fertility of soils in that area led to food surpluses, which were traded. The Bakongo people were known for being particularly skilled in art and crafts, and as metal workers, potters and weavers (Shillington, 1989,1995). They also produced fine cloths woven from fibres of the raffia palm. These were traded as far as the Atlantic coasts where they were exchanged for salt and seashells called *nzimbu,* used as local

currency. The *nzimbu* seashells were the only currencies used to purchase anything, including even gold and silver (Mahieu, 1924). This monetary device was used in the inter-regional trade stimulated by the tribute system set up by the King of Congo.

There has been no research carried out on the question as to when the *olivancillaria nana* or *nzimbu* was adopted as a currency in the Kingdom of Congo. Authors, such as Pigafetta (1591), Nobre (1909) and Cuvelier (1946) among others, mention the use of the *nzimbu* as money of the Kingdom of Congo but provide no indication as to the time when the small shell was granted the status of legal tender in the Kingdom. Nevertheless it is generally agreed that the *nzimbu* as a medium of exchange contributed to the establishment and consolidation of the authority of the Kings and their Kingdom. It is also reckoned that its use expanded regardless of any external influence and is likely to have been launched long before the reign of the first King (Wene) known to the Portuguese (Dartevelle, 1953). In this respect the family tree of the Kings of Congo, especially prior to Dom João I who reigned at the time of the Portuguese discovery, is not well established. The difficulty lies in the fact that all attempts had failed to overcome the complexity of the matrilineal system of filiation and succession code, as well as the meaning of names in the Bakongo people communities (Dartevelle, 1953).

From Duarte Lopez's account (1578), Pigafetta (1591) described how, at the time of the Kingdom of Congo, women were appointed to collect from the sea a specific kind of shell; these shells, named '*nzimbu*', were as tiny as coffee beans. The shells were grouped by sex, because female shells, smaller and brighter, were more valuable. The harvest was delivered to the King, who deposited them on a small island, opposite Luanda, established as a kind of issuing house ruled by a

comptroller appointed by the King (De Cadornega, 1681). However, available sources are silent on the question as to how money supply was regulated under the authority of the King and how it was spread over the Kingdom.

The need for *nzimbu* as a sign of wealth and power contributed to the development of the slave trade in that the King of Congo went to war with an increasing number of neighbouring regions which, once defeated, provided him with more slaves to sell for *nzimbu.* As a result of the expansion of inter-tribal wars aimed at providing more captives, the authority of the King of Congo weakened gradually and the Kingdom disintegrated during the 17th century (Slade, 1962).

Due to the preference for *nzimbu* currencies in the Kingdom of Congo, possession of Luanda Island, the main source of the valuable *nzimbu*, became obviously a strategic objective, which gave rise to harsh battles over the 16th and 17th centuries. Successive Kings of Congo were attacked by Portuguese troops and forced to give up their rights on Luanda Island. Mani Congo Don Garcia II was defeated and, as a consequence, lost Luanda Island in 1649. The decline of the Kings of Congo was complete when Dom Antonio was defeated and killed in 1666 in the battle of Ambuila. From that moment the subsequent Kings could acquire *nzimbu* only by exchanging them for slaves, ivory or other goods (Dartevelle, 1953). In view of this development, it can be concluded that the desire to compensate for the loss of Luanda Island pushed the Kings of Congo to boost the slave trade in order to meet their need for the *nzimbu* as a medium of exchange and as their main source of wealth (Dartevelle, 1953).

Furthermore, the need for a constantly increasing amount of local currency due to a dramatic expansion of the slave trade resulted in the introduction of other shells called cowries. Due to their similarity with *nzimbu*, cowries were imported in

large quantities by European traders, especially from Gabon, Madagascar and Brazil, to make up for the shortfall of genuine *nzimbu*. The value of cowries when they entered landlocked territories during the 16th century was so high that two cowries were sufficient to purchase a female slave in Uganda, for instance (Quiggin, 1949). However, as a consequence of the massive quantity of cowries imported, these monetary devices became subject to severe inflation. By the middle of the 19th century a female slave required 300 to 400 cowries whereas a cow was priced at 2,500 cowries (Banque du Congo Belge, 1960).

2.2.1.2. The *Nzimbu* as a Unit of Account and the Established Rates of Exchange

The oldest source available on the exchange rate of the *nzimbu* is a letter dated 20 October 1575, written by García Simões, a Jesuit priest, and published by the Portuguese Society of Lisbon (see: Dartevelle, 1953). In relation to the Portuguese currency at that time, namely the *reis*, the letter mentions an exchange rate of 10 *nzimbu* for 1*reis*. At the same time it considers the measurement of greater amount a cumbersome exercise with reference to 1 '*lafuta*' estimated 2 '*tostoes*' or 200 *reis* with changes in the value depending on eras (Dartevelle, 1953). To give more details about the units of measure, with their local names, used to count the *nzimbu,* and their rate of exchange with the Portuguese currency, Dartevelle (1953) quoted the Portuguese geographer Cordeiro de Sousa (1883), who referred to a manuscript of Da Silva Correia (1782) entitled Historia de Angola. A translation of the Portuguese geographer's comment, from which the figures summarised in Table 2.1 have been extracted, is reproduced as follows:

> "In an interesting manuscript dated 1782, *History of Angola*, written by Elias Alexandre Da Silva Correia, we find the second division of the *n'zimbu* and its equivalence in Portuguese currency: 1 *bondo* (obviously the *cofo*) 10 *lifucos* (*lufucos* in our text) 100 *fundas*, 100,000 *n'zimbu*, 5,000 reis. One *funda*, 1,000

n'zimbu, 50 reis. The *funda* is divisible in parts equivalent to 25, 20, 12½, 10 and 5 *reis*, this concerning the best *n'zimbu*." (Dartevelle, 1953: 110).

Table 2.1: *Nzimbu* unit of measure and rate of exchange (1782)

Unit	*Bondo*	*Lifucos*	*Funda*	*Nzimbu*	*Reis*	*Gold Franc*
Value	1	10	100	100,000	5,000	28.00
	-	1	10	10,000	500	2.80
	-	-	1	1,000	50	0.28

Source: based on Dartevelle (1953)

It emerges from this comment and from further investigation on the topic that the locals used a decimal system to count the monetary shells, in which the *nzimbu* were grouped by tens, hundreds, thousands, etc. (Bontinck, 1987). One *bondo* was equivalent to one *cofo*, a name given to the small basket in which the *nzimbu* shells were placed on collection from the sea and Luanda Island beaches (Bontinck, 1987). The same source indicates that the normal weight of one *cofo* was approximately 30 kilos. On the other hand one *funda* was subdivided into parts equivalent to 25, 20, 12.50, 10 and 5 *reis* for the *nzimbu* of the highest quality. In his work devoted to the Kingdom of Congo, Cuvelier (1946) carried out a review of the variation of the exchange rate of the *nzimbu* from the start of the reign of Dom Alfonso (1516) to 1787. Table 2.2 contains a summary of the outcome of this review.

Cuvelier (1946) mentions difficulties encountered in retracing the value of the *nzimbu* due, for instance, to the misleading effect on the estimates of the translation of Portuguese terms, such as '*dois*' (two) and '*dez*' (ten). The same remark applies to the conversion into gold francs, as it was already complicated for the Portuguese currency of that time for various reasons, including uncertainties regarding the exchange and alloy rate of gold and silver coins as well as counterfeiting of Portuguese metropolitan coins in the colonies.

Table 2.2: Rate of Exchange *nzimbu*/Portuguese currency

	Value for one cofo of *nzimbu*		
Year	in cruzados	in reis	in gold franc
16th century			
1516	33	46,000	260
1553	50		
17th century			
1615	25	10,000	56
1646	5	2,000	11.2
1651	2.5	100	5.6
1692	2	800	0.3
18th century			
1787	2.5	1,000	5.6

Source: based on various sources cited by Cuvelier (1946)

What emerges from the figures above, given for a purely illustrative purpose, is the sharp fall since the early 17th century in the value of one *cofo* of *nzimbu*, following, as pointed out earlier, a massive arrival of cowries, shells similar to the *nzimbu*, imported from Brazil and later on from the West African coast (Gabon) and from Madagascar. On their way back to Africa, ships that took slaves to their American or Asiatic destination loaded, as cheap ballast, cowries, among other goods, to exchange for more slaves (Cuvelier, 1946).

In his manuscript mentioned earlier, Correia (1872 cited by Dartevelle, 1953) identifies three inferior qualities of shell imported mostly from Brazil, and used as currency, starting from the 17th century. The lowest quality was called 'scraps of *nzimbu*', the medium 'selected scraps' and the third made of unbroken shells. The introduction of those inferior shells, considered false currency, had a negative impact on the financial wealth of the Kingdom of Congo. This led the King to promulgate a Decree prohibiting further importation. However, the Portuguese continued to provide the West African coastal areas with an increasing volume of cowries and other shells similar to the *nzimbu* for the purpose of the slave trade (Dartevelle, 1953).

In the early 1500s, the second Christian King of Congo, the Mani Congo Alfonso Nzinga Mbemba, in old age, requested the King of Portugal to exchange 150 *cofos* of *nzimbu* (approximately 4,500 kilos) for 5,000 *cruzados*. These resources were intended to cover the expenses of delegates he planned to send to Rome to ask the Pope for indulgences reserved for Christian princes. The *cofos* of *nzimbu* offered could be exchanged for slaves. The request was refused, as the King of Portugal disliked the prospect of a direct relationship between the Holy See and the King of Congo. In 1514 the King managed to send an Ambassador, Dom Pedro, and his son, Prince Dom Henrique, to the Pope. On this occasion the Pope consecrated Dom Henrique as Bishop of Utique to become the first Bishop of Congo (Cuvelier, 1946). This episode is mentioned to point out that the King of Congo resorted to some other sources of revenue, such as ivory, indigenous fabrics, and slaves, when in cases like this the Portuguese refused to be paid in *nzimbu*. And yet even at the time of the Kingdom of Congo, regardless of its predominance, the *nzimbu* circulated along with some other currencies, such as the *lubongo* mentioned earlier, while sometimes it was not even in use in some other parts of the Kingdom (Bontinck, 1987).

Most of the sources referred to in this study in connection with money shells, such as Mahieu (1924), Cuvelier (1946) and Dartevelle (1953), provide detailed description of the *nzimbu* and other shells, local or imported. They recount how and where the shells were collected, and mention the role of the King as he held control over the money supply. However, as pointed out by Rivallain (1994), they do not provide sufficient information, if any, about the volume of *nzimbu* extracted from the Angola coasts over several centuries. Nor do they provide quantitative information about the import of shells from other parts of the world in relation to the

development of the slave trade, or in line with further changes that affected the local population.

Nevertheless, in the absence of such data on the evolution and management of the money supply, as well as on the regulatory provisions that governed money circulation, a rough answer to the questions raised above is given by the inflationary effect of imported shells. These gradually overtook the monetary function of the *nzimbu*, while the massive flow of cowries into the Kingdom from various origins resulted in a sharp decline in the purchasing power of the currency, as can be seen from Table 2.2. And yet, although cowries supplanted the *nzimbu* as a monetary device, the latter continued to be collected from its original site in Angola and imported into the Congo to be used as money in some traditional transactions, such as marriage payment and fetishist service fees, or for the other non-monetary purposes mentioned earlier in this section.

2.2.1.3. Other Shells

The use of shells as a currency was common in different parts of the world and widespread in Africa. In the volume of his *Encyclopédie des Voyages* that relates to this continent, Grasset S. Sauveur (1796) mentioned the term *bugis* as the name of small shells used by local people in western Africa as money. In western Sudan another kind of shell called *koroni,* similar to the *nzimbu,* was also used as a medium of exchange. The large quantity of seashells found in the region of Timbuktu, 1,450km from the sea, led some scholars, such as Chevalier (1908), to suggest the existence of an ancient sea in that region. Further studies established that these seashells were brought into the region to serve as money (Monod, 1938). Jeffreys (1953) adopted the same view as Monod (*ibid*) but claimed that the term

koroni was likely to have originated from cowries. At the Conference of the French Association for the Progress of Science held in Paris in 1878, it was established that the large quantity of seashells found in the regions of Algeria and Tunisia were formerly used as a currency (Dartevelle, 1953). With regard to the Congo, apart from the *nzimbu*, shells of snails known as *achatina*, cowry and *conus* were also used as money.

First, the *achatina* is a large snail, the body of which could serve as food or fishing bait, depending on the region, and the shell cut in slices of 5mm to 12mm diameter. The slices were perforated in the centre and threaded to form strings of approximately 45cm in length. Six strings formed a *quiranda* that looked like a garland, known as "*quiranda de Dongo*", Dongo being a contraction of Pungo Andongo, name of the region where the strings were produced (Morelet, 1934 cited by Dartevelle, 1953). The *quirandas* were used as money in traditional exchange operations, such as marriage payment, as well as in purely commercial transactions, as shown in Table 2.3 below.

Table 2.3 provides a sample of essential information on the use of *achatina* slices as a medium of exchange with an indication of the user population, region, local name, features, value in goods or State currency and main purposes. It essentially emerges from Table 2.3 that beyond their monetary function as a means of exchange used in trading operations, the *achatina* slices could also be an integral part of a ceremonial process, such as a marriage payment, where there is a customary exchange of cash and goods between the parties involved on a non-pecuniary basis.

Table 2.3 Use of *Musanga, Achatina* slices strings as a medium of exchange

Population	Location	Name of string	Special feature	Value	Use
Wa Zimba	N.E. Nyangwe East Lualaba	_	_	_	Special
Wa Rega	East Kindu	*Mbembe*	measured in foot	10 feet=1 *doti* `=3.65m indigo drills	Marriage Access to *Moamy* fees Trade
Wa Rundi	Uvira	_	_	_	_
Ba Bengele	between Lokandu-Kindu West Lualaba	*Emandju*	small slices 4 to 5mm diam.	strings of 45cm 2 strings =1 chicken 50 strings= 1 goat	Trade
Ba Suku	near Lokandu-Kindu West Lualaba	_	_	_	_
Wa Songola	S.E. Lowa	*mororo* (plural *meroro*) = 1single string 20= *ikumi* sometimes 16=*kiringi*	long string= 10cm approx.= 120 to150*bola* (=slices) of 5 to 7 mm roughly cut	*mororo* 1=10cts 8=1*kola*=80cts 10=*beratano*=1fr 20=*ikumi*=2fr 30=*ikumi na beratano* =3fr 50=*makumi bili na beratano*=5fr	Marriage Trade
Wania Mituku	West Lowa	*mororo* (plural *meroro*)= 1single string 4=*ishake* 8=*kako* 16=*kiringi* (plural *viringi*)	slices 6 to 12 mm diameter length *mororo*= 39.3cm 10cm=86slices 1*kiringi*= 5,409 slices weight= 515 grams		Marriage Trade

Source: Compiled by the author, based on Mahieu (1924) and Dartevelle (1953)

An account drawn up in 1857 by the Department of Finance of Luanda mentions a tax payment made in *quirandas* valued at that time at 2,000 *reis* each (Dartevelle, 1953). In Congo, the same set of *achatina* slices was called *musanga*, which means 'string', *nsanga*, (plural *minsanga*) in Kikongo language (Mahieu,

1924). The main regions of Congo where the *musanga* were used for traditional and trading purposes are indicated in Table 2.3. Furthermore, a slice of *achatina* was found in a cave in Kivu, in the east of Congo, among palaeolithic tools (Bouttakoff, 1927). Another slice similar to a *musanga* element was discovered in a fossil-bearing stratum, near the city of Kisenyi by Lake Kivu (Dartevelle, 1947). This serves to prove that the use of perforated and threaded slices of *achatina* in Congo dates back to prehistoric times. Eventually, the strings of *achatina* shell slices lost their monetary function, while they remained in use as ornamentation, but for this purpose too, they were gradually replaced by manufactured beads imported by traders (Mahieu, 1924).

Second, the cowry shell is also known as *cypraea*, a clear evocation of Cyprus, the island of Aphrodite, goddess of beauty, fertility and sexual love; primitive people considered the shell's slit to be of symbolic significance, comparing it to an eye, a navel or a female external genital organ. Such was the case in Congo and Angola, as can be seen from the number of statuettes regarded as fetishes, bearing cowries in place of those organs (Dartevelle, 1953). It is common knowledge in Congo and Angola that women very often wear a belt trimmed with cowries (or other shells) to ward off sterility.

For many centuries the cowries had already been in use as a currency and as personal decoration almost all over the Pacific area and in Egypt and eastern Africa. Most of the cowries in use originated from the Maldive Islands. With regard to western Africa, the *cypraea* known as cowry shells were introduced into Senegal, Dahomey and Nigeria coasts as early as the 14th century, probably at the same time as Islam. They rapidly replaced other local shell currencies (Gouilly, 1951). The Arabs introduced cowries into the eastern regions of Congo, and traders into the

Kasaï and Uélé regions, where they largely served as a means of exchange, personal decoration, ornament, symbol and insignia of power, as well as in games of chance. The cowry shells gradually replaced the strings of *achantina* slices and other local currencies, including the *nzimbu* shells (Dartevelle, 1953).

Table 2.4 is a rough guide to the purchasing power of cowry shells as estimated in the early 20th century: in 1910, they were worth 100 times less than in 1860 (Torday, 1910). According to the same source (Torday, 1910), at a time when cowry shells were scarce the Bangongo used to fix the traditional marriage payment at 300 to 400 cowries. In the 1910s the same type of payment amounted to 3,000 cowries, due to the abundance of these shells imported from various sources, as indicated earlier

Table 2.4: Cowry Shells purchasing power

Item	Number of cowries in the region of	
	Bambala	Bangongo
Hoe		300
Cockerel		40
Chicken		500
8 yards of imported fabric	5,000	5,000
1 knife ikula	5,000	3,000
1 billy goat	10,000	13,000
1 nanny goat	15,000	15,000
1 slave male	60,000	30,000
1 slave female	80,000	40,000

Source: Mahieu (1924)

At the same time the Bushongo imposed fines of 20,000 to 30,000 cowries for attempted murder, and 20,000 cowries for an unsuccessful suicide attempt, as the latter was considered a criminal offence. The heir of someone who committed suicide was fined 5,000 to 6,000 cowries, to be paid to the chief of the tribe, while an adulterer was fined 7,000 cowries (Torday, 1910). By 1909, on the European market, 1,000 kilos of a specific type of cowries known as "blue shells" were worth BF520 to BF580, and cowries from the Maldive Islands BF620 to BF870,

depending on size, while 1,000 kilos of genuine *nzimbu* were worth BF4,350. As a result of the low value of the cowry it was necessary to transport a large volume of these shells; a person could carry a burden of 5,000 cowries and a camel 150,000 (Mahieu 1924).

The import of other shell currencies similar to the *nzimbu* into the Congo from Brazil, and later on from elsewhere, explains why many writers who addressed the topic of money in general in pre-colonial Congo, such as Wertz (1952), or of Congolese numismatics in particular, including Mahieu (1924), believed that the *nzimbu* shells were of Brazilian origin. In reality, local people regarded the money shells from Brazil, Gabon or Madagascar as false *nzimbu* (Dartevelle, 1953). Furthermore, contrary to what is claimed by some writers, the massive import of shells similar to the genuine *nzimbu* was not due to exhaustion of the reserves of the latter on Luanda Island. The real cause was, on the one hand, the traders' greed for easy money at the expense of the King of Congo. On the other hand the King, who was steadily losing his power, failed to impose a ban on the import of false *nzimbu,* and lost control over Luanda Island as a source of revenue in genuine *nzimbu*, as mentioned earlier, (Dartevelle, 1953).

The third type of shell came from the gasteropod-type snail known as *conus*. The upper tapering part of the spiral shell was cut in the form of discs to be used as adornments, such as pendants, especially among the population of southern Angola. *Conus* shells originated mainly from the Moluccas Islands and were imported into the coastal regions of eastern Africa but could also be found on the western coast between Gabon and Angola. They served as currency in southern Angola and partially replaced the *quirandas de Dongo* in this function (Mahieu, 1924). As far as Congo is concerned the *conus* shells served as adornment and insignia of power in

the regions of Katanga and Kasaï among Lunda and Luba communities, whose chiefs and notables wore *conus* shells and discs cut from the same shells. *Conus* shells were used as adornment and insignia of power in some other regions, such as Lukenie and Lake Léopold II (now Lake Maïndombe) as well as present-day Burundi (Mahieu, 1924). However, due to their scarcity, *conus* shells were hardly used at all as currency in Congo (Dartevelle, 1953).

2.2.2. Other Devices used as a Medium of Exchange

In preceding sections it has been stated that despite its predominance the *nzimbu* was never at any time in its history the sole currency in use in the Kingdom of Congo. Apart from other shells mentioned earlier, various other devices were simultaneously used as a medium of exchange, such as local and imported fabrics, metal and wooden objects and tools, salt, livestock, and even humans (Mahieu, 1924; Dartevelle, 1953).

2.2.2.1. Fabrics

A wide range of fabrics, the best known of which are mentioned in the following paragraphs, served as a medium of exchange. In the Mayumbe region, northwest of the estuary of the river Congo, pieces of fabrics made of raffia and pineapple leaf fibre were used for this purpose. The most common material was the *mbongo* or *lubongo* as already mentioned. With a unit of exchange of approximately three feet called *cortade*, a Portuguese name, the *lubongo* was available in pieces of 5, 10, 20, 40, 50, and 100 *cortades* (Bontinck, 1987).

The use of this term was finally extended to refer to pieces of European fabric 90cm wide and 7.30m or 14.60m long. The *mbadi* (or *mbari*), a bundle of

fabric pieces, was woven with fibre extracted from a special raffia palm tree called *dibondo* to produce pieces of fabric named *didiba* (plural *madiba*) in the Bakongo and Kasaï regions. A *madiba* loincloth unit of account measured 60cm x 40cm. Small plaits called *Mateya* woven with a type of *pandanus* fibre were also in use as a means of exchange among Bakongo communities. The *Ipeko,* a raffia fibre woven loincloth measuring 1.00m to 1.20m in length by 0.40m in width was used as a means of exchange in northeastern Congo, along with a bangle made of raffia fibre. Fifty bangles were worth one chicken, which was the monetary unit in that region (Mahieu, 1924).

Table 2.5: Purchasing power of *Americani* B55 fabric

per unit of 1.83m valued 4 *fundu* (800 grams) of red pearls 60/5

	Number of units (1.83m) of *Americani* B55
1 young bull	4 to 6
1 big sheep	2
1 big nanny goat	2
1 small sheep	1
1 small nanny goat	1
6 big or 8 medium-sized chickens	1
1 kilo tobacco	1 unit (1.83m) of *Americani* B16 or 190 grams of blue pearls Hahn

Source: based on Maes (1911)

On the other hand, the success of the wide range of fabrics imported from Europe was due to three major features. Firstly, they were solid, easy to transport and, above all, subject to a large and constantly growing demand. The local people of Congo had a preference for all kinds of fabrics in cotton, unbleached, bleached, dyed, printed, as well as for fabrics in cotton and wool and printed canvas. As an illustration of the expression of these preferences, Table 2.5 indicates the purchasing power of one of the most prized fabrics among the Wania-Bungu population, known under its brand name as *Americani* B55, a coloured cotton piece of fabric measuring approximately 0.91m by 14.63m (Maes, 1911).

2.2.2.2. Metal

The majority of the peoples who inhabited the Congolese territory generally possessed the skills to make agricultural and craftsmen's tools, weapons and ornamental objects out of iron, copper and brass, as well as devices used as a medium of exchange. In some cases specific devices were created exclusively to fulfil a monetary function, but in other, if not most cases, common utilitarian tools were used for this purpose. While iron and copper could be found almost anywhere across the country, brass was imported and regarded by local people as a precious metal which they preferred to gold, which they seldom, if ever, used (Mahieu, 1924). Depending upon the circumstances, different kinds of axes, spearheads, hoes, assegais, arrowheads, knives, bars, bells, rings, bracelets, necklaces, greaves, pearls, etc. were, by turns, sometimes used for their original purpose, sometimes invested with monetary functions. Table 2.6 shows the most significant metal devices used locally or across regions as a tool, merchandise, ornament, and medium of exchange.

Table 2.6: Tools used as a medium of exchange

Tool's Name	Description/ Function	Region/ User tribe	Value as a medium of exchange
Axes			
Kas'uyu	iron or copper crescent-shaped carved with human heads handle: bare or covered with copper solid: woodcutter hollowed: ornament	Kasaï	
Shoka (or *Iwenga)*	spearhead-shaped 25cm height 68cm width (in larger part); 250 grams weight	Oriental Bankutu	10 *Mitako*
Spearheads			
Linganda	1.50m height	Lomami	100 *Mitako*
Likonga	hunting/battle	Mobenge	N. *Likonga* per slave: male: 20 to 30 female: 50 to 100

Kundja Table 3 continued	dagger-shaped	Oriental	1 large = 2 small
(or *Iwenga*)	large small	Lukenie	10 large = 1 *Boloko* N. *Kundja* per 1 male slave: 10 1 billy goat: 10 1 nanny goat: 20
Trumbash	billhook-shaped various kinds, sizes & usage	Uele, Ubangi Sankuru	
Mapuka *Ituma* *Makonga*		Wanande Aruwimi Mangbetu	N. *Ituma* per 1 chicken: 1 6 to 16 strokes of fabrics: 1
Hoes Kikongo: *Ntsengo*;		Bakongo	300 *nzimbu*
Kiluba: *Lukasu;* Lingala: *Kongo* (or *Lokongo*); Swahili: *Jembe*; Wanande: *Isuka*		Kasaï Equator Oriental East (Kivu)	4 chicken for 1. *Isuka*
Kwer	a bent at angle-handle hoe with 2 branches	Alulu (Kivu)	N. *Kwer* per 1 chicken ½ 1 nanny goat 5
Libako	sort of adze used to make pirogues	Oriental	9 *Mitako*
Picks (no local name mentioned)	8 cm height; 4 cm width iron pick-shaped pieces; 4 to 5 cm length 1 mm depth	Lomami Mobenge	1 *Elunja* per slave: 1female 2 male
Bells *Gunga* (or *Ngunga*) *Elunja* (or *Elunza*)	single bell double bell	Mobenge and other regions & tribes	1 double bell 1 female slave 2 male slaves
Iron bars and ingots *Mambili*	flat, without clapper 30 to 50 cm length 1 kilo weight, used to make hoes, knives, axes spearheads etc	Aruwimi	1 bar or ingot for 1 chicken; 10 small pieces of local loincloth; 2 strokes of imported fabric
Mokanga	iron rod; 15 cm length	Lukenie Lesa	N. *Mokanga* per 1 l. palm oil 2 1 sugar cane stem 2 1 kilo salt 14 4 str. indigo drill 45 1 duck male 45 1 duck female 90
Iron/copper pearls and balls	ornament 10 to 15 cm diameter	Uele Lukenie	no longer in use as a medium of exchange

Copper crosses *Lukanu* Other names: *Lukano*; *Tstimbo* Same name for copper Plural: *Biombo*	flat ingot St Andrew-shaped cross with slightly enlarged ends; large range of weights: from a few grams to several kilos; average length of arms: 21-28 cm	Originally: Katanga and Kasaï from where they largely spread across Central Africa	1 cross (average size): 2 strokes of fabric 3 to 4 kilo of rubber 5 to 6 chicken 6 small axes 6 crosses for 1 goat
Milambo or *Miambo*	600 grams weight; 21 cm length		Number of *Milambo* per 10 kilos/local/flour 1 1.53 fabric 5 4 chicken 5 1 hunting rifle 10
Copper rings *Nsambu* (ring of copper wires)		Bayeke	N. *Nsambu* per 1 chicken 5 10kilo/local/flour 10 3.6 m fabric 50 1 goat 100 1 hunting rifle 400 1 male slave 400 1 female slave 800
Lukanu (plural *Tukanu*) copper hoe		Bayeke	N. *Tukanu* per 50 *Nsambu* 1 1.83 m fabric 1 4 chicken 1 1 goat 5 1 hunting rifle 10 1 male slave 40
Boloko/Kunga	curved U-shaped wire	Bankutu Bohindu	1/10 *Kundja* N. *Boloko* for 1 billy goat 1 1 nanny goat 2 1 male slave 2 1 female slave 3 1 spouse dowry 10
Mitako (singular ***Lutako)***	red copper cylinder 1 cm diameter 2 to 3 cm length; bought from - Boko Songo (ex-French Congo) Copper mines	Bateke Bayanzi Bobangi	30 *mitako* for 1 Franc
Ngetele	Copper rods ½ inch diameter, 3 inches length		no longer in use as a medium of exchange replaced by *Longele* [*mitako*])
Longele	copper wire 10 to 12 inches length		

Necklaces, bracelets, greaves	brass necklace	Wangata	
Bongombwa	7 to 8 kilo weight	Mongo	400 to 600 *mitako*
(necklace)	10 kilos		up to 1000 *mitako*
Lokolo (leg) greave	3 to 4 kilo weight		up to 400 *mitako*
Likonga (plural *Makonga*)	brass or copper bracelet		50 m*itako* (2.50 Francs)
Minkata	Wrist or ankle copper bracelet made of a copper string of 4 to 5 cm diameter wound in 5 to 18 turns	Dekese Yaelima	mostly used as finery for chiefs (iron) and their wives (brass)

Source: compilation by the author, based on Mahieu (1924)

As far as possible, the table above presents major features of the tools and their value as merchandise or as a medium of exchange. In many cases, the value of the monetary standard is given in relation to the price of a slave in such a way that the latter is referred to as a unit of account rather than as a medium of exchange (Mahieu 1924). The malleability of iron and copper, and their abundance across the country, especially in the Katanga region in the case of the latter, explains why local people made use of these metals as a medium of exchange. For this purpose they fashioned various objects, such as bracelets, necklaces, rings, crosses and greaves, to serve in their commercial transactions, notably with their neighbours in the Kasaï region.

In addition to the lack of standardised measurement rules and the consequent absence of common standards, the fact that people lived in small, separate communities, also explains why in many cases there are at least two names for the same object, one used in the exporting region, the other(s) in the importing region(s). For instance, the Luba from Kasaï region call the copper cross *lukanu* (which means 'bracelet') or *tshiombo* (their word for copper) or, more commonly, *nkami ya biombo* (copper rings). This suggests that copper was firstly introduced into that region in the form of rings. Similarly the Bankutu people used to sell a

thick copper wire called *kunga* to the Bohindo people, who called the same wire *boloko* (Mahieu, 1924). While, according to the same source, the *milambo,* tax due from a vassal to his suzerain, had to include a certain number of copper crosses, local people could pay the State tax with copper crosses at the time of the Congo Free State, a topic which will be addressed in the next chapter.

The *mitako* used on a large scale across the Congolese territory was produced in the region known as the Middle-Congo in the form of cylinder-shaped copper rods. The Bateke people used to buy them from the Boko-Songo copper mines in the French Congo (about 300km to the west) through the Manyanga people, and to sell them to the Bayanzi people of Bolobo, 200km to the east. Used as a medium of exchange and called *musanga* by both the Bobangi and Bayanzi, the *mitako* could be melted and converted into buckshot, necklaces, bracelets, greaves, etc.

Among the imported metal devices, brass was obviously the best known as it gradually replaced local red copper tools traditionally used as a medium of exchange. The preference for the imported metal was due to its higher resistance and malleability as well as its brightness and shining aspect, praised by the local people. Brass was imported in the form of 3mm to 4mm diameter coiled wire in units of 16, 30, and 45 kilos. The wire was initially cut in pieces 50cm long called *mitako*. Successive owners generally reduced the length of the original 50cm piece, so that eventually it was cut into lengths of between 8 and 25cm, which became the standard range of lengths. Each region was free to determine the length of the *mitako* in use within the limits of its boundaries according to local custom. As a result, a set of 16 kilos of brass wire measuring 185m produced variable number of

mitako depending on the region, as illustrated in Table 2.7. A set of 45 kilos with a thicker wire produced proportionately a smaller number of *mitako* (Mahieu, 1924).

Table 2.7: Number of *mitako* per 185m brass wire (16 kilos)

Region/District	Length (cm)	Number
Bangala	40	450
Equato	32	580
Stanley Pool	20	900

Source: based on Mahieu (1924)

As will be explained in Section 4 of this chapter, the role of the *mitako* as a medium of exchange became so significant that the State, later taken over by the colonial administration, decided to issue a specific regulation aimed at controlling the use of the imported brass wire. Eventually, the *mitako* became a unit of account of variable length, to which everyone referred when determining the value of local and imported merchantable goods (Mahieu, 1924).

2.2.2.3. Human, Livestock, Salt and Pearls

Apart from shells, fabrics and metal devices, several other miscellaneous objects have served as a medium of exchange in addition to their normal purpose as merchantable goods. Men and women, goats, cows, salt, fibre bracelets, pirogue etc. all fulfilled this monetary function. In the early 1900s, depending on their sex, age, strength, mental and physical qualities, and on where the transaction took place, the exchange value of a slave was estimated as shown in Table 2.8 (Mahieu, 1924).

Table 2.8: Slave exchange value

Region/Tribe	Unit of account	Value	
		Male	Female
Bangala	*Mitako*		1 000 or 1 four-man pirogue
Bayaka	*Nzimbu*	30 000	20 000
Mobenge	*Kamba-barakuta*	9	10
Gunga		1	2
Likonga		20-30	50-100
North Sankuru	Billy goat	2	8
Katanga	*Nsambo*	400	800
	Tukasu	40	80

Source: based on Mahieu (1924)

A *kamba-barakuta* was a type of belt, 87cm long and 5cm wide covered with 500 to 600 cowries (Maes, 1910). The Basonge of north Sankuru in Kasaï region used to exchange one elephant's tusk for two slaves (Mahieu, 1924). Livestock generally offered the advantage of representing units with a value of medium importance and therefore was suitable as a medium of exchange, especially in regions where it abounded.

Table 2.9 shows a sample of livestock terms of exchange recorded in 1893 in three Congolese regions. The Wanande, on the other hand, produced a palm-fibre bracelet called *mabondo*, which was worth one chicken. The Warundi (Barundi) produced a fine bracelet called *utego* made of two twisted rush fibres (2mm thickness, 10cm diameter), which was exchanged as follows: 1 goat or sheep: 50 *utego*; a pregnant goat: 60 *utego*; 1 bull: 200 *utego*; 1 cow: 400 *utego*; marriage payment: 400 to 500 *utego* or even more, depending on the social status of persons concerned (Mahieu, 1924).

Table 2.9: Livestock as a medium of exchange

Region	Medium of exchange	Value
Lusambo (Kasaï)		N. glasses of white pearls
	nanny goat	10
	chicken	2
	5 eggs	1
	1 cow	1 hunting rifle or 2 woollen blankets
Wanande (Ituri)	1 nanny goat	20 chicken or 5 hoes
Bangala	1 chicken	100 - 150 *mitako*

Source: based on Mahieu (1924)

It emerges from the figures in Table 2.9 that the purchasing power of livestock varied significantly from one region to another. In this respect Mahieu reports on a transaction he completed in December 1898 on the River Congo when he exchanged for a total of 10,000 *mitako* (18cm brass rod): 2,000 loaves of cassava bread at 5 *mitako* each, 400 chickens at 20 to 25 *mitako* per unit, 36 ducks at 80 to 100 *mitako* each, and 16 goats at 200 to 300 *mitako* per unit (Mahieu, 1924).

Salt extracted from swamps or produced through the combustion of herbs played a relatively important role as a medium of exchange. According to Mahieu (1924), local people in Lukenie region exchanged salt for copper rods 30cm to 35cm long, copper rods or bracelets, called *konga*, on the basis of 3 kilos of salt for 50 to 60 *konga*. In the region of Lesa, salt, due to its scarcity, was exchanged in small packets of approximately 60 grams for iron rods 15cm to 18cm long, called *mekonga*. For three pots of salt of approximately 2 kilos, local people in Nepoko could get five 4-litre pots of palm oil, or one curved knife, or one brand-new shield, or 20 small spears. The Basonge (Kasaï) set great value on the salt that traders brought into the region from the Malela and Katanga swamps. Two or three pots of salt were worth one slave (Mahieu, 1924).

Imported salt was prepared in the form of 40-gram tablets, which were widely used as a medium of exchange across the country, regardless of the instability of its value due to its fungible nature. One kilo of imported salt was supposed to produce 25 tablets worth 1 *mitako* each. Imported salt, scarce and in great demand, offered some other characteristics, such as recognisability, divisibility, and portability, which made it acceptable as a medium of exchange among local people.

To explain the monetary function of salt the analysis goes beyond the generally accepted characteristics an object should possess, such as scarcity, divisibility and portability, to qualify as a medium of exchange. Salt was regarded as money despite its fungible nature, essentially because of its usefulness in day-to-day life as a consumable product, which, combined with its scarcity, justified its great demand and, thus, high price.

As early as the 16th century, glass jewellery was imported into Congo from Venice. Thanks to their brightness and colours, pearls imported from Europe and the East competed so successfully with shell currencies such as cowries and *nzimbu* that they managed to take the name of the latter and came to be known as *nzimbu*. In this respect, as mentioned earlier, eventually the use of the term *nzimbu* was generalised across many regions of Congo until it was applied to any currency. In the region of Ituri the Wania-Bungu people used as a currency unit a pearl necklace, its length equivalent to that of a forearm, called *kete* (plural *makete*). One *kete* of red pearls, the pearls most commonly used as a medium of exchange, weighed 20 grams while a *kete* of blue pearls weighed 180 grams. The units of measure applied to these pearl necklaces that were most commonly used in the same region were as follows: 10 *makete* made 1 *fundu*, 10 *fundu* made 1 *lugole*, 10 *lugole* made 1 *kinono*, 10 *kinono* made 1 *kikumbi* or 10,000 *makete* (Maes, 1911). Table 2.10 shows what could be purchased, in transactions between local people, at the exchange value of red pearls in terms of *makete*, as reported by Maes, curator of Congo Museum, in *La Revue Congolaise,* 1911.

Table 2.10: Pearls rate of exchange

500 *Fundu*:	300 *Fundu*:	200 *Fundu*:
1 cow or 2 bulls, 12 large nanny goats, 16 medium-sized nanny goats, 1 female calf, 10 large nanny goats 1 large + 10 medium-sized nanny goats	1 young bull or 4 large nanny goats 6 medium-sized nanny goats	1 male calf or 3large nanny goats
8 to 10 *Fundu*: 1 large sheep or 3.66m indigo drill fabric 1 small nanny goat + 3.66m '*Americani*' fabric	6 *Fundu:* 1 small sheep 1.83 m fabric 1 local knife	3 *Fundu*: 2 local spears

Source: based on Maes (1911)

Alternatively, one *fundu* could be exchanged for 1 large piece of meat or 20 to 25 kilos of beans, 1 local hoe or 1 large pot of banana beer. Furthermore, 20 to 25

kilos of sweet potatoes were exchanged for 6 *makete*, 1 bunch of bananas for 4 *makete*, 1 large copper bracelet for 5 *makete*, 1 small brass bracelet for 1 kete or for 3 young tobacco plants, 1 small pot of banana beer for 1 *kete*. With regard to transactions between local people and Europeans, as a rough guide the exchange value could be fixed as follows: 100 grams of blue pearls were exchanged for 8 eggs, 500 grams for 20 to 25 kilos of beans or sorghum flour, 625 grams for 100 kilos of sweet potatoes and 380 grams for 10 bunches of bananas (Maes, 1911).

2.3. Exchange Mechanisms in Traditional Communities

To explain the nature, function and evolution of money in the pre-colonial economic environment of the Congo basin this study refers to works relating to Congolese traditional communities by ethnologists, sociologists and economic historians, such as Mahieu (1928), Einzig (1966), Meillassoux (1956), Polanyi (1957), Dartevelle (1938), Dupriez (1959), Bohannan (1959), Baeck (1959) and other scholars mentioned in this section. Reference is made to these scholars as it emerges from their works that transactions in the traditional communities were carried out according to complex exchange mechanisms in which money played a very limited role.

One of the key explanatory factors is that, unlike most of the countries in northern Africa, the Middle East and Asia, the region of central Africa, with a few exceptions, is characterised by a lack of areas with a high population density (Davis & Colden, 1954). Two main features explain the sparseness of population density in this part of the continent. Firstly, there is the inhospitable element of a rain forest that, in addition, comprises large areas covered with swamps, especially in the central region of the Congo basin. Secondly, there is the history of four centuries of

slave trade starting from the early 16th century, which resulted in a systematic depopulation of the sub-Saharan Africa on a large scale (Goffin, 1953). As a consequence, people tended to live in communities, each consisting of a cluster of small villages that grouped families and clans in a variety of ethnic sub-groups belonging to the same stratified ethnic group.

Following conquests and infeudation of neighbouring ethnic groups, some of those communities developed into genuine empires and kingdoms, such as the *Luba* and *Lunda* empires, as well as the Kingdom of Congo frequently referred to in this chapter (Vansina, 1957; Biebuyck, 1957). On the other hand, this dispersion of compartmentalised social cells resulted in strengthening cohesion and integration of tribal groups, which allowed a relatively perfect autarky. Within a given social cell or tribal group, the structure of blood relationship served as a keystone defining the hierarchy and all social functions, including those of a political, economic and ritual nature. The chief was accepted and respected in the village because beyond his hierarchical position he was linked to most of the community's members by family ties (Thurnwald, 1937). Within the community, all duties, rights and prerogatives were determined on the basis of an individual's genealogical position in their family's line of descent. This social organisation applied to the system of production and distribution of goods and services, where functions and economic relations appeared as a result of and extension of family prerogatives.

Traditional communities that have been studied by scholars were known for living in self-contained worlds. Their economies were predominantly self-sufficient, producing all the goods and services needed to secure the perpetuation and development of the community, using natural resources within their reach. The division of labour was based on social status and sex. Tasks requiring muscular

strength and agility, such as hunting, cutting trees, clearing fields and building houses, were reserved for males. Domestic and food-related tasks, such as collecting wood for heating and cooking, water transport, cultivating, harvesting and cooking, were reserved for females. Some of the most important tasks, such as moving components of a house from one place to another within the village, were carried out collectively by a team of males, all friends and/or relatives (Leiris & Pauvert, 1952).

In such economic conditions, there was no stock of accumulated reserves that could be exchanged for external resources (Bauer, 1957). However, reserves, such as seeds for the next season's sowing, were laid in to secure the survival of the community. This state of affairs was consistent with the key feature of the system. In such a self-sufficient environment, production and distribution of goods and services were performed within an extended family framework, almost completely excluding onerous transactions, and yet operating on the basis of a tight network of family and solidarity obligations and rights. The reason for this was that production of goods and services in traditional communities was not profit-oriented. The accumulation of surplus provisions and reserves for exchange purposes beyond the need for immediate survival was, therefore, limited (Bauer, 1957).

Exchange of goods and services between members of a community fell within the frame of family institutions that provided every single member of the group with the means of meeting vital needs. In the long run, the benefits exchanged should balance, since any gift offered was subject to reciprocity somehow, some time. The nature and size of the counterpart (or corresponding item) depended on a series of criteria, such as the status of both the donor and the receiver, and their familial relationship. On the other hand, a donation not reciprocated with an

equivalent counterpart expressed the superiority of the donor and subordination of the receiver (Firth, 1951).

Further analyses distinguish three sets of benefits exchange in traditional economic systems. The first concerned goods and services for survival, such as food products and domestic utensils. The exchange was completed on the basis of direct family relations or barter. The second organised the exchange of prestige goods, such as livestock, slaves, special pieces of fabrics and clothes, and magic and medicinal information. Transactions in this sphere were subject to a well-defined social ritual and ceremonial. The third, considered the most prestigious, regulated rights and prerogatives relating to humans, especially females and children (de Heusch, 1955). This sphere considered two categories of rights deriving from matrimonial relations or exchange between families. The first category related to procreation rights that ensued from the capacity of a female to give birth. The second category comprised uxorial rights that followed from the capacity of a female as a spouse and housewife. Matrimonial transaction mechanisms varied depending on whether the exchange was concerned with uxorial rights exclusively, as in matrilineal communities, or with both uxorial and procreation rights, as in patrilineal communities (Bohannan, 1959). The compartmentalisation of the three spheres was such that each one dealt with its own means of exchange for the category of goods and services the sphere was concerned with. This segmentation of types of exchange within communities led scholars such as Einzig (1949 [1966]) to establish a distinction between "special purpose money" and "general purpose money" as mentioned in Chapter one.

The analysis of the pre-colonial monetary experience of Congo reveals a constellation of cumbersome and intricate transaction systems characterised by a

large number and extreme variety of devices regarded as a medium of exchange. No consistent connection could be established between different devices used as means of exchange, of which the value was, in addition, subject to frequent changes. The first step of any transaction consisted in relating all the items to be exchanged to a given standard. The choice of the standard was made by the entities involved in the transaction, subject to local customs and, thus, varied from one region to another. There was no consistent means of determining the exchange value of the unit of account and equivalence between disparate devices, especially across regions perceived as countless different monetary areas. Given the plethora of these devices, it was hard, if not impossible, to integrate them into a framework allowing any definition of a monetary system.

2.4. Defining an Exchange Rate of the *Mitako*: Brass Rods versus State Currency

As mentioned earlier in this chapter, apart from their monetary function, most of the devices used as a medium of exchange in the essentially barter-based traditional system of exchange originally had a utilitarian function. As a result, local people regarded with caution the introduction of modern currencies, as these had no other function than to serve as money. In order to urge local people to steadily move from this barter-based traditional system to the use of modern currencies the Congo Free State provided a transitional period. During this period the State listed a large number of everyday utilitarian devices to be used as a medium of exchange (Mahieu, 1924).

As stated earlier, the question is whether in the traditional concept of money, the ability of a device to fulfil the monetary function of a medium of exchange was determined by its intrinsic value, among other features, as an asset

potentially intended for some other social functions. The nature of the main problems encountered in the introduction of European-style currencies on a large scale in Congo from the late 19th century suggests that this was the case. It is not by accident that in many Congolese dialects "to spend money" is literally translated as 'dia zimbongo' or 'kolia mbongo', which means 'to eat money'. These terms reflect the overall dimension of the social and economic usefulness of the device used as money.

During the transitional period starting from the foundation of the Congo Free State in 1885, the brass wire cut into rods of variable length called *mitako,* as mentioned earlier, gradually became the most widespread medium of exchange across most of Congo. This expansion was the result of local people's preference for brass, due to its brilliance, at the expense of copper, which led the State Public Administration to legalise its status as money.

To complete a transaction the value of goods to be sold was, firstly, fixed in *mitako*. In exchange for all or part of the value the seller received imported or locally produced merchantable goods listed by the State as means of exchange. Small transactions were directly completed in *mitako*. As a result of the fast-growing role of brass wire as the predominant medium of exchange, the Administrator General of the Congo Free State on 30 July 1886 issued, as a first regulatory act, a Decree aimed at controlling and stabilising the value of the *mitako*. The Decree provided that the price of brass should no longer be subject to any increase and should instead remain unchanged since the rods of this metal, namely the *mitako*, were to be considered a currency rather than a merchantable good. The value of existing stock of brass was fixed at 15 centimes per *mitako* (Mahieu, 1924).

On 15 December 1893 the Governor-General of Congo issued a second Decree in order to improve the relationship between local people and the State Administration and to manage the substitution of brass monetary devices by the European-style State currency. Table 2.11 shows how the exchange rate between State currency and *mitako* was calculated in 1900.

Table 2.11: Exchange rate State currency/*mitako* in 1900

Fabrics as Unit of account		Price per unit Francs	Local *Mitako*	Exchange rate State currency/*Mitako*
Americani	B 1	8.85	170	
Red Savedlist	B 20	72.25	1,500	Average
Handkerchief	B 27	2.2	30	
Flowered Blanket	B 36	6.45	100	132.33
Striped Blanket	B 41	6.15	100	2620
Blue prints	B 175	7.05	180	=
Stripes	B 12	9.7	180	5 centimes
Indigo Mottle	B 9	9.55	200	
Loincloth	B 33	6.25	100	
Indian	B 35	3.88	60	
		132.33	2620	

Source: Mahieu (1924)

According to the Decree, each administrative district was asked to determine the value in *mitako* of all merchantable goods listed in the State's stores as exchange instruments. The value calculated in *mitako* was to be converted into State currency. Another Decree issued on 28 November 1901 confirmed the role of the *mitako* as a medium of exchange. In this respect, it referred to article 9 of the State Administrative and Accounting Regulations. This article provided that on the basis of a brass No 9A set of 45 kilos measuring 478m in length or 1,707 units of 28cm, the value of one *mitako* should not be less than 8 centimes (Mahieu, 1924). As a result, the exchange rate of one *mitako* was fixed at approximately 9.5 centimes inclusive of all sundry costs. The value of the other types of brass, namely brass No 10A and 12A, was fixed at 8 centimes and 6 centimes respectively. Those values were applied to transactions between local people, in the case of an exchange of *mitako* for State currency, or for payments of salaries to soldiers and workers. With

regard to transactions concerning merchantable goods exchanged for *mitako*, the Decree stipulated that they should be completed on the basis of the law of supply and demand. To comply with the instructions of the Decree mentioned above, every Head of a State-owned trading station requested the assistance of local people to convert in *mitako* the value in State currencies of his stock of merchantable goods. He could then calculate the average exchange rate of 1 *mitako* by dividing the value of the goods in State currencies by the local value of the same goods in *mitako*.

2.5. Conclusion

This chapter looked at the major devices used as money by communities settled in the Congo basin, as known since the late 15th century. The reason for this was to track the history of devices that survived and are still in use today. As far as the *nzimbu* currencies are concerned the patterns analysed in this chapter help to explain the role of these seashells as a medium of exchange. At the same time, they throw light on the same seashells as objects fulfilling various cultural purposes, and on the interconnection of their monetary and cultural purposes (Dartevelle, 1924). The demand for the *nzimbu* was, therefore, explained by transaction motives as well as by other roles such as decoration, personal adornment, power symbol, and magical protection.

With regard to the transaction motives, the demand for the *nzimbu* depended on the extent to which, on a market day on the coast, a supplier of goods from inland had to satisfy his need for the *nzimbu* as money. This could be determined by the size of his liability in terms, for instance, of tribute due to the King. To this motivation was added the need for the *nzimbu* intended for cultural purposes mentioned above. The rest of the supply was subject to barter-based exchange

mechanisms, which enabled the supplier to acquire goods for his subsistence if need be.

The transaction motives faded away over time as imported shells or other devices, such as cowries, pearls and cotton fabrics (in place of the raffia fibre fabrics *lubongo*), gradually replaced the *nzimbu* shells as money. However, the demand for the *nzimbu* for cultural purposes remained and explains the continuing flow of these shells from the Angola coast into Congo until the mid-20th century as mentioned by scholars such as Mahieu (1924), Dartevelle (1953) and Rivallain (1994). The research carried out in the context of this study revealed, as mentioned earlier, that *nzimbu* shells still today continue to play a ritual role in some regions of Congo. This cultural dimension is, therefore, to be considered the main explanation for the survival of a certain monetary function of the *nzimbu* long after the introduction of European-style currencies in the Congo.

Some generally accepted ideas have been challenged, such as the claim that the Portuguese introduced shell currencies into this part of Africa. New light has also been shed on the difference between a cowry and a *nzimbu* with regard to a misapprehension which led to cowries being wrongly considered identical to the *nzimbu* (Dartevelle, 1953). In a comprehensive study of African snails Dartevelle (1953) established that the *nzimbu*, known under the scientific name of *olivancilaria nana*, were exclusively found along the western Africa coasts between Benguela and Luanda, and that they were different from all other forms of *olivancilaria* found in other coastal regions of Africa or of Brazil. It has been explained that the survival of the monetary function of some traditional means of exchange is a consequence of the interaction between this role and the other cultural and social functions of the same devices in traditional communities. In the traditional context a device intended

to play the role of money is also, if not first and foremost, perceived in relation to its usefulness as an object for some other purposes, such as decoration, personal adornment, ceremonial, fetish, magic symbol, power insignia, or simply an ordinary everyday tool.

Furthermore, the question as to why, beyond a short period of time, traditional monetary instruments could not fit into the colonial economic order has been answered. The final part of this chapter dealt with the process of determining the value of merchantable goods listed by the Congo Free State as a medium of exchange in *mitako* and converting the latter into State currency at an exchange rate fixed by the State government. The implementation of this process marks the transition from traditional currencies to modern money based on the same principles as those in use at that time in Western Europe. Chapter three will analyse the main features of this transitional period.

Chapter Three:

MONEY AND FINANCE IN THE CONGO FREE STATE (1885-1908)

3.1. Introduction

Chapter two addressed the issue of pre-colonial traditional monetary experience in Congo and looked at a number of devices, local and imported, used as currencies over the centuries. This chapter analyses the main features of the monetary and financial history of the Congo Free State that existed from 1885 to 1908. The second section after this introduction addresses the topic of money. It looks at the currencies issued by the Congo Free State and foreign currencies in circulation in the State, as a result of the free circulation of people, goods, capital and monies from all nations within the boundaries of the Congo basin, as stipulated by the 1885 Berlin Act. It also looks at the monetary institutional framework and regulation established for the Congo Free State. The analysis carried out in this section establishes a connection between the Congolese traditional monetary experience explored in the previous chapter and the introduction of European-style currencies in Congo since the late 19th century.

The third section considers the issue of finance in the economic context of the State to assess the impact of the ambiguity of King Leopold II's status in his capacity as the constitutional King of Belgium on the one hand, and the Sovereign of Congo on the other. The analysis conducted in this section highlights the wide

gap that existed between the official humanitarian reasons proclaimed by King Leopold II to justify his personal involvement in the foundation of the Congo Free State and the real economic and financial motivation – unconfessed and yet obvious. It shows to what extent, in view of the atrocities to which the local population was subjected, even the humanitarian reasons put forward to make the royal creation internationally recognised, were swiftly forgotten. For the sake of the economic and financial wealth of King Leopold II and metropolitan Belgium, the Congolese people were forced to work like slaves and many of those who failed to produce quantities assigned to them were sentenced to death (Slade, 1962). The abuses committed in this respect were so shocking that they gave rise to international condemnation, which led the Belgian government to take over the Congo Free State from the King and convert it into a formal Belgian colony (Cattier, 1906).

As Cattier (1906) pointed out, King Leopold II applied an economic and financial policy marked by his megalomania. Beyond the misappropriation of considerable resources at the expense of Congo, this policy resulted in a debt burden borne by the Congo Free State but intended for prestige investments in Belgium and in some other European countries, such as France (Cattier, 1906). As a conclusion, the fourth section underlines the shortcomings of the monetary and financial provisions set up over the era of the Congo Free State to show that, contrary to the situation formally defined by law, there was, in fact, no real separation between Belgian and Congolese money and finance.

3.2. Monetary System Design

3.2.1. Early European Currencies in Congo

At the time when the whole of Black Africa was known as Ethiopia, the King of Portugal was also titled *Dominus Aethiopia.* Later on, when the same region of Black Africa was called Guinea, divided into Upper and Lower Guinea, the King of Portugal took the title of *Dominus Guineae*, on the basis of the rights he claimed from his possession of these territories. The lands of Congo and Angola were part of Lower Guinea. This is the reason why the inscription '*Dominus Guineae*' was engraved in the commemorative coin issued by King João II when the navigator Bartolomeu Diaz reached the Cape of Good Hope in 1488. The same period witnessed the spread of *cruzados, justos* and *espadinus* in gold coins, and later, of *testaos, indios* and *reales* in silver coins as well as *reales preto* in copper coins, all over the Western African coast (Banque du Congo Belge, 1960). However, the first significant minting of coins intended for circulation in Africa started in 1694 under the reign of Pedro II. These coins circulated along with the traditional means of exchange, such as the *nzimbu*, *lubongo*, *mitako*, salt and fabrics, as analysed in Chapter two (Bontinck, 1987).

On the other hand, people from the coastal regions of Angola and Congo used a device called *nkuta* or *khuta*, with variant *khoto* (also spelled *nkutu* or *khutu*), as a unit of account; this is a term in the Kikongo language to name a bundle of pieces of fabric, wood or metal as well as a pack of food or a bag. The origin of this term goes back to the Kingdom of Congo where a *khoto* (or *khutu*) as a bag, one of the insignia of power, was intended to contain the tributes paid to the King in *nzimbu* money. Due to mishearing on the part of the Portuguese *nkuta* or *khuta* was spelled *macuta* in Portuguese (Dartevelle, 1953). At the time of slave

trade the value of a slave was determined in a given amount of *macuta*, and on this basis the value of goods to be exchanged was expressed in *macuta*. In Chapter two the term *libongo* was mentioned to name a small mat woven out of raffia fibre, which was used as currency. Bontinck (1987) claims that local fabrics were the origin of the term *makuta* – singular *dikuta*, which was a bunch of four *libongo*. One *libongo* was worth 12.5 *reis*, the Portuguese currency of the time. One *dikuta* was, therefore, worth 50 *reis*. However, as a result of the prestige attached to the coat of arms, the value of one *libongo* bearing the Portuguese coat of arms could amount to 50 *reis*.

By issuing copper coins to be sent to the West African coast, engraved with the Portuguese coat of arms and crown, and referred to as *macuta,* the Portuguese King's goal was to introduce, under a local name, an African unit of account defined on the basis of the same patterns as an European currency, with a fixed value equal to half the Portuguese *testao* or 50 *reis,* in replacement of a fluctuating traditional unit of account. The new unit was minted in copper coins subdivided into copper halves and quarters, while coins of 2, 4, 6, 8, 10 and 12 *macuta* were, later on, minted in silver (Mahieu, 1924).

At the Belgians' arrival in Congo in the late 19th century, the *macuta* was still in circulation. It ceased to be minted under the reign of King Louis I (1861-1889). However, the locals maintained the term *macuta* – most commonly spelled *makuta* –to name copper and nickel fractional currencies issued by the Congo Free State and, later on, the Belgian colonial authority (Mahieu, 1924). The term *makuta* constitutes one of the links between the pre-colonial monetary experience and present times, as it was re-introduced as one-hundredth of one Zaïre (Z), a monetary unit created by the Government of Congo, as mentioned in Chapter one,

in the framework of the monetary reform of 24 June 1967, which will be addressed in Chapter five in discussion of the post-colonial period.

In the late 17th century, the Portuguese gave local names to the coins they issued to be used in their African territories in order to facilitate the progress of trade. The value of those coins was defined with reference to the Portuguese currency, namely the Portuguese *testao*. One century later, as mentioned in Chapter two, the same approach was repeated by the Belgians who made use of the *mitako,* a local medium of exchange, to manage the transitional period during which traditional currencies were in use alongside European-style currencies that were introduced with the colonial occupation.

Nonetheless, on the one hand, problems regarding navigability of the river Congo beyond Matadi prevented the Portuguese from penetrating further into the continent. On the other, the conditions for overland transport were too harsh to encourage the Portuguese travellers to undertake more exploration (Slade, 1962). As a result, Portuguese currencies did not spread over the country on a large scale. And yet, evidence of imported ancient metal currencies was found in various areas inland, confirming the presence of external traders and other travellers. In this respect, there was evidence of the earlier presence of Arabs and, later on, of Portuguese, who used to extract copper and gold from the Katanga mines, from the Middle Ages until the early 17th century (Wangermée, 1909). European trade in silver currencies with Africa and the East was fairly profitable, as can be seen from the considerable importance Austria gave to it in the 18th century, especially with the introduction into Africa of the Thaler known as the "Marie Therese Year 1780" (Mahieu, 1924). Although the Thaler was no longer legal tender in Austria after 1854, it continued to be minted and exported to Africa until the late 19th century. A

Decree of 27 July 1887 issued by the Governor-General of the Congo Free State set at three francs the rate at which the Marie Therese Thaler could be exchanged at the State Treasury (Revue Belge de Numismatique, 1896, cited by Mahieu, 1924).

3.2.2. Merchantable Goods as a Medium of Exchange

The State tariff of imported goods used as a medium of exchange in the Congo Free State covered more than 2,000 items of various sorts. These comprised the following main items: 5 types of shells, 836 of pearls, 5 of place settings, 10 of hooks, 12 of machetes, 5 of salt, 212 of fabric etc. There were also many other devices, such as weapons, iron tools, nails, copper crosses, and various kinds of fancy goods, such as tinware, cutlery, hats, haberdashery and musical instruments (Mahieu, 1924).

Table 3.1. Some merchantable goods used as a medium of exchange

Region	Items
Bakongo	blue pearl necklaces, red handkerchiefs with black and white prints
Middle-Congo	fabrics, brass wires cut into rods
Upstream from Coquilhatville	long knives, copper spiral strings (*minkata*)
Eastern region	Americani fabric handkerchiefs (*doti*)
Kasaï basin	gilded nails, copper crosses, iron tools to make pirogues, pearls, cowries
Sankuru region	copper crosses, fabrics, other (undetermined) tools
Uélé	*mitako*, small white pearls, guns
Ubangi and Bomu	iron hoes, machetes, pearls, copper ribbon rolled up round sticks, copper bracelets
Northeast. region	red and blue pearls, Americani, indigo drills fabrics, bracelets
Lake Leopold II	cowries (*kesa*), *mitako* (*lufuk*i), small pearls (*mayeye*), pearls N. 1706 (*kasakengele*), big pearls (*takele*), cylindrical pearls(*tambu*), black pearls N. 1701 & 1706, blue & white pearls N. 4693, *Americani* & *Guinea* fabrics

Source: based on Mahieu (1924)

While a number of items were generally accepted everywhere, different regions of the State had a clear preference for some specific items as indicated in Table 3.1. Items such as cigars, copper or brass bracelets and rings, used as personal adornment, machetes, hoes, guns, gunpowder, hats etc. were generally needed over the whole State. In the region of Bakongo people had a preference for

blue pearl necklaces (*nzimbu*), and red handkerchiefs with black or white prints (Mahieu, 1924).

In the Middle Congo local people favoured fabrics and brass wires cut into rods. In the region upstream from Coquilhatville (present-day Mbandaka) along the River Congo, the preference was for long knives and copper spiral wire (*minkata*). In the eastern region (Province Orientale) people preferred *Americani* fabric handkerchiefs called *doti*.[2] In the Kasaï basin people favoured gilded nails, copper crosses, iron tools for making pirogues, pearls and cowries. In Sankuru region, payments were made half in copper crosses, half in fabric or other objects. The people of Uélé preferred to use *mitako*, small white pearls and guns. In Ubangi and Bomu regions, people favoured iron hoes and machetes, pearls, copper ribbon rolled up round sticks, and copper bracelets, while in the northeastern regions they had a preference for red and blue pearls, *Americani*, indigo drill fabrics and bracelets. Around Lake Leopold II the most favoured imported objects were cowries (*kesa*), *mitako* (*lufuki*), small pearls (*mayeye*), pearls N° 1706 (*kasakengele*), large pearls (*takele*), cylindrical pearls (*tambu*), black pearls N° 1701 and 1706, blue pearls N° 1706 and blue and white pearls N° 4693, *Americani* and *Guinea* fabrics (Mahieu, 1924)

State officials, namely the District Commissioners in the areas exploited by the State, determined the value in *mitako* of merchantable goods used as means of exchange. In all other areas agents of companies were responsible for this task. This system gave rise to obvious arbitrary decisions and abuse since it was to the advantage of the State officials and companies' agents to assign the greatest value to the goods used as a medium of exchange. The price of the latter varied from one

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[2] *Americani* is the name given to several types, known by series numbers, of colour-printed cotton fabrics, very popular among the Congolese population.

region to another depending on local patterns and the goodwill of State officials and companies' agents (Cattier, 1906).

On the other hand, the local population could hardly purchase valuable imported goods matching their need, as the State and private companies were not keen to accept as means of payment goods of little interest which they themselves had previously given in exchange for products, such as rubber, acquired from the local people. The introduction of European-style currencies helped to put an end to numerous abuses that occurred under the regime of State lists of merchantable goods used as a medium of exchange (Cattier, 1906).

3.2.3. State Metal and Paper Currencies

On 27 July 1887 the Belgian King Leopold II issued a Decree (Bulletin Officiel de l'Etat Indépendant du Congo, 1887) by which the Congo Free State adopted the international monetary system in force at that time, based on the Franc (F) as unit of account and in line with the Latin Monetary Union, a topic which will be addressed in Chapter four. The system comprised a gold coin of F20, silver coins of F1, 2 and 5 and of 50 centimes, as well as copper coins of 1, 2, 5 and 10 centimes. The F20 gold coin was to be struck at 900/1000 fineness, 6.45161 grams weight with respectively 2/1000 and 2/1000 allowance (Royal Decree of 27 July 1887).

The Banque du Congo Belge in its capacity as Congo's first issuing house ordered the Banque Nationale de Belgique (National Bank of Belgium), acting on its behalf, to strike F20 gold coins for a total of F50,000. The order was not executed and the F20 gold coin has never been issued in Congo. As will be explained later, at that time, no gold coin was in circulation in the Belgian

monetary system either. As money of account the Franc was divided into 100 centimes and equivalent to 1/3100 of one kilo of gold at 9/10 fineness. Silver coins were struck with the features reported in Table 3.2 (Mahieu, 1924).

Table 3.2: State silver coins minting conditions/Decree of 27/07/1887

Coin format Franc	Fineness	Allowance	Weight/gram	Allowance	Coin diameter mm
5	900/1000	2/1000	25	3/1000	37
2	835/1000	3/1000	10	5/1000	27
1	835/1000	3/1000	5	5/1000	23
Centime					
50	835/1000	3/1000	2.5	7/1000	18

Source: based on Mahieu (1924)

The same mould was used to strike all coins issued in 1887, 1891, 1894 and 1896, while the Royal Mint of Brussels carried out the minting. Fractional copper currencies were issued in 1888, 1889 and 1894. They had a circular hole in their centre and characteristics as indicated in Table 3.3. The hole pierced in these coins was supposed to help people form strings and bracelets, in line with the traditional practice in the use of *nzimbu*, cowries and other local monetary devices made of shells or some other material, as described in Chapter two.

Table 3:3: State copper coins minting conditions/Decree of 27/07/1887

Coin format Centime	Weight gram	Allowance mm	Coin diameter mm	Hole diameter mm
10	20	20	55	7
5	10	20	30	6
2	4	20	23	4.6
1	2	20	18	3.6

Source: Mahieu (1924)

However, this study claims that by reproducing the same hole in the middle of metal coins intended exclusively for a monetary function, the monetary authority failed to take into consideration that the slices of shells mentioned in Chapter two were pierced not for their monetary function but in order to form strings that people could wear as necklaces, bracelets or around the waist. Women used to wear those

strings to protect their maternity in particular and fertility in general, combining this motive with a decorative function (Dartevelle, 1953). The hole pierced in metal coins had no monetary significance and contributed instead to their discredit, as in addition to the small face value, it led local people to consider those coins worthless.

Currency circulation in the Congo Free State grew rapidly due to the expansion of local trade. While between July 1887 and January 1895 the total number of coins of different value that were issued was 268,000, it amounted to 342,000 in September of the same year, recording an increase of about 28 per cent in eight months. And yet a larger amount of coins was required to meet the fast-growing demand for money. The King issued a Decree of 19 December 1895 for the minting of F1 million in new silver coins. To carry out this final minting of the Congo Free State the King instructed the National Bank of Belgium to purchase 4,369.943 kilos of fine silver metal on the London market. The metal bought was delivered to Brussels in February 1896 at a price of F113.30 per kilo or F495,114.54 carriage paid (Mahieu, 1924). The result of the issue is shown in Table 3.4

Table 3.4: State silver coins minted in 1896
Decree of 09/12/1895

Format	Fixed by Decree		Effectively struck	
	No. coins	Value	No. coins	Value
Franc				
5	110,000	550,000	110,000	550,000
2	50,000	100,000	100,000	200,000
1	250,000	250,000	150,000	150,000
Centime				
50	200,000	100,000	200,000	100,000
Total value		1,000,000		1,000,000

Source: based on Mahieu (1924)

The development of mining activities in Katanga attracted a growing number of workers from distant regions, who came to settle closer to their

workplace. As a result, what had been the practice until then, of payment in kind, of a fast-growing number of workers, became increasingly cumbersome as the volume of imported and local goods used as wages exceeded the needs of the workers (Banque du Congo Belge, 1960).

Table 3.5: Fineness account of 1896 minting as at 09/06/1896

Fineness	Total weight Kg	Coins Format	Number	Nominal value F
		F		
900/1000	2,475.209298	5	110,000	550,000
835/1000	834.445520	2	100,000	200,000
835/1000	625.669513	1	150,000	150,000
		centime		
835/1000	416.498675	50	200,000	100,000
Total	4,351.823675			1,000,000

Source: based on Mahieu (1924)

At the same time, the collection of taxes in kind, especially in ivory and rubber, favoured during the Congo Free State era, was subject to criticism because of widespread abuse. In addition, this method of payment proved to no longer suit the changed economic conditions of the State, which was compelled to meet various obligations and administrative expenditures that required payment in cash, and this necessitated collecting taxes in cash (Droogmans, 1906). In view of these considerations, payment in cash gradually replaced the widespread method of payment of salaries in kind. As a consequence of this change in payment methods, the King issued a Decree of 27 August 1906 for the minting of a series of fractional currencies made of an alloy of 75 per cent copper and 25 per cent nickel. Coins of centimes20, 10, and 5 were struck between 1906 and 1908. Table 3.6 presents a general account of State coins minted from 1887 to 1908.

Table 3.6 General account of State coins minted from 1887 to 1908

Silver	Number of coins			
Year	F5	F2	F1	50 centime
1887	8,000	15,000	20,000	20,000
1891	30,000	25,000	70,000	60,000
1894	50,000	80,000	70,000	40,000
1896	10,000	100,000	150,000	200,000
Total coins	198,000	220,000	310,000	320,000
Nominal value/F	990,000	440,000	310,000	160,000
Copper				
	10 centime	5 centime	2 centime	1 centime
1887				
July	40,000	100,000	-	100,000
December	-	-	25,000	-
1889				
June	100,000	75,000	100,000	75,000
1894				
November	148,870	148,274	-	-
Total coins	288,870	323,274	125,000	175,000
Nominal value/F	28,887	16,163.7	2,500	1,750
Nickel		20 centime	10 centime	5 centime
1906				
August		100,000	100,000	100,000
1908				
May		50,000	175,000	150,000
December		350,000	625,000	650,000
Total coins		500,000	900,000	900,000
Nominal value/F		100,000	90,000	45,000
Effective circulation		61,000	275,000	250,000
Nominal value/F		12,200	27,500	12,500
%		12.2	30.6	17.8

Source: based on Mahieu (1924: 87- 88)

As will be seen in the next chapter, the Conseil Colonial claimed that the local population disliked fractional currencies, on the grounds that there were no goods so small as to be worth only 5 to 10 centimes, and if they did exist, they would be exchanged on a barter basis. According to the Conseil Colonial the local population used to attach importance to a currency in relation to its intrinsic value as determined by its metal weight or alloy (Conseil Colonial, 1909).[3] This study considers questionable this assertion, since it emerged from traditional monetary

[3] Article 24-26 of the Charte Coloniale created the Conseil Colonial. Chaired by the Minister of Colonies, the Conseil comprised fourteen members, eight appointed by the King, three by the Chamber of Representatives, and three by the Senate. It was empowered to deliberate upon issues brought to its attention by the King, such as Decree proposals on which it was to formulate written

practices examined in Chapter two that items of small value could be exchanged for a small amount of *nzimbu* or other shells or devices used as a medium of exchange. The main reason stems rather from the fact that with those fractional currencies one could hardly obtain anything worthwhile from the State or companies' shops. Later on, as a result of a wider range of goods for sale in the shops it became possible to use the most valuable of the coins of small face value to purchase small goods, such as matches, salt, etc. (Mahieu, 1924).

King Leopold II issued a Decree of 7 February 1896 (Bulletin Officiel de l'Etat Indépendant du Congo, 1896, referred to from now as Bulletin Officiel) to create State paper currencies. Following this Decree, the Governor-General of the State promulgated an instruction of 10 April of the same year to state that the first issuing authorised would comprise banknotes of F10 and 100 for a maximum of F400,000 nominal value.

The instruction made it clear that the bearer paper currencies were to be accepted for any payment due to the Treasury along with the State metal currencies. Tax collectors were allowed to exchange paper currencies for metal State currencies, provided that the exchange would not result in any inconvenience for the Treasury. The State bills, the issue of which was not hedged, were payable at the General Treasury of the Congo Free State in Brussels (Louwers, 1934). To prevent dishonest Europeans from issuing false paper currencies that could be taken by the local population to be real, the Governor-General prescribed eight days' to three months' prison sentence and a F25 to 1,000 fine for the production, hawking and distribution of such kind of printed paper (Mahieu, 1924).

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and justified opinions, and to request any information from the government (Moniteur Belge, 1908: 5891-92)

The issuing of State paper currencies met with no success among local people. The notes were subject to rapid deterioration caused by humidity and insects. As a result they could not be reused, unlike metal coins which, in addition, could be melted down again for some other use, such as spear ornaments, belt buckles or bracelets. Moreover, local people had no confidence in State bills bearing an unknown signature. In this respect, they had greater trust in foreign metal currencies, such as Portuguese coins in the southwest region known as Bas-Congo, and Marie Therese Thaler in the east. They also had more confidence in coins minted by some locally well-known figures, such as those bearing the image of Antoine Gushoff, manager of a Dutch trading company in the Bas-Congo region, and zinc coins struck by the religious community known as the *Pères Blancs* that had been established beside Lake Tanganyika (Banque du Congo Belge, 1960).

The Decree of 27 July 1887 (Bulletin Officiel, 1887) aimed at organising the monetary regime of the Congo Free State, stipulated, among other provisions, a temporary acceptance of foreign currencies as a medium of payment in the State. This provision was intended to overcome the shortage of currency in a new territory expected to witness fast-growing commercial activity and, at the same time, comply with one of the prescriptions of the Berlin Act, which proclaimed free trade and circulation for all nations in the Congo basin. As a consequence, a Decree of 3 January 1891 fixed, as shown in Table 3.7, the exchange rate of foreign currencies in circulation, namely the Pound Sterling (GBP), Mark, Rupee and Marie Therese Thaler (Banque du Congo Belge, *1960)*.

Table 3.7: Foreign currencies exchange rate at 03/01/1891

Currency	Gold Pound St.	Gold Mark		Rupee	Marie Therese
Coin	Pound1	Marks20	Marks10		Thaler1
Exchange rate/Franc	24.20	24.40	12.20	1.30	3.00

Source: based on Banque du Congo Belge (1960)

For a long time, the traditional system of commercial transactions continued to be implemented, based on a wide range of local and imported merchantable goods used as a medium of exchange. The State resorted to recognising the value of those goods and taking various strategic measures to gradually make the local communities accept the State money. In 1886, in readiness for the launching of its currency, the State decided that the *mitako,* mentioned earlier in Chapter two, was to be treated as money rather than as merchandise and used as a medium of exchange. For this reason, its value fixed at 15 centimes for one *mitako* was to remain unchanged. For a long period the *mitako* continued to play a crucial role as money alongside currencies issued by the State.

Be that as it may, the success of the dissemination of State currencies depended partly on the goodwill and personal influence of State officials and their ability to persuade the local population of the validity of these monies. The normal length of one *mitako* was approximately 50cm, and its exchange value was 15 centimes, while the market value was around 10 centimes, due to various reductions in length over time. It was obvious that for a very long period, the local population's preference was for the *mitako* as a monetary unit. On many occasions State currencies disseminated by administrative officers were immediately exchanged for *mitako*, demand for which, in some cases, was likely to trigger a premium.

Captain Lothaire, District Commissioner in the Equatorial region of Congo in 1892 recounted an anecdote (Banque du Congo Belge, 1960) which illustrated

measures he took to challenge local people's preference for the *mitako* and urge them to accept the State currency. As he received from the State government a few thousand Francs in coins of F1, 2 and 5, and 5 and 10 centimes, he called together the most important personages of the region. He explained to the latter that the new currency was to replace the *mitako* at the exchange rate of 10 centimes for 1 *mitako*, F1 for 10 *mitako*, and F5 for 50 *mitako*. The reaction of the audience was mixed. The elders were suspicious while young people were quite enthusiastic since a number of them had had some experience of the advantages of the new currencies during visits to Boma, capital of the Congo Free State. In the end, as suspicion prevailed, Captain Lothaire said that people who were to receive their wages in cash the following day and did not want to keep the coins they received would be allowed to exchange them for *mitako*. As a result, the following day almost all the cash paid out as wages was exchanged for *mitako*. A few days later Captain Lothaire asked the manager of a large trading company who arrived in the region with a boat full of merchantable goods to accept payment in State currency as well as in *mitako*, at the exchange rate of 10 centimes for 1 *mitako*. The manager duly complied. As a result, since the local people noted that the manager of the Dutch company was happy to accept the State currency, their suspicion was allayed and from then on the State currency steadily accepted in that region.

The situation varied from one region to another. In the Bas-Congo region, for instance, the Compagnie des Chemins de Fer du Congo used to pay workers part of their wages in cash. As a result, the State currency started to spread throughout the region more rapidly than in many other areas where traditional currencies, such as salt, fabrics, *mitako* and copper crosses, continued to be preferred over the State currency for a long time. When the Congo Free State was

annexed as a Belgian Colony (15 November 1908), the Mint and Treasury of the Congo Free State held 1,275,439 nickel coins of 5, 10 and 20 centimes, which had never been issued (Banque du Congo Belge, 1960).

3.3. Financial System Design

3.3.1. General Background

To mark the realisation of his long-nurtured plan, the creation of an issuing house in Congo, King Leopold II issued a Decree on 21 July 1894 to establish the Société Générale Africaine with an initial capital of F3 million, to which he assigned a financial mission. The company was also invested with many other functions, in the fields of agriculture, industry, commerce, mining and transport. The Decree stipulated that members of the Board of Directors were appointed by Decree and that the President and the Secretary of the Board were appointed and dismissed by the King himself. Another Royal Decree of 1 September 1898 increased the capital to F12 million. In addition it defined more precisely the company's function as an issuing house, stating that the company could print and issue banknotes guaranteed by the Congo Free State, subject to an agreement with the latter. The King issued a Decree to appoint the President and other members of the Board of Directors for a mandate that was due to expire on 31 May 1905.

By a Royal Decree of 25 June 1903 a new company was created under the name of Société Générale Africaine et Banque de Commerce et d'Industrie with capital of F9 million, to replace the Société Generale Africaine, taking over all its assets and liabilities. On 26 June 1905 the new company was put into liquidation, following a subscription for the capital of the Banque Sino-Belge, which later became the Banque Belge Pour L'Etranger. On 5 September 1907 the Société

Commerciale et Financière (abbreviated to Comfina) was created in Brussels on the initiative of the Société Générale de Belgique, Comagnie du Kasaï, and S. A. Plantations Lacourt. One of the functions assigned to Comfina was that of initiating and carrying out all types of financial transactions. In 1920, Comfina merged with International Anglo-Belgian Trading Company. The new entity took the name of Intertropical-Comfina, better known as Interfina (Banque du Congo Belge, 1960). Many other companies that had been created prior to the annexation of the Congo Free State as a Belgian colony, such as Crédit Commercial Congolais founded in 1898, Banque Coloniale de Belgique in 1899, Entreprise Africaine in 1900, and Commerce Intertropical in 1907, considered financial transactions to be one of their activities, but none of these companies established an operational financial or banking branch in Congo.

The Royal Decree of 27 July 1887 defined the monetary unit and all conditions for issuing currencies in the Congo Free State. However, on the one hand, it did not establish any State monetary institution either in Congo or in Belgium. On the other, as already stated, none of the companies mentioned above, despite having been invested with a financial function, among others, had set up a bank or financial institution in the Congo. Thus, no bank or any other financial institution had been established in Congo Free State before its annexation as a Belgian colony in November 1908.

King Leopold II was the only decision-maker on monetary matters regarding the Congo Free State and his decisions were executed through Belgian institutions. These institutions fulfilled all the monetary provisions of the Royal Decrees, carrying out their operations in Belgium. Metal currencies were struck by the Belgian Royal Mint while the National Bank of Belgium was instructed, on an

'at need' basis, without a general mandate, to execute the King's orders regarding Congo's monetary matters, such as the purchase of silver metal required for the strike of coins to be sent to Congo, as mentioned earlier.

The first banking institution to settle in Congo was the Banque du Congo Belge created in 1909 on the initiative of Banque d'Outremer, a name given in May 1899 to the Compagnie Internationale pour le Commerce et l'Industrie founded in January of the same year with capital of F32.5 million (Banque du Congo Belge, 1960). The creation of a Congolese banking institutional framework started, therefore, at the beginning of the colonial era, which will be examined in Chapter four.

There was no doubt about the economic and financial motivation of King Leopold II, who once wrote: "If Belgium, which already possesses its railways, could add to them some new Java, one might be able to hope for a reduction in the salt duty, the suppression of customs dues, etc., etc., etc., all achieved without the slightest call on our own resources or on current expenditure... " (le Febve de Vivy, 1955: 31). On the other hand, the 1884/1885 Berlin Conference (February 1885) agreed that Congo should be the personal property of Leopold II. The Belgian Parliament approved this provision on 28 April of the same year with the following text: "His Majesty, Leopold II, King of the Belgians, is authorised to be the chief of the state founded in Africa by the Association Internationale du Congo (International Association of Congo). The union between Belgium and the new State of Congo shall be exclusively personal" (Hennessy, 1961: 19). Furthermore, the Berlin Conference set up a number of regulations, the most important of which are the following, aimed at organising trade within the boundaries of the Congo basin: "(1) The trade of all nations shall enjoy complete freedom. (2) All flags,

without distinction of nationality, shall have free access. (3) All differential dues on vessels, as well as on merchandise, are forbidden. (4) No power which exercises or shall exercise sovereign rights in the above-mentioned regions shall be allowed to grant therein a monopoly of favour of any kind in the matters of trade" (Wack 1905: 110).

Since the Congo Free State was founded as a private property the King was to bear the first few years' expenses out of his personal fortune before he received any return from his patrimonial lands. First of all there were the everyday administration expenses. Secondly there was a costly and urgent programme to be undertaken for vast areas of the State territory that remained unoccupied, to prevent the Arabs from advancing down into the State's lands. Finally, to enable economic exploitation of the possession, it was urgent that a railway be built between Matadi and Stanley Pool (Kinshasa) to overcome the non-navigability of the River Congo in that region (Slade 1962).

It is estimated that between 1878 and 1885 the King spent more than F10 million on funding a series of expeditions through Congo (Stengers, 1956). At the creation of the Congo Free State the King assured the Belgian Parliament that the new State would request no money or agents from Belgium. Nevertheless, given that the Berlin Act had forbidden the imposition of import duties within the area of the Congo basin specified in the Act, apart from funds provided by the King, the State depended almost entirely, in the first years of its existence, on export duties from ivory and rubber, as these were the main products likely to provide a quick return.

3.3.2. Financial and Development Policy

3.3.2.1. Loans and Financial Assistance

In view of the conditions mentioned in the preceding section, as early as 1887, King Leopold was to admit that the Congo State could not continue on such a weak financial basis. As a consequence, on the one hand, he undertook to seek funds from the Belgian Government and, on the other, he decided later on that the State should undertake commerce on its own account. As a starting point, a Royal Decree of 5 July 1887 created a debenture loan of F11.087 million, representing funds received from the subscribers of the *Comité d'Etudes du Haut-Congo* to cover expenses of the latter, of which the outcome was transferred to the Congo Free State. The loan bore 2.5 per cent interest starting from 1900. Following the cancellation of F10.665 million due to the King out of the total amount, a balance of F422,000 remained due (Stengers, 1956). [4]

In response to a request by the King in 1886, a law of 29 August 1887 authorised the issuing in Belgium of a 5 per cent loan of F150 million, in F100 notes, redeemable by six drawings over 99 years. The authorisation was granted "provided that it would never imply any liability or financial and legal responsibility likely to bind Belgium, due to the union of the two Crowns"

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[4] In November 1878, King Leopold II invited representatives of important financial interests from England, France, Germany, Holland and Belgium. He persuaded them to form a Comité d'Etudes du Haut-Congo, for the purpose of studying "trading prospects in Congo and the possibility of building a railway to round the cataracts on the river Congo between Matadi and the Stanley Pool" (Slade, 1962: 37). The subscribers (i.e. members of the Comité) raised funds amounting to F11.087 million intended to cover expenses relating to the mission of the *Comité*. Soon after its creation, the Comité was dissolved and King Leopold II made use of his personal funds to return the subscriptions. This allowed him to take full control of the Congo enterprise (Slade, 1962). The results of the studies financed by these funds were transferred to the Congo Free State created in 1885. To represent the debt of the latter in this respect, the King issued a Decree on 5 July 1887 to authorise a debenture loan of F11.087 million at 2.5 per cent interest starting from 1 January 1900. King Leopold II cancelled the certificates, representing an amount of F10.665 million, which was due to him. The debenture loan was consequently reduced to the balance of F422,000 (Heenen, 1955).]

(Heenen, 1955: 267). This provision was made to reassert the separation of the Belgian and Congolese financial holdings, especially at a time when Belgium was still most doubtful about the Congolese venture undertaken by the King.

In accordance with the law of 29 August 1887, a Decree of 7 February 1888 authorised a F150 million lottery loan intended to promote the development of industry in Congo. For this purpose the Congo Free State signed an agreement of 8 February 1888 with the Société Générale, the Banque de Paris et des Pays-Bas, the Banque de Bruxelles, Mr L. Lambert, Mr Philippson, Mr Horwitz and Co, Mr Cassel and Co, and Mr Balser and Co, for the issuing of the first 100,000 bonds with a nominal capital of F10 million (Cattier, 1906). In the end the lottery loan issue raised only F98 million, which was considered no more than a partial success (Keith, 1919).

In terms of direct financial assistance from Belgium, the Congo Free State received a first loan of F25 million in 1890 based on an agreement of 3 July, approved by a law of 4 August of the same year (Cattier, 1906). The origin and clauses of this loan are analysed as follows. In August 1889, the King's will was published, providing that at the death of Leopold II, Congo would pass to Belgium. In 1890 the financial situation of the State was so serious that the King sought to borrow straight away from Belgium F25 million against the possibility of annexing Congo ten years later. Following this, the Belgian Government provided the Congo State with a loan of F25 million of which F5 million were paid immediately and the balance in 10 annual instalments of equal amount (Heenen, 1955).

On the occasion of this loan the King committed himself not to borrow on behalf of the Congo Free State without the consent of the Belgian Parliament. However, regardless of this commitment, in 1892 he borrowed from an Antwerp

banker, Mr Browne de Tiège, F5 million payable in 1895 against 4,000,000 acres of land in the Congo as security (Cattier, 1906). In Autumn 1894, as the loan was unlikely to be repaid, in order to raise the required funds, the King signed a secret Decree to create, with an English syndicate, the Société Générale de Culture to which lands were to be sold in the Maniema and Arwimi regions as well as around Lake Leopold II and Lake Tumba. The Decree stipulated that the State would keep the right to collect natural products of the lands for fifty years and take two-thirds of the profits from their sale. Later on the Belgian Government asked King Leopold II to withdraw the Decree and renew the promise that in the future he would not borrow large sums of money without the consent of the Belgian authorities, i.e. the Government and Parliament (Stengers, 1949).

In view of this, a law of 29 June 1895 authorised the Congo Free State to receive another loan of F6,850,000. Of this loan, F6,753,825 were received the same year, and F93,551.12 in 1896. The balance of F2,623.88 was carried forward and cancelled in 1897. The total amount of F6,847,376.12 received was essentially used as follows: (1) F5,287,415.65 to reimburse the loan from an Antwerp banker mentioned earlier, which was due on 1 July 1895, and (2) F1,517,000 to remedy insufficient budgetary resources for 1895 and 1896. (Stengers, 1956).

Some other loans were authorised by Royal Decrees, between 1896 and 1904, payable by the Congo Free State. A Decree of 17 October 1896 created 4 per cent bearer bonds for a nominal capital of F1.5 million. A Decree of 14 June 1898 authorised another loan for a nominal capital of F12.5 million issued on the same conditions as the previous one. No term was fixed for the reimbursement of the two loans. A Decree of 15 October 1901 created 4 per cent bearer bonds for a nominal capital of F50 million, payable in 90 years. This was followed by another Decree of

1 February 1904, which created 3 per cent bonds for a nominal capital of F30 million (Cattier, 1906).

Table 3.8: Congo Free State Loans, 1887-1907

Year	Legal basis	Interest %	Duration Redemption Other conditions	Capital (in F)
1887	Decree 5/7/1887	2.5	–	422,000
1888	Decree 7/2/1888	5	99 years 6 annual drawings	150,000,000
1890	Law 4/8/1888	3.5	subject to annexation renouncement	25,000,000
1892	–	–	secret deal with Antwerp banker	5,000,000
1895	Law 29/6/1895	4	to reimburse Antwerp banker 5,287,415	6.850,000
1896	Decree 17/10/1896	4	bearer bonds	1,500,000
1898	Decree 14/6/1898	4	bearer bonds	12,500,000
1901	Decree 10/15/1901	4	bearer bonds	50,000,000
1904	Decree 2/1/1904	3	bearer bonds	30,000,000
1906	–	4		150,000,000
1907	–	–		649,000

Source: compiled by the author, based on Cattier (1906), Keith (1919) and Heenen (1955)

King Leopold II's financial policy was marked by a striking lack of information on the purpose for which borrowed funds were used. One of the reasons allegedly put forward to justify the dramatic increase in public expenditures of the Congo Free State and recourse to borrowed funds between 1885 and 1891 was the cost of military campaigns against Arabs to end the slave trade and to quell the Batetela rebellion. Table 3.8 lists loans the Congo Free State received between 1887 and 1907.

In addition to these direct loans the Congo Free State received financial assistance from Belgium insofar as the latter provided the Congo with military and diplomatic services paid by the Belgian budget and not included in the expenses payable by the Congo Free State. With regard to military services, starting from the early beginning of his African venture, King Leopold II had recourse to a number of Belgian army officers, who undertook military and administrative tasks that contributed to shaping the Congo. The cost of these services over the entire era of the Congo Free State amounted approximately to 8.07 million Belgian Francs (BF), including BF7.05 million, as cost of direct services provided by Belgian officers, and BF1.02 million as an additional pension cost for the families of officers who died in Congo. The cost of diplomatic services paid by the Belgian Government between 1885 and 1908 on behalf of the Congo Free State was estimated at BF200,000 (Stengers, 1956).[5]

3.3.2.2. Concessions, *Domaine Privé* and *Domaine de la Couronne* Policy

With regard to the direct involvement of the State in industrial and commercial activities, the King referred to the principle of *terres vacantes* (vacant lands) proclaimed in 1885. This principle stated that apart from the lands occupied by the local people, over which they were to keep their rights, all other lands considered 'vacant' were to belong to the State. As a result, the Administrator-General of the Congo Free State promulgated an Ordinance dated 1 July 1885, of which article 2 stipulated that (1) no one had the right to occupy *terres vacantes* nor to dispossess the local people of the land they occupied and that (2) *terres vacantes* should be

[5] As will be explained in Chapter four, prior to the First Second World War, the only currency mentioned in documents relating to Belgium and Congo was the Franc, symbol F, i.e. the Belgian Franc. The distinction between Belgian Franc (BF) and Congolese Franc (CF) was introduced after the First World War.

considered State property. Furthermore, the King issued a Decree of 14 September 1886, which stated that traditional laws and customs should regulate the land occupied by the local population. In addition, another Royal Decree of 30 June 1887 stipulated that foreigners who wanted to purchase land should negotiate with the inhabitants, provided that the agreement eventually concluded was subject to a final approval by the Administrator-General of the State (Bulletin Officiel, 1887).

The same rule was later on adopted by other colonial powers in Equatorial Africa. Britain granted British Imperial East Africa Company the right to exploit vacant lands in 1888. In the French Congo and Tanganyika, the right of vacant land was also established and implemented in 1891 and 1895 respectively. However, in general, colonial powers, such as Britain, Germany, France and Portugal, defined the vacant lands and the rights of the local population in a manner that was more generous in relation to the local population than was the case in Congo (Cattier, 1906). With regard to Congo, no step had been taken so far to define the limits of the land regarded as belonging to the local people or of the lands declared vacant. In this respect a Decree of 9 August 1893 stipulated that the local people were allowed to cultivate only the lands surrounding and close to their village, or vacant lands sold or let by the State to private individuals (Cookey, 1968).

As a result of the considerable returns earned from successful rubber collection, the State land policy was dramatically extended. Strict implementation of the provisions of this policy resulted in the local population being denied the right to gather any product from the forest, especially from the State and Crown lands. In the end local people were even no longer allowed to move their village from a site considered unsuitable to one that was more acceptable for safety, hygienic or economic reasons (Cattier, 1906)

On the other hand, in apparent compliance with the 1884/1885 Berlin Conference provisions aimed at promoting free trade, King Leopold II issued a Royal Decree of 22 August 1885, which requested that foreigners should have the lands they occupied in Congo registered at a fee of F25. In the meantime, the Decree of 30 June 1887 mentioned earlier stipulated that merchants in the Upper Congo were allowed to "occupy lands up to 10 hectares without formal authorisation from the government" and to "own the land if they paid F100 as costs of its demarcation" (Cookey, 1968: 8).

The foundation of the King's financial policy consisted in granting concessions to various companies in which he took substantial shares to provide himself with a large part of any profit earned. In order to achieve this goal a system of labour-tax was established, where individuals were required to work for a defined period of time for a minimum payment, and the largest part of the work was counted as tax payment. As the State public administration was understaffed, it was necessary to entrust commercial agents with legislative authority all over the State territory. These commercial agents were designated as chief in the region where they operated. Each chief in the field was, therefore, authorised to collect taxes on the basis of this mode of payment, which gave rise to numerous abuses (Hennessy, 1961).

Starting from 1891, as the State launched the regime of labour-tax it managed to hinder the settlement of colonists in the region of Upper Congo that had been established as State land. On 4 May 1893 the Governor-General received an order from King Leopold II to abrogate the fairly liberal Decree of 30 June 1887 mentioned earlier in order that any potential witnesses who might report on

brutalities of the State agents in the process of labour-tax collection would be obliged to leave the region (Cattier, 1906).

This policy contradicted the statement of the Association Internationale du Congo made on 22 April 1884 for the attention of the United States. By this statement the Association guaranteed that it would grant foreigners who decided to settle on its territories "the right to purchase, to sell or to rent lands and premises, to establish trading houses and to trade under the only condition to comply with the law" (Cattier, 1906: 27). The same principle was included in agreements the Congo Free State signed on 8 November 1884, 16 December 1884, and 19 December 1884, with Germany, Britain and Italy respectively.

The basic objective of the Berlin Conference was to facilitate access to Africa for all trading nations, the reason why article 5 of the Berlin Act stated that "foreigners should indistinctly enjoy the same regime and rights as the nationals for the protection of their persons and possessions, for the acquisition and transfer of their movable and immovable properties" (Cattier, 1906: 28). In view of the new provisions established in the field it became more and more obvious that King Leopold II was determined to implement his own financial policy, regardless of any international agreement to which he formally subscribed. [6]

[6] The Association Internationale Africaine created in 1876 was originally presented as a philanthropic organisation. As early as 25 November 1878 it was instead transformed into a commercial undertaking under the name of the Comité d'Etudes du Haut Congo, in which British, Dutch and the King's interests were associated, and the King held the largest share. In February 1882 Adolphe Gillis established in Boma the first trading company of a series of several companies that were established thereafter across the State by order of and with financial support from the King. Those companies were intended to serve as a means of enabling the King to acquire a diversified portfolio of shares in his personal interest. Also in 1882, King Leopold created an entity called the Association Internationale du Congo, he intended to be, in due course, regarded as an important political organisation, as mentioned in Chapter one. In fact, at the 1884/1885 Berlin Conference, King Leopold II presented and obtained the recognition of the Association Internationale du Congo as the founder of the Congo Free State. (Slade, 1962).

In November 1885, a syndicate of English investors was formed to promote the creation of a company whose main object was "to establish direct and regular communication between the Upper and Lower Congo by constructing a railway and placing light-draught steamers on the river", from Banana, mouth of the river Congo, to Stanley Pool (Kinshasa) (Anstey, 1962: 191). Although the British syndicate failed to sign an agreement with the Congo Free State, it is worth considering the main provisions of the proposal it put forward. The interest in such an analysis lies, as will be explained later, in the fact that King Leopold II used the British proposal as a model for the financial policy he implemented on a large scale to organise the economic exploitation of the Congo Free State.

The cost of the line (approximately 250 miles) was initially estimated at £1 million. The investors looked forward to making a profit, as carriers, from the trade that the railway would bring about. Furthermore they offered "to actively participate in the economic development of the Congo" (Anstey, 1962: 192). In this respect "they sought powers to develop land, to acquire the assets of any trading concern, to open trading stations and to carry on trade at any place within the territory of the State or elsewhere, and to carry on mining, banking, or any industrial enterprise, including transport by road, rail, or water, and any other commercial undertaking which might be of advantage to the enterprise... " (Anstey, 1962: 192) They also proposed that the company should have "the first option of acquiring or undertaking any railway, canal, or road projected or to be made" (Anstey, 1962: 193).

It was provided that the company would carry the whole of the State Government's traffic between Vivi (Matadi) and Stanley Pool (Kinshasa) for a Pound Sterling (GBP) 10,000 yearly payment during the first ten years of operation

(Anstey, 1962). Moreover, the company would be given the right of customs collection over the whole length of the river. It would retain 50 per cent of the revenues collected after deduction of collection expenses. King Leopold was invited to be the honorary president of the company, to be credited with shares to the value of one-twentieth of the paid-up capital, and to have the right, extended to his heirs and successors, to appoint one director. The proposal provided that the company would have to be British (Anstey, 1962).

As a result of further amendments the final proposal, signed as a provisional agreement on Christmas Eve 1885, provided that the company would take the name of The Royal Congo State Railway and Navigation. It would receive concessions by Royal Charter, and enjoy the first option to construct or acquire any other line of communication for fifty years only. The company "would receive 40 per cent, and not 50 per of customs duties, and only in respect of export duties if such ever came to be levied, and only to the extent necessary to make possible a dividend of 6 per cent on the capital of the line of communication". The new version made no reference to the collection of customs duties by the company or to the clause, in the earlier version. providing that "the Free State should redress to the company for any neglect or misadministration affecting the company by the officials of the Congo State or any person over whom the State shall have jurisdiction" (Anstey, 1962: 194).

The State would designate two directors instead of one. The proposal for an agreement with the Congo Free State, intended to reserve to the British Government the right to intervene for the protection of the company in the event of interference by a third Power was abandoned. Another important provision that was added stipulated that no clause of the agreement was to be interpreted in a

sense contrary to the 1885 Berlin Act, considered to be the formal and immediate outcome of the Berlin West Africa Conference. The amended proposal also provided that subscriptions to the GBP1 million capital up to an amount of GBP50,000 in each country were first to be "sought in the fourteen States represented at the Berlin Conference, unsubscribed shares only then being offered in London" (Anstey, 1962: 194).

Despite several further amendments and the prospect of a second British consortium envisaged by manufacturers of railway material and Yorkshire ironmasters, the negotiations failed to resolve disagreements regarding a number of issues, such as the question of jurisdiction. In this respect, in the absence of published Congolese laws, the Congo Free State claimed that any disputes between the State Government and the company was to be treated according to Belgian law. Also the syndicate firmly insisted that "any actions between the Congo Free State and the company should be brought before British courts, and that the company should be unequivocally regarded as a British registered and based company" (Anstey, 1962: 195). In fact the main reason why King Leopold showed little eagerness to sign with the syndicate was the hope he nurtured of raising money for the Congo railway by himself, consequently avoiding the syndicates' conditions and British domination.

On 12 September 1886 the Congo Free State authorities rejected the draft charter put forward by the syndicate on the grounds that "acceptance would compromise the sovereignty of the Congo State", while some of the terms of the proposal infringed the Berlin Act, as they would imply a real monopoly (Anstey, 1962: 198). In fact, the reason for the failure of the negotiations overall was the growing opposition of groups representing Belgian financial and industrial

interests. These groups, obviously supported by the King, became increasingly resistant to any international interference in a project that was to be especially Belgian (Keith, 1919).

On 9 February 1887, the person most active in this campaign, the Belgian Captain Thys, was instrumental in the creation of the Compagnie du Congo Pour le Commerce et l'Industrie. In March of the same year the latter concluded a new arrangement with the Congo Free State, for the construction of the railway. In return "for surveying the route of the railway within eight months, the State committed itself to concede to the Compagnie du Congo pour le Commerce et l'Industrie 150,000 hectares of land". Moreover, "if the company agreed to construct the line, the State guaranteed to concede to it all the lands the company might desire to obtain within a zone of 200 metres on each side of the track as well as 1,500 hectares of land for each kilometre of track laid and opened to traffic". In July 1889, the Compagnie du chemin de Fer du Congo was established with a capital of BF25 million, of which the Belgian Government provided BF10 million at 3.5 per cent interest (Cookey, 1968: 7-9). The company received an initial concession of 4,000,000 hectares with provision for an increase in this area in line with a raise in the initial capital of BF25 million. It took the name of Compagnie des Chemins de Fer du Congo Supérieur aux Grands Lacs Africains by a Decree of 2 January 1902 (Bulletin Officiel, 1902) (Cattier, 1906).

The Congo Free State required more resources for its development than the amount it could raise from implementing the existing financial clauses of the 1885 Berlin Act; the King therefore undertook to have these clauses changed. By exploiting popular sentiment that favoured suppression of the slave trade, King Leopold II sought means of reopening the question of restrictions regarding the

imposition of import duties before the expiry of the twenty-year period prescribed by the Berlin Act (Slade, 1962).

The Brussels Conference convened for this purpose in November 1889 brought together 17 major colonial and industrial powers. It focused essentially on the issue of liquor traffic and means of increasing resources to be devoted to the effective suppression of the slave trade. A declaration attached to the General Act of Brussels Conference stipulated that powers which had territories in the free-trade zone as defined in the Berlin Act should be at liberty to levy import duties. The rate was not to exceed 10 per cent *ad valorem* on the value of the goods at the port of entry, except in the case of liquor duties expressly regulated by the Act. The declaration also considered the establishment of a general set of customs regulations.

This provision was of the greatest importance to King Leopold II who immediately undertook to draw up the needed customs tariff, which nevertheless failed to produce the anticipated amount of revenue, due to subsequent changes in policy. One of these policy changes, which led to a significant decrease in import duties, was the prohibition of the import of firearms within the area between the two oceans (Atlantic and Indian) from latitude 20° North to latitude 22° South. Trade in firearms was considered "to be playing a pernicious and preponderating part in the carrying on of the slave trade and in the intestine wars of the natives" (Keith, 1919: 79). This underperformance partially explains why, despite his commitment not to borrow without the consent of the Belgian Parliament, the King borrowed BF5 million against 40 million acres of land as security in 1892 from an Antwerp banker, repayable in 1895 as mentioned earlier.

Furthermore, the Congo River was a common boundary between the Congo Free State and territories occupied by France, so that access to parts of the French territory was easier through the Congo Free State. Also, the Portuguese had no ports on their side of the river and used, instead, those of the Congo Free State. In view of this situation, the Congo Free State, France and Portugal entered into negotiations in order to fix the terms for exercising the right to raise import duties as allowed by the Brussels Act. In April 1892, the three countries signed an agreement to set up a uniform tariff for customs and export duties in the western part of the Congo basin. After a number of periodical renewals, this arrangement ceased in July 1911, mainly because France was no longer interested and instead exerted pressure for reopening the question of the rate of taxation permitted (Keith, 1919).

Until 1890 State officials and European traders were competing over the same areas to purchase ivory and rubber. The former were paid a commission on the products they bought and therefore behaved as fierce rivals of the latter. In 1891, in order to address the problem of insufficient resources, the State Government began considering the idea of systematically exploiting the "vacant lands" mentioned earlier, which would enable the State to generate the means needed to achieve its goals. In September of the same year a secret Royal Decree ordered State officials in the Arwimi and Ubangi-Uele basins to secure all the ivory and rubber they could on behalf of the State (Slade, 1962). The Société Belge du Haut-Congo operating in that area protested against State officials' involvement in the ivory trade. The King paid no attention to the objections and, instead, encouraged an Englishman, Colonel North, and the two Browne de Tiège brothers, the Antwerp bankers mentioned ealier, to create a group of commercial companies

in Antwerp, to which the State granted large concessions of land (Stenmans, 1949). In 1892 several circulars were issued forbidding local people from selling ivory or rubber to private traders.

Despite the resignation of the Governor-General of Congo in protest, and the strong opposition expressed by several of his Belgian close assistants, the King ignored the disapproval (Slade, 1962). In October 1892 he issued another Decree, which defined the scope of "vacant lands" in more explicit terms than the 1891 one. As a result, about half of the area of the State, to be known as its "Domaine privé", created by a Decree of 5 December 1892, in accordance with the Decree of October of the same year, (Bulletin Officiel, 1892), was reserved for the exclusive exploitation of the State itself (Cattier, 1906: 65). For example, while part of the Kasaï region remained open to private traders, almost all the territory north of the Equator was reserved for the State (Slade, 1962).

The Anglo-Belgian Indian Rubber Company (ABIR), formed in 1892 with Colonel North, mentioned above, as Chairman was granted the right to exploit the lands in the Lopori and Maringa basins for 30 years. Further investigations revealed that Colonel North invested no money in the business but instead served as representative of the King's interests (Waltz, 1917, cited by Anstey, 1962). Soon afterwards, the Mongala basin was entrusted to the Société Anversoise du Commerce au Congo for 50 years. However, on 1 July 1892, following persistent public criticism of the company's cruel treatment of local people, the State took over the company for a period of 15 years (Cattier, 1906). In October 1892 the Duke of Saxe-Coburg-Gotha, who was directly related to the Belgian royal family, was granted a concession around Lake Leopold, (now called Lake Maïndombe).

Table 3.9 indicates the most important concessions created in accordance with this policy of 'vacant lands' and concession-granting initiated in 1891.

Table 3.9: A cluster of large concessions

Name of company	Date of creation	Location	Surface (hectares)
Compagnie du Katanga			
	15/04/1891	Lualaba basin	1/3 of
created:			State land
Syndicat Commercial du Katanga		above	
	21/10/1891	Riba-Riba	
became:			
Compagnie du Lomami			
	July 1898	and	
replaced by:		Upper-Lomami	
Comité Spécial du Katanga			
	19/06/1900		
Comptoir Commercial Congolais	26/07/1895	Wamba basin	_
Compagnie des Chemins de Fer du Congo Supérieur aux Grands Lacs Africains	02/01/1902	Between Kisangani and Lake Albert (Lake Mobutu)	4,000,000
Société d'Etudes du Chemin de Fer du Stanley Pool au Katanga et de L'Itimbiri à l'Uélé et à un point à déterminer sur la frontière franco-congolaise	14/03/1903	Uele basin Kisangani	10,000 10,000
Compagnie du Kasaï comprised 15 companies owned by: Private interests: 50% King Leopold II: 50%	31/12/1903	Kasaï basin	the whole Kasaï basin

Source: compiled by the author based on Keith (1919); Cookey (1968)

A Decree of 8 March 1896 enlarged this concession and gave it the name of Domaine de la Couronne (Crown land), personal property of the King; however, the first mention of this Domaine in the Bulletin Officiel was as late as 1901. By another Decree issued on 23 December 1901 the 'Crown land' was granted legal status; it covered a total rubber-producing territory of 289,375 square kilometres, which included the basins of the Lukenie and Bussira-Momboyo rivers, in addition to the Lake Leopold area (Cookey, 1968).

In the southeastern region of the country, King Leopold II set about extending the influence of the Congo State to Katanga. As a result, the Congo Free State and the Compagnie du Congo pour le Commerce et l'Industrie concluded an

agreement on 15 April 1891 for the creation of the Compagnie du Katanga, whose mission was to exploit this southeastern region of the State (Cookey, 1968). The company was also entrusted with carrying out military functions on behalf of Leopold II. The reason for this was that Msiri, the local chief and a powerful slave trader, had been charged by the colonial authorities with the criminal offence of ruling as though it were an independent State a region regarded under the Berlin Act as part of the Belgian King's possession. Msiri refused in 1891 to allow King Leopold's agents to hoist the Congo Free State flag in the land of which he declared himself to be the sole master, namely the Kingdom of Garenganze. During a subsequent heated discussion, a Belgian officer killed Msiri (Shillington, 1989, 1995).

The Compagnie du Katanga was granted ownership of one-third of the State lands in the two separate river basins of the Lualaba above Riba-Riba and of the Upper Lomami, while two-thirds remained in the King's hands. The agreement stipulated the sharing of the region's administration and exploitation between the State and the company.

On 21 October 1891, in order to exploit its lands, the Compagnie du Katanga created the Syndicat Commercial du Katanga, whose activities were to cease as early as in May 1892, due to the Arabs' destabilising activities in the region (Keith, 1919). The Syndicat reappeared in July 1898 under the name Compagnie du Lomami (Cookey, 1968). In 1898, the Congo Free State succeeded in repelling an attempt by Arabs to occupy Katanga, and found itself in a position to reinforce its active role in developing of that region. At this prospect a new entity called Comité Spécial du Katanga was created on 19 June 1900, with the right to exploit the land and minerals in Katanga for 99 years.

In fact the Comité Spécial du Katanga was created after Robert Williams, a Scottish engineer who possessed mining concessions in the north of Rhodesia, on the edge of Katanga, discovered gold in the tributaries of the river Lufira, on the Congolese side. The circumstances of this discovery urged the Congo Free State and the Compagnie du Katanga to sort out a number of difficulties in interpreting the agreement of 15 April 1891 with the Company and speed up exploitation of the region's resources in order to forestall external designs on this wealthy region (Cookey, 1968).

Another Royal Decree issued on 6 December 1900 granted the Comité legal status and gave it responsibility for all administrative functions in Katanga, except the administration of the legal system justice, taxation and postal services (Keith, 1919). The Comptoir Commercial Congolais was formed on 26 July 1895 to exploit the basin of the Wamba. The Compagnie des Chemins de Fer du Congo Supérieur aux Grands Lacs Africains, which was created on 2 January 1902 for the construction of the railway from the Stanley Falls to the upper lakes, received 4,000,000 hectares located between Stanleyville (nowadays Kisangani), and Lake Albert (renamed Lake Mobutu during the latter's regime). The Société d'Etudes du Chemin de Fer du Stanley Pool au Katanga et de l'Itimbiri à l'Uélé et à un Point à Déterminer sur la Frontière Franco-Congolaise, founded on 14 March 1903, received 10,000 hectares, to be chosen from among "vacant lands" in the Uele basin, and another 10,000 hectares on the left bank of the River Congo below Kisangani. The Compagnie du Kasaï, created on 31 December 1901, received the whole Kasaï basin. Fifteen private companies that survived the fierce scramble for this region controlled 50 per cent of the latter company's shares while King Leopold held the other 50 per cent (Cookey, 1968). In the areas outside the

Domaine privé the State granted several large concessions to various groups, to such an extent that by the early 1900s most of the territory of the Congo State was divided into concessions and monopolies, as can be seen from the related map in the Appendix section (Cattier, 1906).

3.3.3. Financial Returns of King Leopold II's Investment Policy

In terms of revenues and expenditures, the peculiar legal nature and economic background of the Congo Free State resulted in a financial history characterised by two contrasting aspects. On the one hand, there was the State Government Budget showing, for the period prior to the already-mentioned constitution of the Domaine privé by a Decree of 5 December 1892, a lack of internal resources and a need for borrowings in large amounts from the Belgian State and other lenders. On the other hand, there were large profits accumulated essentially from the exploitation of the Domaine privé and Domaine de la Couronne, evidence of which was brought to the world's attention by various accounts of travellers, religious missionaries and diplomats established in Congo and by investigations conducted by the Morel's Congo Reform Association (Stengers, 1950).[7]

The Belgian King Leopold II who undertook the Congo venture as a personal business had spent a large portion of his fortune for this purpose, as indicated earlier in this section. In this respect, the Congo enterprise was considered a personal investment from which he expected consistently significant economic and financial returns. Beyond his personal interest, the King's colonial

[7] The Congo Reform Association (CRA) was founded in December 1904 in Britain and extended later to the United States by a British citizen, Edmond Morel, assisted by Sir Roger Casement and backed by Liverpool financial and industrial interests, to denounce the exploitation system set up by King Leopold II in the Congo Free State regardless of the provisions of the 1885 Berlin Act relating to the Congo basin. The CRA led to public outcry and legislative hearings in Europe and the United States relating to Leopold II's monopoly position, granting of concessions, the forced-labour policy,

doctrine was, indeed, driven by his concern for the needs of Belgium's economy. Congo was therefore seen as a commercial enterprise to increase Belgium's well-being. (Slade, 1962)

However, in view of the initial expenditures mentioned earlier, such as war against Arabs and construction of the Matadi-Kinshasa railway, as well as day-to-day administrative expenses, for the first few years the revenues of the Congo State were dramatically insufficient. The situation was aggravated by the provisions of the Berlin Act, several times referred to in this chapter, which had forbidden the imposition of import duties within the agreed boundaries of the Congo basin. As a result, the State depended almost entirely upon export duties imposed on ivory and rubber, which were then the main – if not the only – export products. Even if direct taxation on trade and industrial activities had been established it would not have generated sufficient resources for the State, due to the small volume of the import/export trade at that time.

Table 3.10: Official export revenues, 1887-1890

Year	Export revenues in F
1887	1,980,441.45
1888	2,609,300.35
1889	4,297,543.85
1890	8,242,194.43

Source: Bulletin Officiel de l'Etat Indépendant du Congo, N° 4, Apr. 1891

The creation of both the Domaine privé and the Domaine de la Couronne was, therefore, an answer to the concerns that arose from the considerations above. And yet, prior to these provisions, from the very first years of the territory's exploitation, the Congo venture proved to be promising. Though insufficient with regard to the State's need for resources, the official export revenues achieved

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and the brutalities inflicted on the local population by the Congo Free State authorities (Cattier, 1906).

between 1887 and 1890 were encouraging, since the relevant figures had more than quadrupled over four years, as shown in Table 3.10 above.

3.3.3.1. Fiscal Returns from the *Domaine Privé*

Exploitation of the Domaine privé, whether directly by the State itself or indirectly through concessionary companies, required workers. Two key measures were taken for this purpose. The first was the establishment of a labour tax, which forced local people to work in order to pay, with their labour, their fiscal duties. This labour tax was established on the grounds that the local population had no pecuniary resources, and possessed nothing but their huts, tools and plantations for subsistence purposes. It was added to the existing tax payable in kind, which until then the State had applied for the same reasons. In this respect the local people were generally forced to deliver a fixed volume of products, such as rubber, groundnuts, or supplies such as cassava bread for soldiers of the Force Publique (State army), or livestock and game meat for Belgian colonial civil servants. In some other cases, they had to perform chores, such as woodcutting, plantation maintenance, paddling or porterage (Cattier, 1906).

Prior to 1903, there was no legislation of any kind intended to regulate the tax per capita payable by the local population. This meant that the State officials and the company agents were free to levy whatever taxes they liked, to collect them by any means they chose, and to impose any punishment they liked in case of failure to pay. In this respect, failure to deliver products or complete tasks assigned was severely punished by various means characterised by arbitrary cruelty and humiliation inflicted not only on the guilty individual but also on the whole community of which he was a member (Cattier, 1906).

For a long time the Royal Decree of 5 December 1892 that ordered the State Secretary to take all necessary steps to enable exploitation of the State lands served to justify the right of the State Administration to impose labour tax. And yet a decision of the Court of Appeal of Boma, the capital of the Congo Free State, pronounced on 29 August and 8 September 1903, declared it illegal to force local people to work (Cattier, 1906). According to this decision the tax per capita collected from 1892 to 1903, and paid in kind (i.e. goods or hours of labour) by the local population was, therefore, levied unlawfully. Local officials brought this lacuna in the law to the attention of the Governor-General but the latter did nothing to legally fill the gap, as everybody could get something out of the existing practices (Commission d'Enquête, 1905). A Decree of 18 November 1903 (Bulletin Officiel, 1903) fixed the per capita tax on the local population at 40 hours' labour per month. This rate was to be considered a maximum, to be reached gradually, but in practice, there was little change in relation to the previously established practices.

The objective of the second measure was to urge the local population to work for remuneration. Both the State and the concessionary companies were free to determine the amount of labour required and the related remuneration or fiscal charge. State officials were poorly paid and, moreover, like the company agents, they were paid a commission on the volume of rubber and ivory collected. As a result, the more rubber and ivory collected, the higher the commission paid, or the greater the chance of being promoted (Keith, 1919)

The instructions of the Governor-General of the State stipulated that local people employed on the State lands should receive wages equivalent only to the cost of harvesting the product, regardless of the (much higher) market value of the

product. This statement was made on the ground that products collected from the State Lands were property of the State, not of the person who collected them. (Bulletin Officiel, 1896). However, in practice, the Governor-General dictated maximum wage levels without determining the minimum wages that District Commissioners were authorised to pay. As a result, wages were systematically far below the maximum authorised, and often paid in goods reckoned worthless (Commission d'Enquête, 1905).

The Commission d'Enquête (Commission of Inquiry), which the King set up under pressure from other European nations, described in severe terms the asymmetric nature of the system, which systematically worked to the advantage of the State and concessionary companies. It emerges from Table 3.11 that the proceeds of the per capita tax collected from the local population represented a significant share of total State revenues. Between 1891 and 1906 receipts from State land and per capita tax paid by the local people in kind (labour and products) amounted on average to 38.3 per cent of the State revenues (Cattier, 1906).

Table 3.11: Receipts from *Domaine privé* (in '000 F)

Year	Total receipts	State land & Tax per capita	% *
1891	4,180	_	_
1892	4,730	860	18.2
1893	5,440	237	4.4
1894	4,950	300	6.1
1895	6,000	1,250	20.8
1896	7,000	1,200	17.1
1897	9,370	3,500	37.4
1898	14,800	6,700	45.3
1899	20,000	10,200	51.0
1900	26,250	10,500	40.0
1901	30,750	17,425	56.7
1902	28,709	15,452	53.8
1903	28,090	16,440	58.5
1904	29,825	16,440	55.1
1905	29,936	16,500	55.1
1906	29,452	16,100	54.7

* Share of receipts from State lands and tax per capita in total receipts
Source: based on Cattier (1906)

Table 3.12 provides a comparison of tax paid by the local population of various African possessions of colonial Powers, for the period for which data are available, 1902-1904. It shows that Congolese taxpayers' contribution to the State revenues was much larger than the share collected from the local populations of the British East Africa Protectorate, German East Africa territories and from the French Congo. The individual contribution imposed on local people was so high that it led a large majority of the population to avoid paying tax, which was relatively easy in view of the scarcity of tax inspectors in such a vast territory.

Table 3.12: Congo Free State receipts compared with receipts of other African colonial territories

Period	Congo Free State		British East Africa		German East Africa		French Congo	
	Total receipts 000F	Tax per capita	Total receipts GBP	Tax per capita	Total receipts 000Marks	Tax per capita	Total receipts 000FF	Tax per capita
1902-1903	56,799	31,892 56.1%	408,600	14,698 3.6%	_	_	_	_
1903-1904	57,915	32,880 56.8%	365,000	24,177 6.6%	9,162	1,398 15.3%	4,500	180 4%

Source: compilation by the author based on Cattier (1906)

As a consequence, the whole financial policy of the Congo Free State resulted in a systematic impoverishment of the local population, in addition to the cruelties mentioned previously. As early as 1890, international opinion started to develop serious concern about the management of the Congo Free State. In 1890, an American visitor to the State denounced the violation of the Berlin Act by the Congo Free State, as the State "was engaging in trade on its own account and exempting itself from all financial burdens while taxing other traders" (Slade, 1962: 178). Moreover, numerous missionaries' reports mentioned "cruelties practised upon the Africans of the Congo State" (Slade, 1962: 178). In 1896 Sir Charles Dilke and Mr H.R. Fox Bourne formally launched an international campaign against the Congo Free State regime. The Congo Reform Association,

formed by Edmond Morel in 1904, as mentioned earlier in this section vigorously continued and extended this campaign, carrying out a series of investigations in Congo, which forced King Leopold II to establish a Commission of Inquiry the same year. The report of the Commission d'Enquête unveiled such atrocities that Paul Costermans, Vice-Governor- General of the Congo Free State, committed suicide (Hochschild, 1998).

3.3.3.2. Financial Returns from the Domaine de la Couronne

The foundation of a Domaine de la Couronne (Crown land), by a Royal Decree of 8 March 1896, is another cornerstone of the financial policy of King Leopold II, as an integral part of' his ownership of the whole Congo. In 1902, the Bulletin Officiel unveiled for the first time the existence of the Decree of 8 March 1896, along with another Decree secretly issued on 23 December 1901 (Slade, 1962). According to the provisions of the two Decrees the Domaine de la Couronne was granted the status of legal entity, to be managed by a Committee of three Directors appointed by the King. The Monarch held the power to determine how the Committee was to operate, which he did by a Decree of 22 July 1904, published in the Bulletin Officiel of December 1905 (Cattier, 1906). The regulations stipulated, among other provisions that in case of a vacancy the two existing Directors should elect a successor. This provision was intended to present the Committee with a semblance of autonomy vis-à-vis the King who had, in fact, power to revoke the mandate of a Director at any time. The Committee therefore had no real power and could not oppose any of the royal proposals.

The King granted the Domaine de la Couronne proprietorship of various areas, including, in particular the following: (1) all vacant lands in the basins of

Lake Leopold II and the Lukenie and Bussira Momboyo rivers; (2) six mines to be allocated in areas the Domaine had the right to determine; (3) any other properties and assets that might be given to the Domaine free of charge or not. The vacant lands around the basins of Lake Leopold II and the Lukenie and Bussira Momboyo rivers covered 289,375 square kilometres. This expanse represented 10 times the size of Belgium and about one-third of the total Congolese area reserved for rubber collection, which covered 1,026,875 square kilometres, or almost half the total area of the State (2,345,410 square kilometres). The provision granting the Domaine de la Couronne the right to select six mines was included in view of the prospect of discovering deposits of precious minerals (Cattier, 1906).

The figures relating to financial returns generated by the Domaine de la Couronne were kept secret. However, on the basis of the size of the lands held and in comparison with returns generated by the Domaine privé (State land) from exports of the same products – essentially, rubber, ivory and copal – Cattier (1906) suggested two scenarios which he created by extrapolating from figures for rubber exported by the State between 1896 and 1905, as follows.

The first scenario established an estimate of the share of the Domaine de la Couronne in the total volume of rubber exported by the State from 1896 to 1905, which amounted to 41,195 tons. The Domaine de la Couronne owned 28 per cent (289,375 square kilometres) of the areas regarded as rubber lands, covering in total 1,026,875 square kilometres, which represented 11,535 tons of rubber at an average net profit of F7,000 per ton, assuming in this respect that collection costs were paid by the Domaine itself. On this basis, the net revenues of the Domaine de la Couronne from the export of rubber amounted to 80,745,000 Francs (Cattier, 1906).

In the second scenario, Cattier (1906) compared the areas of both the Domaine privé and the Domaine de la Couronne, within the area known as rubber-producing lands, which were 242,000 and 289,375 square kilometres respectively. The area of the Domaine de la Couronne was, therefore, 1.196 times the that of the Domaine privé. According to budget estimates published in the Bulletin Oficiel, the net revenues generated from the Domaine privé amounted to F71,345,214, as shown in Table 3.13

Table 3.13: Returns from the *Domaine privé*, 1896-1905 (in F)

Year	State land & tax per capita receipts paid in kind by local population	Wages paid to local population	Transport, insurance & export duties	Net revenues
1896	1,200,000	_	_	1,200,000
1897	3,500,000	_	_	3,500,000
1898	6,700,000	1,690,000	1,528,711	3,481,289
1899	10,200,000	1,875,000	2,145,720	6,179,280
1900	10,500,000	2,237,690	2,950,715	5,311,595
1901	17,424,630	2,815,190	2,950,715	11,658,725
1902	15,452,000	2,802,190	2,950,715	9,699,095
1903	16,440,000	2,802,190	3,219,000	10,418,810
1904	16,440,000	2,802,190	3,719,600	9,918,210
1905	16,500,000	2,802,190	3,719,600	9,978,210
	114,356,630	19,826,640	23,184,776	71,345,214

Source: Cattier (1906: 216)

By extrapolation, the revenues generated from the Domaine de la Couronne were estimated at around F85 million (71,345,214 x 1.196). Taking into account a number of considerations aimed at weighting the estimates, the two valuation methods led to the conclusion that the revenues earned from the Domaine de la Couronne were somewhere between F70 million and 80 million (Cattier, 1906).

On 3 July 1903, Comte de Smet de Naeyer, Chief of the Belgian Royal Office (*Chef du Cabinet belge*), delivered before the Chamber of Representatives a speech which partially answered some of the questions relating to the objectives of the Crown Domain and to resources allocation. Concerning the objectives, the Chief of the Royal Office declared that the purpose of the Domaine de la Couronne

was to establish and subsidise, even after the death of the King, works and institutions of public benefit, such as institutions for colonial studies, and scientific or colonial health institutes. It was regarded that the benefits of these initiatives would in the long run extend to the Kingdom of Belgium, given the prospect that the Congo would belong to and, eventually, merge with Belgium (Cattier, 1906).

With regard to the allocation of resources, the Chief of the Royal Office advanced the view that, according to the rules governing the Domaine de la Couronne, the King was entitled to receive part of the surplus revenues after all expenses had been paid. King Leopold II had declared that he renounced this right for the duration of his reign. Furthermore, Comte de Naeyer argued that since the Domaine was carrying out activities that were outside the responsibilities of the Government, there was no reason to include its resources in the government budget. However, he made it clear that part of the resources of the Domaine could be used to finance budget deficits. In this respect, F700,000 served to cover part of the State budget deficit in 1900 (Cattier, 1906).

Moreover, about F20 million were used to finance the acquisition of a large number of properties in the Belgian regions of Brussels and Ostend alone. Many of the properties were acquired for the embellishment of Brussels and the coastal region of Ostend (Cattier, 1906). On the basis of officially certified purchase documents, Cattier established a list of these properties, providing all details, such as dates of the sale documents, notary's name, vendor's name and address, location, nature, content, and purchase price of the property. The list comprised hotels, villas, houses, woods, land, fields, gardens and stables, from which it can be concluded that not all of the properties were for a so-called public benefit. Part of the revenues not backed up by published figures was used to fund public works.

These comprised the construction of the Royal Palace of Laeken, erection of the Arcade du Cinquantenaire in Brussels for the celebration of the fiftieth anniversary of Belgian independence, and construction of a 'Colonial School' at Tervueren (Brussels). Resources generated by the Domaine de la Couronne served also to cover Press Bureau expenditures, as the latter was committed to ensuring press support for the Congo Free State, which had been violently attacked in the press for several years because of its economic, commercial and financial policies and the related atrocities (Cattier, 1906).

The institution of the Domaine de la Couronne resulted in depriving the Congo State of large amounts of its resources. This gave rise to such strong criticism that the Commission of Inquiry clearly condemned the overall financial policy implemented by King Leopold II in the Congo Free State. "The labour tax should serve only the needs of the Government": such was the statement by the Commission of Inquiry in its overall judgement of the King's management of the State resources in the absence of control from any Government or Parliamentary institution (Cattier, 1906: 243)

3.3.4. The Congo Free State's Budget

Every year, the Bulletin Officiel de l'Etat Indépendant du Congo contained rough estimates of revenues and expenditures for the State. However, there was no detail to show how the estimates were arrived at. Since no information was given to assess whether and to what extent the estimates of expenses and revenues had been realised, the Budgets published by the Congo State were of little value (Cattier, 1906).

According to an agreement of 3 July 1890, the Congo Free State committed itself to provide the Belgian Government with all information the latter might request regarding the financial situation of the State. Namely, the Belgian Government was entitled to request all information on budgetary receipts and expenditures as well as customs duties records. The same agreement stipulated that the Congo Free State could no longer contract a loan without the consent of the Belgian Government and Parliament. The agreement was to remain in force until 1901. However, it has already been noted in this section that, as early as between 1892 and 1893, the King, acting for the Congo Free State, infringed this agreement as he managed to borrow 5 million Francs from a Belgian banker in Antwerp without the Belgian Government's knowledge (Cattier, 1906).

In compliance with the 3 July 1890 agreement, the final accounts relating to the budgets for the years 1890 to 1893 were published in the Belgian Parliamentary documents. After 1893 the publication of these accounts ceased without any apparent reason. The real reason was that the King was reluctant to comply with the financial supervision that the Belgian Parliament and Government exercised over the Congolese financial affairs. The reason for this was that King Leopold II stuck to his position as the indisputable owner of Congo. Accordingly, on King's order, a letter was attached to the preamble of the budgetary law of 10 August 1901 stating that there was no risk of abuse of the right to freely alienate the land allocated to the Crown (Domaine de la Couronne) and to contract loans. As a result, the law of 10 August 1901 exempted the Congo Free State from Belgian financial supervision; this law was the reason for the total and definitive cessation of the publication of budgetary final accounts (Cattier, 1906).

The financial history of the Congo Free State can be divided into three periods. The first, marked by a relative prudence ended in 1890. It was characterised by the establishment of an economic system that led to the "claim over the soil, the produce of the land and the labour of people", and the establishment of concession-holding companies and monopolies (Slade, 1962: 176-177). During this period, a Public Debt was created with a nominal capital of F150 million represented by 1,500,000 bonds redeemable in 99 years by drawings on a lottery basis. In 1890 the covenant relating to this Public Debt became effective (Stengers, 1956). This year was the start of a second period that ended in 1898, and can be considered transitional as it served to tune and consolidate the development policy launched since the late 1880s. The third period from 1899 onwards, termed "the era of prodigality" was characterised by a dramatic increase in loans contracted under such onerous conditions that the total indebtedness of the Congo Free State rose from F2.3 million in 1898 to F12.5 in 1899 and to F80.6 million in 1905 (Cattier, 1906).

Table 3.14, relating to budget figures officially published by the Congo State's Government, shows a cumulative deficit amounting to F27,137,979 for the period between 1892 and 1906. However, loans received by the Congo Free State amounted to F80,631,425, as indicated earlier. To this should be added the net amount produced by the loan issued on a lottery system, estimated at F50 million, as mentioned earlier in this chapter, which represented, therefore, a total debt of F130,631,425. (Cattier, 1906).

With regard to the deficit of F27 million reckoned by the State itself, as shown in Table 3.14, it appears that F103,631,425, or 79 per cent at least of the debt contracted by the Congo Free State, did not serve the needs of the State. And

yet, as already been pointed out, during the same period King Leopold II subtracted from the Domaine de la Couronne about F70 million to F85 million for various purposes external to the Congo Free State itself.

Table 3.14: The Congo Free State Budgets, 1887-1905

Ordinary Budgets (in 000F)					Non-recursive	Total	Public debt
	Receipts	Expenditures	Surplus	Deficit	Expenditures	Deficit	outstanding
1887	n. a.	n. a.					
1888	n. a.	n. a.					
1889	n. a.	n. a.					
1890	n. a.	n. a.					
1891	4,554.93	4,554.93					
1892	4,731.98	4,731.98			800.00	800.00	
1893	5,440.68	5,440.68					
1894	4,949.44	4,858.91	90.54		2,524.65	2,434.11	
1895	6,004.76	7,370.94		1,366.18		1,366.18	
1896	7,002.74	7,018.37		15.64	1,217.93	1,233.57	
1897	9,369.30	8,875.34	493.96		1,266.53	772.57	
1898	14,765.05	14,727.06	37.99		2,524.92	2,486.93	2,283.32
1899	19,966.50	19,672.97	293.53		2,546.82	2,653.29	12,533.32
1900	26,256.50	27,731.25		1,474.75		1,474.75	12,783.32
1901	30,751.05	31,256.05		505.00		505.00	15,672.20
1902	28,709.00	28,549.00	160.00		3,856.49	3,696.49	41,974.45
1903	28,090.00	27,900.56	189.44		2,364.99	2,175.55	35,939.02
1904	29,825.00	29,635.56	189.44		2,864.99	2,675.55	55,939.02
1905	29,936.65	29,936.65			4,864.00	4,864.00	80,631.42
Total	250,353.58	252,260.25	1,454.90	3,361.57	24,831.32	27,137.99	80,631.42

Source: Cattier (1906: 309)

To answer the question why the Congo State had borrowed much more than the budgetary deficit justified, and what had become of the balance of about F103 million, reference must be made to the King's motivations analysed in the section in this chapter relating to the economic background. In line with the essence of his colonial economic and financial policy, King Leopold II thought himself entitled to dispose of the Congolese Treasury as though he owned it. He thought himself entitled to apply the resources of Congo to the most diverse uses, far removed from any colonial purposes. The nature and object of the financial activity of the Congo Free State were in accordance with this basic motivation of King Leopold II.

Furthermore, the King understood that he was unable to convince the Belgian Chambers of Representatives as easily as he could convince his Ministers of the validity of his expenditures on public works in Belgium. Determined, however, not to renounce these projects, he borrowed through the Congo Free State the money that was indispensable to his plans. He succeeded in escaping all Parliamentary control. Funds generated in the Congo Free State were, in the hands of King Leopold II, a means of achieving personal goals out of the reach of any government or Parliamentary controlling body. As a result, the Congo Free State was overloaded with an absolutely unfair debt incurred in its name, but applied, for a significant portion, to unproductive works in the metropolitan territory, and to acquiring properties and stakes in companies, which had nothing to do with the State (Cattier, 1906).

3.4. End of the Congo Free State

3.4.1. Final Monetary Arrangements

As mentioned in section one of this chapter, the monetary system of the Congo Free State was established by a series of Royal Decrees, the first of which was issued on 27 July 1887. The Royal Decree of 7 February 1896 instituted the State bills payable at the Congo State Treasury in Brussels, while the Royal Decree of 27 August 1906 introduced the striking of fractional currency. Featured with a reduced volume of free trade, a barter-based system of exchange, tax payments in goods and labour, and the faculty of the State to pay local people in goods, the economic regime of the Congo free State did very little to promote the use of currencies. As a result, the money circulation was dramatically limited. Moreover, on the one hand, there was a formal separation between the Belgian and Congolese monetary

systems. On the other, the monetary circulation in Congo comprised coins defined according to the same standards as the Belgian ones, and State bills. The latter could hardly be considered real paper money since it was not secured and nor was it legal tender in private transactions, and was not convertible externally.

Shortly after the annexation, a Royal Decree of 14 April 1909 decided on the withdrawal of silver coins of F1, 2 and 5, and of 50 centimes, struck by the Congo Free State, starting from 1 October 1909. Those coins could be exchanged at the Colonial Treasury in Brussels and at a number of designated Public Treasury branches in Congo until 1 July 1911. Another Decree of 30 June 1913 extended the deadline to 1 July 1914. Furthermore, the general regulation concerning public accountancy issued on 22 August 1922 provided that the Public Treasury could accept those currencies until much later (Banque Centrale du Congo Belge et du Ruanda Urundi (BCCBRU), 1957).

3.4.2. Final Financial Arrangements

The project for the annexation of Congo was voted by the Belgian Parliament on 1 April 1908 and ratified by the Senate on 9 September of the same year. On 15 November 1908, the date of the Treaty transferring the former entity to Belgium, the Congo Free State formally became a Belgian colony. All the liabilities and financial commitments of the Congo Free State were included in the transfer. The Transfer Treaty stipulated that all the agreements of the Congo Free State with companies were to be honoured. All the possessions known as Domaine privé to be transferred were valued at gold-F110,336,947.41, while financial commitments amounted to F235,431,700 (Heenen, 1955).

At first, Belgium committed itself to respecting the Foundations created by King Leopold II in Congo, among them the Domaine de la Couronne (Crown Foundation). However, due to the size of the Domaine (it covered 25 million hectares), this clause gave rise to scathing criticism. As a result, a new agreement concluded on 5 March 1908 abolished the Domaine de la Couronne, which was therefore added to the list of possessions to be transferred (Heenen, 1955).

Following the withdrawal of the Domaine's legal status, a Decree of 5 March 1908 transferred the Domaine de la Couronne to the Congo State, apart from two pieces of land of 20 thousand hectares each, which remained as private property of the King, in the region of Mayumbe (in the far southwest, near the mouth of the River Congo). The properties in Europe were divided into three lots. The first, valued at F1,659,802, was transferred to Belgium as a freehold. The second, valued at F2,123,762, was transferred to Belgium with the usufruct to the King. The third, valued at F334,068, was given to the Monarch as a private property (Heenen, 1955). By this sharing out, the Belgian authorities were anxious to partially correct some of the most abusive appropriation that had ensued from the discretionary concept of proprietorship applied by King Leopold II to the Congo Free State. However, the corrective effect was meaningless, compared with the invisible part of the iceberg in terms of the atrocities that had been inflicted on the local population.

Furthermore, in order to hedge a F30 million loan received from the Congo Free State, the Crown Foundation had transferred to the latter a number of properties in Belgium valued at F18 million in 1906. At the time of the annexation that real estate became the property of the Congo Free State and was, therefore, included in the possessions to be transferred. Altogether, according to Heenen

(1955), the value of the assets transferred to Belgium amounted to F27,793,446, comprising F4,896,702.12 as the value of the work completed in Belgium by the Crown Foundation, which had undertaken various projects of construction and embellishment in the Metropolitan territory; The total cost of the planned programme of works had been estimated at F150 million.

Belgium took over the Foundation but reduced the funding of its programme to F45 million, financed by the Belgian emergency budget. Among other liabilities inherited from the Crown Foundation were private income paid to Prince Albert and Princess Clementine, F120,000 and F75,000 respectively, and annuities of F60,000 paid to Directors and Officers of the Foundation. Also, the Belgian Government took over other charges, for which there are no accurate figures available, such as those relating to a number of colonial collections of *objets d'art* and the tropical greenhouse at the Laeken Palace (Heenen, 1955).

In a final attempt to retain ownership of part of the possessions of the Crown Foundation, King Leopold II issued a Decree of 9 September 1907 (Moniteur Belge, 1907) to create an entity called the Niederfullbach Foundation. The new Foundation was to assume ownership of certain properties belonging to the German Saxe-Coburg family, and a series of assets estimated at F25 million. Income generated from these assets were to be used for financing the completion of refurbishment and embellishment works in Belgium and maintenance of royal properties in France.

After the death of the King, as a result of an investigation carried out in order to determine the origin of the Niederfullbach Foundation's properties, it was proved that the largest part of the latter came from the Congo Free State and the Crown Foundation (Heenen, 1955). Following trials and difficult negotiations, an

agreement of 28 January 1911 yielded to Belgium all rights on the Congolese part of the Niederfullbach Foundation's assets. For its part, Belgium granted the Foundation F1.1 million capital and renounced all rights on the portion of the Foundation's assets inherited from Leopold I. On the other hand, at the completion of the annexation process, King Leopold II was given a F50 million fund as a token of gratitude, to be used by himself and his successors for various purposes regarding the Congo. The fund was payable out of the colonial budget in 15 annuities of F3.3 million each, starting from 1909, except for the first annuity which amounted to F3.8 million. The final annuity was due in 1923 (Heenen, 1955). The yearly F3.3-million instalments were effectively paid from 1909 to 1923, as recorded in annual official reports on the Belgian Congo administration.

3.5. Conclusion

The Congo Free State was unique in view of its political organisation. In his capacity as the Sovereign of the State, King Leopold II held all power. He literally forged a personal union with the Congo Free State, which he considered and treated as his personal property and which he included in his will like any other personal belongings. He did so, as stated in his will, on the grounds of "his sovereign rights on the Congo as recognised by statements, agreements and treaties established from 1884 onwards between foreign powers, on the one hand, and the Association Internationale du Congo and the Congo Free State, on the other" (Stengers, 1989: 93).

The uniqueness of this case stems from the fact that the statements, agreements and treaties the King referred to in his will were signed between foreign powers and the Association Internationale du Congo of which he was not

even a formal member. A Belgian officer named Colonel Strauch was formally appointed as the President of the Association. And yet all foreign powers were aware that King Leopold was the head of and identified with the Association (Stengers, 1989).

With regard to the economic organisation of the State, contrary to his commitment to favouring free trade in the Congo basin, King Leopold II soon established a strong State monopoly, especially starting from 1891-1892 with the concept of *terres vacantes* (vacant lands) and the creation of State lands. The largest volume of the most rewarding products exported, namely ivory and rubber, was collected from the State lands. As a result, no one but the State was entitled to purchase these products throughout the State lands, which covered more than three-quarters of the whole country.

However, King Leopold II had recourse to private enterprises to carry out investments that required large amounts of capital. The creation of the Compagnie du Chemin de Fer du Congo in 1889 and of the Compagnie des Chemins de Fer du Congo Supérieur aux Grands Lacs Africains in 1902 for the construction of a railways network – all of them private companies – was the result of this policy. The same policy was implemented for the development of the mining sector, which led to the foundation of the Union Minière du Haut Katanga in 1906. It emerges from these provisions that while King Leopold reserved the most lucrative trade activities for the State, he managed to get private enterprises involved in the most high-risk investments.

To derive maximum profit from the monopolistic regime, the State established a coercive exploitation system, which resulted in abuses inflicted on the local people. In this respect, on the one hand, the occupation of the Congolese

territory was conducted almost peacefully or at least with a minimum of brutality, apart from military campaigns against the Arabs and their troops in the southeastern region of the Congo. On the other, the economic exploitation gave rise to a surge of violence (Stengers, 1956).

The instructions regarding the collection of rubber in State lands were clear about the objective, namely to maximise the outcome. In order to achieve this goal the State agents were allowed recourse to various means of constraint and coercion. These mainly consisted of close military watch over villages, corporal punishment, hostage-taking or punitive expeditions against recalcitrant villages, the amputation of countless hands, ears and even genital organs, and executions. The local inhabitants of the State lands were subjected to forced labour, especially for rubber collection, which absorbed the major part of their time. This coercive system was applied even more fiercely in the lands managed by concessionary companies, such as the ABIR and the Anversoise. Another distinctive feature of Leopold's Congo was that a rich European State was feeding itself off the major part of the resources belonging to a poor African State (Stengers, 1956). In the late 19th and early 20th century, it was generally agreed, at least in principle, that resources generated in a colony should exclusively be used in the interest of the colony itself (Reinsch, 1899, cited by Cattier, 1906).

From 1885 to 1890 the Congo Free State generated insufficient resources from customs duties, taxes and ivory exports for its survival. This survival was maintained thanks to external funds provided by King Leopold II out of his personal fortune, issuance of securities in the Belgian financial market and direct borrowings from banks and from the Belgian Government. Starting from 1890 a significant change took place with the discovery of rubber as a natural resource.

European demand for rubber dramatically increased in that period, in line with the widespread development of bicycles with rubber wheels. As a result of the harsh exploitation system, rubber production figures climbed sharply. While in 1890 Congo exported not more than about 100 tons of rubber, export of the same product amounted to 1,300 tons in 1896, 2,000 tons in 1898, and 6,000 tons in 1901, or more than 10 per cent of world output (Stengers, 1989).

In 1890, as a result of the State land policy, Congo generated about F150,000 from its Domaine privé. In 1901 the returns from the State lands' products amounted to F18 million. From then on, the Congo Free State budgets recorded surpluses that were spent on financing investments in Belgium, such as the construction of the 50th anniversary arcade and the Tervueren museum, enlargement of the Royal Palace of Laeken, and the embellishment of Brussels and many other sites in Belgium, as already mentioned (Cattier, 1906). The funding of these public works programmes was given a permanent element with the creation of the Domaine de la Couronne (Crown Lands), later called Crown Foundation. The Congo Free State granted the Foundation about 250,000 square kilometres of land or 10 per cent of the State territory, or half the area of France (Slade, 1962). In addition to the receipts generated from the sale of products harvested from the Crown land, especially rubber, the Foundation received a portion of funds borrowed by the State (Stengers, 1956).

From 1901 to 1908, the Foundation acquired a significant number of properties, lands and buildings, in Brussels and all over the Kingdom of Belgium, as well as in the French Riviera. At the annexation of the Congo Free State as a Belgian colony in 1908, as the Crown Foundation was dissolved, Belgium took over all the properties, worth a total of more than F60 million. Compared with the

financial assistance the Congo Free State received from Belgium, estimated at F40 million, the net cash outflows from Congo between 1885 and 1908 amounted to F20 million in favour of Belgium (Stengers, 1989). From the analysis above it emerges that the whole system established in the Congo Free State was dominated by the special relationship that existed between King Leopold II and the State, namely as it might exist between a mere business and its owner as sole proprietor.

As a general conclusion, it is clear from the overall analysis made in this chapter that the monetary and financial system that King Leopold II of Belgium established in the Congo Free State in his capacity as Sovereign of the State was basically marked by the ownership that he claimed over the Congolese territory. From the analysis carried out in Chapter two it emerged that the monetary history of the Kingdom of Congo was dramatically affected by the introduction of shells similar to the *nzimbu* shells used in the Kingdom as currency, namely the cowries imported from various origins by traders in order to boost the funding of the slave trade that developed along the western coast of Africa from the 16th century onwards. The discovery of the Kingdom of Congo by the Portuguese in the late 15th century was followed by an unprecedented development of slave trading that contributed to the impoverishment of the African continent as a whole (Rodney, 1972). At the same time, the funding of this trade led to the import of large quantities of shells to be used as a medium of exchange along with the *nzimbu* shells, which resulted in a dramatic inflation rate that undermined the wealth of the Kingdom. The evidence of a direct link between the slave trade and major aspects of the monetary history of the Kingdom of Congo has therefore been established.

In this Chapter the Congolese origin of the Portuguese term '*macuta*' has been traced, which led to establishing a link between the Portuguese currency

'*macuta*' intended for circulation in Portuguese African territories and the past monetary experience in the Kingdom of Congo as analysed in Chapter two. No matter whether '*macuta*' resulted from phonetic changes to the word *nkuta, nkutu, khutu* or *khuta*, the name of a basket used to contain tributes paid to the King of Congo in *nzimbu* shells, or from the term *makuta* defined as a bunch of *libongo* i.e. small pieces of cloth made of raffia. In both cases, there is a direct reference to ancient currencies in use in the Kingdom of Congo since the 15th or even the 14th century, and still in use in present times. In order to introduce a European-style currency the Portuguese made use of local monetary practices.

This Chapter established that the Congo's monetary history commencing with the foundation of the Congo Free State began on the basis of a model comparable to the one applied by the Portuguese in their relationship with the Kingdom of Congo. Firstly, the system of payment established for the settlement of transactions between the local population and the State itself or through its representatives made use of local traditional monetary devices as a means of introducing currencies defined according to European patterns. Secondly, in addition to the atrocities inflicted on the local population who were forced to produce goods demanded by the administration of the State, the use of merchantable goods as a medium of exchange and the reference to the *mitako* as a unit of account gave rise to another series of abuses. These consisted of arbitrary methods of determining the exchange rates, and contributed to the impoverishment of the country and its inhabitants. Thirdly, the whole system established to administer and economically exploit the Congolese territory was organised for the sake of King Leopold II who held all discretionary power for this purpose and could change the rules just as he liked.

This state of affairs explains the major shortcomings observed, among other patterns, in the organisation of the monetary system and its institutional framework, as well as in the financial system, such as a total absence of efficient mechanisms of control that would have prevented King Leopold II from carrying out a financial policy that resulted in a financial burden for the Congo Free State in favour of external beneficiaries, including metropolitan Belgium.

The monetary provisions set up by King Leopold II for the Congo Free State can be essentially characterised as follows: (1) based on Gold Standard; (2) no free minting of gold coins; (3) no internal circulation of gold coins; (4) silver coins externally convertible, and (5) unsecured State bills. Since no gold coins were struck, the monetary system, which was derived from the Royal Decrees regarding money in Congo, was considered a virtual Gold Standard (*BCCBRU*, 1957). As a result of the small volume of trade and the still widespread barter practices, and payments in kind favoured by the State for a long time, internal monetary circulation was restricted.

At the start of King Leopold II's African venture in the 1870s Belgium was extremely cautious, for a number of reasons. Firstly, the still young Kingdom was keen to focus on its independence that had been acquired only in 1830. Secondly, the country was so small that it was reluctant to throw itself into the colonial arena where larger European nations, such as Britain, France, Germany and Portugal, were fighting to enlarge their colonial empires with some additional African territories. Thirdly, according to an opinion widespread among participants at the 1884/1885 Berlin Conference, all odds were against the royal Congolese enterprise, and Belgium turned a blind eye to it, provided that it remained a personal

endeavour of the King without involvement of any kind for Belgium as a nation, and without any cost for the Belgian Treasury.

However, as time went by Belgium became increasingly involved in Congolese affairs for the various reasons mentioned in this chapter. In the meantime, the general opinion had changed about the economic and financial profitability of Congo as a colony. Admittedly, King Leopold II was forced to give up the Congo he perceived as his personal possession and Belgium had to resort to taking over the Congo Free State and it turning into a Belgian colony in order, among other proclaimed civilising reasons, to put an end to atrocities that had been internationally denounced. However, in this respect, Belgium was no longer reluctant to undertake and pursue the colonial development of Congo, in view of the considerable economic and financial returns it would yield. This issue is addressed in the next chapter.

Chapter Four:

MONEY AND FINANCE IN BELGIAN CONGO (1908-1960)

4.1 Introduction

It was pointed out in Chapter three that, at first, the Belgians, public opinion and politicians included, were reluctant to get involved in any colonial ventures in general, and in the Congolese enterprise undertaken by King Leopold II in particular. As time passed by, on the one hand, Belgians became steadily aware of the economic and financial benefits that Congo could have for Belgium. On the other hand, as a result of growing criticism from abroad, they gradually became concerned about the atrocities that the Congolese population was being subjected to in the context of the exploitation of the royal possession (Hennessy, 1961).

As a result of the Campaign mentioned in Chapter three, against the atrocities of King Leopold II's regime in Congo, the idea of putting an end to the union between Congo and the person of the King and turning the State into a formal Belgian colony gained ground. This background is marked by an element of international pressure, which proved to be a constant factor in the history of Congo (Slade, 1962). The Congo Free State was born in 1885 under the auspices of the Berlin Conference of the same year, which witnessed the participation of the most powerful European nations and the United States; the

end of the Congo Free State was a result of international pressure intended to enforce reforms in the administration of Congo in compliance with the provisions of the 1885 Berlin Act. Chapter five will show that soon after the attainment of independence Congo had to request the assistance of the United Nations, to deal with the major crisis that had arisen as a result of the disastrous conditions under which the Belgian metropolitan carried out the decolonisation of Congo.

This chapter addresses the main features of the colonial monetary and financial history of Congo starting from the annexation of the royal African possession as a formal Belgian Colony on 15 November 1908. The second section of the chapter analyses the monetary and financial provisions of the Law on the Government of Congo known as the Charte Coloniale (Colonial Charter) published in the Moniteur Belge of 19-20 October 1908. It highlights several cases of contradiction between the legal framework set up by the metropolitan power for its Colony, marked by a clear separation between Belgium and Congo as two distinct legal entities, and the monetary and financial reality on the ground. To illustrate the wide gap between official statements in this respect and the real situation, section three looks at the main practical aspects of the link established over time between the Belgian Franc (BF) and the Congolese Franc (CF). The analysis looks at the de facto subordination of the CF to the metropolitan currency and assesses the impact of this dependency on the overall monetary and financial system of Congo.

Section four looks at the inclusion of Congo in the Latin Monetary Union to explain the Belgian motivation for involving the Colony in the Union. It provides the main features of a brief monetary history of Belgium in

connection with the creation of the Latin Monetary Union to explain how the inclusion of the Colony in the Union was aimed at solving nothing but a Belgian internal problem of monetary mismanagement. From this analysis it emerges that the history of Congo's membership of the Latin Monetary Union was bound up with the history of Belgium and this Union, and could have sense only in relation to what were exclusively Belgian interests. This motivation was so deeply established that the Belgian Congo was hardly mentioned in the agreements of 4 November 1908 signed by the Latin Monetary Union member countries, which also included the latters' African colonies, such as the French possessions of Algeria and Madagascar.

Section five addresses the development of monetary and banking institutional network and activities. The point in analysing the development of the banking network is to underline the effect of the dualistic aspect of the colonial economy. The aim is to establish a link between the presence of banking branches in a small number of areas and the degree of industrial and commercial development of these areas located in the middle of vast yet unexploited territories.

Section six treats the role of the Banque du Congo Belge as an early issuing house for the Colony prior to the creation of the Banque Centrale du Congo Belge et du Ruanda-Urundi (BCCBRU) in the early 1950s. It also addresses the subsequent promulgation in 1951 of a Decree granting the BCCBRU controlling power over banking and financial institutions. Section seven analyses the role of the BCCBRU as a monetary authority and central bank established in 1951 for both the Belgian Congo and the mandated territory

of Ruanda-Urundi. Section eight looks at the structure of money circulation by exploring the developments of banking activities and money supply.

Section nine addresses three other major issues, namely the colonial portfolio, colonial debt, and the Ten-year Development Plan for 1950-1959, as they significantly contributed to shape the monetary and financial evolution of Congo. Analysis of colonial portfolio and debt serves to establish another link between the colonial period and the Congo Free State era. The reason for this is that the Colony inherited a considerable part of its portfolio of stakes and various other financial assets as well as a large amount of debt contracted since the same Congo Free State period. The analysis of the Ten-year Plan for 1950-1959 serves to display the unfinished process of setting up the infrastructure that Congo needed to boost its economic and social development beyond the 1950s. It also serves to explain how implementation of the plan led to a financial imbalance that became apparent on the eve of independence. As a conclusion, section ten analyses the constraints that affected the introduction of modern currencies and money-based transactions into a territory marked by a dualistic economy.

4.2. Monetary and Financial Provisions of the Charte Coloniale

Article 1 of the Charte Coloniale declared a complete separation of legal entities, governing laws, and capital accounts between Belgium and its Colony. Nevertheless, Article 11 of the same Charte Coloniale defined the monetary statute of the Belgian Congo as follows: "(1) gold and silver currencies that are legal tender in Belgium play the same role in the Colony; (2) silver currencies minted by the Congo Free State are no longer legal tender or exchangeable at

the Colonial Treasury; (3) any profit that may arise from the issuing of Belgian currencies needed by the Colony is attributable to the colonial budget; (4) the King is allowed to strike special fractional coins for the Colony, provided that those coins are not legal tender in Belgium" (Moniteur Belge, Journal Officiel, 1908: 5887-5889).

A fixed link was established between the BF and the CF, which were exchanged at par. In practice, the exchange rate of the Congolese currency was dependent on the BF. This contradicted the principle of legal separation stated in Article 1 of the Charte Coloniale. The BF was particularly unstable at that time, and this instability affected the Congolese currency and finance (Louwers, 1925). Although silver coins struck by the Congo Free State ceased to circulate shortly after the annexation, they continued to be exchanged for new coins issued by the Colony until late 1924 (BCCBRU, 1957).

With regard to fractional coins that the King could strike in the Colony, the reason put forward for forbidding their circulation in the metropolitan territory was that Belgium was anxious to protect itself against 'a flood of fractional coins valued on a too conventional basis' (Halewyck, 1910: 13-14). On the same principle, Belgian fractional coins were not granted the quality of legal tender in Congo either. In both cases, should such coins have been exported from one country to the other, the cost of transport would have exceeded their low face `value.

Article 7 of the Charte Coloniale stipulated that the King was responsible for setting regulations regarding the issue and circulation of notes representing legal currency. As mentioned in Chapter three, the Congo Free State issued State notes, which were gradually withdrawn after the annexation.

However, due to a rapid increase in the Colony's business volume, it became urgent to issue new banknotes and coins. To deal with the most urgent matters first, notes issued by the National Bank of Belgium were put into circulation in the Colony during the first years of its existence, i.e. between 1909 and 1911. During this period, various banknotes issued by the National Bank of Belgium amounting to F2,175,000 were shipped to Congo (BCCBRU, 1957). The silver currencies issued by the Congo Free State were withdrawn, starting from October 1909, while a large amount of Latin Monetary Union silver coins flowed into the Colony. However, the use of the Belgian central bank's notes was subject to various legal and technical problems, due essentially to the much-debated management of the Belgian monetary system itself in relation to its Latin Monetary Union membership – this is an issue that will be addressed later in this chapter with reference to various sources, such as Willis (1901), De Lannoy (1931), Dupriez (1949), Wertz (1952), and Moens (1976). The use of Belgian central bank's notes was, therefore, rapidly abandoned and the metropolitan authorities decided to issue banknotes proper to the Colony (de Lannoy, 1928).

In July 1911, the Belgian Government concluded an agreement with the largest banking institution established in Congo, namely the Banque du Congo Belge, which was given exclusive issuing rights in the Colony for 25 years with the possibility of a review after a 15-year period (Banque du Congo Belge, 1960). The set of successive agreements concluded between the Colony and the Banque du Congo Belge will be analysed in detail in the section relating to the role of the bank in its capacity as an issuing house.

As a matter of fact, the Congolese monetary system was, from the outset, supposed by law to be independent from the Belgian system. This was to result in a clear distinction and separation between the BF and the CF. However, although it was clearly established by law that the Colony would have its own balance of payments and monetary reserves, and, if need be, its exchange control applicable to all countries including Belgium, in reality, things were different. From the earliest days of the colonial period Belgium always managed to maintain the same par rate of exchange between the two currencies.

Actually, as claimed earlier, because of the disparity in the balance of power between Belgium and its Colony, the CF could not escape the influence of the Belgian monetary zone. In relation to this, Belgian parliamentary annals reveal that by the end of the First World War, the exchange rate of the CF against the British Pound sterling (GBP) exceeded that of the BF by more than 20 per cent. Nevertheless, on 30 June 1919, the Belgian Government, obviously put under pressure by industrial and commercial interests established in the Colony, decided on the alignment of the two currencies. The official reason for this was that maintaining disparity would have resulted in detrimental effects on new Belgian investments in Africa (Annales Parlementaires, 1920-1921). The next section explores the development of the relation between the BF and the CF, and the process by which the Belgian metropolitan power managed the issue of the exchange rate at the expense of its Colony all through the colonial period.

4.3 Relationship between Congolese Franc and Belgian Franc

Prior to the First World War the question of the exchange rate of the Congolese currency was not considered to be of significant concern or likely to affect the economic development of the Colony. Moreover, the exclusive issuing right granted by the agreement of July 1911 to the Banque du Congo Belge mentioned earlier helped to resolve the problem of means of payment (Gerard, 1925). The issue of the exchange rate arose since the barter-based mechanisms of transaction mentioned in Chapter three proved to be inefficient in the new context of fast-growing economic activities in the Colony.

While the agreement of July 1911 regulated the issuance of bank notes among other matters, the strike and circulation of metallic currency were ruled by a series of Decrees issued over time starting from 1887. In this respect, before the First World War, the only currency mentioned in the legal and regulatory provisions was the Franc, which meant the Belgian Franc. The term Congolese Franc (CF) emerged as a consequence of the effective separation between Belgium and Congo imposed by the First World War (Gerard, 1925).

Following the outbreak of that war, the Banque du Congo Belge opened a branch in London on 8 September 1914 (Wertz, 1952). This branch served as the bank of the Colony's Treasury. As the latter was unable to obtain funds from the Belgian Ministry of Finance based in Le Havre, it borrowed funds in GBP in London. At the same time, Congo started to sell on the London market gold extracted from the Kilo mine in the northeast of the country. This was the starting point for a stream of commercial transactions in GBP to which the Congolese currency was pegged from then on (Wertz, 1952). As a result, the Colony's currency note became independent from the BF and was granted the

quality of legal tender in Congo by late October 1914. From that time the CF gained a formal identity distinct from the BF regardless of the at par link established in 1909 (Banque du Congo Belge, 1960).

The London branch of the Banque du Congo Belge became the only financial intermediary between the Colony and the rest of the world. The bank succeeded in carrying out the management of its GBP cash flows smoothly. The amount needed to achieve a balance was withdrawn from credits in GBP granted to the Belgian Government, and from export proceeds received for Congolese supplies to Britain. This was done at the same exchange rate as the one at which Belgian refugees in the United Kingdom were allowed to exchange BF against the GBP, namely, GBP1 for BF25.40. The Banque du Congo Belge bought GBP1 at CF25.40 CF and sold at CF25.45 (Wertz, 1952). This exchange rate remained stable until the end of the First World War. By mid-1918, when Belgium was still under the German occupation, the real exchange rate of the Belgian currency was estimated at GBP1 for BF50. This rate was 50 per cent below the exchange rate applicable to the CF in Holland, where the quotation was considered more in line with the real economic situation, in contrast with the arbitrary exchange rate applied in the United Kingdom in favour of Belgian refugees (Gerard, 1925).

Following the Armistice of November 1918 the United Kingdom broke the agreement between the Allies that maintained relatively stable the exchange rate of the GBP against the French Franc (FF) and the BF, namely around GBP1 for BF27. As a result, both the FF and the BF depreciated dramatically, driving the Belgian currency down to more than BF100 for GBP1. By late June 1919, while the Belgian currency was quoted at F31 for GBP1, the Congolese

currency continued to be quoted at CF25.45 for GBP1 and the Banque du Congo Belge was still selling GBP1 for CF25.45 and buying at CF25.40 (BCCBRU, 1957).

However, shortly afterwards, regardless of the legal separation of the metropolitan and colonial currencies mentioned earlier, the Belgian metropolitan authorities decided to align the Congolese currency with the BF, which resulted in a devaluation of the CF by about 22 per cent (Gérard, 1925). As a consequence of this alignment, the legal separation between the two currencies was denied as the Congolese currency resumed its linkage with the metropolitan currency. The official reasons put forward by the Belgian Government to justify a par rate of exchange between the two currencies were vague: psychological grounds, identical denomination, close relationship between the two economic entities, easy capital flows (Gérard, 1925). As pointed out earlier in this section, the objective explanation stems from the nature of the unbalanced relations that existed between the Colony and the ruling metropolitan power. The instability of the Belgian currency was arbitrarily transferred to the Congolese money, which affected colonial export and fiscal revenues.

Due to its impact on the organisation of the colonial monetary authority, the question of the relationship between the two currencies will be subject to further analysis in the section relating to the role of the Banque du Congo Belge as an issuing house and the creation of the BCCBRU in the early 1950s. However, it is worth pointing out at this stage that, despite the formally distinct identity stated in all legal provisions elaborated for the Colony by the Belgian metropolitan power, the CF remained in fact permanently linked to the Belgian currency. This link between the two currencies was justified by the alleged need

to preserve interconnected Belgian and Congolese economic and financial interests. These were essentially represented by large industrial and financial groups founded, in most cases, in the time of the Congo Free State, and heavily involved in investments in the colonial mineral, agricultural and manufacturing, as well as financial services sectors, as mentioned in Chapter three. And yet, as will be underlined later in this chapter, opinion was growing among Belgians involved in the metropolitan and colonial administration, in favour of a real separation between the two currencies.

In the meanwhile, starting from its creation in 1887, the Congolese currency unit was defined on a par with the Belgian one. At times, as during the period of Congolese prosperity derived from the Colony's contribution to the First World War, the CF did meet the required conditions for its autonomy. However, it was systematically brought back under the influence of the BF in such a way that the monetary separation proclaimed by law between Belgium and its Colony can be considered no more than an historical illusion. The history of the inclusion of Congo in the Latin Monetary Union analysed in the next section provides another eloquent illustration of the contradictory attitude of Belgium vis-à-vis its own laws regarding the management of its Colony.

4.4. Belgium and the Belgian Congo in the Latin Monetary Union

The rationale that governed the establishment of a tight link between the Belgian currency and the CF was marked by the desire to preserve metropolitan monetary and financial interests. The same rationale also applied to the inclusion of Congo in the Latin Monetary Union. This section aims to explain

this claim and to demonstrate that the inclusion of Congo in the Union was not driven by any motivation specifically concerned with Congo.

Just before Belgium became an independent Kingdom in 1832, the national monetary unit was the Dutch florin, as established by a law of 1816. However, the State Treasury could accept metallic currency of the former Austrian Dutch provinces and French currency on an official rate basis (De Lannoy, 1931). At the proclamation of independence, the Belgian government adopted the Franc instead of the Florin as a monetary unit because, in reality, the FF was the most widely circulating monetary unit in Belgian provinces. This situation was due to the fact that Belgium had a greater volume of trade with France than with any other neighbouring country.

A law of 5 June 1832 (Moniteur Belge, 1832) defined the BF, with the same weight and fineness as the FF: 5 silver grams at 900/1000 fineness. The law prescribed the strike of coins of BF40 and 20; 15.5 silver grams for 1 gold gram, as in France. From 1832 to 1847, Belgium struck BF5 silver coins for a total of BF9.84 million and coins of BF1, 2, 50 centimes and 25 centimes for a total of BF12 million. No gold coin was struck during this period because the market value of the metal exceeded the face value of gold coins. The subsequent premium due to this situation prevented gold coins from circulating in Belgium as well as in France (Willis, 1901).

The withdrawal of gold from circulation decided by Holland in 1847 resulted in increased flows of 10 florin gold coins into Belgium, where they remained legal tender. Moreover, as a consequence of an increased volume of gold imported from Russia, France increased its coinage of gold pieces to replace an equivalent amount of silver. Since the French gold pieces of FF20

and 40 were also legal tender in Belgium, the Belgian monetary system received a larger volume of gold pieces from both France and Holland. And yet, to overcome the shortage of coins in circulation due to insufficient production by the Belgian Mint, a law of 4 March 1848 granted the English sovereign the status of legal tender at the exchange rate of 1 English Sovereign for BF25.50, while its market value fell sharply from a rate between BF26 and 27 to 25.225 (Willis, 1901).

The most confusing situation resulted from the discrepancy in the gold-to-silver ratio among different currencies in circulation: 1 to 15.50 for the French coins, 1 to 15.67 for the English coins, 1 to 15.80 for the Belgian coins and 1 to 15.87 for the Dutch coins (De Lannoy, 1931). As a consequence, this situation triggered a massive entry of large amounts of gold into the country. To overcome the subsequent confusion and following the fall in the original value of French gold pieces, the Belgian Parliament decided to successively deprive foreign gold currencies of their status as legal tender. It also decided to abolish the bimetallism gold-silver currency, halt the strike of gold pieces, and establish the silver currency as the sole standard (Willis, 1901).

Despite the withdrawal from circulation of both Belgian and French gold coins, people continued to use them even though the French gold F20 coin was worth BF19.75. At the time, as the market value of gold was slightly lower than the face value, the Paris Mint struck a large amount of gold pieces which flowed into Belgium to be exchanged for silver coins. By 1858, Belgian monetary circulation was essentially composed of French gold coins and a small amount of the most worn Belgian and French silver coins. The confusion was aggravated by the fact that both French and Belgian currencies were known by

the same name – 'Franc'. People did not take into consideration the fact that, as a result of the law of 1848, the two currencies no longer had the same value. To deal with this situation a new law passed by Parliament on 4 June 1861 merely re-established the French system adopted in 1832, namely the use of gold-silver bimetallism with the same ratio: 1 to 15.50 (De Lannoy, 1931).

Furthermore, due to growing demand for silver from India, the market price of this metal went higher than the official quotation. As a result, speculators bought for gold large amounts of silver to be melted down and exported. This reduced the amount of fractional currencies dramatically and caused difficulties in France and other countries, namely, Belgium, Italy and Switzerland, as they adopted the French silver Franc as a monetary unit. To prevent speculators from melting silver currencies, Switzerland decided to strike coins of this metal at 800/1000 fineness instead of 900/1000. Because of their lower value, other countries did not accept these coins (Willis, 1901).

Later on, Italy and Switzerland struck coins of F1, 50 and 20 centimes at 835/1000 fineness, as France had done in 1864 at the same fineness for the 50- and 20-centime coins (Willis 1901). The effect of these measures was that the circulation of fractional coins was fairly well protected in all three countries. Since Belgium did nothing similar speculators continued to buy for gold fractional silver pieces, which they melted for export purposes. In the end Belgium decided to make its fineness conform to that of the other countries using the Franc, i.e. Switzerland and Italy, along with France, and suggested that France arranged a conference with the participation of Italy and Switzerland, in order to deal with the issue. The Latin Monetary Union was born from this Conference, with the four countries named above as its founding members,

joined by Greece in 1868. The major aim of the Conference was therefore to sort out drawbacks that had arisen from the variety of fractional currencies of countries using the Franc as monetary unit (Kindleberger, 1984).

At this Conference Belgium, along with Italy and Switzerland, recommended the abolition of bimetallism, which France opposed. The treaty of 23 December 1865 confirmed, therefore, the status of legal tender of both gold and silver pieces while acceptance of the silver coins by the Public Treasury of any member of the Union (discretionary until then) became compulsory. All fractional coins were from then on to be struck at 835/1000 fineness throughout the Latin Monetary Union (De Lannoy, 1931).

Starting from 1867, the value of silver decreased constantly. In 1873, from a kilogram of silver bought in London at BF217.38 one could strike coins worth BF220.25 and make, therefore, profit from exporting gold and importing silver. From early September of the same year monetary authorities of member countries decided to restrict the strike of silver coins. By an agreement of 5 November 1878 the strike of silver was completely banned. From that date, bimetallism was abandoned *de facto*. However, member countries were reluctant to terminate the treaty since a subsequent liquidation of the Union would have forced each member country to compulsorily redeem in gold at equal face value its silver coins in circulation in all other countries (De Lannoy, 1931).

This question was of the greatest interest to Belgium, since, at the beginning of King Leopold II's reign, some of his Ministers of Finance, strongly in favour of bimetallism, minted too large an amount of silver coins while the value of the metal was sharply declining. In 1908, of the total BF350 million in silver token coins in circulation that had been struck by Belgium from 1865 to

1873, only BF150 million was located in Belgium. This meant that, should the Latin Union, as guarantor of a fixed gold/silver rate, be dissolved, Belgium would be forced to refund BF200 million in gold. As silver had recorded 50 per cent depreciation since 1865, Belgium would have lost approximately BF100 million (De Lannoy, 1931).

The inclusion of Congo in the Latin Monetary Union was, therefore, perceived by the Belgian Government as a means of disposing of a substantial amount of risky silver currencies of which a large amount was to be transferred to the Colony. In the case of dissolution of the Union, the Colony would have had to bear the burden of losses caused by the Belgian Governments' excessive issuance of BF5 silver coins, regardless of legal separation of monetary and financial responsibility between Belgium and Congo (BCCBRU, 1957).

The negotiations of 1885 aimed at renewing the Latin Monetary Union Treaty of 1878, which was to expire in 1886, led to an agreement that defined conditions of redemption accepted by all member countries, in case of the liquidation of the Union. Following the annexation of Congo as a Belgian colony, which became effective on 15 November 1908, the Belgian quota for fractional coins issued was increased by an additional amount based on the population of Congo, estimated at 10 million people at that time, while the Belgian population totalled 7.3 million (Wertz, 1952). Congo served to increase the amount of fractional coins that Belgium could issue for circulation in Belgium. At the same time, it seems obvious that Congo was regarded as an outlet for the excess silver coins issued by Belgium and doomed to bear the related loss in the event of the Latin Monetary Union being liquidated, with compulsory redemption of silver coins for gold at par.

However, on 6 August 1908, Liebaert, the Belgian Minister of Finance, explained before Parliament the following six official reasons to justify the inclusion of Congo in the Latin Monetary Union. Firstly he stressed the necessity of avoiding the introduction of any form of nationalism, even monetary, and of keeping good relations with neighbouring colonial powers. Secondly, the new membership was considered an opportunity to strengthen the Union. Thirdly, the entry of Congo into the Union was an opportunity to provide the Colony with a large amount of currencies so as to encourage their use by the local population. In any case, it was difficult, if not impossible, to withdraw from circulation French coins introduced into Congo through French Equatorial Africa. Furthermore it was advisable to follow the example of France, which adopted the Latin Union for its African colonies, in order to allow the circulation of currencies from other member countries. Lastly, both Belgium and Congo would clearly benefit from the project under consideration by the Union to strike a larger number of coins with a lower degree of fineness using old silver F5 coins (Annales parlementaires, Chambre des Reprèsentants, 1908, p. 588)

The entry of Congo into the Latin Monetary Union confirmed the principle of equal definition for the metropolitan and colonial currencies. Belgium and Congo had the same unit of account since gold and silver coins in circulation in one country were to circulate in the other under the same conditions (Banque Nationale de Belgique, 1909). In practical terms, the transfer of F5 silver coins to Congo between the second half of 1909 and late 1912 gave rise to a rather sharp exchange of correspondence between the Belgian Minister of Finance and the Minister of Colonies on the one hand, and the Governor of the National Bank of Belgium and the Banque du Congo Belge,

on the other. Namely, at the request of the Minister of Colonies for certain amounts of F5 silver coins to be sent to Congo, the National Bank of Belgium pointed out the difficulty of honouring the request on the grounds that Belgium was facing a shortage of that type of coin, of which a large volume was circulating outside Belgium (Banque Nationale de Belgique, 1909-1912).

In 1914, because of a shortage of gold coins to exchange for banknotes, Belgium resumed minting gold coins for the first time since 1882. That same year the First World War started. As a result, all gold and silver currencies disappeared from circulation, although France continued to mint silver coins during the war in order to maintain the public's confidence in banknotes that were issued in a very large volume. This resulted in an inflationary spiral in France as well as in Belgium. Starting from 1919, the exchange rate of the Belgian currency and of the FF deteriorated dramatically while, at the same time, the price of silver declined sharply for lack of confidence in this metal, in favour of gold. Switzerland was the only country to maintain the conditions that prevailed prior to the First World War.

As a consequence, in 1920 the exchange rate was as follows: 1 Swiss Franc (SF) for BF2.30 on average, whereas, according to the agreement of 1885 still in force, the Swiss Government was committed to treating at par the BF and the currencies of all other members of the Union. In the end it was no longer possible to re-establish the conditions that were in force before the First World War. An agreement was consequently concluded in 1920 and 1921 to dissolve the Union and determine the conditions under which Belgian coins circulating in all other member countries were to be redeemed. Belgium terminated its membership of the Latin Monetary Union on 28 September 1925 (Moens,

1976). The membership of Congo ended at the same time, and as an effect of the Belgian withdrawal from the Union. Its membership ended as it had started, that is, in the shadow of Belgium's involvement in the Union.

4. 5. Development of Financial Infrastructure

As will be developed in the section of this chapter relating to banking control, most of the banking institutions operating in Congo voluntarily opted to be subject to Belgian banking control regulations. The reason for this was that banks established in Congo were in fact considered mere subsidiaries of Belgian metropolitan banks. However, this subjection was not legally compulsory. It allowed, therefore, a relative flexibility in the definition of the Congolese banks' functions. In Belgium, following the economic crisis of the 1930s, as will be seen later, a clear separation was established in 1935 between banking institutions in charge of banking activities, and financial intermediaries operating as holding companies. In the Colony, there was no legal provision preventing banks from carrying out both banking and financial intermediation activities within the same institution (Lefèbvre, 1956).

Within the framework of this study the term "financial system" is considered not in the broadest sense as it refers only to banking institutions, which played a key role in the process of money creation. In view of the small contribution of non-banking financial intermediaries in the formation of monetary liquidity, these institutions are merely mentioned in this section, while the rest of the analysis focuses instead on banking institutions. During the colonial era, apart from banking institutions, the Congolese financial system

comprised a number of holding companies, various semi-public financial institutions, and specialised credit institutions.

Holding companies were responsible for long-term financing and the acquisition of equity. Some of these, such as the Compagnie du Congo pour le Commerce et l'Industrie, CCCI, the Compagnie du Kasaï and Interfina, mentioned in Chapter three, had existed since the era of the Congo Free State. The most important of these holding companies received special prerogatives from the State, which granted them large concessions of land that they were authorised to contract out and administer on behalf of the colonial authorities. This was the status of a number of concessionary companies mentioned in Chapter three, such as the Comité Spécial du Katanga, CSK, which combined both public administration powers and private interests. The same status was held by the Compagnie du Chemin de Fer du Congo Supérieur aux Grands Lacs Africains, CFL, and the Comité National du Kivu, CNKi, among others (Lefèbvre, 1956).

Joint-venture companies combining, mostly, Belgian, British, French and American interests were established in various forms, and were involved in a wide range of activities. In the absence of capital markets in Congo, joint-venture companies played a major role in the development of economic activities in the Colony. Most of the enterprises grew through internal financing or group equity participation. In this respect holding companies enabled a better allocation of resources and made it possible to increase financial means at the disposal of each enterprise (Heenen, 1955).

A number of other financial institutions were also established, such as property development companies, and insurance companies, which started on a

brokerage basis and became full insurance companies later on. This category of financial intermediaries comprised a number of institutions financed by the colonial budget, such as the Caisse Coloniale des Pensions et Allocations Familiales pour Employés (Empoyees Pension and Child Benefit Fund), and Fonds Spécial d'Allocations (Special Benefit Fund). A colonial Decree established these institutions to ensure the implementation of social legislation. Their involvement in this area was significant in view of the financial means at their disposal. As an illustration, in 1954, the capital of the Caisse Coloniale des Pensions et Allocations Familiales pour Employés amounted to CF3.5 billion (Lefèbvre, 1956).

Apart from the banks, holding companies and other financial institutions mentioned in the preceding paragraph, the Colony established another category of specialised credit institutions. These were intended to meet another type of need for credit, which could not be resolved by the then existing institutions, due to the specific nature of those operations. In this respect, the Colony created a number of funds for the purpose of financing the development of projects of public interest for local communities. These institutions, such as the Fonds de Crédit Agricole (a kind of Farm Credit System), Fonds d'Avance (Small Loans Institution), and Office des Cités Africaines (African Housing Office), were also financed by the colonial budget. The Société de Crédit au Colonat et à l'Industrie was a joint venture established by banks, some financial institutions and the public authorities, with the function of granting credit to colonists and small industries (Lefèbvre, 1956).

The two other specialised institutions to be mentioned in this section are the Comptes Chèques Postaux, *CCP* (Post Office Cheque Accounts) and the

Caisse Générale d'Epargne du Congo, CADECO (Congolese Savings Bank). The *CCP* specialised in collecting the savings of households and businesses. The Caisse Générale d'Epargne du Congo, CADECO (which became Caisse Générale d'Epargne du Zaïre, CADEZA, following the change in the name of the country in 1971) was created by a Decree of 10 June 1950 and owned a widespread network of branches all over the country. It is specialised in the collection of savings from all investors including the smallest savers in rural areas (Kuyena, 1984).

If the structure of a financial system includes the following components: (1) central monetary authority, (2) banking system, (3) financial markets and (4) financial instruments (Šević, 1999), a monetary system should comprise a central monetary authority, banking system, money markets and monetary instruments. As mentioned in Chapter three, the Congo Free State did not establish a central monetary institution or a banking system of its own. All monetary provisions regarding the State were implemented through Belgian monetary and banking institutions, such as the Belgian Royal Mint and the National Bank of Belgium acting on its behalf. Moreover, although several companies created during the era of the Congo Free State included banking and financial operations in their Articles of Incorporation as one of their statutory activities, no bank was created or functioning in Congo prior to the annexation of 15 November 1908.

The first banking institution to operate in the Colony was created on 11 January 1909 and was named Banque du Congo Belge. By an agreement of 7 July 1911 the Colony granted Banque du Congo Belge an exclusive issuing right. Following this agreement Banque du Congo Belge founded Banque

Commerciale du Congo, which took over the commercial activities that Banque du Congo Belge had to give up because of their incompatibility with its status as an issuing house. Prior to the First World War, apart from a branch of the Standard Bank of South Africa opened in Elisabethville (today Lubumbashi) in 1911 and closed in the late 1920s, Banque du Congo Belge and Banque Commerciale du Congo remained, therefore, the only banking institutions operating in the Colony. In 1919, the Banque du Congo Belge had 24 branches in Congo, two in Tanganyika territory, one main branch in London, established as headquarters during the First World War, a head office in Brussels, and one other main branch in Antwerp (Banque du Congo Belge, 1960).

The rapid economic expansion of the Congo over the inter-war period aroused a growing interest among financial circles in the economic development of the Colony, which resulted in the establishment of other banks. The Portuguese Banco Nacional Ultramarino set up a branch in Kinshasa in 1919. With the creation of the Crédit Général du Congo in 1920, the Banque de Bruxelles group started the process of establishing itself in Congo, which it completed in successive stages, opening four branches, in Kinshasa, Elisabethville, Matadi and Stanleyville (Kisangani) in 1923. In 1924, the Crédit Général du Congo took over all banking activities of the Banque de Bruxelles in Congo. In the end, the Banque Belge d'Afrique, created in 1929, took over all banking activities of the Crédit Général du Congo and became a genuine commercial bank (BCCBRU, 1957).

Following the First World War Belgium was entrusted with a mandate over the territory known as Ruanda-Urundi (today as two countries named Rwanda and Burundi respectively). From then on economic data relating to

Congo and the territory under mandate were presented as a whole (Wertz, 1952). As a result, most of the figures from the colonial period mentioned in this work relate to both Congo and the territory under mandate. Given the small proportion of figures relating to the territory under mandate, no attempt has been made to separate them, as the outcome of such a complex process would not prove significant in the context of the present study.

Table 4.1 shows the development of the banking institutions network from the creation of the first bank to be established in Congo in 1909 to the outbreak of the Second World War (BCCBRU, 1957). In addition to its presence in Congo and Ruanda-Urundi, the Banque Belge d'Afrique established branches in French African colonies as well. In the meantime, the Banco Nacional Ultramarino branch was taken over by the Banco de Angola in 1926 and was transferred from Kinshasa to Boma in 1934. It is also worth mentioning the short-lived presence of the Union de Crédit d'Elisabethville and the withdrawal of the Standard Bank of South Africa in 1936 (*BCCBRU*, 1957).

Table 4.1 Banking institutions network ,1919-1939

Name of the bank	Year of creation	Number of branches		
		1919	1928	1939
Banque du Congo Belge and	1909			
Banque Commerciale du Congo	1911	24	33	23
Standard Bank of South Africa	1911	1	1	_
Crédit Général du Congo	1920	_	14	_
Banco de Angola	1926	_	1	1
Union de Crédit d'Elisabethville	1928	_	1	_
Banque Belge d'Afrique	1929	_	_	10
Total number of branches		25	50	34

Source: BCCBRU (1957)

The recession of 1930-1935 caused a decrease in banking activities and led banks to restructure and rationalise their services. In 1939 the banking network was reduced to 34 branches of which 23 belonged to the Banque du Congo Belge and Banque Commerciale du Congo, 10 to the Banque Belge

d'Afrique and 1 to the Banco de Angola. After the Second World War, other Belgian banking institutions contributed to a wider diversification of the Congolese banking network with the foundation of the Société Congolaise de Banque (24 December 1947), Banque Congolaise pour l'Industrie, le Commerce et l'Agriculture (5 October 1950), and Crédit Congolais (28 September 1951) (BCCBRU, 1957).

Furthermore, two French banks were established in Congo in 1951 with the opening of a branch of the Banque Nationale pour le Commerce et l'Industrie, while, during the same year, the Banque de Paris et des Pays-Bas opened a research unit to carry out a feasibility study, following which the unit was converted into an operating branch on 5 July 1954. Lastly, the Belgian Kredietbank opened a branch in 1952, took over the Banque pour l'Industrie, le Commerce et l'Agriculture in 1954, and adopted the corporate name of Kredietbank-Congo. The Banco de Angola withdrew from Congo in 1947, while the Banque Belge d'Afrique and Banque Commerciale du Congo opted for the status of Société Congolaise par Actions à Responsabilité Limitée (Congolese public limited company) (BCCBRU, 1957).

The creation of the BCCBRU, whose functions will be analysed later, triggered a dramatic change in the status of the Banque du Congo Belge (BCB), with the transfer of the exclusive issuing right from the latter to the new central bank. As a result the BCB was once again able to resume all normal banking operations like any other commercial bank.

Following this, the Banque Commerciale du Congo lost its raison d'être and was taken over by the BCB on 19 November 1952, while the latter became a Congolese public limited company by a decision of 16 September 1952. At the

end of 1956, the commercial banking institutions network in both Congo and Ruanda-Urundi comprised 52 branches distributed as indicated in Table 4.2. In addition to these 52 commercial bank branches there were 7 head offices and branches of the BCCBRU as well as 13 other branches of the latter operating in the premises of the Banque du Congo Belge (BCCBRU, 1957).

Table 4.2: Banking institutions network in 1956

Name of the bank	Number of branches
Banque du Congo Belge	24
Banque Belge d'Afrique	16
Société Congolaise de Banque	4
Crédit Congolais	2
Banque Nationale pour le Commerce et l'Industrie	1
Banque de Paris et des Pays-Bas	1
Kredietbank-Congo	4
Total number of branches	52

Source: BCCBRU (1957)

Compared with the banking network of the late 1930s as indicated in table 4.1, the number of branches in 1956 represented an increase of about 53 per cent. However, in relation to the area of Congo, namely 2,345,410 square kilometres, 52 branches represented on average one branch for every 45,096 square kilometres. If one considers that most of those branches were located in urban areas, it is obvious that there was a dramatic lack of financial intermediation over the vast territory of the Colony.

4.6. The Banque du Congo Belge as an Early Issuing House

The creation of the Banque du Congo Belge in 1909 as the first bank to operate on Congolese territory was the opportunity for the Colony to entrust this bank with the role of an issuing house. Following the establishment of the bank, negotiations were launched with the Belgian Department of Colonies, aimed at

determining the conditions under which the bank could be granted an exclusive issuing right. Three agreements were successively concluded in this respect between the Colony and the bank.

The first Agreement concluded on 7 July 1911, granted the bank the authority to issue banknotes. This Agreement was approved by a Decree of 18 July 1911 (Bulletin Officiel du Congo Belge, 1911). A second Agreement was concluded on 10 October 1927 as a revision of the issuing charter of 7 July 1911, justified by the economic development of the Colony since the signing of the first agreement. It was approved by a Decree of 14 November 1927 (Bulletin Officiel du Congo Belge, 1927). A third agreement concluded on 21 June 1935 as a consequence of the 1929 recession and subsequent Belgian banking turmoil was approved by a Decree of 17 July 1935 (Bulletin Officiel du Congo Belge, 1935). The motivation and impact of changes made to and introduced by the three agreements are analysed in the next paragraphs.

The necessity of issuing banknotes proper to the Congo was justified by a rapid economic and trade development of the Colony, which rendered insufficient and inadequate further recourse to banknotes issued by the National Bank of Belgium. Following negotiations, an agreement was concluded between the Belgian Congo and the Banque du Congo Belge, which granted to the latter authorisation to issue banknotes.

The bank was authorised to issue notes in four branches in Congo. Banknotes issued were repayable on demand at their face value, in gold currencies of all countries or in gold and silver currencies of the Latin Monetary Union member countries, in compliance with Article 2 of the Treaty of 1865,

and solely at the place of issue or in Brussels.[8] The issuing guarantee was provided by specific limitations imposed on the bank's transactions and a metallic cover equal to one-third of total notes issued. Moreover, the bank committed itself to managing the Colony's Cash and Treasury services under the provisions of a specific agreement.

The 7 July 1911 Agreement granted the Banque du Congo Belge an exclusive issuing right under the following conditions: (1) capital increase from F3 to F5 million of which 20 per cent to be paid-up; (2) opening of two additional branches, one in Boma and another in Stanleyville (now Kisangani); (3) re-definition of the bank's functions with reference to the limitations imposed by the agreement; (4) sharing of profits with the Colony on an equal basis after allocation of 5 per cent to the legal reserve and deduction of 6 per cent of paid-up capital to form a special reserves; (5) control of operations by a Government Commissioner; (6) commitment of the bank to provide the Colony with Cash and Treasury services on the basis of a special agreement of 7 July 1911 (BCCBRU, 1957). As the issued banknotes were payable at sight and nominal value at their issuing branches, this obliged the latter to hold an equivalent amount of gold and silver reserves. Banknotes were repayable in the non-issuing branches at the current rate in force at the issuing branch plus a premium that could not exceed the cost of cash transport.

The total amount of banknotes in circulation and sight deposits, excluding those deposited by the Colonial Government, could not exceed three

[8] The second paragraph of Article 2 the Treaty of 1865 of the Latin Monetary Union provided that the member countries were to admit coins from other member countries without distinction into their respective public treasuries, under the conditions defined in the first paragraph of the same article, in any one of the four States, with the reservation, however, that they exclude coins whose weight may have been reduced through wear by 0.5 per cent below the tolerance stated, or

times the issued capital and reserves, unless it was fully hedged by gold and silver reserves. This particular provision was aimed at confining the interventions of the bank within the limits of its own resources. According to another provision of the agreement, one signature from an individual or legal entity was sufficient as guarantee for a Colonial Government loan transaction (BCCBRU, 1957). This entailed the risk of potential pressure on the bank to accept unlimited Treasury certificates issued by the Colonial Government, regardless of the provision limiting the amount of public funds issued or guaranteed by the Belgian or Colonial Government up to the level of the issued capital plus reserves (Martin, 1949).

Starting from 1911, beside metal currencies that simultaneously circulated in Belgium as well as in the Colony, Congo had its own banknotes guaranteed by a stock of gold and silver reserves distinct from the Belgian ones. Congolese banknotes were not legal tender in Belgium, and Belgian banknotes were not legal tender in the Colony. Furthermore, Congo was provided with other special copper fractional coins bearing the image of the Colony's emblem, issued in addition to similar coins minted by the Congo Free State (BCCBRU, 1956). In 1912, the National Bank of Belgium commissioned the Berlin Reichsdruckrei, at the request of the Banque du Congo Belge, to print the Congo's first banknotes. Banknotes of CF20, 100 and 1,000 were printed in four colours and issued in October 1912 for an amount of CF10 million dispatched from Matadi (3.5 million), Kinshasa (2 million), Stanleyville (1.5 million) and Elisabethville (now Lubumbashi: 3 million). At the same time, CF25 million were issued in silver coins of the Latin Monetary Union, 3.5 million in nickel

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whose devices may have disappeared (See: 1865 Latin Monetary Union Treaty in Willis, 1901: 271).

coins of 5, 10 and 20 centimes, and CF50,000 in copper coins of 1 and 2 centimes (Banque du Congo Belge, 1960).

No major change was made to the 7 July 1911 agreement until 1914. However, following the outbreak of the First World War Belgium was occupied and consequently separated from its Colony, as already mentioned in a previous section of this chapter. As a result, the Belgian Congo established a new commercial relationship with Britain, which proved to be a profitable business partner interested in strategic raw materials, such as copper and rubber among other tropical products needed for military purposes. Such were the circumstances on the basis of which the Belgian Congo was associated with the Sterling Zone. It was also mentioned earlier that the Banque du Congo Belge, which became the Colony's only financial intermediary with the rest of the world, opened a head office in London to replace the Brussels headquarters (Wertz, 1952).

From an internal point of view a set of Decrees were issued to free the issuing house from a number of obligations, such as the abolition of banknotes convertibility, to ban the export of gold and silver, and impose banknotes as legal tender by a Decree of 6 September 1915. At the same time there was, in addition, a gradual withdrawal of coins that circulated both in Belgium and throughout Latin Monetary Union. As an outcome of the whole process the Congolese franc *de facto* gained its proper identity as an autonomous and specific means of payment (Moeller, 1938).

However, during the interwar period metropolitan Belgium implemented a policy aimed at tightening the dependency of the CF vis-à-vis the BF, whose weakness was systematically transferred to the Colonial currency, in

contravention of the legal provisions set up to formally assert the latter currency's almost total autonomy. This policy started with the decision of 30 June 1919 communicated by the Belgian Minister of Colonies to the Colonial Administration to pay at par BF1 for CF1 despite a premium of 20 per cent in favour of the Colonial currency in terms of the exchange rate against the Sterling, which resulted in a de facto devaluation of the CF. To justify this decision the metropolitan authorities underlined the fact that an exchange differential would negatively affect the flow of new Belgian investments in Congo. Parliamentary documents revealed that the Government was subject to pressure exerted by industrial and commercial interests established in the Colony, anxious to reduce the burden of their banking liabilities (Annales Parlementaires, 1920-1921).

Meanwhile the Congolese currency continued to be regulated by the provisions defined by the Latin Monetary Union until Belgium terminated its membership of the Union in 1926. As a consequence, gold and silver coins were withdrawn from circulation and replaced by notes and coins made of copper and nickel alloy issued by the Banque du Congo Belge, starting from 1920. From then on the Colonial currency became entirely fiat money while Belgian and Latin Monetary Union currencies ceased to circulate in the Colony (Wertz, 1952).

Following a long-lasting depreciation process due to an excessive issuance of banknotes and a persistent trade deficit, the BF was sharply devaluated again on 25 October 1926 with a new parity fixed at 0.0418422 fine gold or 1/7 of the previous par rate of exchange (BCCBRU, November 1957). This marked the end of bimetallism, which was replaced by a gold

monometallist regime. At that time, there was a fairly widespread and growing opinion, as expressed in Belgium by Collet and Van de Ven (1925), in favour of Congolese monetary emancipation. According to this view, complete freedom of the Colonial currency vis-à-vis the metropolitan Franc was likely to consolidate the stability of the colonial Franc and improve the Colony's external standing. However, the view of those who favoured maintaining the Congolese currency's link to the BF prevailed. Consequently, the CF was devaluated by the same amount, at the same date (Wertz, 1952).

In this respect a new agreement was signed between the Colony and the Banque du Congo Belge on 10 October 1927. The appropriateness of the new agreement was justified by a significant economic expansion recorded in the Colony, which required a further adjustment of the major monetary provisions as the banking sector was expanding in line with the ascendant economic trend. At the time of the 1911 Agreement, apart from its headquarters in Brussels, the Bank had established five branches in Congo. Between 1911 and 1927 the number of the Bank's branches in the Colony rose from 5 to 29. The receivables that amounted to about CF3 million as at 30 June 1911 had climbed to more than CF320 million by 30 June 1927. As the first issue of notes took place in 1912, the amount in circulation increased gradually from CF3.4 million at the end of June 1913 to CF5.2 million at the end of June 1914. It doubled, to CF11 million, at the end of June 1918 and reached CF107.5 million at the end of June 1927. Between 1911 and 1927 the bank's share capital was increased from CF5 million, of which 1 million paid up, to 20 million fully paid up, and sizeable reserves had been accumulated (Banque du Congo Belge, 1960).

An analysis of the main legal provisions of the new agreement will help to explain the process that gradually led to the establishment of a monetary regulatory authority by the early 1950s with the creation of a genuine central bank. The main reason for the new agreement was the restoration of the convertibility of notes. The major issues that were revised, as mentioned in the report on the Conseil Colonial's sessions of 20 October and 5 November 1927 (Bulletin Officiel du Congo Belge, 1927, pp. 3088-3095) were the following: (1) the new agreement applicable to the Colony and mandated territories; (2) authorisation of the Minister of Colonies as a prerequisite for the creation of new branches outside the Colony; (3) a clearer definition of operations the Bank was allowed to conduct; (4) same legal conditions as those applicable to the National Bank of Belgium for the redemption of notes; (5) same exchange rate in all branches of the Bank (Banque du Congo Belge, 1960). Moreover, the Bank was no longer allowed to hold financial claims payable by the Colonial Treasury beyond strictly defined limits. Furthermore, it was required to hold in gold and gold currencies an amount equal at least to 40 per cent of its notes in circulation, provided that all other liabilities at sight were hedged by receivables easily realisable. Half of the gold and gold currencies reserves were to be in gold (Rousseaux, 1966).

The 1927 Agreement provided a new definition of the CF in gold, equal to one-fifth of a *belga*, a name given to a new Belgian monetary unit, equivalent to BF5. As a result, the CF was given parity of exchange with the BF. The new agreement contained further provisions concerning the Bank's commitments vis-à-vis the Colony with regard to cash facilities, free cashier service, share of the Colony in the Bank's profits and reserves, the Colonial Government's

permanent control of the Bank, in particular through the presence of a Commissioner appointed by the Colony and invested with extended powers. Article 2 of the Decree of 14 November 1927 stated that the authorisation, i.e. the exclusive issuing right, granted by the agreement of 10 October 1927 was valid until 30 June 1952. The Bank was allowed to seek a renewal of the authorisation, provided that the request had to be submitted 2 years before expiry date, so that it could be appraised, and a ruling on it given before 31 December 1951 (Wertz, 1952).

While the agreement of 1911 established several issuing centres, the new one provided free circulation of banknotes throughout the entire Colony, regardless of their place of issuance as a significant step towards the establishment of a central and specific monetary institution as a unique regulatory authority. Moreover, this circulation was extended to the mandated territories that Belgium was entrusted with following the First World War, namely the former German colony of Ruanda-Urundi, as mentioned ealier in this section.[9] As a result, the Banque du Congo Belge became the issuing house of both the Colony and Rwanda-Urundi. Whereas at the early beginning of the First World War a forced currency regime was established, the new agreement provided the return to the redemption of banknotes under the same conditions as those prescribed by law for the National Bank of Belgium (Preamble of the Decree of 14 November 1927).

As was the case previously, the liquidity of the Bank was secured by limiting the number of allowed transactions and setting up a special cover for the banknotes in circulation and other liabilities at sight. However, the list of

[9] In the early 1960s this territory split up to form the two independent countries known as Rwanda and Burundi.

transactions was revised in the light of sixteen years of experience. The new agreement provided that the Bank should continue to operate as Cashier of the Colony. The service was to be provided free of charge and through a larger number of branches. The colonial Treasury continued to receive 50 per cent of the Bank's profits after allocation of a dividend representing 6 per cent of the paid-up capital. The rights of the Colony over the reserves of the Bank were clarified (Rousseaux, 1966).

The term of the exclusive issuing right granted to the bank by the agreement of 1911, which was due to expire on 18 July 1936, was extended until 30 June 1952 (Wertz, 1952). The major changes introduced in the new agreement are analysed below. Firstly, in order to limit the amount of the Bank's liabilities covered by the Colony, and to protect the Bank from too great a burden of public liabilities, the new agreement stipulated that the Bank's total investment in securities issued or guaranteed by the Colony could not exceed its share capital and reserves. In addition, apart from those investments, the Bank could not possess receivables payable by the Colonial Treasury in excess of an amount to be specified (Preamble to the Decree of 14 November 1927).

The Banque du Congo Belge was required to provide currencies that were legal tender in the Colony, i.e. either gold, or cheques payable in towns specifically designated by the Ministry of Colonies. These provisions were aimed at ensuring the stability of the colonial currency that was necessary in order to support the constant flow of capital and steady export surpluses that had been experienced for many years. The Bank was required to hold cash resources in various type of' assets for exchange purposes, in the proportion of 40 per cent

of the value of banknotes in circulation, to ensure that any very large reimbursement demand could be met.

To ensure that these cash resources retained a constant value, and that the Bank maintained optimal liquidity, the agreement provided that they should consist of gold for at least 20 per cent, while the balance would be composed of gold foreign currencies. Furthermore, to reinforce the provisions intended to limit the Bank's assets invested in public securities, the agreement stressed that the amount of notes and other liabilities not covered by cash resources in gold and gold currencies, should be hedged by receivables easily convertible into cash (BCCBRU, 1957).

The link established between the two currencies was so close that the CF followed the fate of the metropolitan currency when the BF was devaluated for a second time in 1935, as a result of the 1929 crisis and the subsequent Belgian banking turmoil. In this respect a Decree of 1 April of the same year authorised the Banque du Congo Belge to exchange at par BF1 for CF1. A new agreement signed on 21 June 1935 between the Colony and the Banque du Congo Belge, and approved by a Decree of 27 July of the same year, fixed a new parity for CF1 at 0.0301264 fine gold gram, the same as for BF1 (Wertz, 1952).

The Decree of 27 July 1935 comprised major changes in the monetary organisation of the Colony. Firstly, the gold exchange regime introduced in 1927 was extended and clarified. Namely, the Bank was required not only to hold gold reserves and gold foreign currencies but also to convert paper money into foreign currencies negotiable in Belgium and abroad. According to the Decree of 27 July 1935 the bank was authorised to issue not only bearer notes but also metallic currencies payable at sight. Furthermore, starting from 1

October 1935, the Bank committed itself to reimbursing metallic currencies issued by the Colony. As a result, the obligation to cover its issued notes with gold and gold currencies was extended to these metal fiduciary currencies (Wertz, 1952). The years preceding the Second World War were marked by the relative stability of the CF evolving under the gold exchange standard. The Colony and the metropolitan territory resumed their specific economic partnership, as illustrated by the development of Belgian private investments as well as significant public interest shown by the Belgian authorities (BCCBRU, 1957).

The German occupation of Belgium in 1940 resulted in another disruption of the special links between Congo and metropolitan Belgium. However, contrary to the situation of the First World War analysed in section 4.3, provisions were set up to enhance solidarity between the BF and the CF. In this respect an agreement was concluded between the United Kingdom, France and Belgium on 14 May 1940, which fixed an exchange rate of BF120 for GBP1, and BF68 for FF100. A Decree of 30 May of the same year fixed the same exchange rate for the CF. After the surrender of the Belgian army, the Banque de France decided to exchange BF1 for FF1, while the CF was given the same definition as the currency of the African French territories known as Afrique Equatoriale Française (AEF) (BCCBRU, 1957). The Belgian Government and, especially, colonists' industrial, commercial and financial interests received these provisions favourably as the devaluation they represented was perceived as a means of granting Congolese exports a considerable advantage and potential new outlets.

On the basis of an agreement of 7 June 1940 between France, the United Kingdom and Belgium, a Decree of 21 June of the same year fixed the new exchange rate at BF176.625 for GBP1, and BF100 for FF100 (Wertz, 1952). However, by the end of 1940 the Belgian government-in-exile installed in London partially changed the agreement of 7 June 1940 by putting back the BF exchange rate to BF120 for GBP1, especially for the calculation of budget, salaries and pensions paid to Belgian officials based in London. In the meantime the Congolese currency remained at the exchange rate of CF176.625 for GBP1 (Wertz, 1952). Furthermore, a number of measures were taken to preserve the Belgian Congo's foreign exchange reserves. In this respect the Banque du Congo Belge was exempted from the obligation of convertibility, exchange control was installed, a fixed exchange rate was imposed and restrictions on loans the Bank could make to the Government were abolished (BCCBRU, 1957).

As during the First World War, most of the Congo's exports were directed to the United Kingdom, which resulted in another set of special links between the latter and Congo and Ruanda-Urundi. Belgium and the United Kingdom concluded an agreement for this purpose on 21 January 1941. The accord provided for the purchase of large volumes of Congolese products by the United Kingdom and the purchase of British Pounds by Congo for monetary and commercial gold in excess of its needs. Starting from September 1942 the United States became a member of this agreement, which was implemented but never signed for lack of an arrangement covering the possibility of Congo regaining its freedom of action after Belgium's liberation (Académie Royale des Sciences d'Outre-Mer, 1983).

Following the liberation, there was the same lack of cohesion between Belgian and Congolese economies as that observed after the First World War, marked by hyperinflation in Belgium and stable and solid money in Congo, as the Colony had taken advantage of particularly favourable economic circumstances during the War period. One might expect that in view of the role played by the Congolese currency over that period, it was time for Congo to free itself once and for all from dependence on the BF. However, once again the metropolitan power decided to put an end to the autonomy that the Congolese currency had enjoyed during the war period (Zimmer, 1988).

On 5 October 1944 an agreement was concluded between Belgium and the United Kingdom to replace the 21 January 1941 agreement, which had made Congo and Ruanda-Urundi members of the Sterling Zone, and take them back into the Belgian monetary zone. The exchange rate of the Belgian currency was fixed at BF176.625 for GBP1. No mention of the CF was made in the agreement, which clearly meant that the colonial currency was no longer different from the BF. To explain this state of affairs the Belgian Government claimed that the monetary freedom that Colonial Congo had enjoyed during the War was accidental, due to extraordinary circumstances (Wertz, 1952). As a matter of fact, it was in the interest of Belgium whose economy was weakened by a four-year War. Belgium was anxious to maintain a tight at-par link between the two currencies in order to avoid the cost that would affect capital flows between Belgium and Congo should a premium exist in favour of the Colonial currency over the BF.

On 26 December 1945 Belgium joined the Bretton Woods agreement and signed the related final Act in its own name and on behalf of its colonies

and mandated territories, including, consequently, Congo and Ruanda-Urundi. On 18 December 1946, Belgium complied with the IMF clause regarding monetary parity by fixing a new par exchange rate of 0.2027675 fine gold grams for both one BF and one CF. A Decree of 19 June 1947 abrogated all previous provisions, such as currency gold definition, notes' inconvertibility and exchange rate of the CF vis-à-vis the Sterling (BCCBRU, *1957*).

The same Decree instructed the issuing house to buy and sell gold and foreign currencies on the same exchange rate basis as the Banque Nationale de Belgique until a new gold definition of the CF was determined. This provision resulted in reinforcement of the Congolese currency's dependence on the metropolitan BF. Following the resurgence of debates on this issue a study carried out at the request of the Minister of Colonies concluded that the CF was not bound to follow, should the Belgian Franc be devalued. However, to maintain the principle of solidarity the study recommended that in case of a devaluation of the BF by 15 per cent or less, the CF should be equally devalued. On 21 September 1949, the Belgian Government declared to the IMF a new gold definition for the BF fixed at 0.0177734 fine gold for one BF, which represented another 12.34 per cent devaluation of the metropolitan currency. The CF was equally devalued at the same date (Wertz, 1953).

In the absence of convertibility this new gold definition was intended to ensure stability of the exchange rate of both the BF and the CF, as means of international payments. The Banque Nationale de Belgique fixed the price of gold and exchange rate of foreign currencies on the basis of the gold definition declared to the IMF. The BCCBRU established its exchange rate on the basis of the exchange rate in use in Belgium. A Decree of 17 February 1950 instructed

the Banque du Congo Belge to revalue its gold reserves at the same rate as the Banque Nationale de Belgique, as prescribed by a Belgian law of 10 August 1950 (BCCBRU, 1957).

4.7. The Banque Centrale du Congo Belge et du Ruanda-Urundi (BCCBRU) as a Monetary Authority

The monetary history of Colonial Congo relating to the period starting in 1950 was marked by three major events, namely, (1) operational start-up of the Banque Centrale du Congo Belge et du Ruanda-Urumdi, (2) revision of exchange control regulations and (3) decision on a legal gold definition of the Congolese monetary unit. The analysis carried out in the following sections will show that it was only from the 1950s that a genuine and complete monetary system started to be established in Congo, with a Decree of 30 July 1951, which determined the controlling and regulatory functions of the central bank.

Prior to the Decree of 16 November 1956, which established provisions regarding control of Congolese banking institutions, the central bank had no legal means of intervening in and adjusting the development of banking credit. Furthermore, in view of the highly liquid position of the Congolese banks, the central bank had no means of intervening as the lender of last resort. One of the fundamental requirements of this Decree with regard to the birth of a truly Congolese banking system, at least on a legal basis, was the obligation imposed on any firm willing to act as a banking institution in the Colony to form a Congolese limited liability company, thus subjected to Congolese laws. The analysis will also address a number of provisions aimed at authorising banking institutions to hold share capital in industrial and commercial companies, in order to compensate for the absence of capital markets in a colonial economy

where it was vital to encourage and facilitate investments (See: Preamble to the Decree of 30 July 1951).

4.7.1. The Role of an Issuing House

The agreement of 1935 between the Colony and the Banque du Congo Belge was to expire on 30 June 1952. In view of the development of banking institutions over the previous decades, it became hardly conceivable that regulatory functions regarding monetary provisions could continue to be handled by a private bank, which would have to control and supervise other banks that were its competitors, and to exert exchange control functions over its own operations.

Moreover, monetary policy, which was becoming more than ever a means of economic policy, as well as implementation of the Congolese Ten-year Plan 1950-1959, required economic and financial institutional reforms. In the light of this, a Decree of 30 July 1951 authorised the foundation, under public law, of an institution called Banque Centrale du Congo Belge et du Ruanda-Urundi (BCCBRU), intended to take over all the functions of the Banque du Congo Belge in its capacity as an issuing house, starting from 1 July 1952. As indicated by its name the new institution was created for both the Belgian Congo and the mandated territories known at that time as Ruanda-Urundi (BCCBRU, 1957).

The BCCBRU was assigned the typical functions of an issuing house and central bank in a modern economy, namely: issuance of notes, operations in discount, credit, capital markets and exchange regulation and control, as well as acting as State cashier and banker. In relation to the role of the Banque du

Congo Belge as an issuing house, the Decree of 30 July 1951 authorising the creation of the BCCBRU introduced two major innovations.

Firstly the terms of the Bank's monetary policy were defined in relation to the potentially conflicting constraints of a development policy. That is to say, the Decree of 30 July 1951 mentioned earlier assigned to the Bank the double objective of maintaining monetary stability and yet ensuring economic growth. The issuance of bearer notes and metallic currencies was to be carried with these objectives in mind. In line with these provisions the Decree prescribed that paper money, coins and other liabilities at sight were to be hedged by easily realisable receivables. Furthermore, the Bank was required to hold a gold and possibly gold currency cash position. The proportion of cash to hold in gold and gold equivalent in relation to total liabilities was to be determined by Decree before 1 July 1952. This proportion, initially fixed at 25 per cent, was later raised to 33.3 per cent. These requirements were dictated with a view to enabling the Bank to mobilise a maximum of monetary resources for the economy without undermining monetary stability goals (Preamble of the Decree of 30 July 1951, published in the Bulletin Officiel du Congo Belge, 1951).

Secondly, the Bank was required to manage the control of: (a) banks and non-bank institutions in charge of financial and insurance operations, (b) issuance of public securities, and (c) foreign exchange. In fact, a Decree of 26 March 1957 established the Bank's control of banking institutions operating in the Colony. Prior to that Decree, almost all the banks established in Congo had a head office in Belgium. Therefore, as mentioned earlier in section 4.5 of this chapter, they were *de facto* subject to the control of the Belgian Commission Bancaire, on the basis of an agreement concluded with the Minister of Colonies.

By entrusting the BCCBRU with the control of banks the aim was to more efficiently take into account local considerations in the organisation of this control (Preamble to the Decree of 30 July 1951).

Although insurance companies were mentioned in the Decree of 30 July 1951, the provisions of the Decree of 26 March 1957, and of any other Decree regarding control, did not concern them. Likewise, no regulation was ever issued in the Belgian Congo regarding insurance or the sale of public securities. It is clear, then, that the Central Bank was established as the banking system's regulatory authority, whereas the insurance sector was not subjected to any regulatory authority formally entrusted with a controlling function (BCCBRU, 1957).

The measures decided in 1952, as referred to in this paragraph, did nothing to change the existing link between the metropolitan currency and the CF, which remained at par (Rousseaux, 1966). With regard to exchange control, the creation of the BCCBRU was the occasion for revising and co-ordinating foreign currencies transfer regulations, which were established in June 1940 and subsequently modified several times. This was achieved with a Decree of 12 December 1952 on exchange control and external trade. Prior to this Decree, an Ordinance of 25 June 1952 had transferred to the BCCBRU all relevant activities carried out by the Banque du Congo Belge until then. Similarly, starting from 1 July 1952, as the BCCBRU replaced the Banque du Congo Belge, the Institut Belgo-Luxembourgeois du Change (IBLC) (Belgo-Luxemburg Institute of Exchange) accordingly amended all its directives related

to operations with Congo (Bulletin Administratif et Commercial du Congo Belge, 1952).[10]

The BCCBRU was entrusted with regulating and controlling foreign currency transfers. The new regulation was based on the principle that any transfer of goods and assets into and out of the territory of Congo and Ruanda-Urundi was subject to the Central Bank's authorisation and control. All foreign currencies received as export proceeds were to be totally or partially sold to the Central Bank at its request. Similarly, the use of such foreign currencies was subject to authorisation from the Central Bank. The effect of these provisions was that of a protective screen between the Congo and Ruanda-Urundi on the one side, and the rest of the world, theoretically including Belgium, on the other (BCCBRU, 1957).

Nevertheless, since Congo and Ruanda-Urundi were members of the Belgian monetary zone, there was, in practice, free transfer between Belgium and the two territories within the limits defined by the regulations of the Union Economique Belgo-Luxembourgeoise (UEBL) (Belgo-Luxemburg Economic Union).[11] In this respect, in July 1952, the IBLC, issued a general licence

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[10] The IBLC was created by a Law of 6 October 1944 with responsibility for controlling external payments of the Union Economique Belgo-Luxembourgeoise (UEBL), which was established in July of the same year. In this respect it was responsible for collecting and analysing data used for drawing up the balance of payments of the UEBL as a whole and a separate balance of payments for each State member. The Banque Nationale de Belgique was entrusted with the day-to-day management of the IBLC. The IBLC was in charge of implementing legal and regulatory provisions with regard to exchange control during the period when such provisions were in force, which they have not been since the abolition of the dual exchange rate on 5 March 1990 (*See:* Banque Nationale de Belgique, 2002).

11 An agreement of 25 July 1921 created the UEBL, whose role was to form an economic union between Belgium and the Grand Duchy of Luxemburg, based on a customs union with a common customs tariff, common measures of quantitative restrictions, and a monetary association. Following the signing of the BENELUX and EEC Treaties, the customs union issue became of less interest. The main features of the monetary association were as follows: (1) a single central bank, namely the Banque Nationale de Belgique (National Bank of Belgium), (2) unified balance of payments, (3) a preferred currency, i.e. the Belgian Franc, and (4) common legislation with regard to exchange control. The latter was entrusted to the Institut Belgo-Luxembourgeois du Change, IBLC, created in 1944. BENELUX, an acronym derived from the

authorising the BCCBRU, Banque du Congo Belge (BCB), Banque Belge d'Afrique (BBA), and Banque Commerciale du Congo (BCC) to make transfers from BF into CF for payments relating to the following: (1) goods imported from the Colony, (2) services supplied by the Colony to the UEBL, (3) dividends, interest and other revenues to the UEBL, (4) travel expenditure and maintenance costs, (5) economic investments, and (6) loan repayments. Transfers relating to these payments were subject to authorisation by the BCCBRU as a prerequisite (Bulletin Administratif et Commercial du Congo Belge, 1952).

The third event that marked the development of Congo's monetary history in the early 1950s was the setting of a new gold parity for the Congolese monetary unit. The last time the gold parity of the CF was fixed was by the Decree of 27 July 1935, which set it at 0.0301264 fine gold grams, following a devaluation of the BF. In 1940, as a result of the Second World War, the convertibility of both the BF and the CF that had been established in 1927 was suspended (Wertz, 1952).

A Decree of 25 October 1956, which modified a Decree of 10 February 1953 regulating the conditions for the acquisition of gold and foreign exchange currencies in Congo, established a new gold parity for the CF at 0.01947824 gold grams at 0.900 fineness. This new parity served from then to determine the exchange rate that the BCCBRU used as a basis for its transactions in foreign currencies. In this process the link between the two currencies was maintained,

names of Belgium, Netherlands and Luxemburg, started as a monetary and customs union agreement concluded in London in 1943 and 1944 between Belgium, the Netherlands and the Grand Duchy of Luxemburg. The agreement was revised in 1958 to become an economic union (Van Meerhaeghe, 1987).

as both the BF and CF were defined on the same basis of gold weight and fineness (BCCBRU, 1957).

4.7.2. The BCCBRU as a Controlling Authority

For a long time up to the 1950s, the only monetary instrument used in Congo to regulate the supply of money was the fixing of interest rates. However, given the abundant liquidity in the Congolese economy, which was essentially provided by external trade, banks operating in Congo seldom needed to borrow money from the central bank in order to carry out their credit operations. In such a context the use of interest rates as a monetary instrument could hardly influence the volume of money supply and demand. Nonetheless, as the volume of bank credit was growing in line with the colony's economic development, the law of 1951 creating the BCCBRU provided that the latter, being responsible for monetary policy, should also be in charge of banking control (Preamble of the Decree of 26 March 1957).

To justify the introduction of banking supervision the following considerations were put forward. Firstly, the management of banks operating in Congo had been regarded so far as cautious. Nevertheless, it was time to prepare for an increase in the local population's income in the foreseeable future, which was likely to result in a larger volume of bank deposits. In this respect, prior to introduction of banking control regulations i.e. in the absence of legal constraints, the Governor of the BCCBRU, right from this institution's creation, began to strongly recommend that banks be more selective and cautious in their credit operations. These recommendations were justified by an expansion of the

volume of credit, as well as an increasing number of borrowers (Preamble of the Decree of 26 March 1957).

On the other hand, with an economy largely dependent on the export of raw materials, Congo was likely to remain for a long time subject to the instability linked to the conditions of external trade. Furthermore, Table 4.3 shows that at the end of 1954, a year taken as an example, banknote and coin circulation in Congo amounted to CF4.8 billion for CF12.8 billion bank deposits, while banknote and coin circulation in Belgium amounted to BF108.1 billion for BF70 billion bank deposits. With regard to bank money circulation (up to 30 days bank deposits), it represented 44.9 per cent of the banknote and coin circulation in Belgium, and 196.3 per cent in Congo. The relative importance of bank money in the total money supply in Congo represented a potential source of credit, which constituted another justification for the setting up of banking control under the authority of the central bank.

Table 4.3. Proportion of bank money in circulation as at end 1954

	Millions Francs	
	Belgium	Congo and Ruanda-Urundi
Banknote & coin circulation	108,066	4,785
Up to 30 days bank deposits	48,506	9,395
More than 30 days bank deposits	21,498	3,398
Total bank deposits	70,004	12,793
Total bank deposits/banknote & coin circulation	64.8%	267.4%
Bank money circulation/banknote & coin circulation	44.9%	196.3%

Source: Preamble to the Decree of 30 July 1951 on banking control in Bulletin de la BCCBRU, 1957

Moreover, the existing situation, under which Congolese banks established in the Colony by Belgian banks as Belgian-registered companies were submitted *de facto* to the Belgian Commission Bancaire, was about to

come to an end.[12] This situation was not suitable for the Congolese banks, given that, despite a number of dispensations granted to them, they could not really comply with the constraints assigned to banks operating in an economic environment proper to a developed country, such as Belgium. At the same time, as Congolese banks created in the Colony by non-Belgian financial interests were not subject to the control of the Belgian Commission Bancaire, this resulted in a regime that discriminated between the two groups of banks. In the absence of a colonial authority in charge of banking control, Congolese banks created by Belgian financial interests agreed to be subject to the Belgian Commission Bancaire's control on a voluntary basis, as they could in a sense be regarded as an extension of the Belgian banking network (BCCBRU, 1957).

As from 1 May 1957, all banks operating in Congo and Ruanda-Urundi became subject to the control of the BCCBRU, whose role in broad terms covered matters such as registration of companies seeking authorisation to operate as banking institutions, reserve funds, immovable assets, financial shareholdings, credit limits, ministerial regulatory power, incompatibilities, in relation to, and to prevent possible conflicts of interest, and monitoring. Namely, registration by the Central bank was a prerequisite for an institution to be authorised to operate as a bank in Congo. A bank was defined as an

[12] The Belgian Commission Bancaire was established by a Royal Decree of 9 July 1935 with the mission of controlling the compliance of banking institutions and financial intermediaries' activities with legal requirements set up following the 1930s financial and economic crisis. Prior to this most of the major banks were operating on a mixed basis combining banking and financial activities, which led them to use part of their sight deposits to finance long-term loans and even purchase capital shares in industrial and commercial companies. As a result many of these banks failed to meet the massive cash withdrawals triggered by the confidence crisis and growing distrust at that time of recession. To prevent the development of the distrust climate from worsening a Royal Decree of 22 August 1934 imposed the split of each mixed financial intermediary into two separate institutions, namely a deposit bank on one side, and a holding or investment company on the other. The role of the Commision Bancaire was, therefore, to make sure that each institution operates in compliance with the legal requirements of its statute (Vandeputte *et al.*, 1981).

institution created with the principal object of receiving deposits of funds repayable at sight or in less than two years, for its own use in banking operations, or credit or investment purposes (*BCCBRU*, 1957). In this respect, the institution was obliged to register as a Congolese limited company with a minimum capital of CF30 million. Furthermore, the regulations prescribed the establishment of an undistributable reserve fund, which would receive 5 per cent of the bank's annual net profit until it amounted to 10 per cent of the bank's subscribed capital. The reserve funds were to be invested in public securities issued by the Colony or by Ruanda-Urundi or in shares backed by their guarantee (Preamble of the Decree of 26 March 1957 on control of banking institutions, published in the Bulletin Officiel du Congo Belge, 1957).

Under the banking control regulations, banks were authorised to own premises for their operating activities and for employees' housing. They were authorised to hold shares in commercial or industrial companies amounting to not more than one-third of the bank's shareholder funds after deduction of undistributable reserve funds. However, this limitation was not applicable to shareholdings in banks or shares guaranteed by the Colony, Ruanda-Urundi or Belgium. Nor was it applicable to shares acquired in a bank or a company covered by a guarantee of the Colony, Ruanda-Urundi or Belgium, or to shares in a credit institution created or regulated by a special Congolese or Belgian law. In the absence of a formal financial market and stock exchange, these provisions were especially intended to promote the creation of new companies in various sectors as required for the development of the Congolese economy (Decree of 26 March 1957 on control of banking institutions, published in the Bulletin Officiel du Congo Belge, 1957).

The total of fixed assets in the form of property could not exceed the amount of shareholders' funds after deduction of undistributable reserve funds. The total credit of more than six months' duration a bank was authorised to grant a company in which it held shares could not exceed 25 per cent of the company's shareholder funds, or 10 per cent of the bank's shareholder funds. At the suggestion of the Conseil de Régence of the Central Bank, the Minister of Congo and Ruanda-Urundi was responsible for determining certain ratios and operating rates, relating to different categories of assets and liabilities and banking activities respectively (Decree of 26 March 1957 on control of banking institutions).

The regulations regarding banking control prevented members of the managing body of a bank from undertaking management functions in a company in which the bank held an interest or to which it granted credit for more than 6 months' duration, except in the case of another bank, mortgage company, insurance company or savings institution. The aim of this interdict was to prevent a bank from taking decisions under the influence or pressure of its own interests in a business, regardless of whether the regulatory requirements were met by the business in question. And lastly, banking operations were subject to monitoring by auditing commissioners registered by the Central Bank (Decree of 27 March 1957 on control of banking institutions).

In order to avoid an abrupt change in the structure and habits of banks, the implementation of the Decree of 26 March 1957 on banking control was carried out gradually, starting from 1 May 1957. For instance, the provision regulating the share of banking investment in fixed assets, share capital, and restrictions on credit of more than six months' duration to companies in which a

bank had a shareholding, did not come into effect until 15 January 1958 (Ministère des Affaires Africaines, 1958).[13]

Furthermore, a number of other provisions came into force on 15 July 1958, such as the following: (1) obligation for a bank to possess capital of at least CF30 million; (2) a bank was not allowed to grant loans or stand guarantor for loans in favour of anyone involved in the management of the bank and anyone in such a position was barred from guaranteeing a public issuance of securities carried out by the bank, without sufficient collateral; (3) the possession or acquisition by a bank of its own shares was barred; (4) situation of incompatibility regarding persons responsible for the day-to-day management of a bank and to members of the auditing body of the bank (Decree of 26 March 1957).

Prior to the introduction of banking control, Congolese banks had already agreed to submit to the Central Bank monthly financial statements compiled according to the same statutory model as in Belgium. However, banks were required to present two separate series of statements, one regarding the operations and activities of the bank as a whole, and another relating to the operations and activities of the bank in Congo and Ruanda-Urundi. Furthermore, the auditors were required to make sure that all banks complied with the statutory requirements regarding the layout, classification and standardisation of the items to be disclosed in the financial statements. This harmonisation enabled the Central Bank to track the financial position of banks on the basis of standardised criteria and to start publishing banks' financial statements, as prescribed by the Decree. The banks' first consolidated financial statements,

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13 In the lead-up to independence, especially following the political developments in Congo starting from 1957-58, the metropolitan Ministère des Colonies (Ministry of Colonies) changed

relating to their position as at 31 December 1957, were published in the Bulletin Officiel du Congo Belge on 15 April 1958 (Ministère des Affaires Africaines, 1958).

It emerges from the analysis carried out in this chapter that the function and objective of the Central Bank during the colonial era steadily evolved over time from a passive role of issuing paper and metallic fiduciary currencies to a more active involvement in the implementation of monetary and economic policy. In the end the Central Bank assumed the function of regulation and control within the framework of its articles of association. The aim of the Central Bank's mandate was to achieve monetary stability and economic development. As a means of achieving its goals, the Bank was to adopt an appropriate credit and exchange policy. To what extent this was successful is assessed in the next section, in particular by tracing changes in the focus of attention of banking institutions and through an analysis of the development of money circulation.

4.8. Structure of Money Circulation

4.8.1. General Evolution of Banking Activities

Section 4.8 looks at the role of banking institutions as a means of disseminating the use of modern money in Congo. The analysis focuses on the developments of deposits, and the structure of money circulation over the colonial period divided into three phases. The definition of these phases is based on a number of studies carried out on the topic by scholars, such as Martin (1952), and by banking institutions, such as the Banque Nationale de Belgique (1952).

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its name to Ministère des Affaires Africaines (Ministry of African Affairs).

The first phase runs from the annexation of Congo as a Belgian Colony (November 1908) to the late 1930s. Before the Second World War, the economy of Congo was almost exclusively export-oriented and strongly import-dependent, with the majority of trade flowing between the metropolitan State and the Colony. As a result, banking activities mainly consisted of transactions with foreign countries and particularly with Belgium. Furthermore, while actually operating in Congo, large Congolese companies conducted their financial management from Belgium as they were generally considered mere subsidiaries of metropolitan holding companies. As a consequence, a large amount of their cash flow generated in the Colony was drained off into the metropolitan territory. Banking institutions operating in Congo therefore complied with this situation. On the one hand, they took a leadership position in financing Congolese international trade, especially transactions with Belgium. In this respect, in accordance with the nature of their resources, they concentrated a large proportion of their investment in financial assets on the Belgian market (BCCBRU, 1957).

On the other hand, in Europe, the period between 1910 and the late 1930s was characterised by a free exchange regime, which favoured a large circulation of liquid assets and capital, and the convertibility of most of the major foreign currencies allowed constant exchange arbitrage. With reference to these conditions, Congo, as a result of its embryonic financial structures, could not offer industrial and commercial companies or banks competitive opportunities to invest their cash and liquid assets surpluses, compared with the yields and security offered by international markets (BCCBRU, 1957).

The second phase commences with the Second World War and lasts until the creation of the BCCBRU in 1951. The War dramatically changed the situation in Congo as a result of the isolation that followed the separation between Belgium and Congo. This separation lasted beyond the four-year war period and helped to promote the autonomous development of companies operating in Africa. The substantial effort made by the Congolese economy during the War in order to survive and, at the same time, assist Allies, boosted its expansion with an impetus that continued to produce effects for a long time. This expansion affected banking institutions operating in Congo as the development of their local branches centred their activities on the Congolese internal economy more than before the War (BCCBRU, 1957).

As an increasing volume of resources was required to support the Colony's economic expansion, companies established in Congo began to retain in Congo their locally generated cash flows. This gave rise to an increasing amount of savings deposited by economic agents in Congolese banks, which consequently had more opportunities to finance the fast-growing needs of the Congolese economy. Furthermore, the exchange control imposed since the very start of the Second World War helped to increase the concentration of monetary resources in Congolese banks (BCCBRU, 1957).

Exchange control regulations stipulated that all Congolese residents had to transfer back to Congo any foreign currency earned from international trade, and to keep it in Congolese banks (Martin, 1952). External payments for imported goods and services and any external transfer in foreign currency had to be authorised by the Banque du Congo Belge, in its capacity as a central bank, and depository of foreign exchange reserves. As the exchange control was

maintained after the Second World War, the upward trend that had started during the conflict period continued and grew in line with the expansion of the internal market, which was supported by a growing local industry. As a result, a large number of Congolese companies started to increase their cash position in their bank accounts in Congo. This change in the management of companies' liquid assets can be seen, at least formally, as the starting point of a slow shift of the centre of gravity of activities from outside, essentially from Belgium, towards the Colony. These steps forward were accompanied by an extension of the banking network and changes in banks' memorandum and articles of association, as for the first time they renounced their status as Belgian limited companies to become Congolese limited companies (Martin, 1952).

The third phase runs from the creation of the *BCCBRU* in 1951 to 1960, the year of Congo's independence. Section 4.6 mentioned a turning point that occurred in 1951/52 in the structure of the Congolese banking system with the creation of the BCCBRU by a Decree of 30 July 1951. It also addressed the devolvement of the exclusive issuing right, exercised until then by the Banque du Congo Belge, to the BCCBRU. The BCCBRU was entrusted by a Decree of 30 July 1951, which was analysed in section 4.7, with the essential functions of a genuine central bank, including that of organising banking control in Congo.

In compliance with a decision of the Conseil Colonial, the provisions defining the legal status of banks and terms of their control were to come into force on 1 May 1957. However, as mentioned earlier, prior to this deadline, some banks operating in Congo, especially those which had started as Belgian companies and then changed into Congolese limited companies, had already

consented, on the basis of an unofficial agreement, to place themselves under the control of the Belgian Commission Bancaire (BCCBRU, 1957).

4.8.2. Money Supply

Two major tendencies marked the overall evolution of bank deposits in Congo. For a long time, apart from local public services and enterprises, the clientele of banks exclusively comprised foreign customers, namely colonists, farmers, traders, industrialists, manufacturers, and various private businesses of different sizes owned by foreigners, most of them Belgian. The first tendency observed was that depositors preferred to deposit their funds in metropolitan banks, as these had relatively lower overheads and obtained higher yields on invested assets, and could, therefore, pay a higher interest on fixed-term deposits. Moreover, for many customers, bank deposits represented export receipt surpluses, a large proportion of which was intended for financing imports to Congo. This proportion was kept abroad in the form of deposits in order to avoid double transfer costs. As a result, only a small proportion of those resources were transferred to the Colony, for the purpose of meeting local cash needs (BCCBRU, 1957).

On the other hand, although the CF was at parity with the BF, the provisions governing the monetary and financial relationship between the two countries were formally similar to those between Congo and any other country, at least in theory. As a consequence, trade relations between Belgium and Congo were subject to the same exchange control as those between Congo and other countries. Nevertheless, the Congolese Central Bank tended to be more concerned with capital inflows from Belgium into Congo than by the capital

outflows from Congo to Belgium. There were two main reasons for this. First, the Congolese Central Bank was anxious to prevent a massive flow of capital into Congo, which would have undermined monetary stability (Bézy, 1957). Second, until the middle of the 1950s, no restriction was imposed on the flow of capital from Congo to Belgium. Exporting companies were authorised to hold accounts in local banks, in external foreign currencies a portion of the foreign currencies they had received from exports. Starting from 1955, the prospect of major political changes in the Colony's status triggered a dramatic increase in the proportion of foreign currencies retained abroad, which became a source of concern for the BCCBRU.

In order to discourage increasing capital outflows, the Central Bank made it clear that it was unlikely to conclude an agreement with the metropolitan monetary and financial authorities to allow relevant transfer of funds, should foreign currency account-holders wish to rapidly exchange large amounts of their foreign currencies held abroad for CF. As the beginning of the Korean War (1950-1953) gave rise to fears of a third World War, capital outflows from Congo declined. However, this restraint ceased in 1952 as, starting from that year, high profits from short-term investments in Belgium encouraged an increasing capital outflow from the Colony (BCCBRU, 1957).

In the early stage of banking activities in Congo, bank deposits were held more as a means of liquidity requirement for cash payment rather than as a means of payment by cheque or transfer. As a result, the velocity of bank money circulation remained rather low for a long time. Bank deposit figures shown in Table 4.4 should, therefore, be viewed with caution for a number of reasons. First, due to the large proportion of liquid assets that companies operating in

Congo used to invest outside the Colony, as mentioned earlier, bank deposits held in Congolese banks could not be considered representative of the Congolese economy's liquidity as a whole.

Second, before 1945, figures for bank deposits were derived from balance sheets of banks operating in Congo, which used to record under the same heading deposits in various currencies, such as CF and BF, from accounts held in Congo, in Belgium or in other foreign countries. The third reason for caution when referring to Table 4.4 is that because of the lack of information, it was not possible to include in the statistics bank deposits received in Congo by branches of foreign banks, such as Standard Bank of South Africa or Banco Nacional Ultramarino. Lastly, there is also the fact that the estimate of annual bank deposits was calculated on the basis of balance sheets stated at different dates was likely to distort the representative nature of the figures (BCCBRU, 1957).

Despite these reservations, Table 4.4 shows a rapid growth of bank deposits over two periods. The first period, running from 1910 to the end of the First World War (1918), was the era of the establishment of the banking network. In the absence of data relating to the period between 1915 and 1918 it is worth pointing out, however, that from a figure of CF20 million in 1914, total bank deposits and paper currency amounted to CF69 million in 1919, showing an increase of 245 per cent.

Bank deposits climbed from CF11 million in 1914 to CF52 million in 1919, recording a rise of 373 per cent, much higher than the increase of 133 per cent in paper currency that rose from CF9 million in 1914 to CF17 million in 1919 (BCCBRU, 1957).

Table 4.4: Bank deposits and Banknotes and coins (in millions CF)

Year	Bank deposits	banknotes & coins	Post Office cheque deposits	Total	Share in the total % Deposits	Paper currency	Post Off. ch.deposits
1910	1	3	-	4	25	75	-
1911	5	4	-	9	56	44	-
1912	8	4	-	12	67	33	-
1913	12	7	-	19	63	37	-
1914	11	9	-	20	55	45	-
			-				-
1919	52	17	-	69	75	25	-
1920	125	45	-	170	74	26	-
1921	117	45	-	162	72	28	-
1922	115	62	-	177	65	35	-
1923	119	86	-	205	58	42	-
1924	157	114	-	271	58	42	-
1925	250	164	-	414	60	40	-
1926	344	243	-	587	59	41	-
1927	637	295	-	932	68	32	-
1928	729	343	-	1,072	68	32	-
1929	858	377	-	1,235	69	31	-
1930	886	344	25	1,255	71	27	2
1931	907	288	15	1,210	75	24	1
1932	857	238	10	1,105	78	22	1
1933	912	233	11	1,156	79	20	1
1934	806	234	11	1,051	77	22	1
1935	765	252	11	1,028	74	25	1
1936	694	306	14	1,014	68	30	1
1937	862	387	20	1,269	68	30	2
1938	745	396	21	1,162	64	34	2
1939	773	410	22	1,205	64	34	2
1940	1,090	457	26	1,573	69	29	2
1941	2,449	609	37	3,095	79	20	1
1942	4,261	875	58	5,194	82	17	1
1943	6,701	1,151	84	7,936	84	15	1
1944	9,509	1,401	111	11,021	86	13	1
1945	9,577	1,525	130	11,232	85	14	1
1946	9,621	1,610	146	11,377	85	14	1
1947	10,717	1,844	120	12,681	85	15	1
1948	12,141	2,168	132	14,441	84	15	1
1949	11,104	2,422	171	13,697	81	18	1
1950	15,696	2,912	212	18,820	83	15	1
1951	20,457	3,838	745	25,040	82	15	3

Source: BCCBRU, 1957

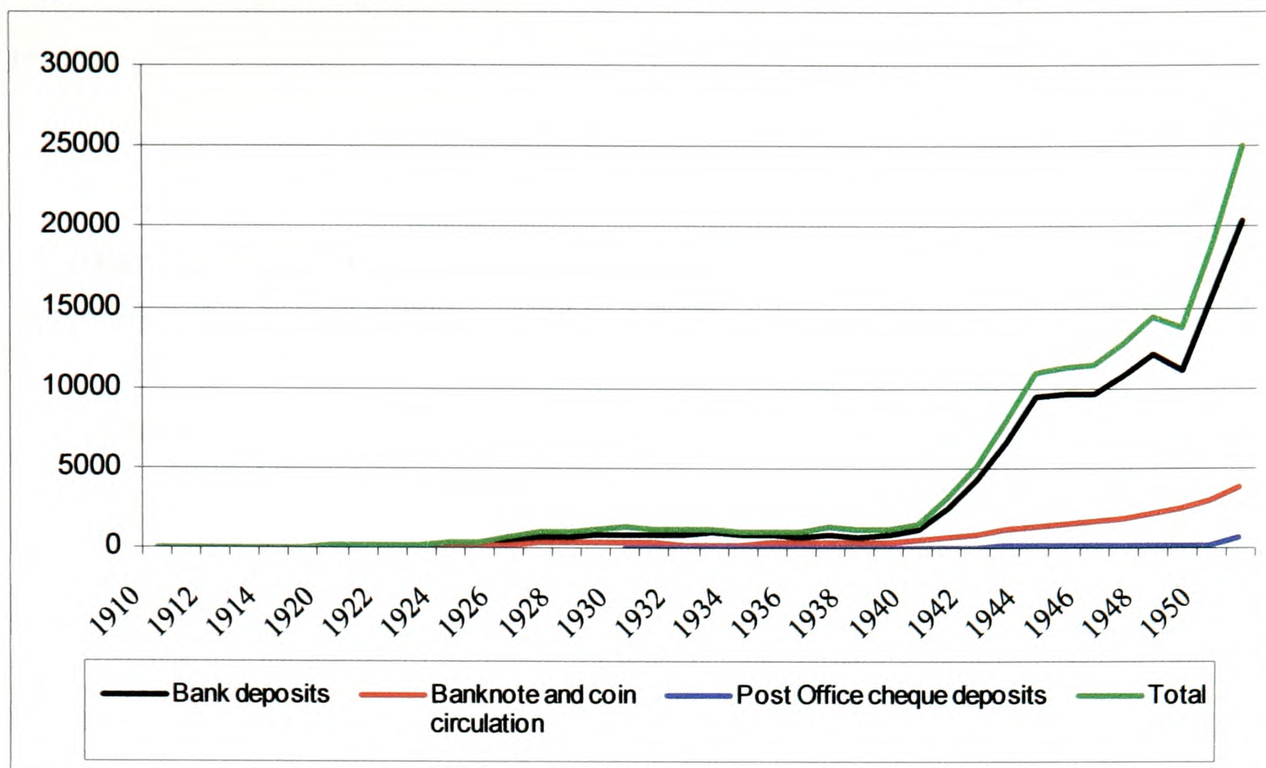
Trade and financial benefits that Congo gained from the war economy, as mentioned earlier, explain the dramatic expansion of bank deposits. At the same time, the development of paper currency, though of lesser importance, indicates a gradual monetisation of the economy as a whole, including an

expanding use of modern money as traditional communities gradually began to be involved in the Colony's economy.

The second period covers the interwar era during which the banking network expanded from 1920 to 1929 and then declined from 1930 to 1939, as demonstrated by the fall in the number of branches and volume of deposits, due to the worldwide economic recession of the 1930s. A third period can be observed starting from the Second World War years, during which bank deposits recorded rapid growth from 1940 to 1945, as a reflection of trade and financial profits and general prosperity achieved in the context of the Second World War. They recorded relative stabilisation between 1945 and 1949, probably due to a temporary decline in performance as an effect of the change of management in major companies between 1945 and 1946, and expanded again from 1949 to 1951 (BCCBRU, 1957).

Moreover, a decline in the relative importance of paper currency circulation is observable over the period under examination. This development suggests at first sight a significant change in the means of settling payments and the structure of the monetary economy. However, while banknote and coin circulation declined more (27 per cent) between 1930 and 1935 than bank deposits (14 per cent), after that period, as indicated in Figure 4.1, its growth proved to be more regular than that of bank deposits.

Figure 4.1. Bank deposits and banknote and coin circulation



Source: compiled by the author, based on BCCBRU, *1957*

Bank deposits recorded a small decrease in 1937-38 and in 1949, following a slight economic recession that occurred at those two points in time. Paper currency circulation continued to increase as a result of wider monetisation of local communities' economy with a growing use of banknotes and coins by the local population. (BCCBRU, 1957).

Table 4.5. Distribution of money supply (in million CF)

	1953	%	1954	%	1955	%
Joint-stock companies	7,534	39	7,934	37	7,395	33
Public Treasury	5,205	27	5,687	27	6,947	31
Public enterprises and Administration	582	3	545	3	956	4
Local households and businesses	3,481	18	4,219	20	4,269	19
Other households and enterprises	2,760	14	3,029	14	2,622	12
	19,562	100	21,414	100	22,189	100

Source: BCCBRU, 1957

Further analysis of the money supply shows the share held by each of the major components of the Colony's economy, namely, joint-stock companies, Public Treasury, local individuals and businesses, and other individuals and

companies. In the middle of the 1950s, the distribution was as shown in Table 4.5.[14]

4.9. Colonial Portfolio, Colonial Debt and the Ten-year Plan 1950-1959

4.9.1. Colonial Portfolio

At the prospect of the Domaine de la Couronne's abolition within the framework of Congo's annexation as a Belgian Colony, King Leopold II made a final attempt, as mentioned in Chapter three, to maintain control over a number of assets acquired in Congo or with Congolese resources. For this purpose he created the Niederfullbach Foundation on 9 September 1907, a German entity to which he allotted shares from his Congolese investments valued BF45 million, combined with assets acquired from the German descendants of the Belgian royal family. The official objective of the Foundation was a BF26 million programme of 'works aimed at improving a number of sites in Belgium and providing the maintenance of royal properties in France' (Heenen, 1944: 286)

After the death of the King, further investigations carried out by the Belgian Government and Parliament revealed that most of the Foundation's assets belonged to or came from the Congo Free State or the Domaine de la Couronne. On the basis of an agreement of 28 January 1911, Leopold II's heirs renounced, in favour of the Belgian State, for compensation of BF1.1 million capital, all claims on assets the Foundation had received from the Congo Free State or from

[14] The category of 'local households and businesses' comprised native Congolese and non-Congolese African individuals and their businesses, while the group of 'other individuals and companies' was formed by European and non-African individuals and their businesses other than joint-stock or public limited companies.

elsewhere, provided that the agreement did not concern any of the Niederfulbach assets regarded as part of the royal inheritance (Heenen, 1955)

In general, the counterpart of the public debt is all the economic institutions and elements known as a State's assets. The unusual feature of the Belgian Congo's healthy financial situation was that in addition to the traditional assets held by a State, the Colony possessed a considerable less traditional portfolio of large assets. This portfolio included properties and shares acquired from the King Leopold II inheritance and the Niederfulbach Foundation, as well as shares and rights transferred to the Colony by the former Congo Free State, including the Domaine de la Couronne, in exchange for concessions granted for the exploitation of Congolese resources. The stakes and rights received that way varied in their proportions and could amount to up to 50 per cent in the case of concessionary companies (Heenen, 1955).

The ownership of such a considerable portfolio provided the Colony with significant means of controlling the territory's economic development. Furthermore it increased the Colony's credibility with regard to the need for borrowed funds. In 1925, whereas the public debt amounted to BF750 million the value of the colonial portfolio amounted to about BF1.2 billion at the lowest estimate (Louwers, 1925).

As mentioned in Chapter three, the Colony's portfolio was largely a result of the investment policy implemented by King Leopold II, who made the State directly involved in the exploitation of natural resources of Congo. The Colony adopted and continued to apply this policy. After the Second World War, the Colony's portfolio included additional shares acquired in a number of newly created companies. Among these were companies in the banking sector and

other financial institutions, such as the BCCBRU, Société de Crédit au Colonat et à l'Industrie. The Colony took shares in the property development sector, through the Office des Cités Africaines, and in semi-public companies for water and electricity supply, through Société Force de l'Est du Bas-Congo, and Regideso (Wertz, 1952).

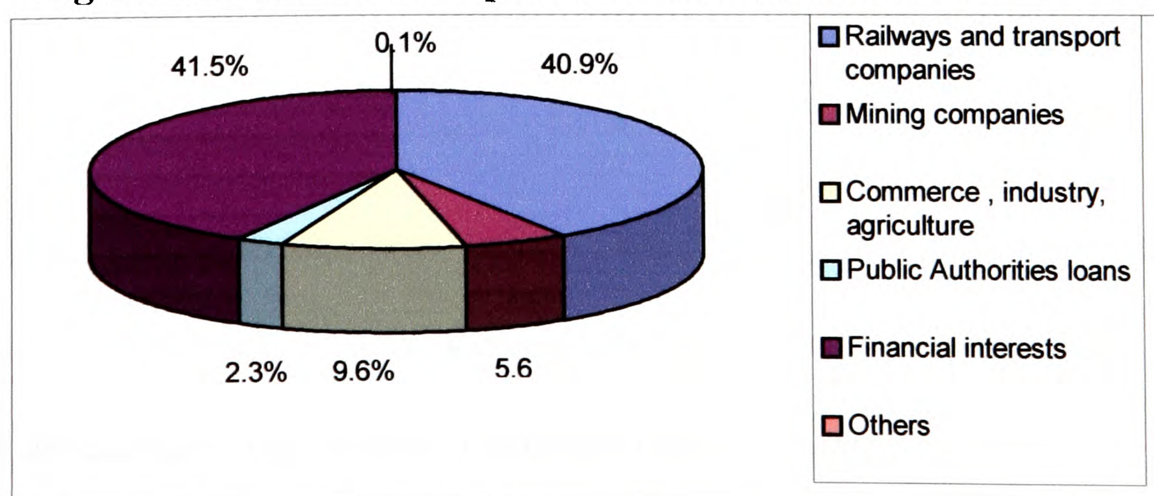
Furthermore, the portfolio included a large acquisition of interest in the borrowings of local authorities that did not have access to capital markets, such as towns, co-operatives created and owned by local people, and non-traditional urban centres (*centres extra-coutumiers*) intended for the development of houses for local people. A Decree of 7 November 1927 published in the Moniteur Belge established a Portfolio Committee (Comité du Portefeuille) with the role of assisting the Minister of Colonies in the management of the Portfolio (Wertz, 1952).

Table 4.6: Structure of portfolio at the end of 1951 (in '000 CF)

Railways and transport companies	4,887,704
Mining companies	675,361
Commerce, industry, agriculture	1,151,612
Public Authorities loans	278,200
Financial interests	4,962,800
Others	2,282
TOTAL	11,957,959

Source: Source: Wertz (1952)

Figure 4.2: Structure of portfolio as at the end of 1951



Source: compiled by the author, based on Wertz (1952)

From a valuation carried out in the early 1950s and reported by Wertz (1952), it emerged that the colonial portfolio was worth about CF12 billion, as shown in Table 4.6 and Figure 4.2. The benefits of the portfolio can be assessed on three levels. Firstly, it enabled joint ventures between public and private interests to be managed with a high degree of efficiency and profitability, while at the same time taking into consideration the requirements and expectations of the public general interest (Wertz, 1952). Secondly, it enabled the Colony to monitor the development of colonial interests, in line with the financial policy initiated by King Leopold II. Management of the portfolio enabled the authorities to control the exploitation of the Colony's resources and the activities of concessionary companies within reasonable boundaries that combined the principles of a free-market-oriented economy and a tendency towards a managed economy (Heenen, 1955).

Table 4.7: Portfolio revenue, 1940-1950 (in '000 CF)

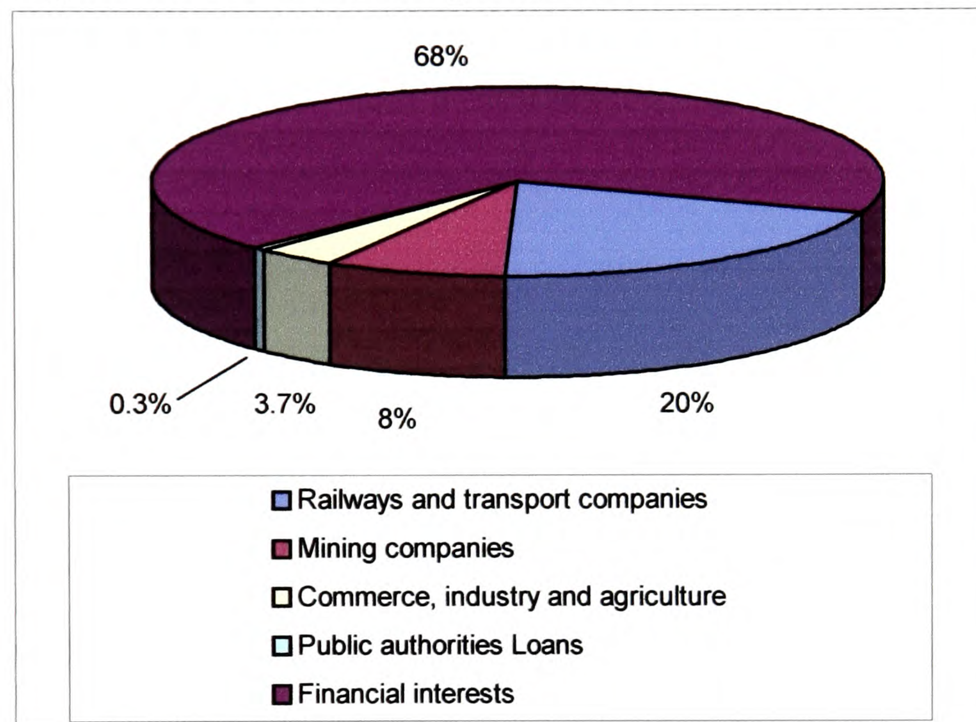
Cash flow Year	Reimbursement	Revenue	Total
1940	13,063	109,688	122,751
1941	2,171	134,172	136,343
1942	1,452	127,216	128,668
1943	1,520	114,205	115,725
1944	3,306	112,820	116,126
1945	73,430	103,581	177,011
1946	104,517	144,831	249,348
1947	1,429	152,893	154,322
1948	3,348	146,818	150,166
1949	1,893	235,961	237,854
1950	2,099	276,432	278,531
1951	5,725	339,066	344,791

Source: Wertz, 1952

Thirdly, the portfolio provided the Colony with earnings that represented a significant contribution to the Colonial budgets. For the period 1940-1951, taken as an example, the colonial operating budget (*budget ordinaire*), evolved as shown in Table 4.7. In 1951 portfolio revenue represented 6.7 per cent of

total ordinary revenue under the operating budget (Wertz, 1952). A further analysis of the figures relating to 1951, taken as an example, revealed that portfolio revenue for that year represented 6.7 per cent of the colonial operating budget for the same year. On the basis of the Congolese public debt of that time, portfolio revenues roughly covered the annual debt servicing cost.

Figure 4.3: Structure of portfolio revenues in 1951



Source: compiled by the author, based on Wertz (1952)

As can be seen from Table 4.7 and Figure 4.3, in 1951 portfolio revenues amounted to CF339.1 million, including 230.1 million from financial interests, 67.5 million from railways and transport companies, 27.8 million from the mining sector, 12.7 million from commerce, industry and agriculture, and about 1 million from loans to local public authorities (Wertz, 1952). Moreover, as will be seen in the next section, the value of the portfolio as at 30 June 1952 was almost equivalent to the greater part of the public debt at the same date. As underlined earlier, this helped to strengthen the Colony's credit rating on the international financial markets where it sought loans to finance implementation of the Ten-year Plan 1950-1959 (Wertz, 1952).

4.9.2. Colonial Debt

At the time of the annexation the entire debt of the former Congo Free State amounted to 235.4 million francs. On the one hand, the Transfer Treaty of 28 November 1907 stipulated that Belgium was responsible for the debt contracted by the Congo Free State prior to the annexation in the event that Congo failed to repay the debt. On the other hand, article 1 of the Charte Coloniale stated, as already mentioned, that the cost of servicing the Colony's debt was to be borne by Congo. Eventually the stipulations of the Charte Coloniale prevailed and, regardless of the provision of the Transfer Treaty, servicing the debt inherited from the Congo Free State was regarded as the Colony's duty (Heenen, 1955).

The cost of developing the Colony was so high compared with the small amount of internal resources available that Congo was obliged to borrow. In this respect, a public debt and borrowing policy was set up in the early 1920s. Assessment of the Colony's credit rating had to take into consideration that by 1925, forty years since the foundation of the Congo Free State in 1885, the Belgian Congo had accumulated a large number of assets. These could be taken as representative of a healthy financial position. At that time, the Colony possessed fairly well structured administrative and economic organs and infrastructure, including 3,000 kilometres of railways, a extensive telephone and telegraph network, as well as a large, well-equipped and well-run merchant navy (Heenen, 1955). Its debt amounted to only BF772 million, hedged by a portfolio of easily realisable assets worth BF1.2 billion. Given this background, a question was raised in the early 1920s as to whether a loan contract regarding the Colony was to be concluded by the metropolitan power, by Congo itself or by the latter with the guarantee of Belgium. The answer was that in view of the

size of the resources held by the Colony, a metropolitan guarantee was not required (Louwers, 1925).

In order to replace the small-scale borrowing that had been the practice to date, characterised by a lack of proper planning and by squandering, a new strategy was adopted, which favoured large-scale borrowings. The funds borrowed under these conditions were to be used to implement investment programmes subject to a prior in-depth appraisal that would allow the relevant authorities to carry out the necessary monitoring and auditing. A law of 21 August 1921 enabled the Minister of Colonies to float bonds for up to BF300 million for the purpose of financing a series of public works that required BF660 million over a fixed period of time (Annales Parlementaires, 1920-1921). However, implementation of the law of 21 August 1921 revealed a number of shortcomings, such as vagueness and lack of detail regarding the financial organisation of the loan, debt servicing, and absence of accurate information on the investment projects to be financed (Louwers, 1925).

With regard to debts contracted after the annexation they were of one of three types: (1) a consolidated debt, (2) a floating debt, or (3) a guaranteed or indirect debt. The consolidated debt was defined as a loan contracted on the basis of a Royal Decree taken as a prerequisite, in accordance with a specific law. A floating debt related to Treasury bonds, the issuance of which was regularised at a later date. The floating debt represented financial support provided by the Colony to publicly-owned transport companies that encountered difficulties due to the economic recession (Heenen, 1955).

Congo contracted loans sometimes on the basis of budget laws, and sometimes according to particular laws concerning borrowing. As already

mentioned, before 1940, the Congo Free State and then the Colony contracted loans to partially finance ordinary budget deficits. About 10 per cent of total borrowings between 1934 and 1939 were used for this purpose (Wertz, 1952). Public works were financed in several ways. In some cases, the concessionary companies provided the funds without any State guarantee. To compensate for the risk taken, the companies received large areas of land, mining concessions and various rights (for example, Compagnie du Chemin de Fer *du Congo*, for the first stage of the construction of the railway). In other cases, the funding was provided by the State (Chemin de Fer du Katanga). In a third category of cases, concessionary companies collected funds by issuing bonds secured by the Colony (Chemin de Fer des Grands Lacs, Chemin de Fer du Bas-Congo – Katanga).

In the particular case of the third category, the Colony resorted to buying out the Matadi–Léopoldville (Kinshasa) railway in 1936 as, following the 1931-1934 recession, the Chemin de Fer du Bas-Congo-Katanga could no longer cover the debt servicing costs relating to the bonds that had been issued to finance the modernisation of the line completed between 1923 and 1932 (Stengers, 1989).

With regard to secured debt, Chapter three mentioned that as early as in 1901 the Congo Free State stood as guarantor of 4 per cent interest for the share capital in the Compagnie des Chemins de Fer du Congo Supérieur aux Grands Lacs Africains. Starting from 1922 Belgian Congo undertook to implement a policy aimed at entrusting private entrepreneurs with the task of carrying out and managing industrial projects of public interest, with appropriate guarantees provided by the Colony for the capital invested (Heenen, 1955). This policy was

intended to provide the Colony with the means, especially in the transport sector, upon which economic development depended.

Table 4.8: Congolese Public Debt, 1909-1952 (in CF millions)

As at 31 Dec	Consolidated	Floating	Total
1909	110.6	14.5	125.1
1910	120.6	21.5	142.1
1911	130.6	28.5	159.1
1912	140.4	62.5	202.9
1913	150.3	91.5	241.8
1914	175.3	103.2	278.5
1915	175.3	27.1	202.4
1916	175.3	27.1	202.4
1917	175.3	25.8	201.1
1918	175.3	25.8	201.1
1919	249.9	33.6	283.5
1920	249.7	8.3	258.0
1921	324.6	8.3	332.9
1922	324.5	73.3	397.8
1923	324.4	70.4	394.8
1924	322.2	166.7	488.9
1925	930.7	209.2	1,139.9
1926	1,773.3	122.6	1,895.9
1927	1,770.5	135.6	1,906.1
1928	1,767.5	61.1	1,828.6
1929	1,764.4	263.0	2,027.4
1930	1,760.9	621.0	2,381.9
1931	1,127.3	983.5	2,110.8
1932	1,177.9	1,001.1	2,179.0
1933	1,170.3	1,609.6	2,779.9
1934	1,758.4	1,207.3	2,965.7
1935	1,882.4	1,167.2	3,049.6
1936	2,630.4	1,076.0	3,706.4
1937	3,903.2	495.5	4,398.7
1938	4,017.2	418.5	4,435.7
1939	3,993.0	480.0	4,473.0
1940	3,979.8	526.0	4,505.8
1941	3,968.1	568.2	4,536.3
1942	3,943.7	561.2	4,504.9
1943	3,917.7	557.2	4,474.9
1944	3,907.0	415.7	4,322.7
1945	3,862.2	23.5	3,885.7
1946	3,832.7	_	3,832.7
1947	2,803.4	1,625.0	4,428.4
1948	2,774.9	1,400.0	4,174.9
1949	2,890.0	800.0	3,690.0
1950	6,242.0	2,495.0	8,737.0
1951	6,189.1	4,400.0	10,589.1
(1) 1952	7,493.0	4,650.0	12,143.0

Source: Wertz (1952: 604) (1) As at 30 June 1952

By the same token, Congo stood as guarantor of interest payments for a number of other companies, such as the Compagnie du Chemin de Fer du Katanga, Société des Chemins de Fer Vicinaux, Chemin de Fer Léopoldville-Katanga-Dilolo, Union Nationale des Transports Fluviaux, Sabena, Compagnie de Chemin de Fer du Congo, Société des Chemins de Fer du Kivu, Société de Crédit au Colonat, Office des Cités Indigènes et des Centres Extracoutumiers, Caisse d'Epargne du Congo Belge et du Ruanda-Urundi, and Société de Pêche Maritime (*see*: Wertz, 1952).

This support policy implemented by the Colony was applied to about CF2.5 billion of capital secured at an interest rate that varied between 4 and 7 per cent. However, as a result of more cautious budget management following the recession years of the early 1930s, as mentioned previously in this chapter, the period 1934 to 1939 witnessed a reinforcement of debt consolidation and a significant decrease in the volume of floating and secured debt (Heenen, 1944). Table 4.8 shows the Congolese debt from 31 December 1909 to 30 June 1952.

4.9.3. The Ten-year Plan 1950-1959

The Second World War offered the Congolese economy a great opportunity to reinforce its presence on the international markets. In order to consolidate this position, starting from the early 1950s, the Colony launched an investment programme known as the Ten-year Plan 1950–1959, which was aimed at developing its infrastructure (Vanderlinden *et al*, 1980). At the same time, the plan aimed at better integration of the local population into the process of economic expansion, through investments designed to improve their social conditions. Starting from 1948, the idea of further economic and social development in Congo as a means of achieving better living conditions for local

people began to be put into effect. The launching of public work projects was aimed at preventing the lack of public infrastructure from holding back the Colony's economic development (Wigny, 1949).

This first economic and social expansion programme of Congo from 1950 to 1959 covered a crucial period for the development of the colony. The Ten-year Plan was based on an analysis of the real situation, which led to determining the direction and defining the stages of its implementation, in collaboration with the private sector, which was mainly involved in the development of the local production of manufactured goods intended for both internal and external markets. The carrying out of public investment projects and creation of new enterprises in various sectors required an increased number of workers, thus triggering an expansion of revenue and demand in the local population (Wigny, 1949).

As public and private investments were interconnected, both the public and private sectors provided the funding for the Plan, with about CF30 billion from the Colony's budget, and CF25 billion from the private sector. With regard to the public funds, credits were provided by the extraordinary budget for this purpose. Expenditures items in this budget were grouped by province. Relevant credits consisted of payment authorisations, which were reflected in corresponding cash budget forecasts spread over several years depending on how long it took to complete the work. (*Ministère des Colonies*, 1949).

As a counterpart of the budget surpluses, mentioned earlier, from the time of the Second World War, the Colonial Treasury held large amounts of bank deposits. At the same time, local savings were mobilised in the form of short-term Treasury bonds of two to three years' duration. The funding of the Plan

gave rise to the development of a form of bank credit known as "*Fonds Publics*" (Public Funds), which enabled the public authorities to mobilise idle bank reserves for the purpose of financing the Plan (Sambwa, 2001).

Further analysis revealed that the capital investment forecast for the Ten-year Plan proved unrealistic. Whereas a law of 27 May 1952 authorised the Minister of Colonies to implement a programme worth CF25.2 billion, a law of 24 December 1957 adjusted the cost of the programme to CF48.1 billion. A note on the Plan's execution attached to a report to the Senate from the Commission for Belgian Congo and Ruanda-Urundi concerning extraordinary receipts and expenditures of the Congo for 1960, mentioned an amount of CF51 billion as the estimated total cost of the Ten-year Plan, of which CF43.4 billion had been spent by 1959 (Zimmer, 1988).

With regard to the results of the Plan, as early as 1958 it could be observed that investments completed since 1950 had significantly contributed to the improvement of Congo's economic structure. The colonial economy was more diversified, and the internal market could absorb a larger volume and range of products from the local agricultural sector and industry. Measured in the light of the evolution of the National Income, it can be seen that the Congolese economy recorded a significant improvement over the period covered by the Ten-year Plan. As a reflection of the expansion of GNP, National Income showed significant growth, which was uninterrupted until 1956 (BCCBRU, 1958).

Figures in Table 4.9 indicate a relative increase in the share of the local population in the National Income over the period 1950-1958. A further analysis of this share reveals a higher increase in the income held by wage-earners than

by the other components of the population. From 1950 to 1958 wage earners' income grew from 38 per cent in 1950 to 57 per cent in 1958 (BCCBRU, 1959).

Table 4.9: Distribution of National Income and GNP, 1950-1958 (in CF billions)

	1950	%	1952	%	1954	%	1956	%	1958	%
Local Population's Income	13.5	46	20.5	49	23.3	52	26.5	54	27.9	58
Others' Income	15.8	54	21.0	51	21.1	48	23.0	46	20.2	42
National Income	29.3		41.5		44.4		49.5		48.1	
GNP	33.7		49.4		54.1		61.2		59.6	

Source: *BCCBRU*, 1959

The local population's increased share in the national income is a reflection of the process of gradual monetarisation of the whole economy, which was steadily reaching an ever-larger portion of the rural areas as these provided a growing contribution in terms of supply of agricultural products to local industry, urban consumers, and for export (Mambu, 1964).

4.10. Conclusion

From the early years of the Congolese colonial era, the metropolitan authorities placed particular emphasis on the formal separation of Belgium and Congo as legal entities. At the same time, however, the Law on the Government of Congo (Charte Coloniale) included a number of articles, such as the provisions regarding money and finance, which contradicted the formally proclaimed separation. Regardless of this legal separation the Belgian authorities established such tight links between the metropolitan monetary system and monetary provisions set up for the Colony, that Belgium and Congo both had the same gold and silver currencies as legal tender (Wertz, 1952). Furthermore, the inclusion of Congo in the Latin Monetary Union in order to resolve the purely

Belgian problem of too many silver coins having been struck is another illustration of metropolitan practices contradictory to the law. No evidence can be provided in support of a clearly defined Congolese direct interest to justify the inclusion of the Colony in the Latin Monetary Union (BCCBRU, 1957).

The fact that currencies of the members of the Union could circulate freely in Congo cannot be considered a sufficient motive since the 1885 Berlin Act contained provisions guaranteeing such free circulation of currencies and capital flows. Congo was included in the Union in order to enlarge the demographic base for calculating the quota for the issuing of Belgian coins and to serve as an outlet, as mentioned earlier, for the BF5 silver coins issued in excess quantity at the time of King Leopold II (Moens, 1976).

To explain the ambiguity of Belgian policy regarding how Congo was ruled, one has to bear in mind the following considerations. At the time, a generally accepted principle was that "a national territory should be defined as the whole space under the sovereignty of every State" (Vattel, 1758, 1863; cited by Halewyck, 1910). According to this principle, although Belgium and Congo were organised and identified as two distinct territorial entities subject to different legal provisions, which did not grant the same civil and political rights to their inhabitants, they were nevertheless considered two parts of one single State. The Congolese land was considered an integral part of Belgium in the same way as the Belgian metropolitan territory (Halewyck, 1910). This concept implied that the metropolitan power was entitled to circumvent any legal provisions whenever Belgian interests required it, as demonstrated in the following paragraphs.

From the analysis carried out in this chapter it emerges that the legal provisions governing the separation between Belgium and its Colony were systematically ignored whenever this proved to be in the best interest of the metropolitan power. The early monetary system established in the Colony appears as a mere extension of the metropolitan monetary system, with the same gold and silver metallic currencies, on the one hand, while paper money issued by the Colony was to be backed by the Colony's own stock of gold and silver reserves, on the other. This is another illustration of the metropolitan motivation, as Belgium managed to let its metallic currency, especially silver coins, circulate in Congo along with metallic currencies of other members of the Latin Monetary Union. However, the principle of separation was applied when it came to guaranteeing the circulation of banknotes and fractional currency, as these represented a potential cost that the Colony was to bear on its own.

During the colonial period, regardless of the separation established by law between Belgium and its Colony, the Congolese currency was subject to devaluations that were decided on the basis of external conditions relating to metropolitan economic and monetary development. This policy was applied on the disputable grounds that a differentiation of the exchange rate between the two currencies would be detrimental to both the Belgian and the Congolese economies. And yet the separation of the two currencies was systematically either cited or merely ignored, depending on what was in the interest of metropolitan Belgium. Whenever Belgium devalued its currency the CF was forced to devalue in the same way. As pointed out by Wertz (1952), while it was obvious that a devaluation of the CF would not trigger an automatic and equivalent devaluation of the BF, given the legal separation of the two

currencies, by the same token the reverse ought to be applicable. In practice, as a result of the political balance of power, metropolitan interests defeated legal provisions.

In addition to all the considerations described above, behind the metropolitan concern for maintaining a formal separation between Belgium and Congo in terms of their respective legal, monetary and financial status, lay a number of internal and external motives. On a domestic basis, the metropolitan power was anxious to demonstrate to public opinion that the Government's colonial enterprise would not lead to a costly involvement on the part of the Belgian taxpayer. All things considered, very few Belgian citizens had a direct interest in the colonial venture (Slade, 1962). It was important, therefore, for the Belgian Government to show that there was this legal and formal separation between the metropolitan power and its colony with regard to money and finance-related issues.

As far as the external perspective was concerned, Belgium had to pretend to comply with the 1885 Berlin Act, which provided for free circulation of person, goods, trade, currencies, and capital flows within the boundaries of the Congo basin. In such a context, originally marked by an international desire to establish Congo as an international colony (Calvo, 1887), it was important for the Belgian Government to keep up appearances by displaying a formal separation, clearly defined in legal terms, even if the operational reality was far removed from the legal provisions.

An analysis of the evolution of banking institutions in the Colony, measured in terms of the network's development, has shown that the opening and location of branches were a function of the presence of industrial and

commercial activities in the area, which underlines the dualistic nature of the colonial economy. In 1959, the largest bank in the Colony, the Banque du Congo Belge, had four main offices, nineteen regional branches, one local branch and four small offices. At that time this bank's own network represented more than 50 per cent of the whole banking network. In view of the size of the Congolese territory it is obvious that the development of banking services was driven exclusively by the presence of industries and commerce, modern agricultural enterprises managed by large companies, or small and medium-sized farms ran by colonists. These areas of modern economic development were relatively limited in number, spread out over the colonial territory, and were not interconnected or integrated with the vast areas, characterised by a traditional economy, which surrounded them.

The structure of money supply displayed development in two directions. On the one hand, the expansion of bank deposits, especially after the Second World War, confirmed the tendency of enterprises to maintain the larger part of their deposits in the Colony. Retention of larger amounts of cash in the Colony was attractive because the territory offered more profitable investment opportunities and because of security, a lesson learnt from the War and the subsequent separation between Congo and occupied Belgium (Wertz, 1952).

This structure of the money supply indicates a volume of bank money that was almost three-quarters of the total money supply. This structure shows that the local population did not hold a significant share of the bank money, but instead held their monetary assets in cash, which accounted for one-quarter of the total money supply. This relationship shows a low level of monetization of

the economy as a whole and particularly of the traditional communities' economy.

By and large Congolese monetary and financial development during the colonial period was essentially marked by three major factors, namely (1) the status of the territory as a colony, (2) its export-based economic and commercial activities and (3) its dualistic economy made up of a small number of modern industrialised sites and large underdeveloped areas. As a result of its political and economic dependence as a colony, Congo, on several occasions, was subject to decisions designed to resolve monetary and/or financial problems regarding the metropolitan power's economy. Furthermore, during the colonial period, monetary and financial developments in Congo were subject to the effects that external market risks had on the balance of payments and public finance.

It has been observed that because of the dualistic nature of the colonial economy, Congo experienced a two-speed monetary and financial evolution. Money was introduced among the local population more rapidly in areas of significant industrial and commercial activities than in rural areas which were not engaged in modern economic activities. In those rural areas dominated by subsistence economic activities the introduction of modern currencies depended essentially on the existence of surpluses that could be marketed in a modern trade network, i.e. outside the traditional mechanisms of exchange, which were analysed in Chapter two. The introduction of modern currencies into rural areas was achieved more rapidly in those regions involved in the production of commodities intended for export or used by domestic manufacturing companies as raw material. This situation explained the correlation observed between the

volume of banknotes and coins in circulation among the local people in those areas and the sequence of agricultural seasons and harvests.

The fact that most of the local population engaged in traditional systems of exchange explains the small volume of resources that they held in cash in modern currencies, because of their low income and the weakness of monetary penetration. In rural areas, the demand for money was linked to the purchase of imported or locally manufactured goods. With the development of economic activities carried out by modern enterprises, which paid wages in cash, the possession and circulation of modern currencies in banknotes and coins steadily spread among the local population. This process was noticeable especially in industrial development zones and large towns. Similarly, the marketing of agricultural products that local people sold to export businesses, to domestic manufacturing companies, or in the markets for consumption, helped to gradually extend the use of modern currencies in traditional communities.

Nevertheless the predominance of traditional mechanisms of exchange, the low income of the local population and the very low density of the banking network were limiting factors in the introduction of modern money among local people. By the end of the colonial period there was scarcely a village where modern currencies were unknown. However, in many areas the demand for money was reserved for targeted purposes confined to specific limits of space and time. This could lead someone to register, for instance, as a worker at the nearest mining company in order to earn a salary intended for the acquisition of a sewing machine or a bicycle in a given period of time.

To conclude, the process of integration of these rural areas, where the vast majority of the local population had been settled for many generations, into

the monetary economy was still at too early a stage to be considered significant. Moreover, the process slowed down during the first few years after the attainment of independence on 30 June 1960, as can be seen from the problems of postcolonial developments, which are analysed in Chapter five.

Chapter Five:

MONEY AND FINANCE IN THE DEMOCRATIC REPUBLIC OF THE CONGO (1960-1995)

5.1 Introduction

From the analysis carried out in Chapter four it emerged that over the colonial period until the declaration of independence on 30 June 1960, export activities had a decisive influence on money and finance in Congo. Congolese monetary and financial affairs in the early 1960 were marked to a certain extent by the effects of a systemic political crisis that hit the country's government and administrative structures from the very first month of the independence era. The context of that crisis was the fragmentation of the national territory into several operational zones and the emergence of an unofficial or grey economy funded with resources drawn from the official economy.

This chapter addresses the period from the date of independence to the end of 1995, the dawn of the end of Mobutu's regime. It comprises six sections: an introduction, four analytical sections and a conclusion. The four analytical sections successively look at the following periods: 1959-1967, 1967-1976, 1976-1985, and 1985-1995. The second section addresses the period 1959-1967. It provides, as a starting point, an analysis of the political and economic background of the period 1959-1961, during which Congo gained its independence, perceived as a turning

point. It also looks at the monetary and financial developments over the period June 1960 to June 1967, and examines the two attempts at monetary and financial adjustment, launched on 6 November 1961 and 6 November 1963, that preceded the first far-reaching monetary and financial reform of 24 June 1967. The analysis highlights the impact of both the major changes introduced and the subsequent anarchy in the monetary and financial management of the newly independent country, marked by a total lack of technical and administrative skills and absence of control over events (cf. Bornemann *et al*, 1979).

Section three addresses the monetary and financial measures of the reform launched on 24 June 1967 and analyses the subsequent developments up to the mid-1970s. The first part of the analysis looks at the monetary and financial provisions of the reform and measures to what extent its implementation was relatively successful until the end of the 1960s. It shows to what extent these measures helped to significantly stabilise the country's overall economic and monetary situation and improve the health of the State's finances. The second part of the section concentrates on the development of policies initiated by President Mobutu from the early 1970s, especially measures of late 1973 and late 1974, known as "zaïrianisation and radicalisation policies". These consisted of the expropriation of businesses owned by foreigners and local people in various sectors, including agriculture, industry, commerce, and financial services, the ownership of which was transferred to the State or to leading State dignitaries. The analysis looks at the adverse effects of these policies on the economy and explains how the subsequent deterioration of the overall situation led to another monetary and financial adjustment launched on 12 March 1976. It emerges from the analysis that the Congolese economy never recovered from the effects of these measures.

Section four addresses the period starting in 1976, the year that saw the launch of another monetary and financial reform and economic recovery programme, whose progression up to 1983 is analysed. This year in considered as the starting point of another major monetary and economic adjustment programme, whose impact up to 1985 is analysed. The analysis looks at the effects of the chronic State budget deficits financed by money creation, which was the major contributing factor in the development of the money supply and subsequent sharp inflationary spiral.

Monetary and financial developments through the second half of the 1980s did not fundamentally differ from those of the preceding years. The Government continued implementing short-lived adjustment programmes, which resulted in partial, but ephemeral, success followed by further deterioration due to a lack of continuity in applying adopted policies. Section five relating to the period 1985-1995 looks at the profound worsening of the overall economic situation. This rapidly led the country from the very high inflation observed in the late 1980s to hyperinflation from the early 1990s onwards. The analysis particularly focuses on the 1990-1995 period, extended to 1996/97 to mark the end of President Mobutu's regime and the beginning of the new era with the coming to power of President Kabila in May 1997.

Most of the figures analysed in this chapter are derived from statistics published by the Banque du Zaïre in its Annual Reports, Monthly Bulletins of Statistics and Weekly Statistical Summaries, as they are reckoned to be the most reliable. Among other sources consulted are the Institut National des Statistiques (INS) statistical publications, IMF and World Bank reports and working papers as well as unpublished Government internal memos obtained thanks to various private sources.

In the absence of a developed network of specialised financial institutions in Congo, the banking system, comprising a Central Bank and a limited number of deposit banks, provided almost the entire volume of credit to the Government, public and private sector enterprises, and households. Nevertheless, before tackling the main issue as indicated above, it is worth mentioning three major financial institutions created after June 1960 in addition to those mentioned in Chapter four.

The Société Nationale d'Assurance (SONAS) was established in November 1966 through nationalisation of the insurance sector, as will be explained later in this chapter. The Caisse Nationale d'Epargne et de Crédit Immobilier (CNECI) was created in 1971 to operate as a State-owned building society. It went into bankruptcy in 1981, mainly as the combined result of an inadequate financial structure, because of lack of financial support from the State, and the Caisse's inability to raise long-term funds, given the inflationary conditions in Congo. The Société Financière de Développement (SOFIDE) was and still is the most important financial institution specialising in the financing of mostly private-sector enterprises. It was founded in January 1970, and its capital was provided by the State Treasury, the Central Bank, domestic commercial banks, local private-sector enterprises and individual investors, about a dozen of European, American and Japanese banks, and the International Finance Corporation (IFC), an affiliate of the World Bank group. SOFIDE was granted long-term funds in the form of quasi-capital provided by the Government and several low-interest loans from the International Development Association (IDA), another member of the World Bank group, and from other regional and national financial institutions, such as the European Investment Bank, the African Development Bank, and the French Caisse Centrale de Coopération Economique (CCCE) (Leslie, 1987).

There were also the following financial institutions created after 1960. Firstly, the Office National du Logement (ONL) was established in 1968 as a result of a merger of the Office des Cités Africaines (OCA) and the Fonds du Bien-Etre Indigène (FBI), to build houses and finance their acquisition by local people (Kuyena, 1984). Secondly, the Société Mobilière et Immobilière (MOBIMO) was founded as a holding company in 1962 by the Banque du Congo (formerly Banque du Congo Belge), to provide long-term loans to households and small businesses. Thirdly, the Crédit Agricole Contrôlé (CAC) was established by the Government in January 1970 for the purpose of financing agricultural projects with counterpart funds generated by US aid. It ceased activities after a few years because its resources were exhausted (Kuyena, 1984).

Lastly, the Banque de Kinshasa, created in 1971, in turn established the Compagnie Financière de Kinshasa (COFIKI) as a holding company the same year. The Banque de Kinshasa, the first deposit bank to be founded by a Congolese businessman, had strong political support from President Mobutu and a subsequent direct financial contribution from the Treasury. These institutions all admittedly played a role in their respective areas of specialisation. However, as will be seen later from relevant figures, their contribution did not significantly count among the factors that shaped the post-colonial monetary and financial history of Congo.

The next section explores the monetary and financial developments from 30 June 1960, date of the country's independence, to 24 June 1967, the date when the most significant monetary and financial reform of the 1960s was launched.

5.2 Monetary and Financial Developments from June 1960 to June 1967

5.2. 1. Political and Economic Background

In many African countries, including most of the former British and French colonies, decolonisation was accompanied by a new economic and monetary co-operation agreement that linked the newly independent state to its former colonial power (François, 1962). Conversely, however, the breaking of almost all monetary and financial links between Belgium and its former colony marked the independence of Congo. Only two other sub-Saharan African countries had a similar experience in this respect. First, Guinea, a former West African French colony, became independent in 1958 under Sékou Touré's dictatorship, and broke all links with France. Second, there was the case of the Republic of Mali. In this country, monetary and financial links with France, the former metropolitan power, were maintained after independence in the early 1960s, but then broken in 1962, when the Government decided to pursue a socialist path. However, Mali rejoined the Franc Zone in 1967 (Gérardin, 1989).

Since it was not backed by any strong currency, the CF was likely to suffer the effects of political and economic crises and centrifugal forces. In this respect two series of striking political events that occurred immediately after the proclamation of independence were the cause of the early stages of Congolese inflation.

At the very beginning of its independence, Congo lost its two wealthiest provinces, namely, Katanga, provider of strategic mineral products, such as copper and cobalt, and the diamond-producing Southern Kasaï. They both seceded quickly to form two separate independent States. With the national territory thus reduced in

size, there was a sharp decline in public revenues, which was not accompanied by an equivalent decrease in public expenditure (Oliver and Atmore, 1995).

The second political factor to negatively affect the economy was the overall climate of insecurity that arose out of the rebellions, mutinies and widespread atmosphere of anarchy among the local population in most of the regions, as a result of an incorrect perception of the newly acquired freedom. This sense of insecurity resulted in the disruption of communications between large cities and rural areas, which in turn caused a decline in food supply. It gave rise to a massive and swift emigration of the Belgians who composed the entire managerial body of the former Colony at all levels of all institutions (Verhaegen, 1961).

The sudden flight of the Belgians created an opportunity for a new class of local people to be rapidly promoted to the highest positions in the public administration. Between 1959 and 1961 the share of the local population in the nominal national income increased from 66 per cent to 81 per cent, mainly as a result of a dramatic increase in salaries and wages paid out of the State Budget to the newly promoted Congolese civil servants. From CF3.2 billion in 1959, the State's total wage bill climbed to CF8.7 billion in 1961 (François, 1962) The increase in salaries paid to local people resulted in additional demand pressure exerted on a declining supply of consumption goods from rural areas due to the climate of insecurity mentioned earlier. It was the main cause of Congolese inflation in the early 1960s, which can be regarded, therefore, as due to a substitution effect rather than to a public finance deficit. Namely, the ability to pay (*pouvoir d'achat*) previously held by the Belgians was, from then on, in the hands of the new bourgeoisie made up of the Congolese employed in the Public Administration (François, 1962).

The analysis carried out in Chapter four, section 4.8 relating to the structure of money circulation, has shown that before independence the process of money creation and the distribution of the money supply between notes and coins, and sight deposits, were determined by a private sector dominated by foreign interests, mostly involved in export-based economic activities. As will be seen in this chapter, starting from 1960, monetary and financial developments became mostly dependent on the public sector controlled by the Congolese people. From then on Congolese monetary history was marked by a continuous expansion of credit allotted by the banking system to the public sector, and the squeeze on the share of foreign exchange reserves as one of the factors affecting the money supply, as well as a relative decline in the total volume of credit made available to the private sector and households.

The ordinary State Budget imbalance recorded for the period between June 1960 and June 1961 was due more to a sharp decrease in public revenue than to an increase in public expenditure. The suspension of metropolitan financial support, especially within the framework of the execution of the Ten-year Plan 1950-1959, and net contributions from Katanga and southern Kasaï, accounted for 41 per cent of the decline in public revenue. The rest of the decrease in fiscal revenue was due to internal causes, such as the fall in export and import activities and the disorganised state of fiscal administration. As a result, a large amount of fiscal dues were diverted from the central administration and picked up instead by undefined local political and administrative bodies. Overall, as shown in Table 5.1, State revenue fell by CF5.5 billion in 1961 compared with 1959 (Leclercq, 1960-1962).

Table 5.1: State revenue in 1959 and 1961, excluding Katanga (in CF millions)

	1959	1961	Difference	
			in value	in %
Direct taxes	3,200	940	-2,260	-71
Indirect taxes	3,300	1,748	-1,552	-47
- Entrance fees	1,300	529	-771	-59
- Export duties	1,100	344	-756	-69
- Excise duties	900	875	-25	-3
Non-fiscal revenue	2,900	1,195	-1,705	-59
Total revenue	9,400	3,883	-5,517	-59
Total expenditures	12,900	*12,766	-134	
Deficit	3,500	9,383	+5,383	+268
Financed by				
- External support	400	-	-400	-
- Katanga transfers	3,100	-	-3,100	-
- Banks' Treasury Bonds	-	550	+550	
- Issuing House	-	8,550	+8,550	-
- Other	-	283	-	-

Source: based on Leclercq (1961-62) *Public debt and CF500 million capital expenditures excluded.

While the State resources recorded a sharp drop, public expenditure remained roughly unchanged, as can be seen from Table 5.1, despite the cost savings allowed by a suspension of the payment of public debt, and a massive departure of Belgians from the Public Administration, as mentioned earlier in this section (Vesse, 1961). It emerges from Table 5.1 that while the share of private banks in the financing of the State budget deficit in 1961 was limited to no more than 6 per cent, the Central Bank's contribution for this purpose amounted to about 91 per cent (Leclercq, 1962). This was as a result of the strong pressure the Government placed on the issuing house, maintaining this pressure over the entire period under examination, as will be seen later in this chapter.

It was pointed out earlier that in its first stage, the State Budget imbalance was essentially due to a sharp fall in public revenue. Budget expenditure continued to grow, and this trend was intensified over time with a further development of inflation. As shown in Table 5.2, wages and salaries paid to the new Congolese civil servants increased dramatically. They triggered additional inflationary pressures since the demand from these people targeted different categories of goods

and services, especially foodstuffs, the supply of which kept declining as a consequence of the general deterioration of the overall situation of the country.

Table 5.2: State expenditure in 1960 and 1961, excluding Katanga (in CF millions)

Type of expenditure	Budget 1960	Payment 1961	Difference	
			Value	%
Wages/Belgian experts	2,357	400	-1,957	-83
Wages/Congolese civil servants	788	1,450	+662	+84
Salaries/Congolese employees on contract	1,050	2,100	+1,050	+100
Army pay	460	2,000	+1,540	+335
Wages/political personnel	346	800	+454	+131
Education subsidies	1,368	3,500	+2,132	+156
Public debt	3,933	757	-3,176	-81
Other expenses	4,402	*1,759	-2,643	-60
Total ordinary expenditures	14,704	12,766	-1,938	-13

Source: Leclercq (1961-1962)
* CF500 million capital expenditure excluded

Table 5.3 shows that the small increase in revenue recorded in the second half of 1961, compared with the first half of the same year, did not compensate for the significant expansion of budget expenditure during the same period, which resulted in a larger deficit. The size of the gap between public revenue and expenditure over this period can be measured by referring to the figures in Table 5.2. Namely, salaries for Belgian experts fell from CF2,357 million in the 1960 State Budget to CF400 million in 1961, or a decrease of 83 per cent. Wages and salaries paid to Congolese civil servants, to the army and political personnel, and subsidies for education jumped from CF4,012 million in 1960 to CF9,850 million in 1961, recording an average growth of 145 per cent (Leclercq, 1961-1962).

Table 5.3: Budget expenditure and revenue, 1960-1961 (in CF millions)

1960 2nd half	Total payment (a)	Total revenue (b)	Total deficit (c)	(c)/(a) in %
	5,647	1,756	3,736	68.0
1961 1st half	5,647	1,812	3,835	67.9
2nd half	7,619	2,071	5,548	72.8
Total year 1961	13,266	3,883	9,383	70.7

Source: based on Leclercq (1961-1962)

With regard to the balance of payments, on the one hand, the deteriorating situation in the country hit export activities. This adverse effect was compounded

by a fall in the prices of a number of raw materials, which caused a decrease of about 12 per cent in overall export revenue. The fall in prices related especially to agricultural products, such as palm oil, palm nut oil, coffee, cocoa and rubber. Moreover, while consumer prices were climbing, prices paid to producers were declining, which resulted in a further deterioration of the terms of trade and undermined the motivation of peasant farmers involved in the production of commodities for export, such as cotton and palm oil (François, 1962).

During the same period of time (1960/1961), the volume of exports did not vary significantly. However, there was instead a decline in the amount of foreign currency receipts from exports, as approximately 20 per cent of official exports were not declared, while the remaining 80 per cent were subject to a systematic underestimation (François, 1962). This concealment of export proceeds was a means of bypassing the existing foreign exchange restrictions regarding the external transfer of investment revenues. As for imports, their volume increased, partly to compensate for the decline in goods from regions that had seceded, such as the Kasaï, known as an important food supply producer. Because of the foreign exchange restrictions, importers had to submit an application to the Central Bank through the banking system to obtain foreign currencies intended for the settlement of import invoices. To bypass the ban on capital transfers and restrictions on investment revenue transfers, invoices relating to the import of goods and services paid in foreign currencies were shown with an inflated total amount, to cover up a certain amount of flight capital (François, 1962).

As a result of the decline in export proceeds combined with the increase in imports, the balance of trade recorded a deficit that went on growing as the country's administrative structure deteriorated further. Due to foreign exchange restrictions the import of certain types of goods, such as luxurious cars, expensive

foodstuffs and wine, was not allowed through the official foreign exchange market. This created an unofficial foreign exchange market, and the gap between both the official and unofficial exchange rates widened. In fact, local prices were fixed with reference to the exchange rate in force in the unofficial market, where the cost of acquiring foreign currencies was much higher than at the official exchange rate. And yet at that time the decrease in export and fiscal resources was due more to a lack of control caused by the growing administrative inefficiency, and thus, an increasing number of smuggling circuits, than to a sharp decline in volumes exported (François, 1962). The balance of payments deficit was covered by the country's own foreign exchange reserves and external resources provided by the United States and the United Nations, as shown in Table 5.4.

Table 5.4: Balance of payments in 1961 (in CF millions)

	Receipts	Expenditures	Balance
Goods	5,121	6,670	-1,549
Transfers	* 1,545	3,199	-1,654
Capital	** 824	271	+553
Total	7,490	10,140	-2,650
Foreign exchange withdrawal			-2,592

Source: Bulletin du Conseil Monétaire, 1962

* Including CF1,140 million in foreign currency from the United Nations Mission in Congo for its local expenses.
** Including CF502 million as US aid.

These provisions served as a palliative solution, without addressing the main issue, namely, a lack of efficient control on export and import activities, as mentioned in the preceding paragraph, which were thus subject to abuses and contraband, further exacerbating the inflation caused by a lack of foreign exchange reserves.

While credit to the public sector became the main source of money creation from June 1960, as shown in Table 5.5, the volume of credit to the private sector continued to decline.

Table 5.5: Banking system's credit to public and private sector, 1959-1962 (in CF millions)

Year	Credit to public sector			Credit to private sector			Total
	Issuing House	Private Banks	Total	Issuing House	Private Banks	Total	
31.01.1959	1,764	6,496	8,259	903	5,400	6,304	14,563
30.06.1959	1,804	6,113	7,917	1,241	5,559	6,800	14,717
31.12.1959	4,026	5,315	9,341	453	5,098	5,551	14,892
30.06.1960	4,392	4,942	9,334	765	5,458	6,223	15,557
31.12.1960	8,374	5,216	13,590	173	3,041	3,214	16,804
30.06.1961	11,314	5,318	16,632	8.9	2,867	2,876	19,508
31.12.1961	15,013	6,032	21,046	-	3,131	3,131	24,177
30.06.1962	20,977	6,555	27,532	0.4	2,740	2,740	30,272
31.12.1962	24,951	6,892	31,844	94.9	2,391	2,485	34,329

Source: Mambu (1964)

However, during the three months August to October 1960, banks had to get advances from the Central Bank in order to respond to a massive withdrawal of banknotes and external transfers. These transfers were completed in a context of panic as Belgians fled the troubled country, and they were facilitated by a lack of exchange control (Mambu, 1964).

After a slight decline between June and September 1960, the development of money supply followed the expansion of credit allocated to the public sector, while its structure reflected the shift in the structure of revenue (Mambu, 1964). The net flows of foreign exchange receipts from large companies' export proceeds resulted in an immediate increase in bank deposits in the accounts of those companies and in the accounts of the State Treasury, which received the corresponding duties on such export proceeds.

Table 5.6: Banknote and coin circulation (in CF millions)

Year	Total money supply (a)	Note & coin circulation (b)	% (b)/(a)	Index (b) June1960 = 100
1959 June	16,960	6,159	63.3	90.2
Dec.	15,811	6,315	39.9	92.4
1960 June	15,492	6,831	44.1	100.0
Dec.	18,311	6,926	37.8	101.4
1961 June	22,151	8,838	39.9	129.4
Dec.	26,486	10,052	38.0	147.2
1962 June	31,390	11,607	37.0	169.9
Dec.	35,067	13,288	37.9	194.5
1963 June	39,661	17,929	45.2	262.5

Source: based on Mambu (1964)

Credit to the public sector was converted half into banknote and coin circulation, half into bank deposits. Table 5.6 shows the development of the share of banknote and coin circulation in the money supply. This new distribution reflected an increase in the proportion of wages paid in cash to the newly promoted Congolese civil servants. In view of an inelastic, if not decreasing supply, the increase in wages and salaries between 1960 and 1963 resulted in a higher demand pressure and a subsequent sharp increase in prices, as shown in Table 5.7.

Table 5.7: Retail price index (Kinshasa markets) and minimum wage

Year	Price index June 1960 = 100	% increase in minimum wage	Real wage index July 1960 = 100
1960 June	100.0	–	–
July	130.0	+30	100.0
1961 July	188.0	+45	103.0
1963 April	235.0	+25	55.9
October	294.0	+25	68.8

Source: Banque Nationale du Congo (1967)

Belgians living in Congo were familiar with payment by cheque and on credit, which was an easy and safe way of trading since their wages and salaries were paid via a system similar to the present-day personal giro accounts. Their massive exodus in the second half of 1960 put an end to this mode of payment, which was mostly reserved for expatriates. More cash was needed, therefore, to settle payments in general, and for the salaries of the newly appointed Congolese civil servants in particular. As inflation was increasing, more cash was required to catch up with the rapid upward movement of prices. In the end the State faced a shortage of banknotes and could no longer cover the total payment of wages and salaries of its employees. The reserve ratio in relation to the money circulation fell to 5 per cent in August 1961 (François, 1962).

The volume of bank money grew in line with that of banknotes and coin circulation. However, as pointed out earlier, while in the 1950s it derived from export revenues and external capital inflows, the development of bank money in

the early 1960s was essentially a result of a dramatic expansion of credit to the public sector. Advances from the Central Bank to the State gave rise to bank deposits, which the Treasury used to pay its creditors, namely employees and suppliers of goods and services. The latter used the amount deposited in their accounts to purchase both locally produced and imported goods and services from suppliers who, in turn, deposited their sales revenue in bank accounts. In view of the existing inflationary context, enterprises tended to anticipate monetary depreciation in order to preserve the purchasing power of their revenue, by increasing their selling price accordingly (Francois, 1962).

A further deterioration in the economic situation started to affect industrial productive capacity. The ban on transfer abroad of revenue from investments and rentals mentioned earlier and the decline in economic activity resulted in a surplus of cash. Moreover, the sharp fall in foreign exchange reserves already mentioned in this section resulted in a severe decline in the import of capital goods, while financial difficulties experienced by a number of companies contributed to a reduction in the volume of investments. This development gave rise to an apparent monetary abundance due to an accumulation of cash flows originally intended for investment in capital goods, which, however, had been brought to a halt by the crisis. It resulted in the paradox that, while cash flows were growing, the volume and quality of producer goods were declining, which, in fact, reflected a further disintegration of production capacities (Boulding, 1950).

On the whole, from June 1960 to September 1961, despite the development of a large public finance deficit, inflationary pressure was offset to a certain degree by a number of deflationary factors, such as the following. First, the increase in wages and salaries was partly compensated by a rise in unemployment to about 40 per cent of the working population. Second, as the State and private sector halted

capital investment expenditures, the demand for producer goods declined, which lowered global demand. On the other hand, demand for consumer goods over the same period did not vary significantly, as imports remained at the same level as previously, while domestic supply from local manufacturing industry proved to be elastic and met such increase in demand as there was (François, 1962).

To explain these developments one has to consider the dualistic nature of the Congolese economy, characterised by compartmentalised markets. In such a context a change in the distribution of purchasing power triggers inflationary pressure insofar as the additional demand is directed at markets where the supply is rigid or anyway insufficiently elastic. The magnitude of pressure depends, therefore, on the behaviour and location of the holders of the incremental revenue, as well as on the location of the rigid supply. In the case of Congo, the increase in wages and salaries concerned revenue holders with a high propensity to spend, especially on local and imported foodstuffs, consumer semi-durables, such as clothing, shoes and mats, and consumer durables, including domestic appliances, houses and cars (François, 1962).

With regard to the impact of the unofficial exchange rate, it remained insignificant over this early period of the Congolese inflationary process, as it related to marginal transactions carried out by a restricted number of Europeans whose incremental inflationary demand was directed at foreign exchange markets. At that time there was no connection between domestic prices and the unofficial exchange rate, which was referred to for a limited number of transactions, especially those regarding luxury goods. In other words, the unofficial exchange rate was not yet used on a large scale as the main reference for determining domestic prices of widespread consumption goods. As a result, at this early stage of Congolese inflation, while the banknote and coin circulation increased by about 41

per cent between June 1960 and October 1961 (i.e. prior to the monetary adjustment of 6 November 1961), prices recorded an increase of only 19 per cent over the same period (Banque Nationale du Congo, 1967). This is an indication that the behaviour of both revenue holders and suppliers had helped up to then to maintain inflation within moderate limits.

However, from the third quarter of 1961, two major events contributed to an acceleration in the inflationary process. Firstly, a 30 per cent increase in the minimum wage caused an expansion of demand. It also increased production costs as a result of higher salaries, although enterprises managed to raise their selling prices to pass on the increase in cost to their customers (François, 1962). Secondly, following an exhaustion of foreign exchange reserves a monetary adjustment, to be analysed in the next section, came into effect on 6 November 1961, leading to 30 per cent devaluation. As an immediate result the cost of imports increased by at least 30 per cent, which was eventually reflected in an even higher increase in retail prices. These two events occurred at a time when local production had reached its capacity limits. As a consequence, the adjustment in prices hit not only imports but also local products from all sectors of the economy, including goods from rural areas (François, 1962).

The exhaustion of foreign exchange reserves justified restrictions on imports and on other external payments. This gave rise to the development of various unofficial markets that formed parallel channels connected with the official economy as follows. In the absence of efficient control over import and export activities, a portion of foreign exchange export receipts was misappropriated from official economic channels to pay for goods that were being imported through parallel channels, to meet unsatisfied demand, or to cover other external payments that were officially forbidden (François, 1962). The high cost of this transactional

process was added to the already high cost of imports caused by a decline in supply. It helped to boost the inflationary spiral and justified the first series of monetary adjustments analysed in the next sections.

5.2.2. Monetary Adjustment of 6 November 1961

The first devaluation made after independence was announced on 6 November 1961. Initially the measure included the possibility of flexible adjustments to the CF within fluctuation bands that were not to exceed 20 per cent. In the end the adjustment was turned into a formal devaluation of 30 per cent, considered as a minimum, essentially aimed at preserving the viability of agricultural export enterprises, as they were the only providers of foreign exchange revenue at that time. It was also intended to help lower the pressure on foreign exchange reserves by reducing the demand for imports (Herman, 1962). Moreover, the adjustment was also designed to be the first step of a far-reaching programme to reorganise the administration of external trade, and as preparation for an in-depth economic reform.

The outcome expected from the adjustment depended on the political crisis being resolved, as well as on a reduction in the State budget deficit, and wage and salary restraints. These conditions, however, were out of the control of the monetary authorities. As a result, the monetary adjustment served as no more than a temporary subsidy granted to export enterprises, as they cashed a larger amount in domestic currency for their export receipts in foreign currency sold to the banking system according to the existing foreign exchange regulation. And yet the advantage they gained was immediately offset by an increase in production costs, as mentioned earlier.

The devaluation of 6 November 1961 accelerated the exhaustion of foreign exchange reserves. On the one hand, it prompted importers to use foreign currencies received from the Office des Licences (in charge of import licences) as quickly as possible. On the other, importers delayed the sale of their stock in order to benefit from further price increases. To prevent this speculative behaviour from developing the Central Bank instructed banks to reject any demand for foreign currencies intended for pre-payment of imports (Banque Nationale du Congo, 1967).

The rate of price increases was higher than the devaluation rate. Instead of reducing demand by raising the cost of goods supplied, the devaluation helped to activate the potential demand, as is reflected by the gap between the 19 per cent increase in prices observed from June 1960 to October 1961 and the 41 per cent increase in banknote and coin circulation measured over the same period. Moreover, a higher velocity of bank money circulation and a decline in idle cash resources also reflected an activation of the inflationary process. The prospect of devaluation in stages caused anxiety, which made monetary activity more ebullient, and increased the velocity of money circulation, as it speeded up the purchase of goods to prevent liquid assets from being hit by a further devaluation (Banque Nationale du Congo, 1967).

5.2.3. Monetary Adjustment of 6 November 1963

In early 1963 the Katanga secession came to an end and the country was reunited. With the resumption of a contribution from province of Katanga, the Government was therefore able to count on a subsequently larger volume of potential resources. It consequently revised its budgetary policy with the aim of absorbing the public finance deficit, and correcting monetary disequilibrium. In the meantime there was

a recovery in agricultural exports and in the domestic manufacturing industry, which resulted in a supply increase. At the same time, the increase in prices recorded since the monetary adjustment of 6 November 1961 contributed to a reduction in demand pressure. In view of these developments, the year 1963 seemed, eventually, to offer better opportunities than the first two years of independence for a thorough monetary reform accompanied by a revised public finance policy (Banque Nationale du Congo, 1967).

On 6 November 1963 a new dual rate of exchange was defined, giving a buying rate against the USD of CF150, and a selling rate of CF180. Secondly, a new pay scale for career civil servants was adopted, providing increases ranging from 13 per cent for the highest positions to 60 per cent for the lowest. The third measure was a 25 per cent increase in the minimum wage for contract employees in both the public and the private sector.[14] These measures were accompanied by credit restrictions for the private sector and by a wage freeze in order to restrict the expansion of demand (Mambu, 1964).

For a short time implementation of these provisions helped to reduce the size of the public finance deficit and stimulated export activities. However, soon afterwards rebellions resumed and spread all over the central and eastern region of the country, undermining the process of stabilisation that had started to be noticeable in 1964. The situation was dominated by internal conflict between political groups opposed to each other. At that time, lacking cohesion and discipline, the Government did not have at its disposal the means of efficiently implementing a sound financial and wage policy, which could have led to a durable

[14] The Congolese public administration comprises two categories of employees. The first category includes civil servants whose career plan is governed by specific legislation with a core set of provisions common to all civil servants. The second category comprises contract employees, mostly unskilled workers, recruited on a casual basis. As a result of several decades of anarchy and

stabilisation. Furthermore, the existence of restrictions on external payments justified by the lack of foreign exchange reserves prevented the country from having access to IMF resources and at the same time caused a shortage of goods on the market (Banque Nationale du Congo, 1967). And yet far-reaching stabilisation programme would have required substantial external financial support (from the IMF and other lenders) in order to compensate for the exhaustion of foreign exchange reserves and provide a comfortable supply of goods and services.

In 1965 there was a modest increase in public revenue, while public expenditure grew by 56 per cent. As a result, the year ended with a CF20.9 billion deficit, representing 32 per cent of total expenditure (Banque Nationale du Congo, 1967). Starting from early 1966 the situation improved significantly as, in preparation for the far-reaching monetary reform of June 1967, the Government took drastic action to reduce the State budget deficit from CF20.9 billion in 1965, as mentioned above, to CF5.5 billion, or 8 per cent of total expenditure. Fiscal revenue grew threefold as a consequence of the 20 per cent gap between the buying and selling exchange rates. At the same time improvements in the drafting of the State budget enabled better control of public expenditures (Banque Nationale du Congo, 1967).

The most striking event of late 1966 was the nationalisation of the largest mining company in the country, the *Union* Minière du Haut Katanga (UMHK), announced by President Mobutu on 31 December 1966 along with a set of other important changes in the laws governing rights of concessionary companies and lands. The UMHK was replaced by a State-owned company called the Générale Congolaise des Mines (GECOMIN). The name of the company was changed later

nepotism, the number of civil servants and contract employees increased dramatically, out of all control (Bornemann *et al.*, 1997).

on to Générale de Carrières et des Mines (GECAMINES) These decisions caused a major conflict between Congo and Belgium. The Belgian holding company UMHK seized all its subsidiary's outstanding balances in foreign banks across the world and all the mineral product shipments and deliveries which had not yet been paid for. This seizure of liquid assets was lifted when a co-operation agreement was signed in February 1967 between the new company and the Belgian Société Générale des Minerais (SGM), a subsidiary of UMHK, specialised in nonferrous metal trading (McDonald, 1979).

At the same time, as mentioned at the beginning of this chapter, the Government created a State-owned national insurance company, called Société Nationale d'Assurances (SONAS), to which it granted a monopoly for all insurance operations. All private insurance companies established in Congo were allowed to continue operating on a brokerage basis (Kuyena, 1984). This nationalisation combined with the blatant mismanagement and inefficiency of *SONAS* helped to impede the emergence of a sound non-banking financial sector in Congo.

5.2.4. Banking Institutions and Exchange Control

At the end of the colonial era the Congolese banking network was dominated by two major banks, the Banque du Congo Belge and the Banque Belge d'Afrique, which together owned 36 branches, out of the total of 47 private bank branches existing in the country in 1960, as shown in Table 5.8.

Political events and unrest that started in June 1960 resulted in a decline in the size of the banking network, as many branches were closed because of the subsequent fall in economic and trade activities. This development provided an opportunity to restructure the management of most banks, allowing the Congolese access to higher positions among the management staff.

Table 5.8: Congolese banking network, 1956-1962

Bank	Number of branches		
	1956	1960	1962
Banque du Congo Belge	24	21	21
Banque Belge d'Afrique	16	15	12
Société Congolaise de Banque	4	4	4
Kredietbank Congo	4	4	4
Crédit Congolais	2	2	2
B.N.C.I.	1	-	-
Paribas	1	1	1
Total	52	47	44

Source: Mambu (1964)

The legal aspect of this evolution is reflected in a series of measures taken since June 1960, summarised as follows. Prior to 1960, almost all the banks established in Congo were, in fact, subsidiaries of foreign banks. The first step of the process, which was aimed at adapting to the new situation arising out of the political change of 30 June 1960, consisted in transferring the banks' headquarters from abroad to Congo. The second step consisted in converting the local banks into Congolese companies subject to Congolese laws and regulations.

However, in view of their origins, all the banks registered as Congolese companies were split into two entities, one established in Congo and the other created as an external branch in charge of activities outside the Congolese territory. The transformation of the three most important banks was carried out as follows. The Banque du Congo Belge became Banque du Congo and established a branch, called the Banque Belgo-Congolaise, better known as Belgolaise, in Brussels. The Banque Belge d'Afrique kept the same name for its branch in Congo while it created an external branch called Banque Belge d'Afrique Europe. The Société Congolaise de Banque remained under the same name in Congo and established the Banque Africaine Internationale in Brussels (Kuyena, 1984).

An agreement of 15 November 1960 concluded in New York between Belgium and Congo provided for the dissolution of the BCCBRU, and established a settlements department. The BCCBRU was to cease activities on 31 August

1961, while a Decree of 23 February 1961 created a new Central Bank called Banque Nationale du Congo. Prior to the operational start of the new Central Bank, a Decree of 3 October 1960 established a transitional monetary authority, the Conseil Monétaire de la République du Congo (the Monetary Council of the Republic of the Congo), in charge of implementing monetary and credit policy. The transfer of assets and liabilities from the BCCBRU to the Conseil Monétaire took place on 31 August 1961, while the sharing out of these between Congo and Ruanda-Urundi was completed on 21 September of the same year (Rousseaux, 1966).

Banking activities in Congo after 30 June 1960 were marked by the establishment of exchange control intended at first to curb the outflow of capital that was provoked by the post-independence climate of insecurity. On 3 October 1960 the Government issued a first Decree, which defined in outline measures intended to establish exchange control. Later on, as a consequence of the exhaustion of foreign exchange reserves, a Decree of 29 June 1961 entitled "Decree organising exchange control relating to external trade and exchange control in general" was issued to reinforce the provisions defined in the Decree of 3 October 1960 (Moniteur Congolais, 1961).

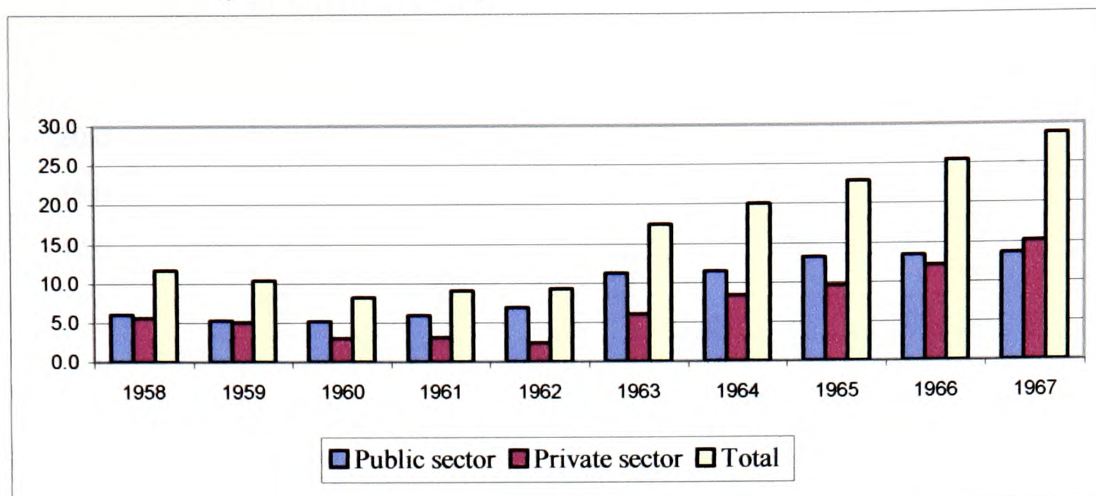
This Decree gave a special body, the Office des Licences, the monopoly in the management of foreign exchange reserves, foreign currencies supply and demand and, thus, all transactions in foreign currencies. The function of the Office des Licences was to ensure equilibrium in transactions in foreign currencies and to combat illicit markets in foreign currencies. In this respect the Office des Licences was responsible for mobilising existing assets in foreign currencies, such as export revenue, external investment income, repatriation of capital, and for promoting activities that could generate revenue in foreign currencies. At the same time, the

Office des Licences was responsible for the control of imports and all payments in foreign currencies. Any external payment was subject to prerequisite approval by the Office des Licences, which was in charge of granting export/import licences and authorisation for any transaction in foreign currencies (Mambu, 1964).

In view of the economic and financial impact as well as the technical nature of the provisions for putting exchange control into effect, the banking system was deeply involved in the implementation of the Decree on exchange control. This involvement was reflected in the development of banking activities as illustrated by the development of credit, deposit and money circulation. Over the period 1960-67 banking activities were marked by a trend that essentially favoured the public sector *(Banque Nationale du Congo*, 1967). As previously mentioned, the dramatic expansion of money supply was due to the short-term financing of the State budget deficit, by the Central Bank for the largest part, and by private banks in a smaller proportion. Financing intended for the private sector played only a modest role in the expansion of the money supply.

In the absence of specialised financial institutions, deposit banks provided businesses and individuals with the total amount of credit they needed. Between 1960 and 1963, the need for credit expressed by the private sector remained small, as a result of liquidity surpluses held by businesses. The decline in economic activity and investment together with exchange restrictions, on the one hand, and the expansion of public expenditures, on the other, resulted in an abundance of money. As a consequence, credit to the private sector fell to about 43 per cent of the 1958 level, as it decreased from CF5.6 billion in 1958 to CF2.4 billion in 1962 (Banque Nationale du Congo, 1967).

Figure 5.1: Commercial bank lending 1958-1967 (in CF billions)



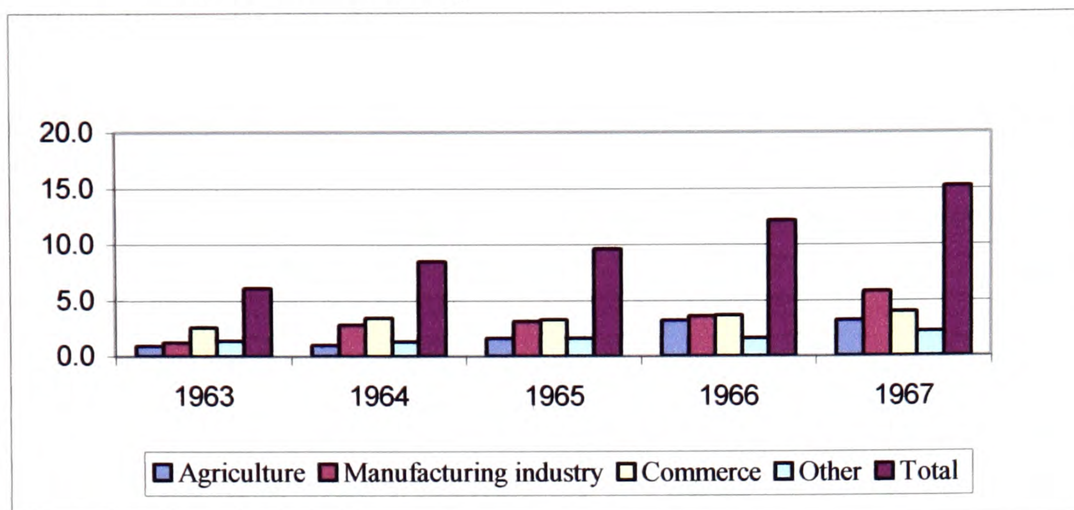
Source: compiled by the author, based on Banque Nationale du Congo, 1967

As can be seen from Figure 5.1, the evolution of credit allocated by commercial banks to both the public and private sectors from 1958 to 1967 shows a sharp fall in the share of credit to the private sector between 1960 and 1962. This reflected both a decrease in economic activities, and a constantly increasing share of credit to the public sector over the period 1960 to 1967 (Banque Nationale du Congo, 1967).

It will be seen in this chapter that as a result of increasing demand from the Government for money printing to finance the State budget deficit throughout the period 1960-1995, the Central Bank was gradually reduced to a passive role vis-à-vis the Government. In the end it was no longer able to carry out a sound policy to fulfil its statutory function of ensuring monetary stability (Mambu, 1994).

The funding of import-related documentary credit within the framework of exchange control and the rise of costs triggered by the monetary adjustment of 6 November 1963 contributed to a reduction in the liquidity of banks and enterprises. This amplified the need for credit for the private sector, as shown in Figure 5.1. In 1963 the volume of credit extended by deposit banks to the private sector was 2.5 times more than in 1962, as it jumped from CF2.4 billion in December 1962 to CF6.1 billion in December 1963, as shown in Figure 5.2.

Figure 5.2 Distribution of credit to private sector, 1963-1967 (in CF billions)



Source: compiled by the author, based on Banque Nationale du Congo, 1967

In view of this development, the Central Bank decided on 4 December 1963 to fix individual credit limits for each bank, amounting to CF6.1 billion altogether. However, although this global limit was respected until the end of 1963, it was subject to a number of revisions between 1964 and June 1967. As a result, over this period the volume of credit recorded a 180 per cent increase, from CF6.1 billion to CF16.9 billion, as shown in Figure 5.1 (Banque Nationale du Congo, 1967). Most of the increase benefited the agricultural sector, manufacturing industry and commerce. Between June 1963 and June 1967 bank credit to agricultural enterprises grew from CF900 million to CF3.9 billion, or by 322 per cent. It served essentially to finance seasonal crops and to rehabilitate agricultural enterprises that had been the victims of political unrest.

As can be seen from Figure 5.2, the increase in total credit granted to manufacturing industry was even larger: 350 per cent over the same period, from CF1.2 billion to CF5.4 billion. The credit was used for financing domestic production intended to replace the declining imports of manufactured goods due to lack of foreign exchange reserves (Banque Nationale du Congo, 1967).

The increase in credit to finance seasonal crops had a direct impact on the introduction of modern currencies into the rural areas, where the local population

were the main suppliers of agricultural products for export, and raw materials for the domestic industry or for direct consumption. These developments resulted in a relative improvement in the supply of agricultural, manufactured and imported goods, which was confirmed by the Kinshasa retail price index curve between 1960 and 1965, as will be seen later in this section (Banque Nationale du Congo, 1967).

5.2.5. Money Supply from June 1960 to June 1967

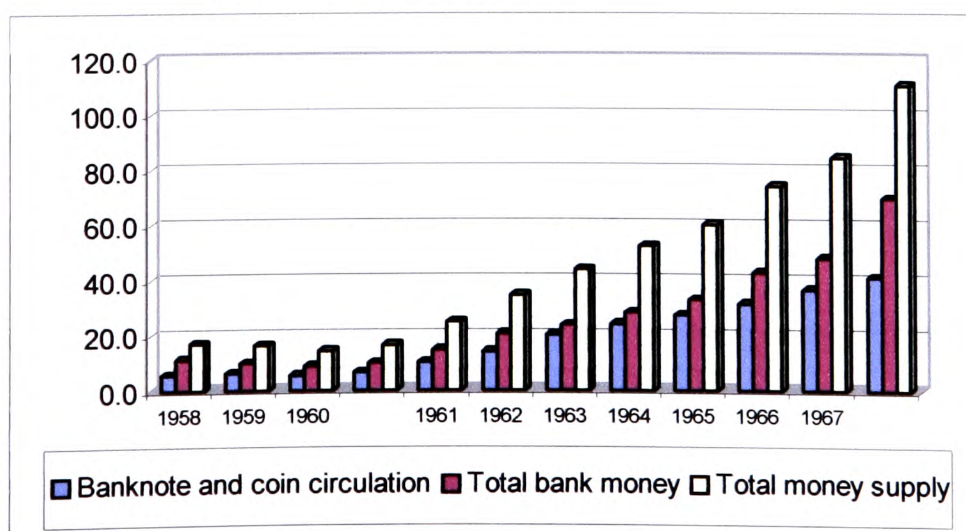
From June 1960 to June 1967 the global position of Congolese monetary institutions was marked by a dramatic expansion of domestic credit. However, the impact of the latter on the elements of monetary liquidity held by individuals and enterprises was lessened by the consumption of foreign exchange reserves on the one hand, and by an increase in the volume of quasi-money, on the other.

To explain the origin of money and quasi-money one has to take into consideration that, as stated earlier, from June 1960 to June 1967 the State budget deficit was financed essentially by the Central Bank printing money and, to a lesser extent, by Treasury bills subscribed by deposit banks. This situation was due to the large scale of the deficit compared with the small volume of internal savings that could be mobilised for this purpose. As yet there was no organised or active financial market outside the existing commercial banks. At the end of 1958, claims on State and other public bodies amounted to CF9.4 billion, with money circulation at an estimated CF17 billion. The day before the monetary reform of 24 June 1967, outstanding credit to the State and public bodies amounted to CF86.5 billion, which was larger than the overall money supply, estimated at CF84.6 billion at the same date, as throughout the period between 1964 and June 1967 (Banque Nationale du Congo, 1967).

Credit from monetary institutions for the purpose of financing the State budget deficit proved to be the main cause of the deteriorating monetary situation. At CF5.6 billion in 1958 the volume of credit to the private sector represented 33 per cent of the money supply (BCCBRU, 1959). At the end of June 1967 bank credit granted to businesses amounted to CF17.2 billion or 20 per cent of the money supply, demonstrating its decreasing role in the formation of monetary liquidity (Banque Nationale du Congo, 1967).

With regard to the foreign exchange reserves, their position as a proportion of total money supply fell from 50 per cent in 1958 to about 13 per cent in December 1966, as a result of their gradual exhaustion over the period between 1958 and June 1967, while the claims of the banking system on State and other public bodies grew dramatically (Vanderlinden *et al*, 1980). What needs to be underlined is that prior to 1960 the factors affecting the money supply derived essentially from productive economic activities, such as exports, which generated foreign exchange proceeds. From 1960 onwards, the most important source of money supply became the Central Bank's money printing, designed to finance the State budget deficit that was caused by excessive and largely unproductive public expenditure.

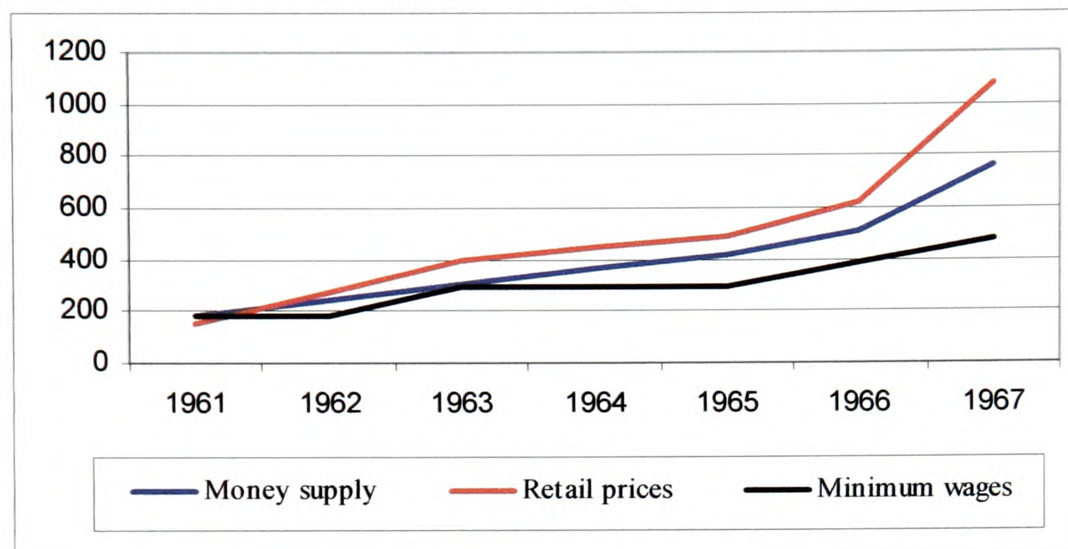
Figure 5.3: Money Supply, December 1958-June 1967 (in CF millions)*



* 1960 and 1967 figures are given as at 30 June and 31 December
Source: compiled by the author, based on Banque Nationale du Congo, 1967.

Figure 5.3 shows the structure of the money supply from December 1958 to June 1967. Figure 5.4 illustrates the acceleration of the inflation rate, especially starting from 1965.

Figure 5.4: Money supply, Retail prices and Minimum wage



Source: compiled by the author, based on Banque Nationale du Congo, 1967

As a consequence of this excessive expansion of credit to the State, money supply grew six-fold between June 1960 and June 1967, from CF13.7 billion to CF84.6 billion. In 1958 liquid assets held by businesses and individuals consisted of 34 per cent cash and 66 per cent bank money. At the end of June 1967 cash money represented 43 per cent as a result of successive increases in wages and consumer expenditure, as well as a certain amount of hoarding in rural areas.

5.3. Monetary and Financial Developments from 1967 to the mid-1970s

5.3.1. Political and Economic Background

As pointed out in the preceding section, the period 1960-65 was marked by political instability and outbursts of violence. These undermined the process of financial and price stabilisation that began in 1964, following the monetary adjustment of 6 November 1963. In the second half of 1965, a parliamentary conflict arose between President Joseph Kasavubu and Prime Minister Moïse

Tshombe. This disagreement resulted in a dramatic weakening of political leadership at the highest level as the members of Parliament loyal to the President systematically opposed any initiative from those loyal to the Prime Minister. On 24 November 1965, Joseph Désiré Mobutu, in his capacity as Commander-in-Chief of the Congolese Army, took this opportunity to seize power for a proclaimed period of five years, in order to re-establish domestic order. This takeover resulted in a radical change in the handling of political and economic power in Congo that was to last for a period of more than 30 years, known as 'the Mobutu era', until May 1997, as will be seen in the rest of this chapter.

During the colonial era the Congolese administration was rather centralised. On independence a federalist structure was set up providing for a bicameral parliamentary system, with a President and a Prime Minister. Due to the lack of national cohesion, this federalist design generated numerous political crises and centrifugal forces, which helped to weaken and dismember the State from its very beginning. To remedy this situation, President Mobutu began to centralise governmental authority immediately upon taking power. In 1967, a new constitution was promulgated, which provided that the President would be both the Head of State and the Head of Government. The bicameral Parliament was suspended and replaced by a National Assembly. The office of Prime Minister was eliminated and provincial governors were appointed rather than locally elected. A single political party, the Mouvement Populaire de la Révolution (MPR) was created (Leslie, 1987).

In 1974 amendments to the Constitution were drawn up. The revised Constitution further strengthened the powers of the President and entrusted the country's single party, the MPR, with a central role within the overall government

of the State. In this respect, the 1974 Constitution established six political bodies controlled by the party, and from then on the country became a one-party State.

These constitutional bodies were as follows: the President, the Political Bureau of the MPR, the Congress of the MPR, the Legislative Council, the Executive Council and the Judiciary Council. The Political Bureau of the MPR was the body that developed the party's political ideology. The Congress of the MPR comprised members appointed by the Political Bureau for five years. The Legislative Council was a mono-cameral body of representatives elected from a list drawn up by the Political Bureau. It could initiate and pass certain legislation as an independent body. The Executive Council consisted of State Commissioners, equivalent to Ministers, nominated by the President, in charge of operational Departments of the Government. The Judiciary Council comprised the courts and tribunals. Military tribunals could supersede the courts in cases of national emergency formally declared by the President (Bobb, 1999).

Following the monetary adjustment of June 1967 GDP increased at an average real annual rate of about 9 per cent between 1967 and 1970. However, from 1970 to 1973 GDP slowed down to an average real rate of approximately 5 per cent a year (Leslie, 1987). The decline was essentially due to lower copper prices, and poor performance of the agricultural sector. The contribution of export sectors other than copper production to global State revenues also decreased subsequently (Banque du Zaïre, 1979).

During the early 1970s, as the volume of investment was significantly in excess of domestic savings, external debt increased, from USD307 million as of December 1969 to USD895 million as of December 1973 (Peemans, 1997). The Government relied to an increasing extent on budget deficits. In addition, in the absence of a comprehensive development plan, investment was allocated primarily

to the mining and manufacturing sectors. The structure of these industries was such that they required significant imports of raw materials and intermediate and capital goods.

In the meanwhile the agricultural sector was not only neglected in terms of investment, but also affected by the overall deterioration of the transport system and by political measures taken by the Government starting from late 1972, which involved moving all foreigners – farmers and traders – away from border regions. In a public speech made in a stadium in Kinshasa at the beginning of 1973, President Mobutu explained that this policy was dictated by security concerns and related to foreigners established in frontier zones. These were Belgian, Greek and Portuguese farmers and sole traders, who in most cases had settled long ago in border rural areas and small towns. They were frequently suspected, rightly or wrongly, of collaborating with activists in neighbouring countries wanting to foment plots in Congo. For this reason, they were to be removed from the border area and relocated inside the country, while their businesses were to be handed over to local people. These foreigners had acted as catalysts for trade-related activities in rural areas. Their removal resulted in a sharp decline in the motivation of local people involved in marketable agricultural production, and thus also in their contribution to the economy (Young and Turner, 1985).

In November 1973 the Government took a further step in the same direction as it initiated a policy mentioned in the first section of this chapter, known as "zaïrianisation" measures. Under these the Government began expropriating foreign interests in various sectors of the economy, such as farms, small and medium-sized industries and trading enterprises (Young and Turner, 1985). Zaïrianisation resulted in the further disorganisation of trade channels and a further decline in the agricultural sector's contribution to the economy in 1974.

At the same time, there was a decline in copper prices combined with an increase in the price of petroleum, a major import. Moreover, domestic expenditure grew rapidly and production efficiency declined as a consequence of the mismanagement of zaïrianisation. In November 1974, despite the lessons that should have been learned from the unsuccessful zaïrianisation, President Mobutu decided to intensify this process, by introducing a policy known as "radicalisation" (Young and Turner, 1985: 350). This policy consisted of nationalising all remaining private companies that had not been subjected to the November 1973 zaïrianisation. All businesses, including even those owned by nationals, with a turnover of more than Z 1 million were also subjected to the radicalisation process.[15] However, the tourism sector as whole, foreign banks, US interests, and enterprises that carried out significant investment programmes during the mandate of President Mobutu were not targeted by these measures (Young and Turner, 1985).

In addition to a blatant misuse of public resources, a number of economic decisions that had adverse effects were taken from the early 1970s onwards within the framework of the ideology of *authenticité* (authenticity) instituted by President Mobutu. The zaïrianisation policy gave concrete expression to these decisions.[16] Going down this path proved to be the key factor in the inexorable process of the Congolese economy's dislocation and successive stages of inflation and hyperinflation during the rest of the 20th century.

In view of the collapse of the agricultural sector, mostly deepened by zaïrianisation, the country's economy remained more than ever largely dependent

[15] Z stands for Zaïre, a monetary unit created on 24 June 1967 to replace the Congolese Franc (CF) at the rate of Z1 for CF 1,000, as will be seen in the next section.
[16] *Authenticité* can be defined as an ideology launched by President Mobutu and built on patriotism and a strong sense of having a genuine Congolese identity that every member of the national

on copper exports, and thus on world prices and demand for this commodity. Copper prices, which began to rise again in 1973 from their low level of the early 1970s, kept growing over the first half of 1974 before falling sharply from mid-1974. During the same year budgetary expenditures exceeded budgetary credit forecast by about Z194 million, the deficit being financed almost entirely by Treasury borrowings from the Central Bank. At the same time there was an increase in external borrowings for investment projects financed directly by foreign donors and for financing imports. During 1974 the balance of outstanding external debt rose by almost 50 per cent, to a total of USD1.3 billion at the end of the same year, while the annual rate of inflation increased to about 40 per cent (Peemans, 1997).

By 1975, the foreign exchange shortage worsened and it became more difficult to import raw materials and intermediate goods for local industries. Imports decreased by 36 per cent in real terms during the year. GDP declined by 6.4 per cent in real terms. As a result of the 38 per cent deterioration in the terms of trade associated with declines in the price of copper and increases in the cost of imported goods, Zaïre's deficit on current account remained large. Prior to 1975, large deficits on the Government's current account had generally been offset by substantial inflows of capital, as a result of which, overall deficits on the balance of payments were not significant. However, in 1975 capital inflows declined sharply and the overall balance of payments deteriorated dramatically (Vanderlinden *et al*, 1980).

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community was committed to live out and promote (*See*: Manifeste du Mouvement Populaire de la Révolution, 1967).

5.3.2. Monetary Adjustment of 24 June 1967

The political background of the 10-year period starting from late 1965 was marked by the firm leadership provided by President Mobutu who took power on 24 November 1965, ensuring political stability, and enabling the implementation of a far-reaching monetary and financial reform launched on 24 June 1967. In view of the developments witnessed in Congo over the period 1960-1967, the 24 June 1967 monetary adjustment was intended to resolve the ensuing economic problems: (1) monetary financing of public expenditure; (2) decline in production and revenue; (3) continuous increase in prices, and (4) disequilibrium in the balance of payments (Banque Nationale du Congo, 1967).

In the preceding section it was established that the political conditions that prevailed since the attainment of independence in June 1960 were characterised by the mismanagement of public finance, which undermined Congo's economy and monetary stability. The Government undertook to implement a series of measures aimed at re-establishing equilibrium in public finance and the balance of payments in order to ensure the achievement of the basic goal, which was stabilisation of the economy and resumption of growth on a durable basis. These measures, concerning the foreign exchange system, public finance, revenue policy, credit policy and price control, were integrated in a programme drawn up with technical assistance from the IMF and submitted to the latter in support of a request for a stand-by credit.

At the same time, as already mentioned in the preceding section, the Government created a new monetary unit called the Zaïre (symbol 'Z'), equivalent to CF1,000. One Zaïre was subdivided into 100 Makuta (symbol 'K', from the

singular Likuta).[17] One Likuta was subdivided into 100 Sengi (symbol 's'). The name Zaïre given to the new currency derived from the local name for the Congo River, Nzadi, written by the Portuguese in the late 15th century as "Zaïre", as explained in Chapter two. Chapter two also explained the origin of the term Makuta given to coins issued by the Portuguese in the 16th century, intended for local monetary circulation in their African territorial possession known as Lower Guinea (Mahieu, 1924). This term remained in use over the centuries and was adopted by the Belgian colonial administration in Congo as the name of a coin of small face value, which had a hole in its centre. The term *sengi* came from a phonetic distortion of the French word for five, *cinq* (which was pronounced 'senki' or 'sengi'). It was used for the smallest coin, worth five centimes, issued during the colonial period. It now became the name for the smallest subdivision of the new monetary unit Zaïre, with 100 sengi being worth one K (Likuta). The smallest coin represented 10s, equivalent to the former monetary unit, i.e. one Congolese Franc (Bontinck, 1987).

The Central Bank issued five types of new banknotes: Z5, Z1, K50, K20, and K10, and three types of coins: K5, K1, and s10. The rationale implicit in the Decree 67/266 of 23 June 1967 was that the 10s coin was issued in order to provide the public with an equivalent of one Congolese Franc as the coin with the lowest face value in order to avoid price increases caused by a lack of fractional currency (Moniteur Congolais, 1967).

The exchange of banknotes and coins in CF for the new currency was initially scheduled to last until 30 June 1968. Because of the public's great enthusiasm for the new banknotes and coins, but at the same time, in order to urge

[17] To explain the symbol K: in the words 'likuta', also spelled 'dikuta', and 'makuta', the prefixes 'li' (or 'di') and 'ma' indicate respectively the singular and plural form of the word 'kuta', whose origin was explained in Chapter three.

the population to speed up the exchange process, the official deadline was brought forward to 30 September 1967. Nevertheless the commercial banks as well as the Central Bank continued to accept CF banknotes and coins for exchange until 30 June 1968, after which date the Banque Nationale du Congo alone continued exchanging the old currency, until the end of the year. At the end of September 1967, Zaïre banknotes and coins represented 66 per cent of money in circulation. The exchange of CF circulation for the new notes and coins was completed so rapidly that this proportion reached 91 per cent at the end of December 1967, and 97.5 per cent at the end of March 1968 (Banque Nationale du Congo, 1968).

With regard to external payments, the programme provided two important measures. On the one hand, the dual exchange rate established with the monetary reform of 6 November 1963, analysed earlier, was abolished and replaced by a single exchange rate, which fixed the value of Z1 at USD2. The introduction of the new currency was accompanied by a devaluation of 67 per cent. At the same time, all quantitative and administrative restrictions on imports and exports were removed (Banque Nationale du Congo, 1967).

Concerning public finance, two series of measures were implemented. Firstly, export and import duties were increased and the 7.5 per cent turnover tax, until then applicable to imports, was extended to exports. Secondly, in order to achieve an immediate budget equilibrium the Government put ordinary expenditures under strict control to prevent any overspending, and provided more resources for priority public investments. This objective was immediately achievable because of a significant increase in public resources following the devaluation that accompanied the introduction of the new currency, and a reform of the fiscal regime launched on the same occasion.

The programme provided also that the State borrowing from domestic monetary institutions would not be increased. Moreover, the appreciation in the value of foreign exchange reserves as a result of the new parity was intended to partially offset the Treasury's debt with the Central Bank (Banque Nationale du Congo, 1967).

In order to keep demand pressure under control and to avoid further inflationary developments the expansion of credit to businesses was subjected to clearly defined limits. Namely, the Central Bank continued to apply quantitative restrictions by means of ceilings determined for each type of credit. This instrument of monetary control proved to be the most appropriate since control based on a discount rate could hardly be effective in the context of Congo. In such a context, marked by fast-growing prices the interest rate had no influence on the demand for money (Gons *et al*, 2001). The ceiling on global credit to businesses fixed at CF16.6 billion on 1 April 1967, remained unchanged in June of the same year. In December 1967 the ceiling imposed on the total amount of credit was reduced to Z15.9 million (equivalent to CF15.9 billion). However, in the case of importers, in order to help them to resolve temporary cash difficulties resulting from the higher cost of foreign exchange, the ceiling was raised by Z2 million (Banque Nationale du Congo, 1967). The Government also allowed all wages to be increased by no more than 40%, to partially restore the purchasing power lost by employees as a result of the devaluation (Banque Nationale du Congo, 1967).

At the same time, industries producing for the domestic market and importers were allowed to fix selling prices that enabled them to cover all manufacturing or import costs and show a profit margin. In order to promote and develop agricultural exports, producer prices were increased to compensate for the effect of the new exchange rate on exports revenues. Public transport companies'

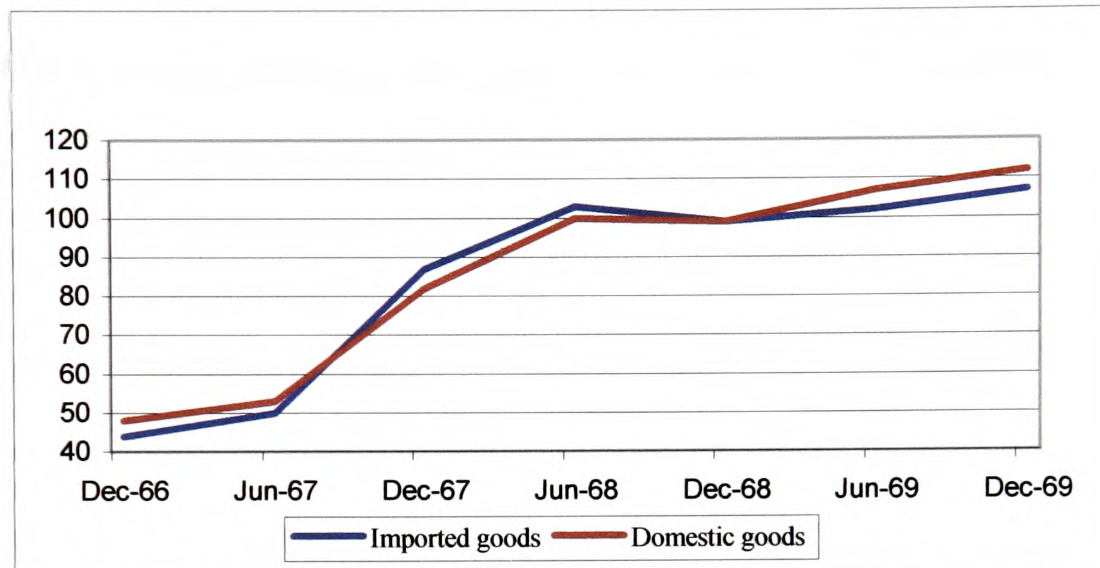
tariffs were adjusted so as to eliminate any subsidies. These measures combined with the provision of a larger supply of domestic and imported goods were intended to encourage the re-emergence of competition and stabilisation of distribution channels/networks, which were unsettled over the first half of the 1960

The first stage of the programme's implementation lasted 18 months, from late June 1967 to the end of 1968. By and large, the perceivable results had been achieved at the end of this first stage with regard to public finance, balance of payments equilibrium and stabilisation of prices. With regard to the balance of payments, the results achieved over this first 18-month period went beyond the expectations. Export proceeds exceeded forecasts, mostly thanks to good prices for mineral products as well as an increased volume of exported agricultural products. The devaluation resulted in increased export revenues when expressed in domestic currency, which acted as an incentive and explained the swift reaction of the agricultural sector (Ministère de l'Economie Nationale et de l'Industrie, 1969).

While export proceeds increased significantly the sharp devaluation of 24 June 1967 made the cost of acquiring foreign currencies much higher. As a result, the overall volume of external expenditure decreased despite the liberalisation of external payments. As a combined consequence of both an increase in export proceeds and a decline in external expenditure, foreign exchange reserves increased significantly. By the end of 1968, they reached the highest volume ever recorded for the ten-year period 1958-1968, namely Z80 million, or USD160 million (Banque Nationale du Congo, 1967). These developments created a new climate of economic security in the country as the accumulated foreign exchange reserves represented a safety margin of more than three-month' cover for essential goods imports.

Price stabilisation, as the programme's second major objective, was achieved by mid-1968, as can be seen from the RPI (Kinshasa) in Figure 5.6. The sharp increase shown between June 1967 and June 1968 was due to the 67 per cent devaluation of 24 June 1967, which caused an increase in the cost of imports.

Figure 5.5: Retail Price Index, 1966 – 1969 (1968 = 100)



Source: compiled by the author, based on IRES, INS and Banque Nationale du Congo, 1969/1970

Price stabilisation was a result of an increase in supply, reflected in the resumption of competitive activity among suppliers, such as more dynamic advertising campaigns. Mineral and agricultural sectors recorded a significant improvement in 1968 as a result of the more favourable conditions created by the 24 June 1967 monetary and economic adjustment. While mineral export products took advantage of high external market prices, as mentioned earlier, agricultural output increased for both export and domestic consumption (Banque Nationale du Congo, 1968). This represented a significant improvement by comparison with the situation, analysed earlier, of the early 1960s, which was marked by a decline in agricultural production for both the export and the domestic markets. Manufacturing, on the other hand, having made considerable progress until now, thanks to the import restrictions imposed in order to save foreign exchange, experienced a slight decline, despite the expanding demand and the high degree of customs protection.

With regard to public finance, relative equilibrium in the State ordinary budget (*budget ordinaire*) and an increase in public capital investments were achieved. However, as early as during this first period of relative success for the programme, the Government borrowed from the Central Bank to compensate for a temporary shortage of resources. This was mainly due to a one-year delay in the implementation of far-reaching stabilisation and restructuring measures, which was supposed to have started at the very beginning of July 1967.

The failure to put those reforms into effect resulted in a lack of control on budgetary commitments, which expanded and threatened to weaken State accounts. To prevent the situation from worsening further, President Mobutu issued a special directive in July 1968, requesting corrective action to be initiated by the Minister of Finance. Following the execution of this directive, surpluses were accumulated during the period July to October 1968 and served to offset deficits recorded during the previous twelve months.

Table 5.9 Public revenues and expenditures in 1967 and 1968 (in Z millions)

	1967	1968
Domestic revenue	*95.1*	*185.6*
First half of year	28.0	93.4
Second half of year	67.1	92.2
Total expenditures	*122.8*	*222.4*
First half of year	41.8	98.7
Second half of year	81.0	113.7
Total balance	*(27.7)*	*(36.8)*
External revenue transfer	14.1	19.1
Net balance (deficit)	*(13.6)*	*(17.7)*
Financed by		
-Banking institutions	8.6	7.8
Other	5.0	9.9

Source: compiled by the author, based on Banque Nationale du Congo (1967)

The country achieved equilibrium of the State budget and recorded an increase in public capital investment expenditure despite the absence of any significant stabilisation. This result was mostly due to an exceptionally high price for exported copper, the most important provider of foreign exchange revenue and

fiscal revenue for the country, and subject to a very high tax rate. Table 5.9 shows the evolution of public revenue and expenditure in 1967 and 1968, and highlights a significant increase in both resources and expenditure between 1967 and 1968, as a result of the devaluation of 24 June 1967 (Banque Nationale du Congo, 1967).

At the end of the first half of 1968 the public finance situation deteriorated, recording expenditure of Z98.7 million and revenue of Z93.4 million for the period, or USD197.4 million and USD186.8 million respectively. The deficit represented off-budget expenditures initiated for the most part by President Mobutu who considered himself exempt from budgetary limitations and controls, the same way as King Leopold II had considered the overall resources of the Congo Free State to be at his personal disposal (Young and Turner, 1985).

Table 5.10: Consolidated public finance position, 1966-1968 (in Z millions)

	1966	1967	1968
A. Ordinary domestic revenue	61.8	95.1	185.6
B Ordinary expenditure	70.9	100.0	179.9
a. from domestic resources	60.7	87.5	160.2
b. from external resources	10.2	12.5	19.7
C. Ordinary budget balance	-9.1	-4.9	+5.6
D. Capital expenditure	8.9	22.8	42.5
a. from domestic resources	5.7	13.9	21.4
b. from external resources	3.3	8.9	21.1
C. Gross balance (D-C)	-18.0	-27.7	-36.9
F. External transfer revenue	7.8	14.1	19.1
G. Net balance (deficit)	-10.2	-13.6	-17.8
H. Financed by			
Monetary institutions	+5.5	+8.6	+7.8
Other domestic credit	+2.2	+1.1	-
External credit	+3.7	+8.2	+9.4
Counterpart funds	-1.0	-4.4	+0.6

Source: Banque Nationale du Congo (1968/1969)

As shown in Table 5.10, on the one hand, ordinary expenditure for the year 1968 amounted to Z179.9 million (USD359.8 million), or 2.5 times the amount of Z71 million recorded in 1966. On the other hand, as a measure of the relative success of the June 1967 adjustment programme, ordinary revenue amounted to Z185.6 million in 1968 (USD371.2 million), or a threefold increase by comparison

with 1966. It is worth stressing, as shown by these figures, that for the first time since 1960 the State ordinary budget recorded a surplus, of Z5.6 million (USD11.2 million). Capital expenditure amounted to Z42.5 million (USD85 million) in 1968 compared with Z9 million (USD18 million) in 1966 (Banque Nationale du Congo, 1968).

Nevertheless, despite the Z5.6 million ordinary budget surplus, the year 1968 ended with a Z17.8 million overall deficit, compared with a deficit of Z13.6 million in 1967 and of Z10.3 million in 1966. The difference was that there was a larger external contribution to cover the deficit in 1967 and 1968 than in 1966. External resources transfers consisted of donations, subsidies and technical assistance costs, which Congo received from various sources. These were Governments within the framework of bilateral co-operation agreements, or other organisations, such as specialised national, regional and international institutions (Banque Nationale du Congo, 1968/1969).

The largest portion of the aid came from the United States in the form of food aid, under the programme known as PL 480, which operated as follows. Food imported within the framework of these provisions, such as rice, wheat and meat (beef and chicken), among other products, represented balance of payments support. The goods were sold to local commercial firms. The proceeds went into a special fund controlled by a joint administrative body comprising local government and US representatives, for the purpose of financing a range of development projects (Leslie, 1987).

In the first stage of the programme, from June 1967 to the end of 1968, as a result of a delay in implementing the programme's corrective policies, public expenditure was not yet subject to tight control. It increased faster than revenue, which resulted in a widening of State budget deficits between 1966 and 1968.

Table 5.10 above also shows that between 1966 and 1967, financing of the deficit through the printing of money increased by about 56 per cent. It declined slightly (by 9 per cent) in 1968, compared with 1967, as a result of the ordinary budget surplus of Z5.6 million recorded for the first time since 1960, as mentioned earlier in this section (Banque Nationale du Congo, 1968).

During the same period 1966-1968, considered on a current price basis, GDP approximately doubled, while Treasury disbursements increased threefold, which shows that State expenditure tended to grow faster than GDP. On the other hand further analysis of ordinary domestic revenue indicates a threefold increase in State fiscal revenue between 1966 and 1968. As shown in Table 5.11, the share of GDP held by the State in taxes grew from 22.5 per cent to 28.3 per cent respectively as a result of the devaluation of 24 June 1967 as well as an effect of the fiscal reform implemented at that time (June 1967) (Banque Nationale du Congo annual report, 1968/1969).

Table 5.11 Relative importance of public finance in the economy, 1966-1968 (in Z millions)

	1966	1968	Structure in %	
			1966	1968
A. Marketable GDP	274.9	656.4	100.0	100.0
B. State disbursement	80.9	234.2	29.4	35.7
Ordinary expenditure	*71.0*	*179.9*	*25.8*	*27.4*
Capital expenditure	*9.0*	*42.5*	*3.3*	*6.5*
C. Domestic revenue	61.8	185.6	22.5	28.3
Indirect taxes	*44.0*	*145.6*	*16.0*	*22.2*
Direct taxes	*10.4*	*28.0*	*3.8*	*4.3*
E. External revenue transfer	7.8	19.1	2.8	2.9
F. Net balance (deficit)	10.3	17.8	3.7	2.7
G. Contribution /Public Administration & Army	50.2	81.2	18.3	12.4

Source: Banque Nationale du Congo (1968/1969)

The second stage of the stabilisation programme was due to run from 1969 to 1970 and was intended to consolidate the results achieved over the first stage. This second phase was also aimed at initiating further actions designed to engage the country in a more dynamic economic development process.

However, the precariousness of the results achieved at the end of 1968, as shown by the figures analysed in this section, especially in terms of public resources allocation, was such that the country did not meet the conditions required for a durable stability. The nature of public expenditure, essentially characterised by motives of consumption and the unpredictability concerning the large-scale spending initiated by President Mobutu was always a major contributory factor in the mismanagement and deterioration of public finance in Congo.

Overall, the Congolese Government repeatedly failed to stick to the discipline required for preventing public expenditure from expanding beyond budgeted limits. Three major factors explain this state of affairs: (1) poor quality of budget forecasts, (2) high inflation rate that constantly eroded the real value of nominal fiscal revenues, and, last but not least, (3) incessant and unpredictable interference by President Mobutu. The latter, as mentioned earlier, and as has been pointed out by many analysts, such as Leslie (1987), considered himself to be not subject to any form of constraint. He could make large non-budgeted withdrawals from the Central Bank in local currency as well as in foreign currencies. Furthermore, Mobutu who regarded himself above the law, used to order the Treasury, the Central Bank or any state-owned company, such as Gécamines, to finance any project to which he decided to give his support.

5.3.3. Banking Institutions from 1967 to the mid-1970s

In the absence of active specialised financial institutions the banking network, comprising the Central Bank and a small number of deposit banks, was the most closely involved in dealing with credit and savings matters. Starting from 1968, beyond its powers formally defined by law, the Banque Nationale du Congo played

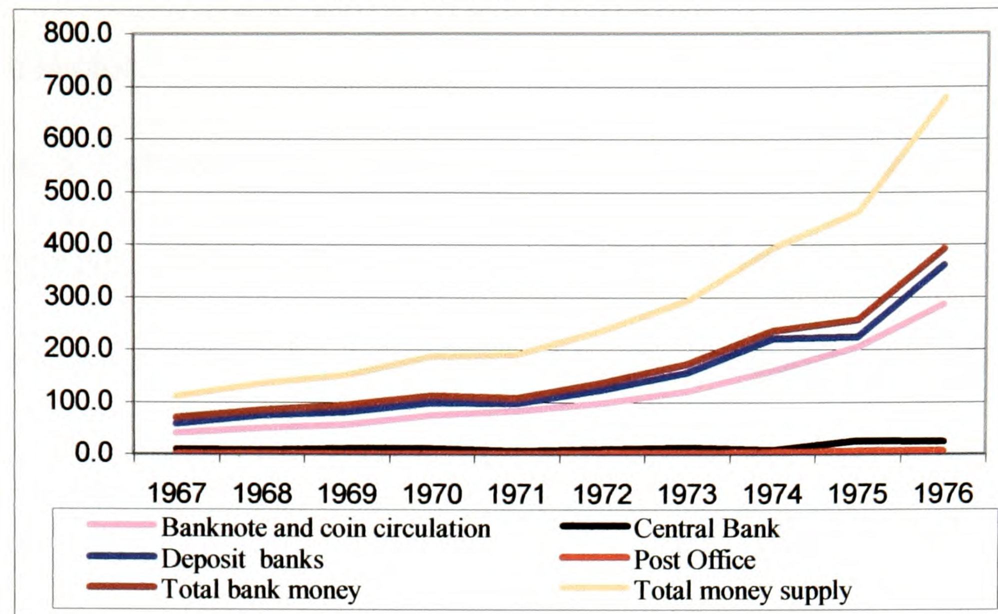
a more important operational role because of the public sector's large volume of foreign exchange reserves and deposits, which it held.

Between June 1967 and June 1969 the volume of foreign exchange reserves in the hands of the Central Bank jumped from Z9.9 million to Z88.1 million, following the transfer of the accounts of Gécamines from commercial banks to the Central Bank, in compliance with a Presidential Decree of 13 January 1968 (Moniteur Zaïrois, 1968). The reason for this shift was to ensure close State control of the resources of the State-owned company.

A special unit called Inspection Financière de la Gécamines was created within the Central Bank for this purpose. Two officers, one from the Ministry of Finance, one from the Central Bank, were in charge of monitoring the operating and investment budgets of Gécamines and subsequently also of authorising withdrawals of funds from the main accounts kept by the Banque Nationale du Congo. The amounts withdrawn were transferred into the operational accounts of Gécamines held in commercial banks. In fact, the efficiency of the monitoring system was limited since it did not exercise any control of the utilisation of funds deposited in Gécamines' accounts with commercial banks (Banque Nationale du Congo, 1968/1969).

Furthermore, the relative share of credit to the public sector as a component of the money supply decreased compared with the share of foreign exchange reserves, as shown by a decline in the rate of its expansion. From Z79.6 million in June 1967, its volume amounted to Z89.7 million at the end of 1968, recording the smallest growth rate, 12.7 per cent, for many years (Banque Nationale du Congo, 1968/1969).

Figure 5.6: Money Supply, 1967-1976



Source: compiled by the author, based on *Banque du Zaïre* annual reports 1967-1976

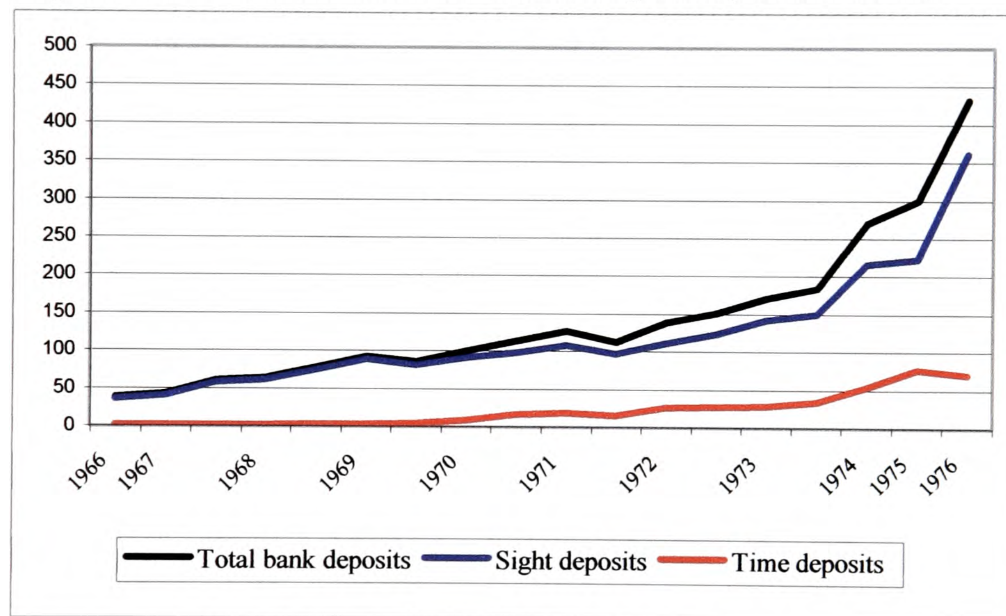
One of the outstanding features of the development of commercial banks activities after June 1967 was a significant increase in resources at the banks' disposal, especially in the form of sight deposits, as shown in Figures 5.7 and 5.8. An increase in bank deposits can derive from any or all of the following: (1) an increase in export proceeds in particular, or external resources in general, converted into the domestic currency; (2) an increase in Government borrowing to finance the State budget deficit by money printing; and (3) an expansion of lending to the private sector. The inflationary potential of such deposits differs depending on each one of these factors. An analysis of the evolution of deposit figures carried out in this and subsequent sections aims at establishing a link between the structure of the money supply and the development of inflation and hyperinflation observed in Congo, especially after the 1970s.

The period between June 1967 and June 1969 was marked by a dramatic increase in bank deposits. This growth was essentially due to an improvement in external payments conditions, with the combined effect of an increase in prices for exports and faster transfer of export proceeds. From Z42.9 million in June 1967 sight deposits grew to Z92.3 million in June 1969, an increase of Z49.4 million, or

115 per cent. This doubling was also caused by an increase in the volume of credit to the private sector.

Figure 5.7 shows the evolution of bank deposits for the period December 1966 to December 1976. As during the period 1967-69, the increase in deposits remained the main cause of the expansion of banks' resources over the period 1970 to June 1971. The novelty during this period, however, was a significant increase in time deposits, which grew fourfold, from Z4.5 million in December 1969 to Z19.1 million in June 1971, moving from 5.3 per cent to 14.1 per cent of total deposits (Banque Nationale du Congo/Banque du Zaïre annual report series 1967-1976).

Figure 5.7: Breakdown of bank deposits, 1966-1976



Source: compiled by the author, based on Banque du Zaïre annual reports 1966-1976.

This development was a result of the particular effort made by banking institutions to promote the development of time deposits with the support of the Banque du Zaïre,[18] which issued a regulation allowing a higher interest rate on this type of deposits. The aim of this policy was to give the public an attractive incentive for savings with the prospect of selling Government bonds, as will be seen later, and improving the means of meeting the demand of businesses in need of investment funds. Time deposits served as a basis for determining the total

amount each bank was allowed to advance in medium-term loans. Therefore, an increase in time deposits enabled banking institutions to expand their medium-term credit operations. Starting from 1970 the structure of the money supply began to deteriorate dramatically. The deterioration continued over the rest of the period 1967-1976. As shown in Table 5.12, the share of foreign exchange reserves started to decline, falling from 43.4 per cent in December 1970 to 30.1 per cent in December 1971.

Table 5.12: Variation of factors affecting money supply, 1968-1976 (in Z millions)

	1968	1969	1970	1971		1972		1793	1974	1975	1976
	31 D	31 D	31 D	30 J	31 D	30 J	31 D	31 D	31 D	31 D	31 D
a	+24.3	+27.7	-3.7	-14.6	-12.5	-13.5	+10.9	+30.8	-43.3	-113.0	+71.5
b	+7.6	-5.0	+11.9	+26.2	+4.1	+13.9	+15.9	+24.3	+139.0	+120.9	+378.8
c	+3.8	+7.2	+15.0	+11.9	+5.5	+19.6	+14.2	+28.8	+96.3	+85.0	+66.2
d	*+35.7*	*+29.9*	*+23.2*	*+24.1*	*-2.9*	*+17.6*	*+41.0*	*+46.4*	*+192.0*	*+92.9*	*+516.5*
e	+38.2	+21.0	+27.1	+18.2	-3.4	+18.9	+27.7	+39.3	+164.7	+105.4	+226.5
f	+24.5	+16.6	+34.1	+15.2	-12.6	+26.2	+19.9	+25.9	+101.6	+71.3	+216.3
g	+13.7	+4.4	-7.0	+3.0	+9.2	-7.3	+7.8	+13.4	+63.1	+34.1	+10.2
h	-2.5	+8.9	-3.9	+5.9	+0.5	-1.3	+13.3	+7.1	+27.3	+55.7	+290.0

Source: compiled by the author, based on Banque du Zaïre, annual reports 1967-1976
Legend: a: Foreign exchange reserves; b: Credit to State Treasury; c: Credit to private sector; d: Assets = Liabilities; e: Monetary liquidity: f: Money; g Quasi-money; h: Other.

The reason was that, in the meantime, the Government had failed to collect sufficient fiscal revenues and to control the volume of public expenditure. As a result, the share of Government borrowings essentially financed by the Central Bank, increased constantly, thus exerting a stronger inflationary pressure (Vanderlinden *et al*, 1980). The development of time deposits was in line with the regulation issued by the Banque du Zaïre regarding the setting up of monetary instruments aimed at ensuring sound credit control. The Memorandum and Articles of Association of the Central Bank gave the Banque du Zaïre the task of implementing an economic policy aimed at promoting investment in priority

[18] Following the change in the country's name from République Démocratique du Congo to République du Zaïre on 27 October 1971, as mentioned in Chapter two of this study, the Banque Nationale du Congo took the name Banque du Zaïre on the same date.

sectors, such as agriculture and transport, and, at the same time, ensuring price and monetary stability (Banque Nationale du Congo, 1967).

From 1963, the Central Bank exercised credit control by direct means, defining quantitative limits for each bank, basically according to the volume of deposits held by the bank in question. On the occasion of the monetary adjustment of 1967, a Decree of 22 June 1967 redefined the Banque du Zaïre's responsibilities regarding to credit policy. These provisions were reinforced by a Decree of 14 January 1972, which redefined the regulatory requirements governing the protection of savings and control of financial intermediaries, and which was known as the Banking Law (Moniteur Zaïrois, 1972). The Central Bank continued to set ceilings as a means of controlling the volume of credit. The demand for credit increased, especially following the devaluation of June 1967, as the new exchange rate required larger amounts of local currency to acquire foreign exchange for the purpose of financing imports and for other external payment

By and large, implementation of the monetary adjustment of June 1967 programme resulted in the restoration of equilibrium in public finance and the balance of payments. The sharp devaluation of the national currency on the occasion of the issuance of the new monetary unit, the Zaïre, combined with fiscal reform, provided the State with increased resources, on the one hand, and improved competitiveness of exports, on the other. In particular, it contributed to an improvement in the profitability of agricultural exports, in conjunction with a worldwide economic upward trend over the period 1967-69 (Leslie, 1987).

Export production resumed its expansion, and, as will be seen later, prices began to stabilise in June 1968. With regard to the balance of payments in particular, thanks to favourable copper prices and a considerable increase in agricultural export proceeds, the results were far better than expected. On the basis

of 1966=100, the global price index of major mineral and agricultural exports calculated by the Central Bank moved from 94.3 at the end of 1967 to 98.6 at the end of 1968 (Banque Nationale du Congo, 1969/1970).[19] As mentioned earlier, the increase in export earnings was the result of an improvement in external as well as internal operating conditions. Mineral products were exported at favourable prices and agricultural exports increased in volume while the price of some of the commodities, such as coffee, increased significantly (Ministère de l'Economie Nationale et de l'Industrie, 1969).

There was a small decrease in overall external expenditure due to a slight fall in imports caused, as mentioned earlier, by the sharp devaluation that accompanied the change of monetary unit. From Z70 million in the first half of 1967, imports fell to Z47 million in the second half of the same year. At the same time there was an increase in other external expenditure, such as travel expenses following the liberalisation of external payments, which enabled people to travel abroad more frequently. The same liberalisation resulted in an increase in the transfer of expatriates' revenues and in the Government's external expenditure in foreign currencies (Banque Nationale du Congo, 1967).

While the mining industry and agricultural sector enjoyed improved economic and financial operating conditions, the domestic manufacturing industry experienced a decline, for the following reason. Prior to the monetary adjustment of June 1967, the manufacturing sector took advantage of the import and external payment restrictions that meant demand having to be met with domestically produced goods. Following the liberalisation of external payments introduced by the monetary adjustment, the domestic manufacturing industry, which until then

[19] A separate price index is calculated for mineral exports and agricultural exports, and weighted by 85 per cent and 15 per cent respectively. The global index is the sum of the weighted outcome.

had enjoyed a somewhat oligopolistic position, was affected by the stabilisation of consumption demand and the reappearance of competitiveness (Ministère de l'Economie Nationale et de l'Industrie, 1969).

With regard to public finance, due to a delay that affected implementation of the stabilisation and restructuring measures decided in 1967, the goals targeted for the first stage of the programme were not achieved. In fact, no specific action had been taken so far in order to improve monitoring of the way the budget was administered, especially with regard to revenue collection. The financial equilibrium mentioned earlier was more specifically a result of favourable external trade conditions than an effect of improved internal governance. Over the first half of 1968 the Government even had occasional recourse to financing from the Central Bank (Banque Nationale du Congo, 1967). On the whole, the economic and monetary adjustment of June 1967 initiated a new era of economic growth, as GDP that had remained stagnant until then, resumed an upward trend, increasing by about 7 per cent per year in real terms starting from 1968 (Banque du Zaïre, 1979).

However, because of the June 1967 devaluation, prices paid to rural producers of agricultural goods for export and for domestic consumption, as well as wages, remained below export proceeds expressed in local currency. As a consequence, profits earned by exporting companies exceeded expectations, which enabled the Government to increase its revenue through indirect taxation, namely by raising the VAT by 60 per cent in 1967 (Lacroix, 1970; cited by Peemans, 1997). Between 1967 and 1968 the earnings of workers in the private sector declined by 20 per cent in real terms. In 1968 the public sector legal minimum wage in the region of Kinshasa, the capital, represented on average 40 per cent (33 per cent in the case of the lower categories of employees) of the 1960 level (Peemans, 1997). It emerges from these developments that the June 1967

stabilisation programme did very little, if any, to improve the living conditions of the population, which continued instead to decline, as can be seen from the figures above.

The beginning of the 1970s witnessed a downturn. In 1970 the Banque du Zaïre introduced indirect qualitative means of controlling credit. The main objective of the recourse to these monetary instruments was to encourage the financing of economic activities considered a priority, such as crop production, as mentioned earlier, and investments. The system of direct credit control was essentially based on a number of ceilings allotted to specific economic sectors or groups of economic agents. For example. a special allocation was reserved for businesses created and owned by nationals in order to stimulate their development. In July 1970 the Banque du Zaïre issued a set of measures contained in its instruction No. 8, which established indirect means of providing medium- and long-term loans intended for investments. Lending of this type was allowed under the condition that a certain percentage of it was covered by time deposit, the size of which depended on the duration of the deposit. In July 1972 a further amendment of instruction No. 8 removed the compulsory coverage for credit for the purpose of investment in agricultural activities.

Nevertheless, despite all these measures aimed at granting the agricultural sector an increasing nominal volume of credit, the relative share of this sector continued to decline over the time. It fell from 33 per cent in December 1970 to 24 per cent in December 1971, and 23 per cent in June 1972. On 3 July 1972 the Banque du Zaïre issued a revised regulation aimed at totally liberalising credit to the agricultural sector (Banque du Zaïre, 1972).

5.3.4. Money Supply from 1967 to the mid-1970s

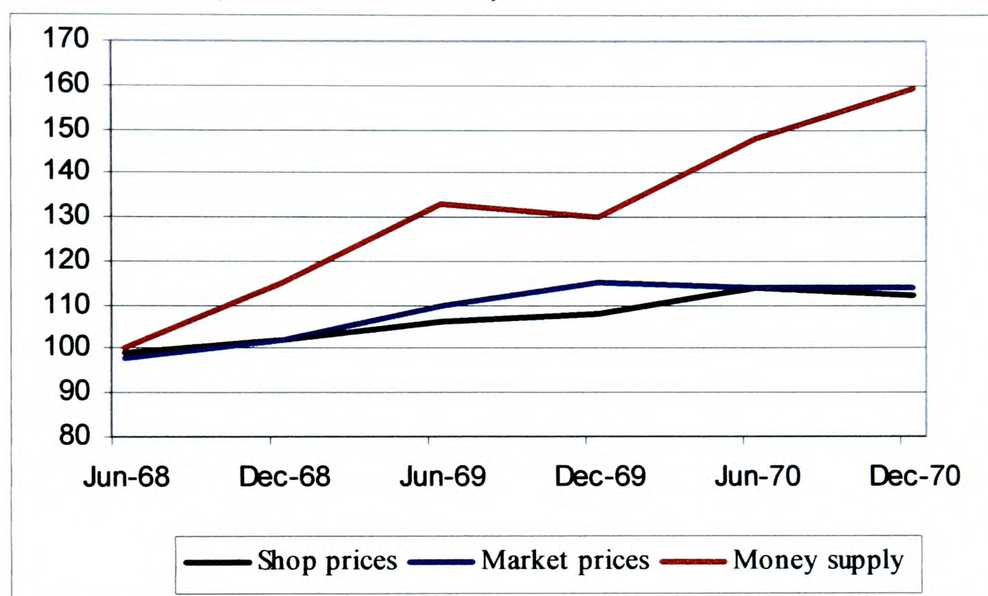
As pointed out earlier, between June 1960 and June 1967, the main cause of monetary expansion was an excessive increase in borrowing by the Treasury. From June 1967 to June 1970 the development money supply was to a certain extent marked by accumulated balance of payments surpluses. On 30 June 1967, the money supply comprised 43 per cent banknote and coin circulation (34 per cent in 1958) and 57 per cent bank and Post Office demand deposits. The growth of the share of banknote and coin circulation compared with 1958 was due to successive increases in wages and salaries over the period, a growth in the population's consumption expenditure, as new wage-earners began to use cash, and a certain amount of hoarding in rural areas. The proportion of bank deposits as a component of the money supply shifted from 57 per cent in June 1967 to 66 per cent at the end of June 1968 (Banque Nationale du Congo, 1968/1969).

Quasi-money liquidity comprised time deposits and provisions in domestic currency intended for the purchase, at an uninsured exchange rate, of foreign exchange needed for payment for imports, the exchange value of foreign exchange accounts held by residents, and funds in local currency generated from external grants and loans to the State. On 30 June 1968 quasi-money represented about one-third of the money supply (Banque Nationale du Congo, 1968/1969).

The expansion of money supply in 1969 continued to be marked by an increase of 32.5 per cent in foreign exchange reserves (39.8 per cent in 1968) as a result of favourable prices of exports, especially copper, which continued to benefit from high prices until the mid-1970s. On the other hand there was a decline of 5.4 per cent in lending by the banking system to the Treasury, which was benefiting from an increase in export duties following the favourable export prices mentioned earlier, especially during the second half of 1969. In the meantime the volume of

credit to enterprises recorded a relative increase and consequently contributed to a more significant extent to the development of money supply. For the first time since the monetary adjustment of 24 June 1967, during the first half of 1969, total credit to businesses recorded a significant increase, as it grew by 48.4 per cent compared with lending figures at the end of 1968 (Banque Nationale du Congo, 1968/1969).

Figure 5.8: Retail prices and money supply indices, 1968–1970 (June 1968=100)



Source: compiled by the author, based on Banque du Zaïre, 1970/1971

The volume of credit from the banking system to the Government constitutes by definition the monetary financing of the State Treasury. The banking institutions subscribed Treasury bonds issued by the Government, the Central Bank taking the largest part of the issued securities. During the second half of 1969 and the first half of 1970 no use was made of this type of financing, which explained the relative stability of prices observed in 1969 and over the first half of 1970, as can be seen from Figure 5.8 above.

By and large, the global structure of the money supply over 1969 proved to be fairly stable, even showing a slight 2.4 per cent decline during the second half of the same year. However, the expansion of the money supply resumed over the first half of 1970, recording a 13.8 per cent increase in six months, essentially due to the

following three causes: (1) increase in foreign exchange reserves; (2) expansion of credit to enterprises and households, and, from 1 January 1970, (3) abolition of compulsory provisions for imports (Banque Nationale du Congo, 1969/1970).

This growth of the money supply was a source of additional demand pressure, which undermined the relative price stability observed until the middle of 1970. Indeed, from a level of 1.3 per cent between December 1969 and December 1970 the increase in average index retail prices in Kinshasa rose to 12.5 per cent between December 1970 and December 1971 (IRES, 1972).[20] The decrease recorded between June 1967 and June 1970 in the relative share of banknote and coin circulation in the global structure of money supply reflected a decline in the wealth of the local population, those whose income was essentially held in cash. With regard to bank deposits, the share of each of the three major holders – private enterprises, households, and the public sector – remained the same in 1969 as in 1968: 53 per cent for private enterprises, 23 per cent for households, and 17 per cent for the public sector (Banque Nationale du Congo, 1969/1970).

From December 1969 to December 1970, the money supply increased by 22.4 per cent, to Z186.0 million compared with Z151.9 million at the end of 1969. This development resulted from an increase in lending to the Treasury and to private enterprises and households. The change in the share of each component of the money supply that began in the early 1970s continued over the period 1970-1975 (Banque du Zaïre, 1976). A major change occurred in the structure of money supply from 1972 onwards. It consisted of a decline in the share of banknote and coin circulation in favour of bank money. The proportion of this in the money supply amounted to 59.2 per cent compared with 58.2 per cent in 1973 and 1972. A

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[20] IRES stands for Institut de Recherches Economiques et Sociales, Université Lovanium de Kinshasa.

close correlation between this development and the structure of bank money depositors can be established. Namely, it reflects a decline in the share held by households from 35.1 per cent to 27.4 per cent, and an increase in the share held by businesses from 61.8 per cent to 68.8 per cent (Banque du Zaïre, 1976).

Two major factors explain this change in the structure of bank deposits. Firstly, it could be seen as an effect of zaïrianisation insofar as the change in the ownership of businesses previously belonging to foreigners was likely to trigger a reduction in the volume of undisclosed external transfers of revenue. Secondly, the development of bank money was also a result of the opening of new bank branches. In this respect figures relating to the geographical distribution of money supply revealed the marked predominance of the region of Kinshasa, which was the country's most important industrial and commercial region. It held 81.1 per cent of the money supply in 1974 compared with 69.3 per cent in 1973.

Similarly, the relative share of the region of Kinshasa in the total volume of bank money amounted to 71.4 per cent in 1974 compared with 61.8 per cent and 63.9 per cent in 1973 and 1972 respectively. The region of Katanga, known as the second industrial development area, held 15.3 per cent of bank money in 1974, compared with 22.5 per cent in 1973 and 19.8 per cent in 1972 (Banque du Zaïre, 1974). The two most industrialised regions of the country therefore between them held 86.7 per cent of bank deposits. The smallness of the remaining portion – 13.3 per cent – for the rest of the country reflected the banking network's obvious weakness and lack of presence in much of the huge territory, and thus a lack of monetary penetration and of integration into the monetary economy of most of the rural population. It also reflected the decline in agricultural activities in areas known in the past for a more significant output of coffee and tea among other export products, such as the northern and eastern regions.

With regard to the components of the money supply, the decline in foreign exchange reserves from the early 1970s continued. This was a result of an increase in foreign exchange expenditure due to the growing cost of external debt servicing. As a consequence, the share of foreign exchange reserves as a component of money supply fell by one-half in 1974 compared with 1973.

The increase in banking institutions' lending to enterprises that had started in the early 1970s continued, owing to the ongoing business recovery subsequent to the 24 June 1967 monetary adjustment. From Z137.9 million at the end of 1973 the volume of this type of credit amounted to Z234.3 million at the end of 1974, recording 69.8 per cent growth, compared with increases of 50.6 per cent and 51.8 per cent in 1973 and 1972 respectively. The volume of credit to the Treasury continued to expand as well, as it grew from Z188.5 million at the end of 1973 to Z327.5 million at the end of 1974, recording an increase of 73.7 per cent in twelve months. The excessive development of public expenditure, regardless of budgetary rules and available resources, was a direct consequence of anarchic budgetary management by the Government the consequences of which are analysed in the next paragraph.

This lack of budgetary discipline regardless of strict formal legal provisions, which were constantly breached with impunity at all levels of the country's political and administrative organisation, was one of the most typical features of the Congolese monetary and financial crisis over the second half the 20th century. Overall the Congolese economic situation in 1975 was characterised by the following features: (1) accelerated inflation reflected in a dramatic increase in retail prices, as illustrated by Figure 5.10, (2) sharp fall in raw material prices and subsequent decline in export proceeds followed by a further fall in output, (3) exhaustion of foreign exchange reserves, (4) appearance of a negative balance of

foreign exchange reserves, and (5) a dramatic increase in internal credit (Banque du Zaïre, 1975).

As a consequence of a decline in public revenue following adverse economic effects of the 1973 and 1974 zaïrianisation and radicalisation policy analysed in a previous section, the Treasury requested more financing from the banking system in 1975. This additional borrowing, essentially financed by monetisation, increased the inflationary pressure witnessed since the beginning of the 1970s. Public expenditure decreased by 20 per cent in 1975 compared with 1974. The decline resulted from an attempt to halt the rise of State operational expenditure. Furthermore, for lack of foreign exchange reserves, the Government resorted to renouncing the completion of a number of capital investment projects, which entailed costs in foreign currencies (Banque du Zaïre, 1975).

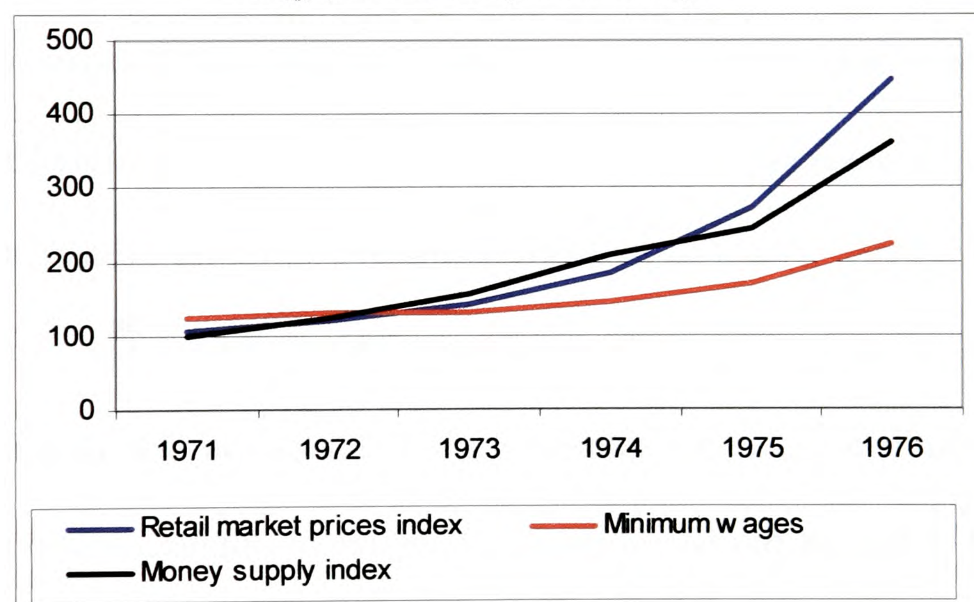
Public revenue declined sharply as a consequence of a severe fall in exports and imports combined with a fall in prices for exported raw materials. In addition there was a growing incidence in the frontier regions of tropical commodities, such as coffee and palm oil, being smuggling out of the country, which consequently reduced the tax base.

Overall, the end of the first half of the 1970s was marked by the combined adverse effects of external and internal factors. From an external point of view the economic recession that hit industrialised countries after 1973 resulted in a decline in the demand for major raw materials exported by Congo, and this contributed to a widening of the deficit on the external current account. From an internal point of view the decline in export revenues was due not only to unfavourable external prices but also to a fall in the volume of exported agricultural and mineral products. The decrease in agricultural exports was a consequence of the 1973/74 zaïrianisation and radicalisation policies. Furthermore, the fall in the export of

mineral products was one of the adverse effects of a long-lasting civil war in Angola. This war caused the closure of the cheapest means of transporting Congolese products, namely the Benguela railway that linked the Congolese mineral province of Katanga to Lobito seaport in Angola.

As a consequence of these developments the State budget deficit widened and led the Treasury to require more monetary financing from the Central Bank in the absence of domestic savings that could be invested in financial securities issued for this purpose. This monetary financing helped to reinforce inflationary pressures as a result of further decline in supply and increase in demand, as can be seen from Figure 5.10 (Banque du Zaïre, 1976).

Figure 5.9: Money supply, Retail prices and Minimum wage, 1971-76 (1970=100)



Source: based on Banque du Zaïre annual report series 1971-1978

The next section addresses various programmes attempted from the mid-1970s to the mid-1990s in order to halt the deterioration of the overall economic and financial position and restore the basic conditions needed for resuming a durable development process. It will be seen from the analysis carried out that all the programmes failed systematically soon after they were launched. This study looks at the major monetary and financial aggregates and events year by year, in as much detail as possible. This approach has proved to be the most efficient means of

showing the extent to which a poor governance, carried out on a one-day-at-a-time basis, was the reason why all the stabilisation programmes attempted were doomed to failure.

5.4. Monetary and Financial Developments from the mid-1970s to 1995

5.4.1. Monetary Adjustments over the Period 1976-1980

In order to cushion demand pressure due to excessive internal borrowing in 1975 mentioned in the previous section, the Central Bank issued an instruction in the middle of 1975 that increased banks' compulsory reserve ratio from 40 to 45 per cent (Banque du Zaïre, 1975). The recourse to this monetary instrument consequently reduced the volume of liquid assets that the banks had available for loans. Nevertheless it failed to result in a significant decrease in the volume of credit, which instead continued to grow (Banque du Zaïre, 1977). The combined effect of worldwide economic crisis and adverse outcome of the zaïrianisation and radicalisation policies mentioned in the previous section, contributed to a further deterioration of the Congolese economic situation. To put an end to the continuing overall decline, President Mobutu created in November 1975 a special four-member team called Comité de Stabilisation (Stabilisation Committee), which comprised the Head of the Presidential Bureau, the Minister of Finance, the Minister in charge of State-owned enterprises and the State's shareholdings in joint ventures, known in Congo at that time as Ministre du Portefeuille (Minister of the Portfolio) and the Governor of the Banque du Zaïre (Young, 1985).

The Committee's first task was to present to the President a set of measures aimed at addressing the most urgent problems first. The second task was to draw up

an overall adjustment programme and define appropriate actions for each sector of the economy. The programme was prepared with technical and financial support from the IMF and launched on 12 March 1976. It was essentially aimed at gradually restoring financial equilibrium in order to restore long-lasting growth prospects for the country (Bornemann *et al.*, 1997).

The domestic dimension of the programme consisted of urgent measures relating to the State budget, lending, wages and prices. With regard to the budget, the programme fixed ceilings for the following: (1) public expenditure, (2) money creation for the purpose of financing the budget deficit, and (3) expenditure in foreign currencies. A ceiling was also placed on the volume of credit to enterprises and households in order to keep the demand pressure under control (Banque du Zaïre, 1976).

Furthermore, the monetary unit, which had been pegged to the US dollar since the creation of the Zaïre at the rate of Z1 = USD2, was devalued by about 40 per cent and the peg was changed from the USD to the IMF Special Drawing Right (SDR). The new parity therefore became Z1 = SDR1 or USD1.20. The peg to the SDR was supposed to help reduce exchange fluctuations (Bornemann *et al.*, 1979). This devaluation was intended to improve export businesses' cash position and reduce public and private consumption in order to establish a balance between demand and supply. The measure was also aimed at increasing State budgetary resources and at helping to offset the operating deficit of Gécamines. The programme provided for a gradual reduction in the annual external debt servicing cost by USD90 million. The objective of this provision was to restore external credibility. In the meanwhile multilateral negotiations regarding medium-term and long-term external debt were planned for the purpose of reducing the debt servicing burden starting from 1976.

Lastly, a series of measures were issued to improve agricultural production and facilitate the recovery of enterprises that had been subjected to the zaïrianisation and radicalisation policies addressed earlier. Following the overall mismanagement by a vast majority of the new owners, most of the farms and small and medium-size expropriated businesses were gradually given back to their former owners. With regard to the enterprises nationalised within the framework of the radicalisation policy the Government and representatives of the former expropriated owners entered into negotiations. These resulted in a partnership agreement under which the former owners recovered 60 per cent of the shares, while the remaining 40 per cent were either retained by the State which was supposed to pay compensation for them, or were sold to local people (Young and Turner, 1985).

Implementation of the 1976 programme failed to meet expectations, and the economy showed no sign of recovery, while the State budget deficit financed by money printing amounted to Z300 million, or five times the budgeted deficit for the same year (Vanderlinden *et al*, 1980). Following the failure of the 1976 monetary adjustment programme, the Government drew up another monetary reform programme for 1977, which included the following major provisions: (1) reduction of borrowing by the State Treasury from Z300 million to Z160 million; (2) additional export dues on petrol and coffee; (3) quantitative control on credit by means of the imposition of ceilings; (4) freezing of wages and salaries at their 1976 level; (5) tighter control over revenue from exports; and (6) progressive settlement of outstanding external payments and redefinition of external debt policy aimed at enabling the State to seek funds on the capital markets for productive and priority investment projects. This programme was developed with the support of the IMF and the benefit of a stand-by credit agreement. It was also intended to test the

capacity of the State to put an end to the squandering of resources and stick to sound financial management (Bornemann *et al.*, 1979).

Like all the previous programmes, this new one also failed to meet expectations. Despite a sharper increase in revenue than in expenditure in 1977, the global deficit of the State budget amounted to Z273.5 million for the year, compared with Z160 million budgeted. In 1978 the deficit amounted to Z566.2 million. This development was the result of the mining sector's reduced contribution to total budgetary revenue, down to 20 per cent and 15 per cent in 1977 and 1978 respectively, compared with 50 per cent in 1974. A continuing depressed level of export prices for copper and the consequent weakening position of Gécamines, which had meant the company receiving sizeable tax relief since 1975, explained this sharp fall (Bornemann *et al.*, 1979).

As well as the inflationary impact of chronic budget deficits, the volume of credit distributed by the banking system to enterprises and households was expanding faster than was needed by the economy to sustain growth of marketable GDP. The expansion of credit was the only means of absorbing the excessive liquidity at banks' disposal. To fight the inflationary effect of these developments the Banque du Zaïre introduced more stringent provisions concerning its reserve requirement policy. However, in the absence of any effective measures to improve supply conditions, the increase in public consumption expenditure, financed by money creation essentially from the Central Bank, resulted in a higher demand pressure, reflected in higher prices and in the currency's subsequent decline in purchasing power.

At the same time, the exhaustion of foreign exchange reserves reduced import capacity while the volume of short- and medium-term external debt servicing arrears was growing dramatically. At the end of 1978 the external debt

was estimated at about USD3 billion, of which one-third represented accumulated arrears. Exchange rate policy and exchange control measures taken during the period 1977–78 were generally designed to address the problem of growing foreign exchange scarcity. Despite continual tightening-up of the payment regime, arrears continued to accumulate year after year. This situation was a consequence of the borrowing frenzy the Government had initiated in the early 1970s, which is explained as follows. As one of the outcomes of the monetary adjustment of June 1967, the increase in public fiscal resources, combined with favourable export prices between 1967 and 1970, resulted in a temporary restoration of equilibrium in the State's accounts. This relatively comfortable position contributed to an improvement in the country's credit rating. It enabled the Government to borrow on the international financial markets in order to compensate for the deterioration in the terms of trade observed since the early 1970s (Leslie, 1987).

Most of the loans negotiated during that period were contracted on unfavourable terms and without due consideration to the return in terms of output and foreign exchange. A few examples are: (1) the very expensive project to transport electrical power from the Inga dam to the mining region of Shaba; (2) a USD200 million steel mill at Maluku, near Kinshasa; (3) the construction of *Voix du Zaïre* (a broadcasting centre), the country's radio and television station at an estimated cost of USD100 million; and (4) the construction of an International Trade Centre in Kinshasa. Between 1972 and 1974, Citibank was the lead manager in arranging loans to Zaïre for a total of about USD164 million. By 1974, US commercial banks had granted USD200 million in US government-guaranteed loans and USD123 million in unguaranteed loans to Congo (Leslie, 1987). As a result, very soon the country started failing to meet its commitments and to accumulate a heavy burden of external debt arrears (Vanderlinden *et al*, 1980).

Following a devaluation of about 40 per cent and a change of peg from the USD to the SDR in March 1976, the exchange rate of the Z against the SDR remained unchanged at Z1 = SDR1 until the end of October 1978 (Bornemann *et al.*, 1979). During this period, due to rapid inflation, Zaire's export competitiveness was adversely affected. So was the profitability of domestic production compared with rival products imported through official channels. In an effort to increase exports of diamonds from small-scale producers through the official market, starting from April 1977, the Banque du Zaïre began to apply a preferential exchange rate to the export proceeds from these diamonds. In this respect, the exchange rate was revised from Z1.825 to Z2.20 for USD1 in August 1977, and Z2.92 for USD1 in January 1978. In view of serious dislocations in the domestic economy resulting from the widening disparity between the official and unofficial market rates, the Government initiated a new policy of successive devaluations of the national currency. Between November 1978 and January 1979 the Z was devaluated by a cumulative 50 per cent (Bornemann *et al.*, 1979).[21]

It emerges from the analysis carried out in this section that starting from the mid-1970s the Government went on from one adjustment to another. In June 1981 the Z was subjected to another devaluation of 40 per cent. However, the same causes as in the case of previous adjustment programmes undermined the implementation of planned measures and the achievement of goals that were targeted in 1981. The first contributing factor to the programme's chronic failure was excessive monetary financing of the State current budget deficit, which caused a 37 per cent increase in money supply for the year. In addition, irrational economic decisions, improvisation, wasting of resources in unproductive

[21] From Z1 = SDR0.9 on 1 November 1978 to Z1 = SDR0.81 on 7 November 1978, to Z1 = SDR0.7614 on 27 November 1978, and to Z1 = SDR0.5 on 2 January 1979.

investments and widespread corruption, all led to the overall dislocation of the economy. These monetary and financial developments took place in a context marked by a severe deterioration of the transport infrastructure, decline in export volume and proceeds, exhaustion of foreign exchange reserves, decrease in imports, and growing external debt and accumulated arrears on external payments and debt servicing (Leslie, 1987).

5.4.2. Banking Institutions and Money Supply over the Period 1976-1980

The analysis carried out in the following sections explains how periods of high inflation and hyperinflation developed in Congo between mid-1975 and 1995 as a consequence of the overall mismanagement of public finance. It tracks the quantitative developments of the money supply to establish a strong correlation between the process of money creation intended to finance chronic State budget deficits and the development of inflation over the period. As well as the quantitative dimension of the money creation process, the analysis attempts to depict as far as possible the socio-political context of the period.

In 1976, the money supply expanded more rapidly than in 1975, which brought its volume to Z678.7 million at the end of the year, compared with Z462.4 million at the end of 1975, implying 46.8 per cent growth (Banque du Zaïre, 1976). The main cause of this expansion was a large volume of borrowing by the Treasury. The increase in money creation for the Treasury was aimed at compensating for an expected reduction in fiscal revenue from Gécamines. Within the framework of the 12 March 1976 stabilisation programme, the Government extended substantial tax relief to this mining company (Bornemann *et al.*, 1979).

Furthermore, lending to businesses and households decreased by about 22 per cent, falling from Z85.4 million at the end of 1975 to Z66.2 million at the end

of 1976. This decline reflected interruptions in the production process due to an exhaustion of foreign exchange reserves, which in turn caused a shortage of domestic semi-processed goods and imported products. As a matter of fact the downward trend was a continuation of the adverse effect of zaïrianisation, despite the reversal of government policies launched in September 1976 to return most businesses to their former owners (Bornemann *et al.*, 1979).

In 1976, contrary to what happened in 1975, the increase in the money supply affected bank money more than fiduciary money, as the share of the latter fell from 44.4 per cent in 1975 to 42.2 per cent in 1976, while the share of bank money rose from 55.6 per cent to 57.8 per cent (Banque du Zaïre, 1976). A steady depreciation of the national currency led to an increase in nominal value spending to compensate for the decline in purchasing power. As a result, the relative share of bank deposits held by households decreased from 30 per cent at the end of 1975 to 26.5 per cent at the end of 1976. The share of bank deposits held by public and private enterprises grew from 67.5 per cent in 1975 to 70.3 per cent in 1976. This was due to the combined effect of an adjustment of industrial prices, and a decline in the stock of imported raw materials, for lack of sufficient foreign exchange to cover the related external payments. With regard to the regional distribution of bank deposits, the share of Kinshasa declined slightly, from 71.2 per cent in 1975 to 68.6 per cent at the end of 1976 (Banque du Zaïre, 1976).

The changes in the composition of the money supply revealed an improvement in the balance of foreign exchange reserves as it moved from a negative position, with a Z45.5 million deficit at the end of 1975 to a Z26 million positive balance at the end of 1976. This development was due to (1) an improvement in the trade balance resulting from the overall impact of the 12 March 1976 devaluation, (2) periodic rescheduling of external debt servicing payments, as

the due dates became imminent, and (3) withdrawal of IMF facilities. The improvement in the trade balance resulted from high prices for exported tropical commodities, such as coffee, which led to higher export earnings, as well as from a rescheduling agreement with official creditors regarding loans totalling USD389 million maturing between 1975 and 1977 (Bornemann *et al.*, 1979).

As a result, the country managed to slightly improve its net foreign asset position and to build up funds in an earmarked account with the Bank for International Settlements, for the purpose of repaying the principal due to a group of banks participating in the Club of London. Furthermore, this improvement in the net foreign asset position enabled domestic banks to cover an increased proportion of their customers' letters of credit in foreign exchange, which they were obliged to do, in view of the country's unfavourable credit standing (Bornemann *et al.*, 1979).

As mentioned earlier, the country's external payments problems derived from the rapid increase in its external debt servicing obligations, which reduced its creditworthiness and led lenders to become increasingly reluctant to lend to the country. The result was a decrease in the volume of new loans as well as an improvement in loan conditions, given that since 1976 the Government had been anxious to avoid loan arrangements on unfavourable terms. At the same time, as a consequence of the 12 March 1976 stabilisation programme, the Government became more cautious in its borrowing policy. In 1976, a special body called Office de Gestion de la Dette Publique (Office of Public Debt Management) (OGEDEP), was set up, in charge of managing the public debt (Leslie, 1987).

The banking system's net credit balance with the Treasury amounted to Z804.4 million at the end of 1976. This represented an 88.9 per cent increase on the total of Z426 million at the end of 1975. As well as the decrease in revenues resulting from the tax relief granted to Gécamines, as mentioned earlier, this

recourse to increased borrowing from the banking system was due to the fact that State operational expenditure grew faster than the increase in public revenues expected as an effect of the 12 March 1976 adjustment programme. In the meantime, from Z319.4 million at the end of 1975 the volume of credit to enterprises and households grew by 20.7 per cent, to Z385.6 million at the end of 1976 (Banque du Zaïre, 1976). Compared with the 88.9 per cent increase in credit to the Treasury over the same period of time, this modest expansion of credit to the private sector illustrates the prominent role of public expenditure financed by money creation in the development of inflation in Congo.

In 1977 money supply increased by Z461.5 million, or twice the growth recorded in 1976, as a result of a 39.3 per cent increase in the volume of credit to enterprises and households, while the amount of credit to the Treasury increased by 42.4 per cent. Time deposits in 1977 recorded 97.8 per cent growth, as a consequence of a quasi-total absence of investment opportunities for businesses, which resorted to depositing their surplus liquidity in bank accounts, despite the high inflation rate. Moreover, regardless of a significant improvement in the prices of exported commodities, such as coffee, timber and tin, the balance of foreign exchange reserves became negative, showing a deficit of Z201.7 million. The reasons for this were as follows: (1) low copper prices, which remained a major contributing factor; (2) upsurge of fraudulent exports, especially of gold, diamonds and coffee through the north-eastern boundaries; and (3) underestimation of repatriated export proceeds (Banque du Zaïre, 1977). While low prices for exported commodities were due to external market conditions, smuggling and underestimated exports were facilitated by an inefficient fiscal and customs administration.

From Z804.8 million in 1976 the volume of credit to the Treasury amounted to Z1,145.8 million at the end of 1977, a 42.4 per cent increase, as a consequence of further expansion of public expenditure. These consisted of budgeted as well as unforeseen and unplanned expenses. A closer look at the State budget revealed that most of the spending forecasts were underestimated whereas revenue forecasts were overestimated. Moreover, the inflation rate was such that the real value of public revenues collected was far below the level estimated at the time of budget setting. Furthermore, it is worth repeatedly stressing that a large portion, if not the largest, of the unforeseen and unplanned expenditure was due to unpredictable discretionary decisions by President Mobutu, who used to interfere in the State budget management. He frequently did so regardless of legal provisions as he considered himself above the law and, therefore, exempt from any restrictions. The volume of credit to enterprises and households amounted to Z537.0 million in 1977 compared with Z385.6 million in 1976. The 39.3 per cent increase was essentially due to difficulties encountered in exporting goods across the country's eastern border, which delayed the repatriation of export proceeds and, thus, the repayment of the associated loans.

To explain the increase in public expenditure, one has to consider that in addition to habitual overspending, initiated mostly by President Mobutu, the years 1977 and 1978 were marked by two guerrilla attacks on Kolwezi in the region of Katanga. The first attack, called the 80-day war was launched on 8 March 1977 from bases in Angola by the Front pour la Libération Nationale du Congo (FLNC) and was repelled in 80 days by the national army, with the assistance of Moroccan troops. On 3 May 1978 the FLNC launched a second attack and occupied Kolwezi. Following reports of the killing of European citizens, the French and Belgians joined the national army in a paratroop-drop operation, which forced the *FLNC* to

withdraw back to Angola. The 1977 war of 80 days, together with the second attack in early May 1978, hit the heart of the economy, the copper belt, which aggravated an already difficult economic situation. As a result of these two wars, mineral production and export declined, with a subsequent fall in foreign exchange reserves, and in fiscal and customs revenues along with other adverse effects on the overall economy, such as a further decrease in industrial production capacity, unemployment, and deterioration of the transport and social infrastructure (Banque du Zaïre, 1977–1978; Leslie, 1987).

In 1978 lending by the banking system to the Treasury amounted to Z528.2 million and remained the main cause of inflationary pressure. The renewed acceleration of the increase in total credit, at a rate of 41 per cent for the year, was the result of developments in credit to the Treasury on the one hand, and to enterprises and households on the other. With a larger deficit in the State budget, the Central Bank stepped up its lending to the Government, by means of printing money, especially during the last quarter when the increase reached an annual rate of 79 per cent. For the year as a whole the increase reached 51 per cent, nearly twice as high as in 1977 (Banque du Zaïre, 1978).

The expansion of credit to businesses and households slowed down substantially in 1978 when the growth rate fell to nearly half the level reached in 1977, because of reduced demand for loans as a result of the low level of economic activity and restrictive policies adopted by the Central Bank. Such growth that there was in lending to enterprises was largely directed at the agricultural sector, where the increase that had started in 1977 continued during 1978 (Banque du Zaïre, 1978). The major factor responsible for this situation was a significant increase in outstanding loans to the coffee sector. Namely, due to favourable world market prices and to a liberalisation of the coffee export sector, new loans to coffee

exporters rose considerably. The repayment of these loans was to be covered by the coffee export proceeds. However, transportation problems caused delays in shipment and thus, in sales. In the meantime there was a significant fall in coffee prices, which caused substantial losses for some exporters who were having to sell at lower prices. As a result, a large number of outstanding agricultural loans remained unpaid for a period far beyond the contractual terms, and became a cause of concern for the banking sector, as the overdue credits were deducted from the quota available for new lending (Banque du Zaïre, 1978).

In addition to the causes mentioned above, the following contributing factors are worth taking into account to explain the expansion of credit to enterprises and households: (1) lending to assist the recovery of large distribution companies, (2) liberalisation of credit terms for loans intended for commercial activities in the interior of the country, and (3) liberalisation of commercial activities as a result of "dezaïrianisation" measures (Banque du Zaïre, 1979).

The continuation of money creation on a large scale to finance the Treasury's widening deficit and the increase in credit to enterprises and households, combined with a decline in the overall supply, resulted in excessive liquidity in the economy. The effect of this was a high inflation rate of 80 per cent in 1978, and 115 per cent in 1979. Since wages and salaries never kept up with inflation the resulting decline in purchasing power was substantial. As no possible action could be undertaken to improve demand due to its inelasticity, the Central Bank and the Government decided to merely reduce the volume of money supply. Therefore the Banque du Zaïre announced on 25 December 1979 the withdrawal of Z5 and Z10 banknotes, which were in any case subject to speculative hoarding (Mabi, 1997). The reason for this was that first, banks were experiencing a dramatic shortage of liquidity and could, therefore, hardly convert deposits of their

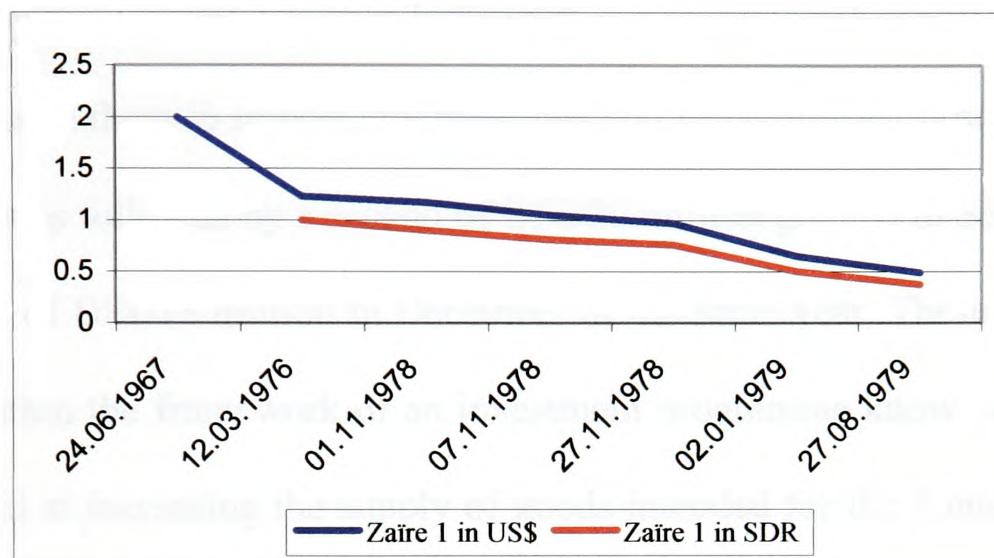
customers into cash. Second, the Z5 and Z10 notes proved to be the most needed in an increasing number of transactions requiring cash payment, especially due to the inconvertibility of bank deposits. Third, as a result, people undertook to hold large amount of these notes for their own use in the future, or to be exchanged later on for bank deposits when the exchange rate cash/bank deposit was at the highest in favour of cash holders, as yet payments in favour of public bodies, such as fiscal dues and other public administrative authorities were made in bank deposits.

The subsequent reduction of money supply affected essentially banknote and coin circulation. The volume of the later fell by a half as measured at the end of December 1979 compared with the volume recorded at the end of November of the same year (Banque du Zaïre, 1980). Overall, the 25 December 1979 withdrawal of banknotes resulted in dramatic losses for most of the citizens all over the country. for the following reasons. On the one hand, the exchange period allowed – namely five days, copied from a similar exchange operation carried out in Belgium after the Second World War – was too short in the Congolese context.

In view of the sparseness of the banking network over such a large country, the great majority of citizens were unable to exchange their modest and yet precious savings for new banknotes. This created a deep feeling of frustration among the population, who consequently developed a profound distrust of the Government (Kabuya *et al.*, 1981). In 1979, the Congolese economy benefited from an increase in export proceeds due to favourable prices for exported commodities, such as copper, cobalt, tin and coffee. And yet the overall evolution of net foreign exchange reserves was marked by an insufficiency of foreign exchange in relation to the constantly growing volume of public expenditure and liabilities in foreign currencies. (Banque du Zaïre, 1979). Moreover, the State budget deficit continued to grow, mostly as a result of the overall mismanagement

of public finance. For the same year total borrowing by the Treasury accounted for 82.3 per cent of the money supply, while claims on the private sector represented 28.2 per cent.

Figure 5.10: Exchange rate Z1/USD and Z1/SDR, 1967-1979



Source: compiled by the author, based on Kabuya *et al.* (1979)

The Government launched a further stabilisation programme aimed at halting the deterioration of the country's overall economic, financial and social situation. A set of measures were introduced, including another devaluation announced on 27 August 1979, which reduced the January 1979 exchange rate of Z2 for SDR1 to Z2.66 for SDR1, or Z2.05 for USD1 (Banque du Zaïre, 1979).[22]

The devaluation of 27 August 1979 was one of the measures taken within the framework of an adjustment programme defined with the support of the IMF for the period running from 1 July 1979 to the end of 1980. The main objective of the programme was to restore equilibrium between demand and supply of goods and services. In this respect, measures were taken to limit and to better control the allocation of credit and foreign exchange resources to the State and to private-

[22] Launched on 24 June 1967 to replace the CF at the rate of Z1 = CF1,000, and pegged to the USD at the rate of USD1 = Z0.50, the Zaïre was worth USD0.49 by the end of 1979, as a result of the following course of events, which is shown in Figure 5.10. On 12 March 1976 the Z was pegged to the IMF Special Drawing Right (SDR) at Z1 = SDR1. At that time the equivalent value of the Z against the USD was Z0.81 = USD1. Between 1 November 1978 and 2 January 1979 the exchange rate was adjusted in four steps to Z2 = SDR1 (Kabuya *et al.*, 1979).

sector enterprises and households, as a means of curbing the development of factors responsible for the expansion of money supply. A ceiling was accordingly placed on the rate of increase in credit to both the State Treasury and to businesses.

At the same time a total amount of USD90 million credit was made available by the Central Bank to industrial and agricultural companies in August 1979 to enable them to import raw materials and semi-finished products. This first allocation was followed by a second of USD20 million granted in September 1980, and a third of USD15 million in December of the same year. These facilities were granted within the framework of an investment programme known as the Mobutu Plan, aimed at increasing the supply of goods intended for the domestic market as well as for export. The agricultural sector and transport facilities were to take the largest share of the funds to invest. The programme also provided for a progressive reduction of Congo's arrears on external payments in order to steadily restore the country's creditworthiness.

The implementation of this programme was relatively successful as measured in absolute values. At the end of 1980 the State budget deficit amounted to Z337 million. This deficit was financed by Z90 million in external resources, and by Z238 million from the domestic banking system, or about one-half of the monetary financing ceiling of Z440 million targeted in the programme (Banque du Zaïre, 1980). This development was the result of more efficient tax collection by the fiscal administration and a carrying forward of some expenditure initiated in 1980 to the fiscal year 1981. At the same time, outstanding loans to businesses and households amounted to Z1,014 million at the end of 1980 compared with Z879 million at the end of 1979, showing a smaller increase, at Z135 million, than the Z300 million targeted in the programme (Banque du Zaïre, 1980).

With regard to the settlement of external debt arrears, a total of SDR50 million was repaid in 1980 compared with the SDR40 million targeted, thus reducing the volume of arrears to SDR418 million. At the same time repayment of external public debt amounted to SDR317 million in 1980 compared with SDR173 million paid back in 1979. Lastly, this slowdown in the expansion of the money supply combined with an improvement in the supply of consumption goods to domestic markets, contributed to a reduction in demand pressure. This process is illustrated by the IRES consumer average retail prices index in Kinshasa, considered representative of the living conditions of the vast majority of the wage-earning population. The index increased by less than 50 per cent, a smaller rate than the targeted 55 per cent, and much smaller than the rate of 120 per cent recorded in 1979 (Banque du Zaïre, 1980).

By the late 1970s/early 1980s, despite the implementation of the July 1979 to December 1980 adjustment programme, the country continued to face serious economic and financial difficulties, mainly for the following reasons. Firstly, a sharp decline in prices of exported commodities, especially copper and cobalt, resulted in a further deterioration at the beginning of 1981. Secondly, in addition to the effect of external factors, such as international market conditions, the worsening of the overall economic and financial situation was due to profound and persistent imbalances, as mentioned earlier in this study. These were intensified by the destabilising economic measures of zaïrianisation and radicalisation implemented during the early 1970s. They remained the most significant contributing factors to the ongoing economic and financial deterioration, along with an excessive external debt burden (Bornemann *et al.*, 1987).

The poor governance of public affairs over the period analysed, and especially by the early 1980s, was best demonstrated by the increased volume of

monetary financing to make up for insufficient public revenues. This systematic recourse to money creation was aimed at covering a chronic State budget deficit that was widening constantly, as mentioned earlier, because of a total lack of budget control and discipline, and because of the growing volume of unproductive overspending (Leslie, 1987).

Despite a slight increase in foreign assets, the structure of money supply did not vary. The relative share of net claims on the Treasury remained above 80 per cent, and was the main cause of inflationary pressure. The share of claims on enterprises and households fell from 28.2 per cent to 25.8 per cent, whereas the net balance of foreign assets remained negative (Banque du Zaïre, 1980). The expansion of public expenditure in 1980 was partially due to a non-budgeted rise in salaries awarded to teaching staff in the public education sector at the beginning of the year. This increase in salaries was intended to cool down the turmoil caused by a group of 13 parliamentarians led by Etienne Thsisekedi, a strong political personality, with the publication of an open letter urging political and economic reforms, and the establishment of multi-party openness (Bobb, 1999).

The imbalance between forecast revenue and expenditure was such that it undermined the fulfilment of commitments agreed with the IMF within the framework of the 1979-1980 stabilisation programme, which soon collapsed (Vanderlinden *et al.*, 1980). As will be seen later, from that period onward, President Mobutu made ever-more use of non-budgeted salary increases and the granting of special pecuniary facilities, such as discretionary allocation of funds taken from the Treasury to carefully selected pressure groups. These included journalists, trade union leaders and teachers, who were granted such privileges in order to dampen down the rising public demand for freedom and democracy. These attempts to stifle the population's desire for fundamental rights and dignity resulted

in a significant increase in public spending. However, they failed to hold back the will of the people, which grew steadily stronger over the 1980s and led to the major political changes that marked the 1990s.

5.4.3. Monetary Adjustments over the 1980s

In view of the failure of the 1979-80 programme, the Government prepared another adjustment plan for the period 1981-83. A contribution of SDR912 million was expected from the IMF in support of this three-year programme, which set the following goals for 1981: (1) 2 per cent GDP growth; (2) 45 per cent annual inflation rate; (3) 36 per cent money supply growth (compared with 66.1 per cent in 1980); (4) 38 per cent banking system domestic assets growth (the same as in 1980); (5) Z850 million ceiling on State Treasury borrowings, and (6) Z475 million ceiling on total lending to businesses and households. For the three-year period the Government drew up a Z6.9 billion public investment programme (Banque du Zaïre, 1982).

The main objective of the new programme was to reduce the annual inflation rate to 45 per cent and the current external deficit to SDR160 million, or 7 per cent of GDP. During the first half of 1981 a number of measures were introduced, including the following. In February 1981, the Central Bank revised the scale of allocation of export proceeds that commercial banks were allowed to make available to their customers to cover the cost of priority imports. The proportion was raised from 35 per cent to 45 per cent, and this was reserved for the import of raw materials, intermediate consumer goods, industrial equipment spare parts, commercial vehicles, and capital goods. The increase was made possible by abolishing the allocations for energy resources and non-priority goods, respectively

2 per cent and 5 per cent, combined with a reduction, from 33 per cent to 30 per cent, of the proportion allocated for consumer goods.

Furthermore, the import of goods financed by foreign exchange resources acquired outside the banking system was liberalised, allowing a wider range of products, provided that an import declaration was presented to the banking system. This measure was designed to encourage holders of accounts kept abroad in foreign currencies to repatriate their liquid assets in the form of imported goods (Banque du Zaïre, 1981). In April 1981 the Central Bank increased credit interest rates. Moreover, starting from 1 June, most prices were liberalised and price control measures removed. Lastly, on 19 June the Zaïre was devalued by 40 per cent against the SDR (Département de l'Economie Nationale, 1981).

Right from the start of 1981, the Government failed to meet the requirements for a successful completion of the three-year programme, which was, therefore, abandoned. Its failure was due to both external and internal factors. On the one hand, the continuing stagnation of Western countries' economies led to falling demand for the major commodities exported by Congo. As a result of low international prices for copper and cobalt, total export earnings fell from Z1,954 million in 1980 to Z1,475 million in 1981 (Banque du Zaïre, 1981).

This fall in foreign exchange proceeds undermined the adjustment programme that had been launched with financial support from the IMF, as mentioned earlier. As a consequence, the volume of external payments arrears increased (OGEDEP, 1981). The withdrawal of the IMF's financial support was followed by an increasing reluctance on the part of other institutional lenders, international and national, to consider loan requests from Congo. This attitude resulted in a dramatic reduction of external resources available to Congo, which

restricted the country's ability to import goods and subsequently worsened the overall supply. (Leslie, 1987).

On the other hand, however, to explain the significant increase in money supply, which amounted to Z1,277.6 million in 1981 compared with Z979.9 million in 1980, one has to look at the Government's implementation of the State budget provisions over the same year. Despite measures taken to improve the collection of public revenue and curb expenditure, the latter grew by about 60 per cent while revenue increased by only 26.6 per cent. As a consequence the net negative balance of the State budget, financed by money creation, amounted to Z1,722.4 million, or five times the Z337.5 million deficit recorded in 1980 (Banque du Zaïre, 1981).

Furthermore, the banking system's outstanding net claims on businesses and households amounted to Z1,343.4 million at end-1981, compared with Z1,014.3 million in 1980. This increase of Z328.1 million was smaller than the ceiling of Z475 million specified in the programme. Meanwhile the suspension of financial support from the IMF, which resulted from the failure to implement the programme, combined with the decline in export earnings, led to an increase in external payments arrears (OGEDEP, 1981).

The economic and financial situation of Congo worsened in 1982. The year was marked by a further decline in production in all sectors of the economy, including export agriculture, domestic manufacturing, and the mining industry. To a large extent this regression was due to a lack of foreign exchange resources. Export earnings in 1982 increased by only 3 per cent over the 1981 figure. This poor performance resulted from a sharp decrease in the market prices for major exports, such as copper (20 per cent fall) and cobalt (50 per cent price fall), combined with an overall deterioration of the terms of trade (Institut National des

Statistiques, 1982). This situation meant there was an overall balance of payments deficit of SDR600 million for the year, of which less than a half was covered. Furthermore, due to the suspension of disbursement of the IMF facilities agreed in June 1981 and the decline in grants and loans from other international and bilateral partners, the net balance of external transfers was nil (Banque du Zaïre, 1981).

At the end of 1982 accumulated external arrears amounted to USD700 million, not including commercial and invisible transactions. Government spending had grown by 46 per cent, faster than public revenue, which increased by 31 per cent. This was a result of the overall decline in economic activity, stagnation of external trade and a reduction of Gécamines' capacity as the major contributor to public revenue. As a consequence of this development the State budget deficit amounted to Z2.8 billion or 8.9 per cent of GDP, compared with 5.9 per cent in 1981. Given repayments of external debt that had been made, the Treasury's overall deficit amounted to Z3.3 billion for the year 1982, compared with Z1.7 billion for 1981 (Banque du Zaïre, 1982).

By late 1982 the Government led by the Prime Minister, then called Premier Commissaire d'Etat (First State Commissioner), Léon Kengo wa Dondo, initiated a number of measures aimed at providing tighter control on public expenditure and more efficient collection of fiscal revenue. The main objective was to curb the expansion of domestic demand and improve the allocation of public resources. In addition to these budgetary and monetary policies other measures, designed to remove price controls and to liberalise small-scale mining and trading in diamonds and gold, known as *diamant artisanal*, by designating a preferential exchange rate to be applied to this trading activity, were also taken in early 1983 (Beaugrand, 1997). Prior to this liberalisation policy, the exploitation of diamonds and gold was a monopoly of large mining companies, and thus forbidden to others.

Nevertheless an increasing number of small producers were involved in this kind of until then clandestine activity.

With this liberalisation policy the Government aimed to combat smuggling in precious minerals and to return to official economic channels the largest portion possible of the foreign exchange generated in the grey economy by small producers. Thanks to severe spending cuts the management of public finance over the first half of 1983, marked by reduced recourse to financing by the Central Bank, resulted in a balanced budget. This formal equilibrium was reflected in a fall in the growth rate of money supply, combined with a slowdown in the expansion of credit to enterprises and households (Banque du Zaïre, 1983).

However, by mid-1983, the overall economic situation of the country was still marked by a rapid increase in prices, an overvalued exchange rate, a large balance of payments deficit, and a growing volume of external payments arrears. In view of this development, and fortified by the improved management of public finance recorded for the first half of 1983, the Government decided to implement a more far-reaching economic and financial adjustment programme, with financial support from the IMF. The essential objective of this new programme was to reduce the current balance of payments deficit. In this respect, on 9 September 1983 the Government defined a new exchange regime in three parts, namely (1) modification of the exchange rate, (2) introduction of a floating exchange regime and (3) liberalisation of the exchange regulations (Leslie, 1987).

These measures were put into effect on 12 September 1983. The exchange rate was modified from Z1 = SDR0.1575 to Z1 = SDR0.03542, which implied a devaluation of 77.5 per cent compared with the exchange rate in force on 22 June 1981 (Beaugrand, 1997). At the same time a floating exchange regime was adopted on two levels. An official foreign exchange market was established for conducting

a limited list of transactions with foreign currencies provided by the Central Bank. An unofficial free market, reserved for transactions conducted by commercial banks using their available foreign exchange, was also set up. A foreign exchange inter-bank market was established with the task of fixing a free exchange rate of the Z against the USD on a weekly basis. The Central Bank could intervene in this market in order to strike a balance between demand and supply if necessary (Leslie, 1987).

At the launching of the monetary reform there was a gap of 10 per cent between the official and the unofficial exchange rate. This gap was gradually reduced and completely closed on 24 February 1984, the date from which the exchange rate was freely determined by the market. This change went together with a wide liberalisation of exchange and external trade regulations. In this respect a number of measures were put into effect, including the following: (1) abolition of the compulsory transfer of 30 per cent of export proceeds to the Central Bank, (2) elimination of residents' accounts in foreign currencies, (3) simplification of import procedures and abolition of the related requirement for prior approval from the Central Bank, and (4) relaxation and subsequent abolition, from 1 March 1984, of the provisions that assigned export proceeds for specific purposes (*Banque du Zaïre*, 1984). In addition to the revision of the exchange and external trade regime, other measures were taken regarding the State budget, credit, prices and salaries, aimed at limiting the expansion of domestic demand (Beaugrand, 1997).

Before the monetary reform was launched in September 1983, budget expenditure, held under tight control, remained below the level reached at the end of the same period in 1982. Starting from the fourth quarter of 1983, State budget disbursements increased significantly as a mechanical effect of the 77.5 per cent devaluation of September 1983. Such was the case, for instance, with regard to the

exchange value of external debt servicing costs expressed in Zaïre. Furthermore, the devaluation also resulted in an increase in public revenue, as the exchange rate adjustment significantly improved the contributing capacity of Gécamines and widened the tax base related to external trade (Sumata, 2001).

On the same occasion regulations regarding interest rates were revised. Interests applied by the banking system for short and medium-term loans to businesses in all sectors and to households were liberalised and adjusted so that they remained above the inflation rate. However, the liberalisation did not apply to loans for agricultural activities concerned with non-coffee exports, which carried an annual interest rate of 15 per cent. The Central Bank increased the discount rate from 15 to 20 per cent, while the interest on Central Bank loans to the Treasury was increased on September 1983 from 3 to 7 per cent, applicable to claims on the Treasury arising after that date. Nevertheless, as pointed out earlier in this chapter, the increase in the Central Bank discount rate had no limiting effect on the expansion of money supply. Similarly, a higher interest rate on loans from the Central Bank to the Treasury did not significantly reduce the volume of borrowing that was required for financing the State budget deficit (Banque du Zaïre, 1985).

The price liberalisation policy was reinforced by a law of 12 September 1983, which took into consideration the overall increase in costs that followed the parity adjustment. Lastly, the programme provided for a phased increase in wages and salaries, with an across-the-board rise of 40 per cent over the two years 1983 and 1984, the first phase on 1 October 1983, and the second on 1 April 1984. The regulation regarding interest rates was in line with the liberalisation policy aimed at eliminating price disparity, among other objectives. On the other hand the increase in salaries was intended to partially restore the purchasing power lost as a result of

the devaluation, with the aim of containing the growing pressure from the public (Banque du Zaïre, 1985).

As well as the short-term monetary and financial objectives of the programme the Government drew up a medium-term investment plan for the period 1983-85, which received financial support from the World Bank. The goal of this plan was to loosen the main constraints that were hindering the country's economic development, and to modernise the major productive sectors. Financial support expected from the IMF within the framework of the overall adjustment programme amounted to SDR342.5 million, including a SDR228 million stand-by credit arrangement and a SDR114.5 million compensatory financing facility (Banque du Zaïre, 1982).

Because of the expanding foreign debt burden, the volume of available foreign exchange resources proved to be insufficient to cover the balance of payments deficit. In view of this situation the Government resorted to negotiating further debt rescheduling with the Paris Club, which resulted in a rescheduling agreement concluded on 20 December 1983. At the end of 1983 Congo's external debt amounted to USD4.6 billion, of which 63 per cent was owed to lender members of the Paris Club, about 10 per cent to private banks (Club of London), 13 per cent to international institutions, and the balance to other public and private creditors (Kikassa, 1989). The total amount of debt rescheduled under the Paris Club agreement of 20 December 1983 was USD1.4 billion. As a result of the agreement, the annual debt servicing cost was lowered to USD651 million, of which USD221 million was effectively paid before the end of the year (OGEDEP, 1984). This rescheduling policy continued over the whole period covered by this study, and explains the impact of recapitalisation and consolidation of unpaid arrears on the exponential increase of Congo's external debt.

The policy of financial restraints that had started in late 1982 and was reinforced within the framework of the adjustment programme of mid-September 1983, resulted in an increase in fiscal revenues in 1983 (88 per cent more than in 1982). This improvement was especially a consequence of improved tax collection in general and also of payments from Gécamines in particular (OGEDEP, 1984). The State budget deficit represented 2 per cent of GDP in 1983, compared with 8.7 per cent in 1982. It was entirely financed by money creation by the Central Bank but was limited at Z2.6 billion, compared with Z3.3 billion in 1982. Lending to enterprises and households continued to grow at the same rate of 50 per cent, as in 1982, because the private sector seemed to adopt a wait-and-see policy over the final quarter of 1983 following the mid-September monetary reform.

On the other hand, the expansion of money supply, which slowed down during the first half of 1983, accelerated following the adoption of the new exchange rate. As a result of the conversion of foreign exchange deposits and buyback of residents' foreign currency accounts, together with an acceleration in public spending at the end of the year, the money supply increased from Z.2 billion at the end of 1982 to Z3.4 billion at the end of 1983, recording 74 per cent growth (Banque du Zaïre, 1983).

The devaluation of mid-September 1983 resulted in a dramatic increase in the cost of imported goods and services, such as fuel, the price of which rose fivefold because of the price liberalisation policy. As this increase was passed on to all other sectors of the economy, the retail price index grew by 28 per cent in September alone, while the average monthly inflation rate prior to September was at 4 per cent. In the end the average inflation rate for 1983 amounted to 76 per cent, compared with 37 per cent in 1982. However, as a result of a relatively comfortable

volume of foreign exchange reserves at the banks' disposal, and rather low demand, no significant demand pressure was noticed.

As a result, the external exchange rate remained stable until early 1984. Set at USD1= Z9.29 on 9 September 1983, the exchange rate in the free market was fixed at USD1= Z30.04 at the first inter-bank market fixing session of 21 October, and Z30.89 on 29 December 1983. The 10 per cent fluctuation margin established between the official exchange rate and the rate of exchange in the free market was gradually narrowed until it was cancelled out by February 1984, when the single exchange rate stood at USD1 = Z33 (Banque du Zaïre, 1983).

As it emerges from the analysis of the Central Bank's annual reports and other sources referred to, beyond the manipulation of the exchange rate and its ephemeral effects in the short term, the Congolese adjustment programmes failed to produce sustainable positive results in the long run. The Congolese authorities generally explained this failure by pointing to external causes, such as a decline in export earnings, and deterioration in the terms of trade. This study has instead shown that the most striking causes of the collapse of all the programmes undertaken were essentially internal. Namely, the chronic deterioration of the overall monetary and financial situation was due to a total lack of control of public finances in relation to both receipts and expenditures. This lack of control was itself due to (1) a lack of social development and people-oriented policies, (2) absence of budgetary discipline, and (3) improvisation established by the Mobutu dictatorship as a principle of management (Leslie, 1987; Beaugrand, 1997).

The inefficiency of the adjustment policies implemented was clear from the poor quality of attendant measures and reforms designed to accompany the monetary adjustments as well as from the blatant deficiency in the implementation of such measures and reforms. The overall situation suggests that what mattered

most for the Congolese authorities was the statement of intent to be made at the launching of any adjustment programme in order to receive a substantial contribution from the IMF and other international, multilateral and bilateral financial organisations. No wonder, therefore, if soon after the exchange rate adjustment, the monetary and financial situation started to deteriorate again – if indeed it had ever stopped doing so for a while – since nothing was done to address the structural changes from which a durable improvement could be expected (Bornemann *et al.*, 1979; Beaugrand, 1997).

5.4.4. Banking Institutions and Money Supply over the 1980s

In 1983 money supply increased by 87 per cent as a result of the devaluation and, to a lesser extent, of an increase in the volume of credit to enterprises and households. The volume of claims on the Treasury, which used to be the most significant contributing factor to the expansion of monetary liquidity, recorded a significant contraction following relatively better governance, as explained in the preceding section.

The Government continued implementation of the adjustment programme over 1984, and succeeded in limiting the expansion of money supply at 22 per cent, which reflected a significant deceleration until the middle of the year. The State budget deficit amounted to no more than Z1.4 billion and the retail price index increased by only 8.6 per cent over the first six months. However, as early as the end of the first quarter of 1984 the exchange rate began to deteriorate due to a widening imbalance between the supply of and demand for foreign currencies. This led to the imposition of' more drastic restrictions on foreign payments as external debt servicing absorbed an ever-larger proportion of the scarce available external resources. From Z30.89 to the US dollar on 29 December 1983, as mentioned at the

end of the preceding sub-section, the exchange rate fell to Z35 to the US dollar on March 1984, recording a 13 per cent depreciation in comparison with December 1983 (Banque du Zaïre, 1984).

In an attempt to restore relative equilibrium between supply and demand, two series of measures were introduced. Firstly, during the second quarter of 1984, the Central Bank issued a regulation, limiting the net balance of foreign assets each bank could hold, to 100 per cent, then to 75 per cent of its share capital. In addition, imports were subject to a deposit equal to 50 per cent, then 65 per cent of the value of the import in Zaïre currency (Banque du Zaïre, 1984). At the same time the regulation regarding the banking system's compulsory reserves was redefined in order to reduce banks' liquidity. Secondly, in order to encourage the public to invest in public securities, and thus contribute towards financing State budget deficits, and consequently reduce the volume of money printing by the Central Bank for this purpose, the Government instructed the latter in April 1984 to issue Treasury bonds on behalf of the Government.

The issuance of Treasury bonds also was an attempt to discourage the increasing hoarding of banknotes as a preference for cash was growing in line with the expansion of grey economy activities, and for tax avoidance motives. In 1984, the proceeds of the issuance amounted to Z200million, which served to finance the State budget deficit and consequently helped a little to limit the monetary financing of the latter to Z1.2 billion (Banque du Zaïre, 1984). Although the issuance of Treasury bonds subscribed by the public continued for a while, it cannot be considered a great success, especially because of the high inflation rate, which made the investment worthless, as the nominal interest rate was far below the inflation rate.

The overall improvement observed from late 1983 as a result of financial restraints as well as liberalisation of prices and external payments implemented over the period 1982-83 continued through 1984 under favourable international economic conditions. As a consequence of more efficient collection of public revenues, money creation intended to enable the banking system to lend to the Treasury remained below the ceiling fixed in the adjustment programme. However, 40.5 per cent of public spending went on external debt repayments, while the share of public resources reserved for investment was falling, recording a decline of 44.2 per cent (Banque du Zaïre, 1984).

In an attempt to halt the progress of inflation the Central Bank set up direct and indirect means of controlling the volume of credit, such as ceilings defined by sector, compulsory reserves ratios and rediscount rate. Table 5.13 shows the growth of money supply between 1977 and 1985, indicating the variations in its major components.

Table 5.13 Variation of factors affecting money supply, 1977-1985 (in Z millions)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
a	-277.7	-81.0	-27.5	+48.5	-1,147.0	-711.7	-8,404.9	-3,350.8	-14,214.1
b	+341.0	+548.1	+726.6	+770.8	+1,851.7	+3,279.5	+2,497.8	+2,868.7	+1,450.7
c	+151.4	+103.9	+191.0	+150.9	+300.4	+629.5	+860.7	+1,536.2	+4,789.4
d	***+264.7***	***+571.0***	***+890.1***	***+970.2***	***+1,005.1***	***+3,197.3***	***+5,046.4***	***+1,053.1***	***-6,974***
e	+461.4	+666.6	+292.9	+1,452.9	+1,353.9	+3,238.3	+6,147.9	+4,768.8	+4,711.8
f	+379.0	+593.3	+157.9	+1,369.6	+1,188.9	+2,820.6	+6,646.5	+4,365.3	+5,081
g	+82.4	+73.3	+135.0	+83.3	+164.4	+417.7	-98.6	+403.5	-369.2
h	-196.7	-95.6	+597.2	-482.7	-348.2	-41.0	-11,194.3	-3,715.7	-11,685.8

Source: compiled by the author, based on Banque du Zaïre annual reports 1977-1986
Legend: a: Foreign exchange reserves; b: Credit to State Treasury; c: Credit to private-sector enterprises; *d: Assets = Liabilities*; e: Money supply: f: Money ; g Quasi-money ; h: Other

The results achieved in 1984 were overall in line with the goals of the programme initiated in September 1983. However, the situation started to deteriorate again in 1985 as the main causes that justified the implementation of an adjustment programme started to reappear. As previously pointed out, the repetition of the same causes resulting in the same effects is the main reason why

this study has adopted the procedure of tracing the progress of the money supply year-by-year. This has helped to shed light on the ephemeral nature of the short-lived adjustment programmes implemented in Congo.

From 40.7 per cent in 1984 the external debt-servicing burden represented about 50 per cent of public expenditure in 1985 (OGEDEP, 1985). The annual rate of inflation increased from 14.3 per cent in 1984 to about 40 per cent in 1985, mainly as a result of the price liberalisation policy, as prices of imported goods, especially fuel, the price of which was frozen until then, recorded a dramatic rise due to the effect of the liberalisation measures and devaluation. The fuel price increase was passed on to transport and all other sectors, which resulted in a general increase in all prices. This development pushed the inflation rate back to a level as high as 40 per cent for the year (Département de l'Economie Nationale, 1985).

The money supply rose from Z18,791.5 million at the end of 1984 to Z23.924.8 million at the end of 1985, recording 27.3 per cent growth, due to increased borrowing from the banking system by the Treasury, for the purpose of financing State budget deficit. The structure of the money supply at the end of 1985 confirmed the preference for cash money, as the proportion of banknotes and coins increased from 46.8 per cent of total money supply at the end of 1984 to 51.3 per cent at the end of 1985. In the meantime the volume of banknote and coin circulation outside the banking system amounted to Z14.517.2 million at the end of 1985, an 18.1 per cent increase over the 1984 figure (Banque du Zaïre, 1985). This reflected increasing disintermediation, which resulted in a dramatic shortage of cash, an issue to be addressed later.

From Z8,994.7 million at the end of 1984, sight deposits rose to Z10,584 million at the end of 1985, which represented 18.1 per cent growth due to deposits

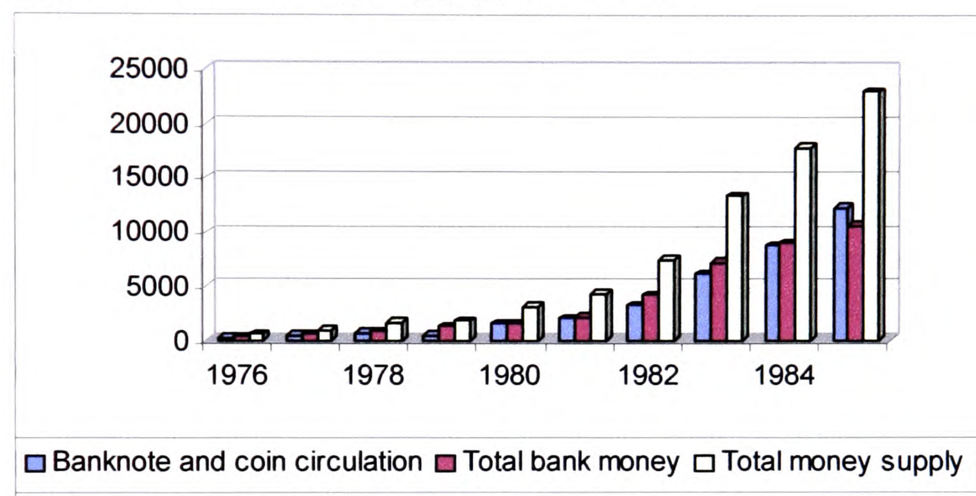
made in commercial banks, while deposits in the Central Bank's accounts fell slightly. The share of businesses in total sight deposits decreased from 66.2 per cent at end-1984 to 62.3 per cent at end-1985, while the share of households increased from 27.3 per cent to 30.0 per cent over the same period, in line with the preference for cash mentioned earlier. Because of the increasing difficulty of transforming their bank deposits into cash, many enterprises involved in cash-generating activities, such as food retailers, decided to retain and manage large amounts of cash in their own safes (Beaugrand, 1997).

Furthermore, the analysis of the factors affecting the money supply revealed a worsening of the negative net balance of foreign exchange reserves during 1985, which was essentially due to an increase in drawings from the IMF facilities. In this respect foreign exchange liabilities grew by Z16,698.7 million, while foreign assets recorded an increase of only Z2,484.6 million. This situation was due to sluggishness in productive activities and exports, as well as to a persistent decline in prices for the main commodities exported (Banque du Zaïre, 1985).

The economic recovery that resulted from the stabilisation programme initiated in 1983 and analysed in the preceding section was so modest that even though Western creditors praised the efforts at adjustment made by the country, there was no further allocation of funds in the form of foreign loans and grants. This was despite the fact that the adjustment programme took place in the context of two crucial circumstances. First, there was a general world economic recovery, which seemed likely to boost international commodity prices and improve Congolese export revenues and debt servicing capacity. Second, there was the expectation of additional financial support from the country's donors. In the event, commodity prices remained low, and the need for external funding, which became even more vital for the country, was not met (Leslie, 1987).

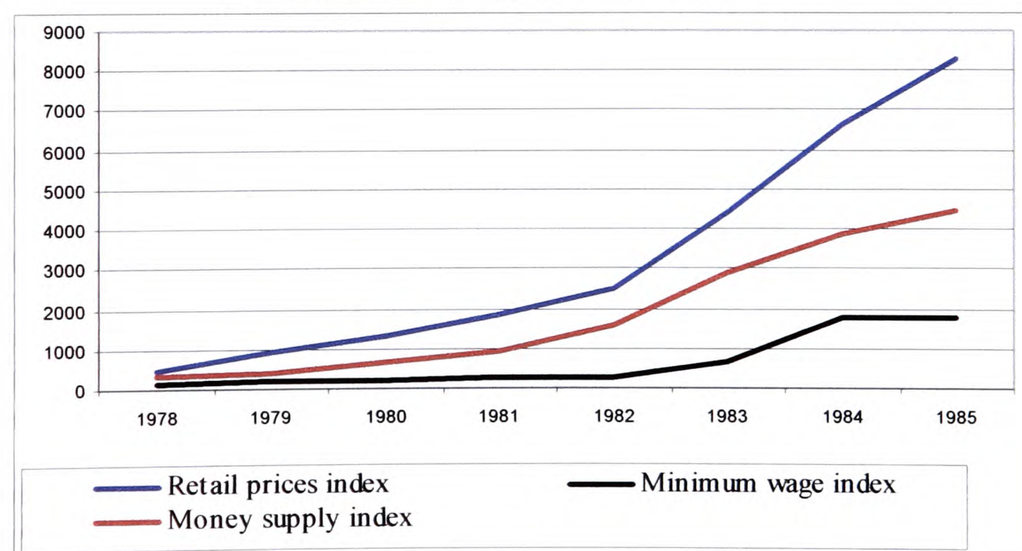
The reappearance of a high inflation rate, as underlined earlier in this section, and illustrated in Figures 5.11 and 5.12 which show the development of money supply and the price index from the early 1980s, reflected the limited efficiency of the adjustment programmes implemented by the Government. These programmes could not bring about a return to long-term stabilisation unless the structural causes of the economic deterioration were removed.

Figure 5.11: Money supply, 1976-1985



Source: compiled by the author, based on Banque du Zaïre annual reports 1976-1985.

Figure 5.12: Money supply, Retail prices and Minimum wage, 1978-1985



Source: based on Banque du Zaïre annual reports 1978-1985

Overall, the situation continued to reveal structural weaknesses in the Congolese economy. Firstly, foreign exchange resources were increasingly insufficient for the volume of imports considered in line with the basic needs of the country, while at the same time there was an ever-increasing external debt servicing. Secondly, public revenue and expenditure were evolving in opposite

directions. While public revenues were diminishing in nominal and real terms, public spending was expanding in excess of the budgetary target, which resulted in a structural deficit financed by money printing. The growth of consumption expenditure and external debt servicing costs absorbed such a large portion of the scarce resources that no significant resources were reserved for public investments.

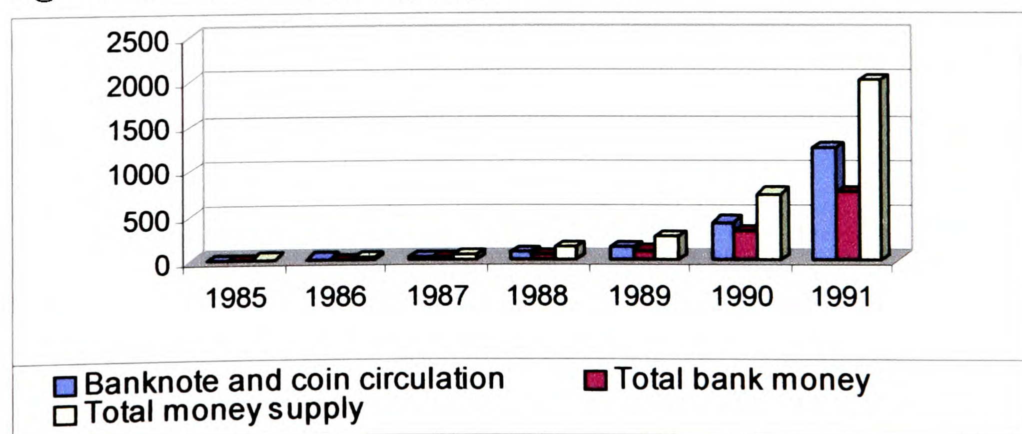
The decline in private investments combined with severe deterioration in the country's infrastructure contributed to the reduction in overall output capacity and the widening imbalance between supply and demand of goods and services on domestic markets. Lastly there was the public administration's overall inefficiency, which resulted in a total loss of confidence on the part of the private sector vis-à-vis the Government (Leslie, 1987).

5.5. Hyperinflation over the First Half of the 1990s

5.5.1. Political and Economic Background of the Early 1990s

As a consequence of the persistent structural weaknesses analysed in the previous section all other attempts at monetary and financial adjustment programmes initiated over the second half of the 1980s were doomed to failure.

Figure 5.13: Money supply, 1985-1991

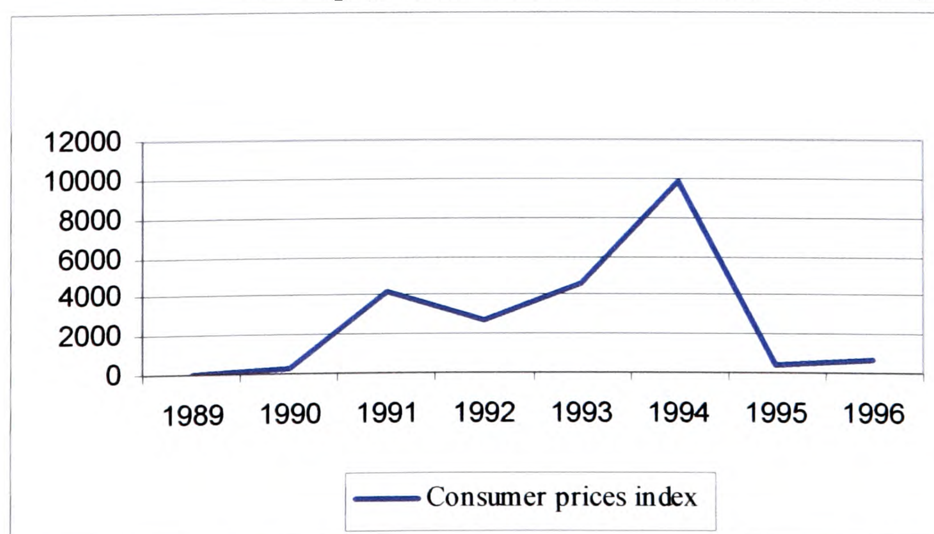


Source: compiled by the author, based on Banque du Zaïre annual reports 1985-1991

The recourse to money printing for financing large State budget deficits continued and led the country from high inflation to hyperinflation, starting from the late 1980s/early 1990s, as illustrated by the expansion of money supply shown in Figure 5.13 and by the movement of the consumer price index shown in Figure 5.14. From about 40 per cent during the first half of the 1980s, the annual inflation rate averaged about 70 per cent over the second half of the same decade (Beaugrand, 1997).

Hyperinflation can be defined as starting from the moment when the monthly rate of increase in prices exceeds 50 per cent and ends in the month before the increase in prices falls and remains below this rate for at least one year (Cagan, 1956). Some other scholars, such as Salama and Vallier (1990), define hyperinflation with reference to three stages. Firstly, the increase in prices becomes exponential, out of control and unpredictable. Secondly, relative prices lose their consistency, which helps to speed up the increase in prices. Lastly, it becomes increasingly difficult for the national currency to exert its essential monetary functions as a store of value, medium of exchange and unit of account. The national currency is then overtaken by some other foreign currency, generally the US dollar.

Figure 5.14: Consumer index annual percentage change, 1989-1996 (Kinshasa markets)



Source: compiled by the author, based on Beaugrand (1997)

Figure 5.14 depicts the acceleration of price increases over the period 1992-94. From 56 per cent in 1989, the annual increase in consumer prices reached 256 per cent in 1990, 2,500–4,500 per cent between 1991 and 1993, and 10,000 per cent in 1994, before falling back to 370 per cent in 1995 and 657 per cent in 1996, as a result of a relative improvement in the public governance, as will be explained later (Beaugrand, 1997).

This study refers to an alternative definition considered more suitable for Congo's case. Namely, on the basis of a threshold average monthly inflation rate of 20 per cent over three months, the corresponding quarterly inflation rate amounts to 73 per cent, and nearly 8,000 per cent on an annual basis. Based on this definition, Congo's hyperinflation began in November 1990 (Beaugrand, 1997). All major contributing factors analysed in this chapter to explain the monetary and financial developments in Congo over the period from 1960 to the end of the 1980s continued to play the same role throughout the 1990s. However, as well as the direct impact of these factors, the hyperinflation that developed since the early 1990s and the overall collapse of the Congolese economy derived mostly from political events that occurred between 1990 and 1997. Namely, on 24 April 1990, in keeping with the current of democratisation that arose from the collapse of the former Soviet bloc, President Mobutu launched a process of democratisation involving among other things the establishment of a multi-party system.

This announcement was the starting point of a transitional period that rapidly turned into a permanent crisis. On the one hand, the political opposition was determined to seize the opportunity presented by the proclaimed openness to oust Mobutu, whom they considered an obstacle to real democratisation. On the other hand President Mobutu, along with his supporters, was resolute in his determination to stay in power.

Nonetheless, he accepted the principle of a kind of *Etats Généraux* known as the Conférence Nationale (National Conference) and subsequently Conférence Nationale Souveraine (Sovereign National Conference), as will be explained later in this section. The aim of the Conference was to bring together representatives of social bodies from all regions in order to scrutinise the past developments of the country and to draw up a plan for democratic regeneration. The ultimate objective of the National Conference was to draft a new Constitution reflecting a clearly defined democratic orientation, and to prepare the ground for legislative elections (Meditz and Merrill, 1994). The opening of the National Conference on 7 August 1991 and its closure on 15 August because of a dispute regarding participants' accreditation and political wrangling marked the beginning of an institutional deadlock, which this section will analyse, in the lights of its effect on the contemporary monetary and financial developments.

On 23/24 September 1991, soldiers dissatisfied with the low level and late payment of salaries looted containers at Ndjili international airport. The looting spread all over Kinshasa the capital. On 29 September President Mobutu, complying with a request from the opposition, appointed Etienne Tshisekedi, a charismatic opposition leader, as Prime Minister. On 21 October Mr Tshisekedi was dismissed, on the grounds that he refused to sign an oath of allegiance to the President, and he was replaced by Bernardin Mungul Diaka, another opposition leader, who was subsequently disqualified by the opposition. One month later, on 25 November 1991, President Mobutu appointed Jean Nguz A Karl I Bond as Prime Minister to replace the unpopular Mungul Diaka (Bobb, 1999).

On 17 January 1992 Prime Minister Nguz reopened the National Conference, which he closed a few days later on the grounds that its running costs were too high. On 22 January about 30 soldiers seized the national radio station in

Kinshasa to demand democracy. However, the mutiny was rapidly reduced to silence. On 16 February 1992 security forces attacked and killed a number of protesters who had marched through numerous areas of the capital Kinshasa following Sunday morning church service to demand the reopening of the National Conference (Bobb, 1999).

On 6 April 1992 the National Conference reopened and declared itself "sovereign", with the power to take enforceable decisions as from 17 April 1992, and renamed itself Conférence Nationale Souveraine (CNS). A Catholic Archbishop, Laurent Monsengwo Pasinya, was elected Chairman of the Conference with strong support from the opposition. On 15 August of the same year the National Conference elected Mr Etienne Tshisekedi as Prime Minister again for a transitional period defined in a Transitional Act adopted by the *CNS* on 14 August 1992. The aim was for the Prime Minister to oversee the transition to democracy, while the constitutional prerogatives of the President were reduced.

The President promulgated the nomination of Etienne Thsisekedi on 19 August, but the Government remained largely powerless as Mobutu continued to interfere in the management of the country through his supporters, who used all possible means of putting a spoke in the Government's wheel. In any case, despite his charisma as a fierce political opponent of Mobutu, Mr Thsisekedi did not prove to have the skills expected from a Prime Minister in charge of the efficient day-to-day management of a country in a situation as difficult as that confronting Congo (Beaugrand, 1997).

Faced with the new Constitution drafted by the CNS, which considerably limited the powers of the President, Mobutu instructed the former single-party Parliament to hold a separate Conference, called "Conclave du Parlement", a sort of parallel to the National Conference, which he mandated to draft another

Constitution more to his liking. At the end of this parallel Conference President Mobutu appointed another Prime Minister, Faustin Birindwa, who formed another Government, the members of which came from the Conclave du Parlement. In the meantime the Government of the elected (by the CNS) Prime Minister Etienne Tshisekedi claimed legitimacy from the CNS, but was denied the power to govern effectively by President Mobutu. As a result, the country found itself with two Parliaments and two Governments, none of which was able to govern effectively (Mabi, 1997).

The confusion that resulted from this situation affected monetary and financial developments over the first half of the 1990s. In December 1992, as the value of the currency was continuously falling due to inflation, the Central Bank issued new banknotes with a face value of Z5 million, worth about USD2, which Prime Minister Etienne Thsisekedi declared illegal. When the Treasury undertook to settle its commitments, including the payment of wages and salaries, with the newly issued banknotes, most of the recipients refused to accept the Z5 million notes, which gave rise to the accumulation of additional wage arrears. In December 1992 and January 1993 new riots and looting took place in various areas of the country, and soldiers demonstrated, demanding the payment of salary arrears. In February 1993, the Central Bank announced the issuance of Z10 million banknotes (worth about USD4), while at the same time, a 15-ton shipment of 5 million Zaïre notes was seized in Belgium at the request of Prime Minister Etienne Tshisekedi (Beaugrand, 1997).

On 22 October 1993, the Central Bank implemented a so-called monetary reform, which consisted of the following major steps: (1) issuance of new banknotes called *Nouveau* (New) Zaïre (NZ); (2) freezing of bank money; (3) exchange of banknotes in circulation on the basis of NZ1 for Z3 million, and

devaluation at the rate of Z9 million or NZ3 USD1 (Mabi, 1997). The issuance of new banknotes stripped of six zeros was intended to facilitate the handling of money as well as simplifying recording and accounting processes. The freezing of bank money was aimed at reducing the excessive volume of the money supply, in order to cool down the high pressure of demand and to lower the high inflation rate. The devaluation was justified by the fact that the national currency was overvalued in relation to foreign currencies. The opposition boycotted the NZ notes as it had the Z5 million notes. So did the soldiers when the Government attempted to pay them with the new notes. The dissatisfaction of unpaid soldiers gave rise to another wave of rioting and looting (Beaugrand, 1997).

The set of measures of 22 October 1993 proved to be the worst monetary reform ever attempted in Congo. It contributed to further undermine the already dislocated system of monetary intermediation (Mabi, 1997). The Central Bank's attempt to slow down the depreciation of the NZ on the inter-bank market failed. As early as the end of the year one USD was worth NZ102 on the parallel market, recording a differential of 191 per cent with the inter-bank market. In November and December 1993 the monthly inflation rate reached about 250 per cent. Although the rate slowed to 191 per cent in January 1994, over the three-month period to the end of that month there was a cumulative price increase equivalent to more than 3,300 per cent on a yearly basis (Beaugrand, 1997). [23]

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[23] From 1990 onwards, prices were increasingly set in foreign currency (US dollars or Belgian Francs), although small-scale transactions generally continued to be fixed in Zaïre.
As wages in the formal economy were settled in Zaïre, wage earners no longer made use of the sharply falling domestic currency as store of value. Soon after they cashed their wages these were exchanged for foreign currency. Offices acting as foreign exchange bureau and street money-changers proliferated, forming an active foreign exchange market known as a parallel market that was handling transactions on a continuous basis, from a few dollars to several thousands dollars.
Overall, due to a sharp decline in export receipts and exhaustion of foreign exchange reserves held by the central bank and commercial banks, which formed the official inter-bank market, the volume of imports and other external payments financed by these resources decreased dramatically. This resulted in an increasing volume of imports and other external payments financed by resources

Public revenue collection fell by about 50 per cent while public expenditure went on growing. These developments were the result of inefficient governance accompanied by a sharp decline in economic activities and repeated strikes in the civil service. The transitional process became endless and remained unfinished. To measure its cost requires taking into consideration not just the sum of directly related expenses. One also has to consider the monetary and financial impact of the subsequent collapse of the overall political system and the absence of governance in the country, especially between 1991 and 1994 (Mabi, 1997).

To put an end to the situation where there were two governments and two parliaments, as mentioned earlier, which resulted from the failure of the CNS, an agreement was concluded in October 1993 between representatives of the Conclave du Parlement and representatives of the opposition. On the basis of this agreement the Haut Conseil de la République (High Council of the Republic), a parliamentary body which included a large number of former CNS participants among its members, and the Conclave du Parlement merged to form a transitional Parliament called Haut Conseil de la République-Parlement de Transition (HCR-PT), comprising about 800 members. In March 1994 this transitional Parliament approved an arrangement providing for a 15-month transition to the end of July 1995, during which time the Prime Minister was to be chosen in consultation with political parties from outside the President's party (Beaugrand, 1997).

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in foreign currencies acquired on the parallel market, that is to say, at a higher cost than the official exchange rate.

The parallel market was held and operated on an informal basis by various intermediaries from the street money-changers to large commercial companies acting through several unofficial bureau de changes. Following the adoption of floating exchange rate regime in September 1983, and the resorption of the gap between the official and the parallel rate of exchange, the most important of these companies formed a kind of board that liaised with the central bank and the commercial banks grouped in the Association Zaïroise de Banques in fixing the exchange rate applicable on a weekly basis for all transactions in foreign currencies.

On 14 June 1994 Léon Kengo wa Dondo, a leader from the moderate opposition, was elected as Prime Minister by the Parliament and President Mobutu ratified his nomination soon afterwards. As soon as Prime Minister Kengo took office in July 1994, he suspended the Governor of the Central Bank on the grounds that he refused to account for his management to the new Government. It took about four months for President Mobutu to sign the relevant revocation Decree in November 1994, and a new Governor of the Banque du Zaïre nominated by the Prime Minister was appointed in January 1995 (Beaugrand, 1997).

Over the first half of 1995 the Banque du Zaïre resumed issuing banknotes and securities, and undertook to recover stocks of banknotes and printing plates from the less reputable supplier that had been entrusted by the former Governor of the Banque du Zaïre with the task of printing banknotes. Starting from the second half of 1994 the increase in money supply slowed down steadily from about 230 per cent in the first and second quarters to 155 per cent in the third quarter, and 100 per cent in the fourth quarter of the year. However, the result of this development was not tangible until the fourth quarter of 1994, as the inflation rate remained high, above 50 per cent per month on average between January and September 1994, then declined to about 25 per cent in October and November, and fell to less than 10 per cent in December of the same year (Beaugrand, 1997).

Starting from early 1995 Central Bank operations gradually came back under control, which enabled the Government to focus on improving tax collection and on establishing tight control over public spending procedures and volume, with the aim of matching expenditure to available resources. As a consequence, government revenues increased, amounting to the equivalent of USD150 million for the first half of 1995, or 10 per cent above the level achieved in 1994 for the whole year. With regard to expenditure, the Kengo Government systematically

delayed payments, including the payment of arrears in wages and amounts owed to suppliers. This strategy resulted in fictitious surplus balances in the Treasury accounts at the Central Bank (Beaugrand, 1997).

Inflation slowed to an average monthly rate of 10 per cent during the first half of the year. However, additional inflationary pressure resumed because of two major causes that affected the Central Bank's financial position. Firstly, to cover the high cost of banknote printing and payments of other short-term external commitments, in view of the exhaustion of foreign exchange reserves, the Central Bank resigned itself to selling its own banknotes on the unofficial market for foreign currencies so that it could import the inputs needed for printing banknotes. Secondly the weakening position of a number of commercial banks led the Central Bank to provide for an expansion of banks' refinancing. Furthermore, by September 1995, under increasing political pressure the Government started using the surplus balances accumulated so far to pay the allowances of members of parliament and salary arrears to civil servants and other public administration employees, and to carry out some urgent public works, such as road repairs.

This use of government surplus balances deposited at the Central Bank pushed up the inflation rate from about 13.5 per cent during the third quarter of 1995 to 23 per cent by the end of the year. Meanwhile the Government's revenue collection policy resulted in a fall in revenue to the equivalent of USD55 million (Beaugrand, 1997). Price increases resumed on a larger scale, which led to hyperinflation accompanied by, among other adverse effects, a severe shortage of banknotes, which will be addressed in the next section.

5.5.2. Monetary and Financial Developments from 1990 to 1995

In order to speed up the democratisation process launched in April 1990, as mentioned in the preceding sub-section, the opposition organised a series of demonstrations throughout the rest of the year. In an attempt to cool down the ferment created by these widespread demonstrations, the Government decided to grant unsustainable wage increases that nearly tripled the wage bill by October 1990 compared with the November 1989 average (Mabi, 1997). Moreover, the subsequent large increase in expenditure resulting from this decision occurred in a context marked by a fall in revenue from the mining sector. This fall was due to declining world market prices, but mostly to a major accident, in which a cave-in at Kamoto, a major Gécamines mining site, caused a 12 per cent decrease in copper production and exports (Beaugrand, 1997).

Overall, 83.4 per cent of the State budget deficit, which amounted to about Z518.6 billion in 1990, was financed through monetisation by the Central Bank, 2.6 per cent by issuance of Treasury bills on the money market, while external borrowing contributed 14 per cent. This development resulted in a large increase in money supply from Z273.6 billion at the end of 1989 to Z784.6 billion at the end of 1990, which represented a 179.5 per cent increase, compared with 61.1 per cent growth from 1988 to 1989. As over the previous years, this increase reflected an expansion of the banking system's claims on the Treasury (Banque du Zaïre, 1990).

The structure of money supply revealed an exponential growth of banknote and coin circulation over the previous years. From Z82.8 billion at the end of 1988, the volume of banknote and coin circulation nearly doubled in 1989, to Z153.1 billion, and jumped to Z427.1 billion at the end of 1990, recording a 179 per cent increase between 1989 and 1990. The same trend was observed in the development

of bank money, which grew from Z106.9 billion at the end of 1989 to Z318 billion at the end of 1990, recording a 179.8 per cent increase, essentially due to a higher volume of deposits in private banks. (Banque du Zaïre, 1990).

The beginning of 1991 was marked by the development of a form of pyramid savings scheme known as *Opération Bindo*, initiated by unauthorised financial intermediaries. The latter received deposits in cash and paid back a few weeks later, generally 45 days, up to ten times the initial deposit. As a consequence, the public withdrew a huge volume of cash from banks, to be invested in the pyramid savings scheme. The massive withdrawal rapidly resulted in a severe shortage of banknotes within the banking system. For a certain period of time the Government turned a blind eye to the phenomenon and did nothing to prohibit this activity. According to officials contacted by the author at the time, the Government was reluctant to order a ban, which would have angered the large number of people involved in this process of easy money. Eventually the Central Bank published a rather belated statement on the danger of ventures of this kind. Following this, the Government took measures to halt the operation. The government ban came too late, however, as the pyramid began to collapse in the second half of 1991 (Banque du Zaïre, 1991).

The Central Bank resorted to issuing an increased volume of banknotes of greater face value. However, the pressure continued to grow over the year. At the same time, the Central Bank was urged to provide the Government with more credit for the purpose of financing expanding expenditure. Most of this spending related to the political events of that time, such as the cost of maintaining in the capital thousands of representatives who were brought in from all the provinces between 1991 and 1995 to participate in the National Conference mentioned earlier, and in all the subsequent negotiations. Moreover, in order to avoid a further

loss of confidence in the country's still fragile monetary and financial system, the Government decided to refund individuals who had lost their savings invested in *Opération Bindo*. This intervention by the Treasury gave rise to additional money printing by the Central Bank for financing the subsequently larger State budget deficit (Banque du Zaïre, 1991).

Starting from 1992, inflation accelerated and the velocity of broad money increased dramatically. This resulted in frequent shortages of banknotes at the Central Bank, which made the conversion of bank deposits into cash very difficult, if not impossible at times. Considering the high cost of printing banknotes, the Central Bank often reserved its stock of notes for the Government's use and also its own, while commercial banks had to wait for a relatively long time to get their reserves converted into cash. As a consequence, depositors resorted to operating their bank accounts through transfers or cheques at a large discount. As a result of the difficulty in converting bank deposits into cash, a special money market was born. On this market, bank money was exchanged for cash at a domestic exchange rate. At the beginning of 1992, the exchange rate on this market was Z1 in a bank deposit for Z0.50 in cash. By early 1993 Z1 in cash was worth Z12 in bank money (Mabi, 1997). A peak was reached in June 1993 when the domestic rate for changing cash into deposit money was Z1 in cash =Z170 in bank money (Beaugrand, 1997).

By late 1993, it was roughly calculated that foreign banknotes in circulation amounted to the equivalent of USD300–400 million (Beaugrand, 1997). These banknotes were mostly US Dollars, but also European and other foreign currencies, such as the BF, the CFA Franc, which circulated in regions sharing a border with

member countries of the Banque Centrale des Etats de l'Afrique Centrale (BEAC), and Zambian Kwachas, which circulated in southern regions.[24]

Furthermore, there were widespread rumours that counterfeit notes were being printed on a large scale. While the rumours were not confirmed and the question remained unresolved, it has to be borne in mind that since the Banque du Zaïre often delayed the introduction of banknotes with a high face value, counterfeiting the Zaïre currency would have produced rather low seigniorage gains. As a matter of fact, over the period 1993-94, legal banknotes were often issued without being accurately reported on the Central Bank's balance sheet, especially when the printing was left in the hands of less reputable foreign suppliers, obviously as a means of reducing printing costs.

The printing facilities of Banque du Zaïre in Kinshasa could produce about half of the requirement for new banknotes, but at a very high cost as all key inputs, including printing plates, security paper and ink, were imported (Beaugrand, 1997). Furthermore, in view of the widespread refusal to use the new banknotes, partly as a political expression of opposition to President Mobutu, the old Zaïre currency continued to circulate in Western Kasaï province. At the time of the monetary reform the volume of old notes not exchanged for new notes was estimated at about Z460 trillion (Banque du Zaïre, 1994).

Overall, from the early 1990s foreign currencies, especially the USD and the BF, increasingly served to set prices for medium- and large-scale transactions, while small-scale transactions continued to be made in the local currency. Because of the high rate of inflation, revenues earned in domestic currency were systematically converted into foreign currencies as a more reliable store of value.

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[24] CFA, which initially stood for Colonies Françaises d'Afrique, now stands for Coopération Financière en Afrique Centrale (see: Godeau, 1995).

As a result, foreign exchange bureaux and street money-changers appeared and became very active, trading on a continuous basis. At the same time, the currency was depreciating in sudden and rapid steps, generally in connection with the rhythm of issuance of notes and when the latter were made available to the State Treasury in large quantities, or when a delivery was expected.

Over 1995 and 1996 the Central Bank appeared as the major contributing factor in boosting inflationary pressures. As pointed out earlier, its deficit was essentially due to the high cost of printing banknotes and the settlement of short-term debts comprising arrears vis-à-vis foreign suppliers of banknotes and security paper. As a matter of fact the average cost per unit of banknotes issued by the Banque du Zaïre was relatively low; about USD100 per thousand, including transportation charges, but the volumes were huge. In 1995 the Central Bank issued some 830 million new banknotes at an aggregate cost of about USD80 million. The fear remained that the introduction of higher denomination notes would provoke hostile political reactions like the repudiation demonstrated in 1992 and 1993. During this period the currency stock increased by some NZ1.5 trillion, or the equivalent of USD180 million (converted monthly at the parallel exchange rate). In the end, almost half of the currency issued by the Central Bank during that period was used for acquiring the foreign exchange needed for paying for the issuance of banknotes (Beaugrand, 1997).

The failure of the attempt at democratisation launched in 1991 resulted in the collapse of President Mobutu's regime, defeated by Laurent Kabila who led rebel forces from the eastern regions of Congo to the capital, Kinshasa, between September 1996 and May 1997. Laurent Kabila took power on 17 May 1997, and became President of the country, changing its name from the Republic of Zaïre back to the Democratic Republic of the Congo. Time has shown that the

hyperinflation of the period 1990/91 to 1994 had resumed by late 1996 and continued to worsen over the second half of the 1990s, which is beyond the scope of this study. The next section therefore concludes the analysis that has been carried out in this chapter.

5.6. Conclusion

In this chapter, the study has explored major facts of the Congo's monetary and financial history over the period between 1960 and 1995, and shown how this history was dominated by the high cost of various political events that occurred in those years. It has also demonstrated, on the one hand, the inefficiency of the policies implemented during this period, and on the other, blatant misuse of scarce public financial resources. The analysis has shown that all measures and actions taken in the monetary and financial field were dictated by the need to resolve short-term problems caused by the vicious circle within which the country was locked as a result of inefficient governance over many years. The study has highlighted these major features of Congo's post-colonial monetary and financial history over the four periods examined in the four analytical sections mentioned at the beginning of this chapter.

The first period, running from June 1960 to June 1967, started with a major political change, namely the attainment of independence on 30 June 1960. The sovereignty acquired was a result of the political process that began in 1956 and culminated with the riots of January 1959. It was followed by a phase of nationwide disorder, which weakened the economy and caused severe monetary and financial difficulties. The analysis has demonstrated the profound effect that the mismanagement of public finance had on the monetary and financial affairs of

Congo after 1960. Soon after the proclamation of independence on 30 June 1960, the new Government failed to keep the expansion of public spending under control. Between 1960 and 1963 the State budget deficit more than doubled. Money supply grew more than fourfold.

To compensate for the decrease in the public collection of funds, the Central Bank provided the Treasury with the resources it needed by printing money. Consumer prices increased six- to sevenfold as a result of a decline in the supply of both domestic and imported goods, following nationwide insecurity, regions seceding just after independence, and the subsequent decline in export revenues. As a result, the balance of payments deteriorated, and a parallel market for the CF appeared where the spread between the official exchange rate and the parallel speculative rate became ever wider.

Two devaluations completed on 6 November 1961 and 6 November 1963 produced positive effects that were short lived, for two main reasons. Firstly, a rebellion that started in 1964 offset the stabilisation of prices and the reduction in the public finance deficit. Secondly, the two devaluations, a mere monetary manipulation, could not resolve basic problems of governance, such as maintaining order, sound and efficient financial and administrative management, and the regeneration of rural areas. In the absence of structural corrective measures, State budget deficits financed by money printing resumed and resulted in additional money supply expansion and further price increases. From the very outset of independence, the scale of the chronic State budget deficits proved to be out of all proportion. As an example, in 1961, as analysed in section 5.2 of this chapter, the following figures were recorded: (1) total revenue: CF3,883 million, (2) total expenditure: CF13,266 million, (3) deficit: CF9,383 million, (4) money printing to finance the deficit: CF8,550 million.

Nineteen months after President Mobutu took power in November 1965, an economic, monetary and financial reform was launched on 24 June 1967, aimed at putting an end to the overall deterioration and at creating appropriate conditions for the country to resume a process of durable development. At the time of the launching of the 24 June 1967 monetary reform Congolese wage earners had already lost 45 per cent of their purchasing power as measured in June 1960. Soon after the monetary reform was launched they lost a further 15 per cent as an immediate effect of the devaluation.

Also on 24 June 1967 the Government launched the implementation of a series of measures regarding the foreign exchange system, taxation, public finance, credit and price control, with the aim of putting the economy back on its feet. A new currency, called the Zaïre (Z), subdivided into 100 makuta (K), and pegged to the US dollar, replaced the Congolese Franc (CF). The conversion was carried out on the basis of CF1,000 = Z1 = USD2, which represented a devaluation of 67 per cent.

Positive results following the implementation of these measures were recorded as early as 1968, showing a restoration of basic equilibrium, which enabled the Government to consider a bolder development programme starting from 1970. However, regardless of an average six per cent growth rate between 1970 and 1974, the economy deteriorated as a consequence of inconsistent financial and economic decisions, such as the zaïrianisation policy, and heavy external borrowings (Young and Turner, 1985; Leslie, 1987). As an overall effect, these policies resulted in a sharp decline in foreign exchange reserves, and an exacerbation of the external debt-servicing burden. Furthermore, they severely undermined production and distribution sectors, especially general farming and livestock-rearing businesses, and small-scale commerce. Overall, they ruined the

confidence of domestic and external investors in Congolese government institutions and policies.

The second period, from June 1967 to early 1976, included several years of prosperity, namely the final years of the 1960s and the first years of the 1970s, as a result of a relatively successful implementation, until late 1973, of the June 1967 reform. This period also witnessed favourable prices on the international markets for most of Congo's exports. From early 1974, the situation started to deteriorate again, mostly as a consequence of the irrational economic policy of zaïrianisation. This second phase ended in March 1976 with the adoption of corrective monetary and financial measures, which marked the starting point of a third period that ended in 1985. This third period was characterised by an increasing number of attempts to carry out adjustment programmes at ever shorter intervals, which reflected the precipitate nature and blatant inefficiency of the Government's economic policy.

Between 1976 and 1980 alone, seven monetary adjustments were carried out. However, for the same reasons as during the preceding periods the economic situation continued to deteriorate and the currency to depreciate. Namely, the overall development remained dominated by a total lack of control over increasingly expanding public spending and growing external debt burden, compounded by the poor performance of fiscal revenue collection, and the decline in export receipts following a fall in both the volume and the prices of exported goods. As a result, the country sank deeper and deeper into a vicious circle of a general crisis. To remedy the fall in purchasing power the Government usually resorted to measures whose efficiency was open to doubt, such as price and supply control.

In order to maintain low prices for consumers in large cities and achieve a kind of social stability, the Government unilaterally fixed prices of agricultural

products at a low level. This policy of subsidy to consumers at the expense of the vast majority of the population involved in agricultural activities contributed to the depopulation of the rural areas. The agricultural sector was deserted and collapsed for lack of appropriate incentives. The lack of motivation among rural communities was worsened by the high cost of transport, mainly as a result of both insecurity and the severe deterioration of the transport network. Moreover, the price of finished goods most in demand was so high that most manufactured goods were out of reach of the rural population. These circumstances slowed down the spread of the use of money in rural areas, which were anyway at a disadvantage because of the absence of a well-developed banking structure and an insufficient network throughout the country.

The fourth period ran from 1985 to 1995. It was essentially marked, among other features, by a process of gradual deterioration of the monetary and financial situation. This worsening was a result of inefficient governance reflected in the inexorable course that went from high inflation to hyperinflation, against a background of political anarchy. Starting from the early 1990s, the country entered a stage of hyperinflation. The Government that came to power in July 1994 attempted to carry out policies aimed at improving the overall governance of the country. The first target was the re-establishment of effective control over the issuance of currency, and the equilibrium of State budget operations. Secondly the Government took action in order to improve the efficiency of the public administration in charge of finance, which resulted in doubling tax revenue collection. Expenditure control was strengthened at the State Treasury. Disorganised issuance of banknotes was halted. As a result, inflation slowed down sharply from 230 per cent in the first and second quarter of 1994 to a monthly average of 10 per cent during the first half of 1995.

However, although inflation fell significantly, it was not brought under control. The reason was that the targeted minimum revenue proved to be insufficient to fund core budgetary expenditure as well as the fixed costs of the Central Bank. As a result of the exhaustion of foreign exchange reserves the Central Bank resorted to issuing banknotes and selling them on the domestic market for foreign currencies, which it needed for paying for the printing of currency notes. Consequently, inflation resumed an upward trend which, combined with the "Tanzi effect", further depressed Government revenue and this, in turn, undermined the possibility of stabilising the economy (see: Tanzi, 1977).[25]

As previously claimed, the analysis carried out in this chapter focused on the banking system's process of money creation for the purpose of financing the chronic deficits in the State budget. The analysis has shown that periods of high inflation and hyperinflation experienced by Congo over the last three decades of the 20th century were a consequence of overall mismanagement of economic and financial policies in general, and of the country's public finance in particular. It has demonstrated that the overall poor performance was due to inappropriate economic policies, lack of continuity, laxity regarding breaching of laws and regulations, failure of the judiciary to apply penalties, resulting in subsequent impunity and corruption, and to a lack of political loyalty and commitment to the public interest at the highest level of the State. It has also demonstrated that the few short periods of relatively efficient governance with less use of money creation to finance State budget deficits were marked by a decrease in the rate of inflation.

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[25] The Tanzi effect [also known as Tanzi Olivera effect in reference to the pioneering article published by Olivera (1967), quoted by Beaugrand (1997)], refers to the erosion of the tax base by inflation. Generally there is always a delay between the moment when tax payments are determined and the time they are collected by the tax administration. In case of high inflation, the longer the lag between tax assessment and tax collection the smaller the real income effectively collected (Tanzi, 1977).

Nevertheless, overall, public finance mismanagement remained the dominant factor that had conditioned monetary and financial affairs in Congo since 1960. The gap between spending that was expanding out of Government control and declining public resources continued to widen, despite numerous attempts at stabilisation programmes. In the meantime the monetary and financial system remained underdeveloped and, starting from the early 1990s, as a consequence of the large volume of banknotes that was by then circulating outside the banking system, banking and non-banking financial institutions failed to play a significant role in the domestic monetary and financial intermediation process.

As far as the population was concerned, the issue of money and finance meant a gradual erosion of the purchasing power of any monetary revenue, because of chronic inflation. It also meant a loss of confidence in government institutions as a result of the operation to withdraw banknotes that was carried out under appalling conditions in the late 1970s, and which was perceived by small savers as the confiscation of their savings. It also meant a loss of confidence in the national currency, which, in the context of hyperinflation, failed to play its proper role as a medium of exchange, unit of account, store of value, and standard of deferred payments. These are, after all, the classical functions of money, which any national currency worthy of the name ought to fulfil, and any national government is expected to safeguard.

Chapter Six:

SUMMARY AND CONCLUDING REMARKS

This thesis has explored the monetary and financial systems of Congo from 1885 to 1995, with the traditional monetary practices of five centuries ago in the background. The Kingdom of Congo, whose monetary usages provided a starting point for this thesis was estimated in the 15th century to cover an area of 300,000 square kilometres (Cuvelier, 1946). About one-third of this area became an integral part of the territory that the Belgian King Leopold II took possession of' in 1884 and led the 1884/85 Berlin Conference to recognise as the Congo Free State, and as his personal property. This royal possession of 2,345,410 square kilometres (80 times the area of Belgium) covered the largest part of the Congo basin as defined by the 1885 Berlin Act.[1] It comprised a population estimated at about 10 million at the time of the foundation of the state, amalgamating up to 200 ethnic groups with some 400 dialects belonging to four basic languages: Kikongo, Kiluba, Lingala and Swahili (Verhaegen, 1961).

[1] Article 1 of the General Act of the Conference of Berlin signed on 26 February 1885 defined the basin of Congo as 'bounded by the watersheds (or mountain ridges) of the adjacent basins, namely, in particular, those of the Niari, the Ogowé, the Schari, and the Nile, on the north; by the eastern watershed line of the affluents of Lake Tanganyika on the east; and by the watersheds of the basins of the Zambesi and the Logé on the south. It therefore comprises all the regions watered by the Congo and its affluents, including Lake Tanganyika, with its eastern tributaries' (Keith, 1919: 303).

In November 1908 Belgium took over the Congo Free State to form the colony known as the Belgian Congo. In the late 1950s Belgian Congo comprised about 14 million people. In addition to the four languages mentioned above, the French language introduced by the Belgian colonial power served as a common means of communication among people of such diverse origins (Goffin, 1953).

On 30 June 1960 the Belgian colony became an independent State under the name of Democratic Republic of the Congo. Joseph Kasa-Vubu was appointed President and Patrice Emery Lumumba Prime Minister. The Belgian withdrawal was abrupt and ill prepared. As early as July 1960 the Force Publique (the army and police) mutinied. The Government requested the United Nations to intervene. The country split into several secessionist regions. Lumumba, who was backed by the East European bloc, was deposed by President Kasa-Vubu and murdered. His supporters took control of the northeastern region of Stanleyville (now Orientale). Moïse Tshombe, who was backed by Belgian private interests, declared the mineral-rich southern region of Katanga to be independent. Albert Kalondji Ditunga declared the diamond-rich southern region of Kasaï to be independent. In Léopoldville (now Kinshasa), the capital, President Kasa-Vubu, the army under General Mobutu, the Government and the Parliament disputed responsibilities with one another until the appointment of Cyrille Adoula as Prime Minister in August 1961.

In 1963 all the seceded regions were brought under central control and the country reunited. Tshombe became Prime Minister in 1964. A constitutional dispute between President Kasa-Vubu and the new Prime Minister was ended on 24 November 1965, when General Mobutu seized power in a bloodless coup.

President Mobutu, who ruled the country for about 32 years without interruption until May 1997, changed the name of the State into the Republic of Zaïre in 1971. President Laurent J. Kabila toppled the Mobutu regime in May 1997 and re-named the country Democratic Republic of the Congo. In January 2001 he was assassinated and his son Joseph Kabila was appointed President. Kabila recently concluded a peace agreement with representatives of all military and political groups who had rebelled against his father's ruling regime. The Democratic Republic of the Congo, a homeland for about 56 million people today, shares 10,730 kilometres land boundaries with the following nine countries: Angola (2,511 km), Burundi (233 km), Central African Republic (1,577 km) Republic of the Congo (2,410 km), Rwanda (217 km), Sudan (628 km), Tanzania (459 km), Uganda (765 km), and Zambia (1,930 km).

Accounts of Portuguese travellers, who were the first Europeans to establish contact with the Kingdom of Congo in the late 15th century, mentioned a number of local devices that were used as currency in the Kingdom. The monetary functions of some of these devices survived in traditional communities long after the introduction of modern currencies in Congo, and are still in use today. A preliminary question to be answered was whether and to what extent monetary practices known since the 15th century had influenced, if ever, the modern history of money and finance in the Democratic Republic of the Congo.

The *nzimbu*, a small seashell, known since the 15th century as 'the best currency of the Kingdom of Congo', was just one device used as currency (Pereira, 1617, cited by Dartevelle, 1953: 94). A number of other devices mentioned in this study also served as currency in the Kingdom (Mahieu,

1924). A small mat made of raffia fibre, called *lubongo* (also spelled *libongo*), was used as money in some areas of the Kingdom of Congo where the *nzimbu* was not legal tender. The common term for money or wealth in today's Congolese languages, which is *mbongo*, derives from *lubongo* (Mahieu, 1924; Dartevelle, 1953; Bontinck, 1987; Rivallain, 1994). The adoption of names of ancient monetary devices for modern currencies is an obvious link between past traditional monetary usages and modern times. This connection also proves that in the mind of the local people the traditional concept of money is of the same nature as the modern concept.

Copper crosses and brass rods of different lengths, called *mitako*, served as money for a long time in traditional communities and were accepted by the colonial administration for payment of taxes. The *mitako* was so popular among the local population that in 1886, the authorities of the Congo Free State issued a Decree by which it was granted the quality of legal tender along with the currency issued by the State. This legal recognition was a result of the acceptability that the *mitako* enjoyed among the local population, which is one of the key characteristics necessary for a device to qualify as money.

The large number of devices that were used as money makes it difficult to identify a clearly defined traditional monetary system. Cuvelier (1946), Mahieu, (1924), Dartevelle (1953), Bontinck (1972) Rodney (1981) and Shillington (1989, 1995), among other scholars, claim the existence of well-structured monetary systems in different areas of Africa, such as the Kingdom of Congo and the Mali Empire, but they all failed to give much information, if any, about the composition and regulation of the systems they pictured. The

present study, however, has shed new light on some controversial issues, such as the following.

First, the *nzimbu* shell was adopted as a currency of the Kingdom of Congo long before the Kingdom had any contact with the Portuguese or any other Europeans. (Mahieu, 1924; Dartevelle, 1953; Bontinck, 1987; Rivallain, 1994). Therefore it is inaccurate to claim, as some authors, such as Wertz (1952), have done, that shell currencies in general and the *nzimbu* in particular were introduced into Congo by the Portuguese. Second, regardless of the predominantly barter-based mechanisms of exchange that existed, the local population made use of money, namely the *nzimbu* and other devices mentioned in this study, to settle a variety of transactions. This is in line with the reference made to Kindleberger (1984) at the beginning of this study about the coexistence of barter and money-based mechanisms of exchange even in developed economies. Money was needed especially when the exchange involved traders from distant regions.

The sharp fall in the exchange rate of the *nzimbu* against the Portuguese currency, reported in this study, especially from the early 17th century onwards, reflects the adverse impact of the massive import of cowries, as a substitute for the *nzimbu*, on the stability of the local currency. In line with Gresham's Law, the people of the Kingdom, who regarded cowries as false money, hoarded the genuine *nzimbu* that they reserved for specific transactions, while cowry money circulation expanded (Bontinck, 1987). Be that as it may, regardless of the substitution of the *nzimbu* with cowries, the former continue even in present times to serve as money in a number of traditional transactions, such as marriage payments (Banque du Congo Belge, 1960; Bontinck, 1987).

Nevertheless, a number of questions regarding pre-colonial monetary usages still remain unanswered, mainly because of the difficulty in carrying out further research, given the absence of documentation. None of the sources consulted provided an answer to questions such as when the *nzimbu* was adopted as a currency, and who made the decision to do so. And yet, in line with Dartevelle (1953), we assume that one of the Kings of Congo made this decision since it was established that the money supply was under the control of the King. Also still unanswered is the question why the *nzimbu* shells were selected as a currency. Their porcelain-like brilliance was put forward as a reason by some scholars, such as Germain (1922) and Fischer (1949), but this does not hold, as the *nzimbu* shells selected for monetary purposes were not brilliant but in fact were rather drab (Dartevelle, 1953). Their strength and small size were not peculiar to them, as there were many other seashells with the same characteristics. In view of these considerations, we believe that the choice of the *nzimbu* as a currency is likely to have been motivated by political reasons or by mystic or magical factors that the King took into account for purposes that were clearly defined, but still unknown to us.

Furthermore, most of the sources we referred to in this study, such as Mahieu (1924), Cuvelier (1946), Dartevelle (1953), and Rivallain (1994), provide detailed description of the *nzimbu* and other shells, local or imported. However, they do not provide sufficient information, if any at all, about the volume of *nzimbu* extracted from the Angola coasts over several centuries (Rivallain 1994). Nor do they provide quantitative information about the import of shells, such as cowries, from other parts of the world in connection with the

development of the slave trade, or in line with further changes that affected the local population, as the use of cowries increased significantly over time.

Most of the transactions regarding the exchange of goods and services between members of a traditional community were settled through non profit-oriented compensatory mechanisms that excluded the use of money (Bohannan, 1959). In such a system, all the essential needs for survival were met by means of barter-based compensation mechanisms. The role of money was, therefore, relatively limited. This explains why the local people tended at first to view European-style currencies, especially paper money, with detachment and mistrust.

By and large, with reference to the functions of money as a medium of exchange, unit of account, store of value or wealth, and standard of deferred payment, the *nzimbu, lubongo* and *mitako*, among other traditional devices, possessed the essential characteristics commented on at the beginning of this study, to qualify as money. However, despite the unanswered questions relating to the monetary policy implemented in the Kingdom, the King of Congo was reckoned to be the owner of the *nzimbu* shell reserves, of which he controlled the collection and storage. Given the lack of any other information relating to the regulation of the supply of the Kingdom's main currency, Luanda Island, where the *nzimbu* shells were stored under the supervision of a King's comptroller, can only be regarded as a store of King's wealth, rather than a kind of issuing house.

In a traditional system of exchange, the capacity of a device for playing a monetary role derived essentially from its usefulness, as a tool or an adornment, rather than from a formal definition laid down by a regulatory

authority. This traditional perception of commodity money also explains the reservation that the local people expressed initially about European-style modern currencies. It was hard for the local population to accept a banknote, as there was no connection between the intrinsic value of this physical medium and the (face) value assigned by law to that piece of printed paper. The widespread popularity of the *mitako* was partly, if not essentially, due to the usefulness of the metal wire for non-monetary purposes.

By creating the Association Internationale du Congo in 1884, King Leopold II founded l'Etat Indépendant du Congo, to which the 1885 Berlin Conference gave recognition. This study locates the start of the modern history of Congo at this point. Throughout a transitional period starting from the creation of the Congo Free State, modern currencies were introduced by gradual progression from a barter-based to a money-based system of exchange. In this process the Administration of the Congo Free State made use of the existing barter practices to such an extent that, at first, it institutionalised the payment of taxes and salaries in kind, regardless of the inherent abuses mentioned in this work. This was followed by a further interim stage with the establishment of a list of goods which were given the function of commodity money.

The monetary function assigned by law to the *mitako* was, therefore, a further step towards the introduction of a principally money-based system of exchange. Namely, the value of all merchantable goods listed in the State's stores was, during a first stage, calculated in *mitako* and, during a second, converted into State currency. In view of the monetary traditions that had long followed the patterns referred to above, this approach proved to be the most effective means of persuading the local population to steadily adopt modern

currencies designed for an economic model very different from the traditional one.

This study made anecdotal references to illustrate the fact that in addition to a device's usefulness that allowed it to be accepted and to qualify for a monetary function, as far as European-style forms of money were concerned, the local population attached much importance to the quality and reliability of the issuer. They regarded an acknowledgement of a debt issued by a locally well-known trader as more reliable than a coin or banknote bearing the effigy of a King they never saw, or the effigy of a dead monarch they considered worth less than a living one. The more remote the connection between the intrinsic worth and the legally assigned face value, the more reluctantly the local people accepted a device, such as a banknote, as money. This attitude was a consequence of the link that they maintained between the intrinsic worth of a good and its acceptability as money, in line with their notion of commodity money.

The Congo Free State founded by King Leopold II was recognised by the 1884/85 Berlin Conference as a personal property of a sovereign and, at the same time, it was regarded as a free land, comparable to an international colony (Beernaert, 1885, cited by Salmon, 1988), in the sense that it was to remain open to free circulation of people, goods, capital and currencies from all nations. While at the 1884/85 Berlin Conference King Leopold II committed himself to comply with this free circulation requirement, the reality on the ground was different as he favoured Belgian interests and set up a State monopoly over the major part of the territory.

King Leopold II's financial and development policy for the Congo Free State was based on six main strategic components, which derived from the ownership that he claimed over the Congolese territory. First, *terres vacantes* (vacant lands), defined as lands not occupied by local people for their survival, were to be considered State property called Domaine privé (State land). Second, a vast royal property comprising large tracts of land named Domaine de la Couronne (Crown land) was formed with the aim of generating income directly for the King. Third, King Leopold II granted concessions to various companies, in which he took substantial shareholdings to provide himself with a large part of any profit earned. Fourth, to ensure the necessary workforce for both the State land and the Crown land, the Congo Free State launched in 1891 a regime of labour-tax, which gave rise to all sorts of abuses and brutalities inflicted on the local population. Fifth, King Leopold II made use of private enterprises to carry out investments that required large amounts of capital, while, sixth, he reserved the most lucrative trading activities for the State, under an absolute monopoly.

As a consequence of the implementation of this policy King Leopold II succeeded in building up a diversified portfolio of shares in a large number of businesses in various sectors of the economy. The largest part of this portfolio was handed over to the Congo Free State, and later on, transferred to the Belgian Congo when the royal possession became a Belgian colony in November 1908. Thanks to this transfer the Colony started with a fairly strong financial position despite the burden created by the borrowings that the King had made in the name of the Congo Free State to finance investments in which the State was not involved.

In addition to the large volume of funds borrowed by, or in the name of, the Congo Free State, most of the returns from the Domaine de la Couronne were intended for investments made by the King in Belgium and in some other European countries, such as France. All monetary and financial provisions set up for the Congo Free State were generally initiated by the King or had to be submitted to his arbitrary approval. The decision making process consequently lacked efficient control mechanisms. As a consequence of this lack of any kind of safeguard, King Leopold II carried out a financial policy that was dictated solely by his own ambitions. This study established how this policy resulted in a financial burden for the Congo Free State at the expense of the local population.

On the whole, the result of Leopold II's policy dramatically moved away from the civilising objective put forward by the King at the 1884/85 Berlin Conference to persuade Europe to let him take over most of the Congo basin. He presented the Association Internationale du Congo as "a philanthropic, innocuous and non-political organisation, which aimed at suppressing the slave-trade and introducing legitimate commerce into the Congo basin while supporting the principles of free trade" (Slade, 1962: 39). King Leopold II succeeded, instead, in setting up a genuine commercial, industrial and financial empire to the great benefit of himself and, later on, of Belgium, regardless of his formal commitments before the major colonial powers. Furthermore, this study considered the labour-tax regime and accompanying inhuman conditions to be a real form of slavery practised by a monarch who presented himself at the Berlin Conference as a defender of the local people against slave-traders.

The monetary and financial provisions defined for the Colony in the 1908 Law on the Government of Congo known as the Charte Coloniale (Colonial Charter) entailed, in many cases, a wide gap between the legal framework and the real situation on the ground. On the one hand, there was a legally established separation between Belgium and its Colony, making them two distinct entities. On the other, depending on what was at stake, the Belgian colonial power addressed Congolese monetary and financial issues regardless of this legal separation. This study identified various cases where Belgium breached the legal provisions to favour metropolitan interests at the expense of the Colony (Wertz, 1952).

The colonial economy was essentially dualistic in the sense that industrialised and technologically advanced sectors existed in cohabitation with traditional outdated methods of production, which dominated large areas of the economy. As a consequence of this feature, banking branches were established in large cities and in a small number of areas showing a significant degree of industrial and commercial development. The majority of the population living in vast and unexploited territories seldom, if ever, had contact with the banking network and were not, therefore, actively involved in the process of introducing modern currencies into the country.

Prior to the creation of the Banque Centrale du Congo Belge et du Rwanda-Urundi (BCCBRU) most banks operating in Congo were *de facto* subject to the controlling authority of the Commission Bancaire Belge. Since most of those banks were established in Congo as subsidiaries of Belgian banks, the colonial monetary system before 1951 can be considered an extension of the Belgian metropolitan monetary system. This is another illustration of the

fictitious nature of the formal separation established by law between Belgium and its Colony. In this respect, one should bear in mind that in many Belgian political and business circles Congo was regarded as the tenth province of the Kingdom of Belgium (Stengers, 1956).

This situation was in line with the strong dependence of the Congolese Franc on developments that affected the metropolitan currency and overall monetary and financial system and policy. As a consequence, whenever the metropolitan currency was devalued, the Congolese Franc was devalued in the same proportion – and thus unduly weakened – regardless of any objective arguments against keeping the two currencies at par (Van Den Ven, 1925). These fluctuations in the exchange rate due to external causes had a disruptive impact on the Colony's Budget, and were condemned in vain by many civil servants of the colonial administration, such as Max-Leo Gérard (1925), member of the Conseil Colonial (Gérard, 1925).

A Decree of 30 July 1951 authorised the creation of the BCCBRU. The functions of issuing house, banker to the colonial administration, banker to the other banks, and other roles defined by previous agreements between the colonial administration and the Banque du Congo Belge were transferred to the BCCBRU. In addition to this, the Decree of 30 July established the BCCBRU as a supervisory authority with a clearly defined controlling power over the Congolese banking and financial institutions. Nevertheless, we consider this weaning of the Congolese banking system off the Commission Bancaire Belge of little significance in view of the subjection of the overall colonial monetary and financial policy to metropolitan interests, as highlighted in this study.

Metropolitan Belgium ruled its sole Colony on the basis of a principle stating that "a national territory should be defined as the whole space under the sovereignty of the occupying State" (Vattel, 1863: 495). The consequence of this view was that, from a Belgian viewpoint, although Belgium and Congo formed two distinct territorial entities subject to different legal provisions that did not grant the same civil and political rights to their inhabitants, they were, nevertheless, considered two parts of one single State (Halewyck, 1910). This concept, which implied that the colonial power was entitled to circumvent any legal provisions regarding the Colony when Belgian interests required it, explains numerous contradictions uncovered in this study. Depending on circumstances, Belgium alternatively played in favour of or against the legal separation, provided that its interests were out of harm's way.

As another result of the dualistic feature of the colonial economy, the development of commercial and industrial businesses, which paid salaries in cash, contributed to broadening the circulation of banknotes and coins among the local population in industrial zones and large cities. In the rural areas, the introduction of modern currencies was achieved faster in those regions involved in the production of commodities intended for export or for supplying raw materials to domestic manufacturing companies. The demand for money was driven by a need for imported and domestically manufactured goods, which served as a catalyst for the development of agricultural and other lucrative activities whose produce was sold for cash.

Nevertheless the study underlined the effects of three major limiting factors that impeded the introduction of modern money among the local population: (1) predominance of traditional mechanisms of exchange, (2) low

income of local people and (3) very poor density of the banking network. Overall, during the colonial era the process by which the rural areas, where the vast majority of the local population lived, were integrated into the monetary economy was too embryonic to be considered significant.

The major political events that occurred in Congo from the beginning of the 1960s onwards resulted in a very high cost for the country in terms of waste of resources and inflation, among other adverse effects. The main cause of the poor monetary and financial performance was the irrelevance and inefficiency of the policies implemented over the period. These policies were characterised by a misuse of public resources, combined with a lack of long-term vision in the management of public affairs. All provisions introduced and actions taken in the monetary and financial field throughout the period 1960–1995 were dictated by the need to resolve short-term problems.

In addition to all the considerations put forward to explain the overall anarchy that followed the attainment of independence in Congo, this study pointed out two major patterns that we perceived to be of fundamental importance. First, the sudden removal of the colonial order created a sense of freedom, the excess of which resulted in anarchic and iconoclastic behaviour. This led most of the citizens of the newly created Democratic Republic of the Congo to decide whatever they considered suitable for their own interests, regardless of legal and regulatory provisions intended to ensure sound governance (Verhaegen, 1961). Second, as already mentioned in this study, during the colonisation process the metropolitan power did everything to impede any cohesion of the numerous tribes that composed the local population. This did not help the citizens of the independent Congo to build up a national consciousness

following the attainment of independence in June 1960. Likewise, the vast majority of political leaders and civil servants promoted to high positions in the public administration made use of their authority with a strong sense of belonging to a tribal community rather than to a national entity (Baeck, 1998).

As a consequence, most of the people entrusted with some authority made use of the principle of solidarity inherent in the exchange mechanisms in traditional communities analysed in this study. They cited an alleged obligation to satisfy the needs of members of their own tribes, which they could not afford with their own resources, to justify the misuse of public funds for this purpose (Huybrechts *et al*, 1980). This misconduct went hand in hand with nepotism and corruption, and gave rise to numerous examples of powerful individuals acting with impunity that resulted from administrative weaknesses and steadily became a nationwide system. Starting in the early 1990s, the country entered a stage of hyperinflation when the money supply increased exponentially, as a result of unprecedented expansion of public expenditure that was linked to political events and financed essentially by money printing.

The local population in general perceived the country's monetary and financial problems in terms of a gradual impoverishment, caused by the endemic inflation. This perception also led to a loss of confidence in government institutions as a result of the banknotes withdrawal, referred to in this study, and which was carried out in appalling conditions in the late 1970s and seen as the confiscation of the savings of small savers. Furthermore, it meant a loss of confidence in the national currency which, in the context of hyperinflation, failed to exercise the normal functions of money.

Léon Kengo wa Dondo, a former Congolese Prime Minister (1994–97), depicted the tragedy of Congolese public governance in a three-word formula. Namely, he stated that managing the State Budget under President Mobutu's incessant interference consisted essentially of 'managing the unexpected'. President Mobutu established such a fierce dictatorship that he treated public resources and the population as if the whole country belonged to him, in the same manner as King Leopold II had proclaimed himself the owner of the Congo Free State. However, unlike Leopold II as a constitutional King subject to Belgian laws, President Mobutu considered himself above the law and had full control over all national institutions. There were therefore no institutional or legal mechanisms that could definitely limit or counterbalance his power. Beyond the adverse effect of the poor governance of public affairs, this study considered the post-1960 Congolese monetary and financial crises to have resulted to a large extent from an institutionalised misuse and abuse of power. This was reflected in the adoption of inappropriate decisions and policies whose implementation resulted in a deepening deterioration of the overall economy and, eventually, in the collapse of the whole political system.

Future research should address the following issues, which this study mentioned but did not explore: 'dollarisation' of the economy; street money markets; and the existence of different monetary zones in the same country, where banknotes withdrawn from circulation in some regions continued to circulate in some others. These issues became crucial especially in view of the developments of the early 1990s onwards, characterised by a political imbroglio and hyperinflation that ruined trust in the national money and favoured the use of foreign currencies.

To close, first of all we believe that this study provided clear evidence of the influence of the past traditional monetary experience on the existing monetary and financial system of the Democratic Republic of the Congo. Second, looking at the monetary and financial history of the Congo Free State and the Belgian Congo, our research challenged the established opinion on several issues taken for granted until now, and on which this study shed new light. The study has, in particular, highlighted implications of the failure to respect the legal separation between Belgium and its Colony as two distinct entities. And third, we underlined the key role of the political systems and events, marked by an outstandingly poor governance of public affairs and an institutionalised misuse and abuse of power, to explain the chronic monetary and financial crises in Congo in the post-1960 era.

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APPENDICES

« Le nom que les premiers navigateurs donnèrent au courant fluvial — que nous appelons Congo aujourd'hui — est celui de Poderoso ou « Puissant »; plus tard ils apprirent des indigènes le terme de Zaïre (Nzadi). »

(ELISÉE RECLUS, « Nouvelle Géographie Universelle », Tome XIII, Paris, 1888.)

Appendix 1: African continent old map (1570) showing the position of the Kingdom of Congo
Source: Elisée Reclus (1888)

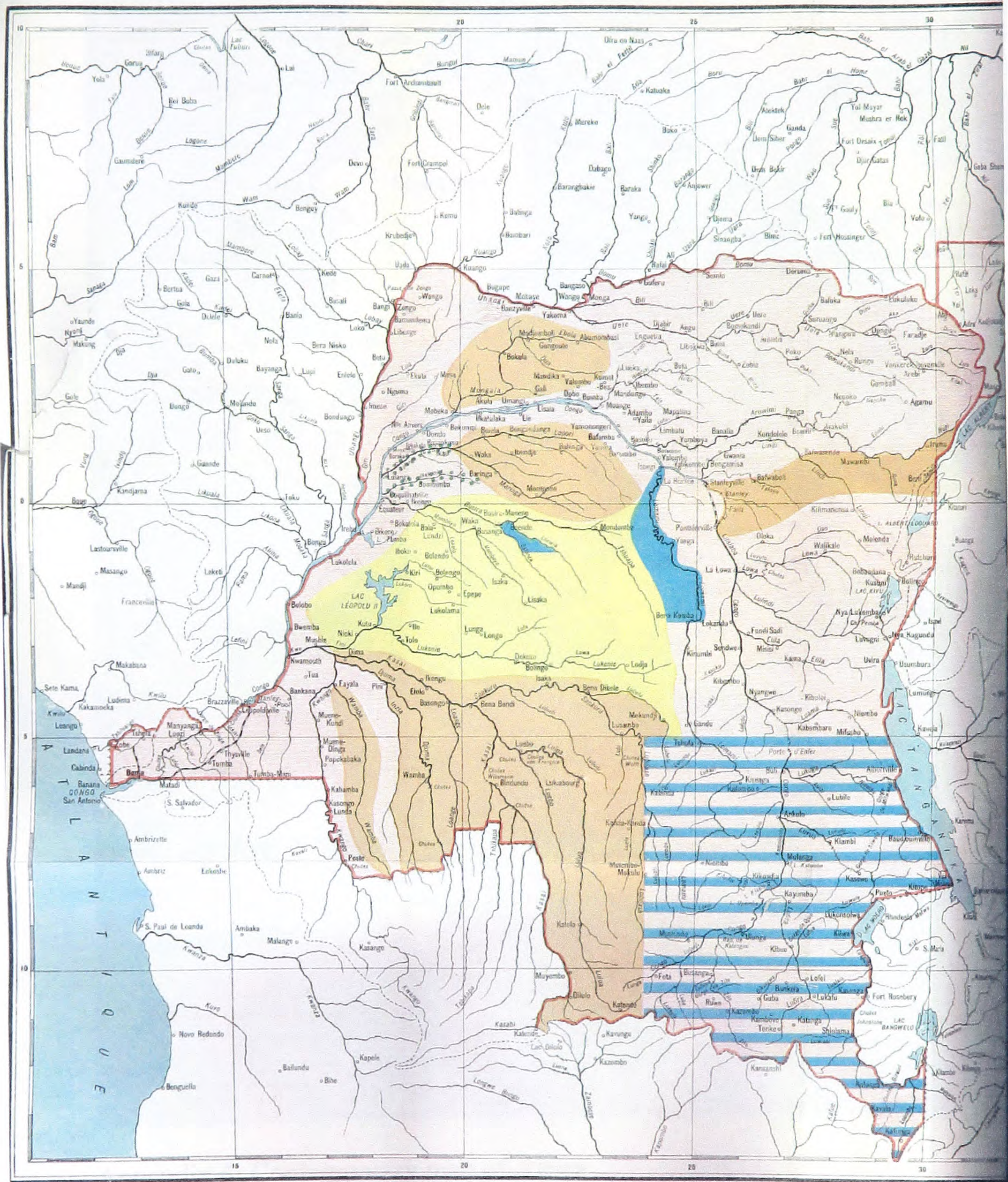
III. — Carte de Ancien Royaume de Congo, d'après Mgr. CUVELIER.

Appendix 2: Ancient Kingdom of Congo map.
Source: Cuvelier (1946)

CARTE FONCIÈRE DE L'ÉTAT INDÉPENDANT DU CONGO

A L'ÉCHELLE DE 1 : 8,000,000

par A.-J. WAUTERS, rédacteur en chef du « MOUVEMENT GÉOGRAPHIQUE »



LÉGENDE :

DOMAINE DE LA COURONNE — DOMAINE PRIVÉ — SOCIÉTÉS PROPRIÉTAIRES

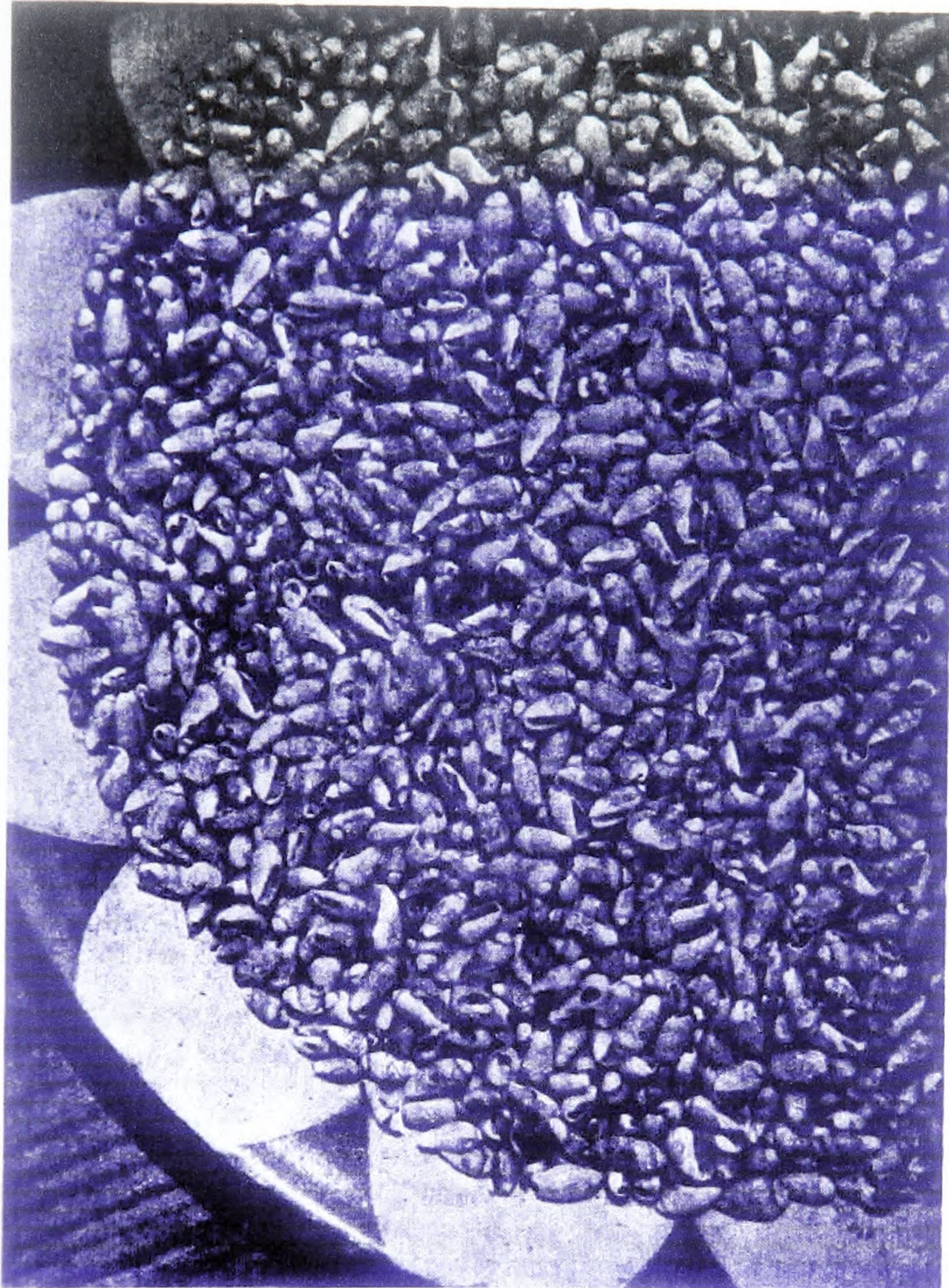
SOCIÉTÉS CONCESSIONNAIRES — SOCIÉTÉS SANS CONCESSION

Appendix 3: Map of the Congo Free State (1885-1908) showing lands allocated to various recipients, such as Domaine privé, Domaine de la Couronne, concessionary companies, companies with ownership rights, etc
Source: Cattier (1906)

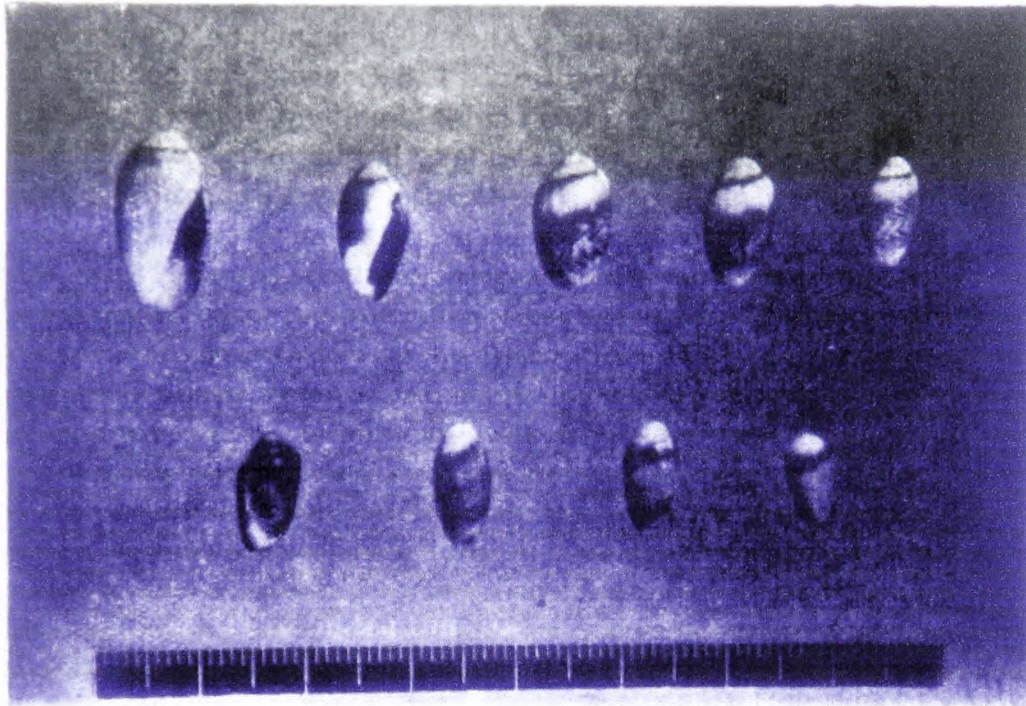
Appendix 4: Contemporary map of Africa
Source: CIA – The World Factbook (2001)

Appendix 5: Map of the current Democratic Republic of the Congo
Source: CIA – The World Factbook Online (2003)

Appendix 6: Various forms of traditional currencies, such as: (1) nzimbu; (2) cowries; (3) achatina slices strings; (4) copper crosses; (5) copper wire for mitako, and (6) lubongo (mat on which currencies are laid).
Source: Banque du Congo Belge (1960)



Appendix 7: Plate of *nzimbu*
Source: Dartevelle (1953)



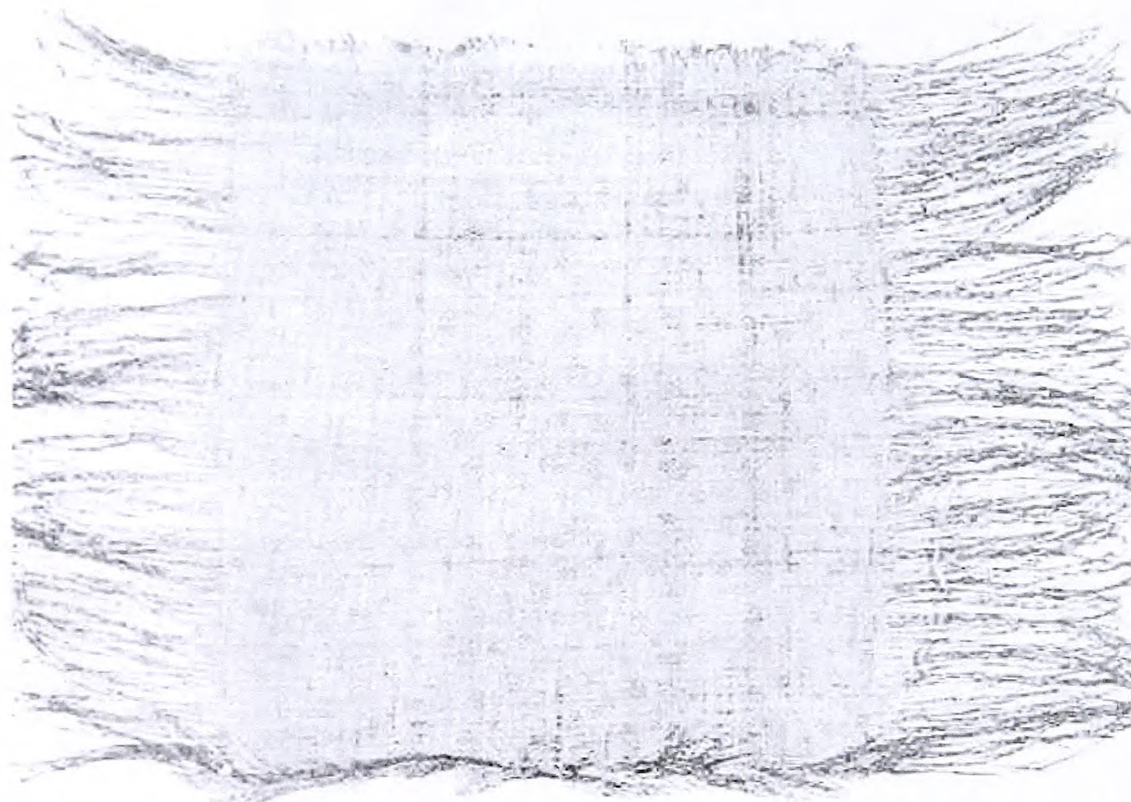
Appendix 8: *Nzimbu* shells (*Olivancillaria Nana*)
Source: Dartevelle (1953)

Appendix 9: Boxes used for counting and storing *nzimbu*
Source: Dartevelle (1953)

I. LES MAKUTA, TISSUS-MONNAIE

Dès le début du XVIe siècle, dans son ouvrage *Esmeraldo de situ orbis* 506-1508), Duarte Pacheco Pereira avait exprimé son admiration pour les sus fabriqués au Kongo: ceux-ci étaient aussi beaux que le velours et le satin Italie et nulle part en Guinée (Afrique Noire) on n'en faisait qui pouvaient valiser avec ceux du royaume de Kongo. Cfr édition critique de *Esmeraldo* par A.E. Da Silva Dias, Lisbonne, 1905; trad. fr. par R. Mauny, Bissau, 1956.

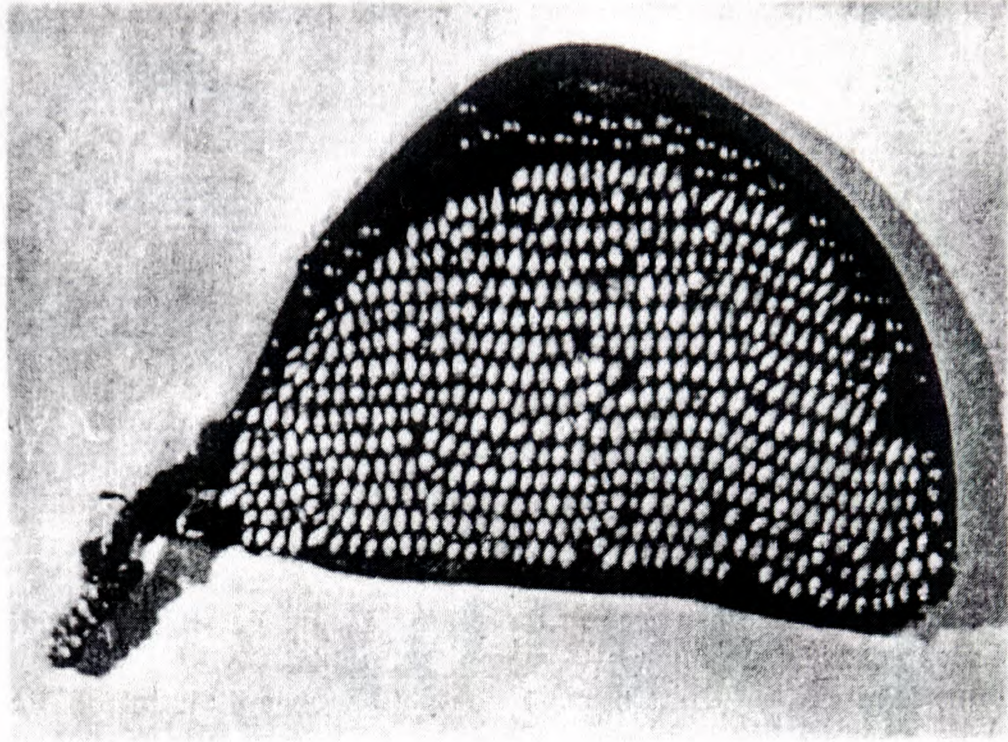
Dans la *Relatione del reame di Congo et delle circonvicine contrade*, publiée à Rome en 1591 par le géographe italien Filippo Pigafetta, d'après les informations, orales et écrites, que lui avait fournies le Portugais Duarte Lopes, ambassadeur du roi de Kongo, il est fait mention des diverses étoffes de fabrication locale; celles-ci portaient des noms spécifiques d'après leur qualité et leur provenance: nzaka, mfula, kundi, bela, etc. Sont mentionnés aussi les armoisins engombos; ce nom ngombo semble une variante, par métathèse, de mbongo, pluriel de lubongo (en kimbundu: libongo), un tissu fait de fibres mpusu (5).

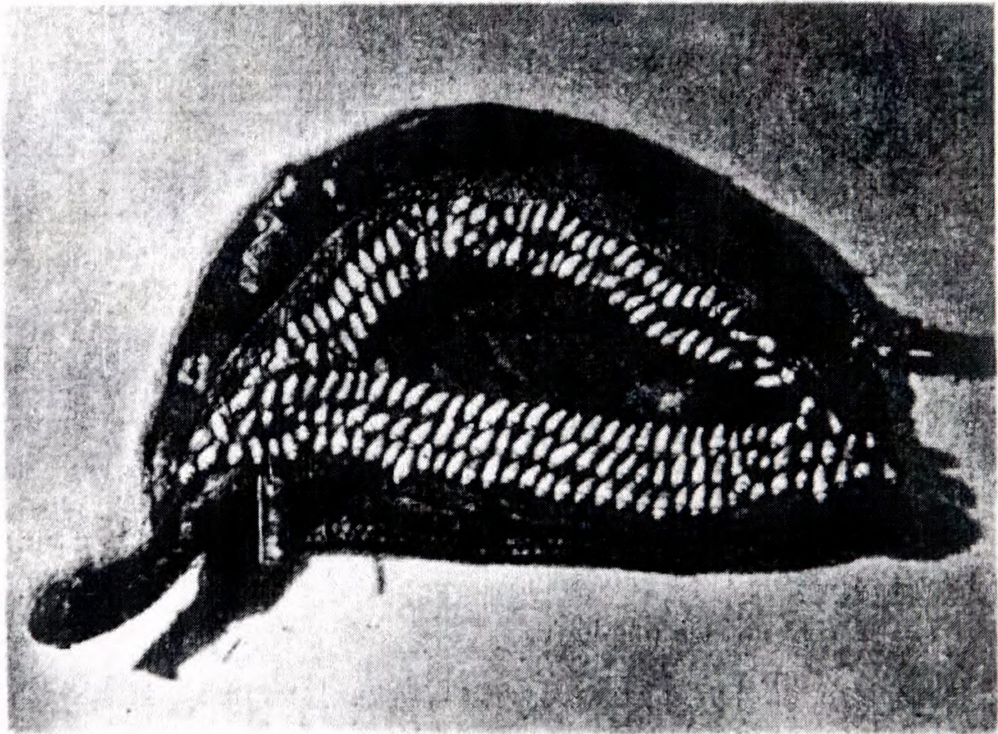


Un tissu-monnaie, nommé mabela. Une autre espèce, dite mbadi, était faite de fibres mpusu et mesurait entre 30 et 35 cm. de largeur et 38 à 45 cm. de longueur. Vingt-quatre de ces mbadi, cousus ensemble (nkuta), formaient l'habit d'un homme important. Cfr J.H. WEEKS, *Among the Primitive Bakongo*, Londres, 1914, p. 92-93. La photo provient de R. DELGADO, *História de Angola*, Ed. Banco de Angola, s.d., IV, p. 139.

(5) W. BAL, *Description du Royaume de Congo et des Contrées environnantes par Filippo Pigafetta et Duarte Lopes*, traduite de l'italien et annotée, Louvain-Paris, 2e édit., 1965, p. 175, n. 115; J. CUVELIER, *L'ancien royaume de Congo*, Bruxelles, 1945, p. 310-312; T. OBENGA, *Habillement: cosmétique et parure au royaume de Kongo*, dans *Cahiers congolais d'anthropologie et d'histoire*, t. 4 (1979), p. 21-38.

Appendix 10: Libongo (with annotations making reference to other names and forms of mats that were used as money
Source: Bontinck (1987)

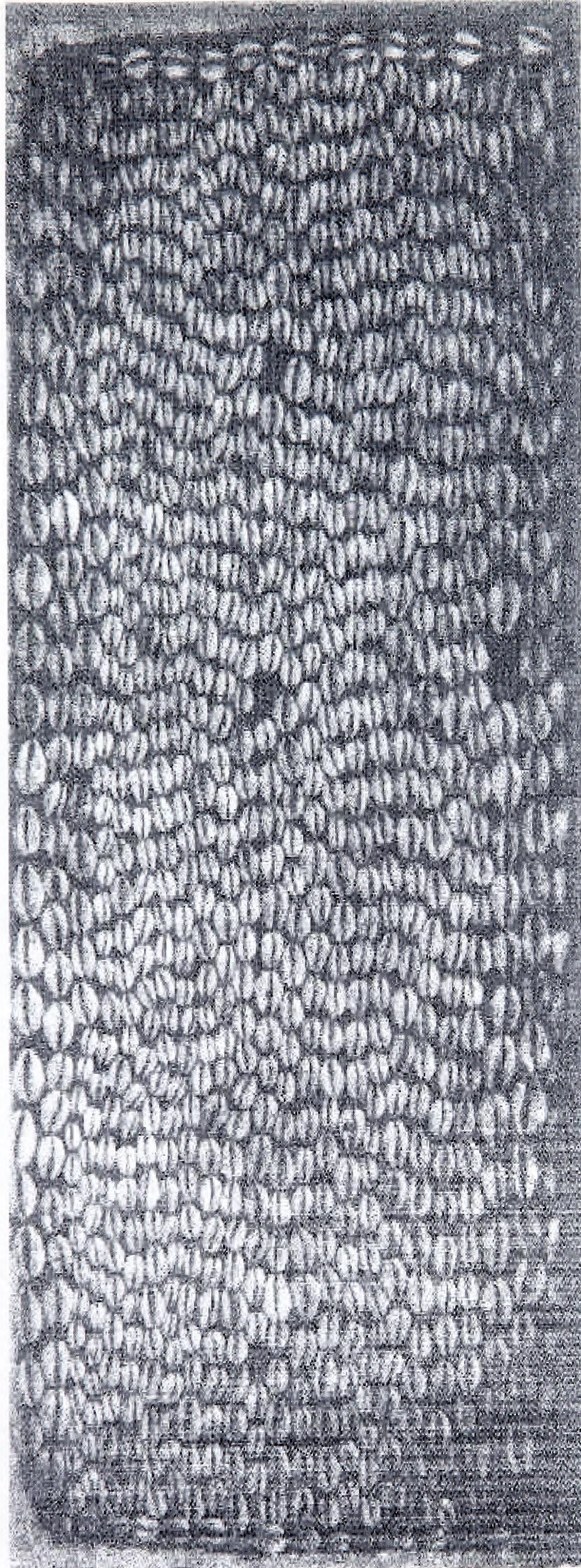




Appendix 11: Hats inlaid with *nzimbu*
Source: Dartevelle (1953)

Appendix 12: Mask inlaid with cowries and *nzimbu*
Source: Dartevelle (1953)

Appendix 13: Fetish inlaid with cowries in place of eyes.
Source: Dartevelle (1953)



Appendix 14: Piece of cloth inlaid with cowries
Source: Dartevelle (1953)

Appendix 15: Cowries wear for wedding ceremony
Source: Dartevelle (1953)

a)

b)

a) Trois pièces de monnaie en cuivre de XX, X et V réis (1993).
b) Pièces de monnaie en argent de 10,8,6,4,2 macutas (1762, 1763, 1777) R. DELGADO, *História de Angola, o.c.*, IV, p. 152.

Appendix 16: Various Portuguese coins (1762-1777)
Source: Delgado (1961)

Appendix 17: Other coins in circulation prior to and during the Congo Free State era: Marie Therese 1780 Thaler (left top corner); Portuguese coins (top centre and right corner); Others: Congo Free State coins
Source: Banque du Congo Belge (1960)

Appendix 18: Early notes issued by the Congo Free State and by the Banque du Congo Belge
Source: Banque du Congo Belge (1960)