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## **Exchange Rate Policy and Currency Substitution: The Case of Africa's Emerging Economies**

Mahmoud A.T. Elkhafif

*African Development Review* 2003 15:1 1

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## **Impact des Politiques de Santé et de Nutrition sur la Production et la Sécurité Alimentaires au Togo**

Egnonto M. Koffi-Tessio, Yao H. Tossou and Kpotogbé A. Homevor

*African Development Review* 2003 15:1 12

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## **Mutual Guarantee Associations for Small and Micro-Entrepreneurs: Lessons Learned from Europe and Africa**

Maria Sabrina De Gobbi

*African Development Review* 2003 15:1 23

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## **An Empirical Analysis of the Relationship between Cash Flow and Dividend Changes in Nigeria**

Olatundun J. Adelegan

*African Development Review* 2003 15:1 35

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## **Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review**

Asrat Tessema

*African Development Review* 2003 15:1 50

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## **Factors Affecting Technical Efficiency among Coffee Farmers in Côte d'Ivoire: Evidence from the Centre West Region**

Joachim Nyemeck Binam, Kalilou Sylla, Ibrahim Diarra and Gwendoline Nyambi

*African Development Review* 2003 15:1 66

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## **Predicting Household Poverty: A Methodological Note with a Kenyan Example**

Germano Mwabu, Mwangi S. Kimenyi, Paul K. Kimalu, Nancy Nafula and  
Damiano Kulundu Manda

*African Development Review* 2003 15:1 77

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## **Exchange Rate Policy and Currency Substitution: The Case of Africa's Emerging Economies**

*Mahmoud A.T. Elkhafif*

This paper examines the dynamic of currency substitution (CS) in Egypt and South Africa. The study also assesses the causal relationships of this phenomenon. There are three main CS-related differences between the two countries. These are (1) the orientation of economic policy, (2) the degree and level of CS, and (3) the trend of CS. During the study period 1991-2001, Egypt used the exchange rate as an anchor to its economic programme. While in the case of South Africa, the authorities directly targeted inflation. During this period, CS in Egypt started at a substantial level and experienced a steady decline. Conversely, CS in South Africa started at an insignificant level, but observed an uninterrupted increase. The results suggest that the elasticity of CS, with respect to exchange rate, of South Africa is 2.3 times that of Egypt, and that the speed of adjustment in South Africa is 5 times faster than in Egypt. Granger-causality tests indicate a unidirectional relationship from the exchange rate to CS, in both Egypt and South Africa. The test for the interest rate differential and CS indicate that causality runs from the former to the latter in South Africa, but it runs in the opposite direction in Egypt. The study suggests that despite the cost of the exchange rate anchoring policy, it is more suitable to a high CS environment. Inflation targeting policy can be effective in achieving its objective as long as the CS is insignificant.

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## **Impact des Politiques de Santé et de Nutrition sur la Production et la Sécurité Alimentaires au Togo**

*Egnonto M. Koffi-Tessio, Yao H. Tossou and Kpotogbé A. Homevor*

La sécurité alimentaire demeure un objectif primordial à atteindre dans les pays en développement. Selon la théorie du capital humain, l'éducation, la santé et la nutrition jouent un rôle important dans le développement économique et l'amélioration du niveau de vie des individus. Sur le plan de la santé et de la nutrition, certaines études ont montré qu'un mauvais état sanitaire et nutritionnel avait des répercussions négatives sur la productivité des travailleurs. La présente étude, utilisant un modèle log-linéaire et basée sur les techniques de la cointégration, tente de cerner l'impact des politiques de santé et de nutrition sur la production et la sécurité alimentaire au Togo. Les résultats révèlent l'existence d'une relation d'équilibre de long terme entre les variables explicatives du modèle et les deux variables que sont la production et la sécurité alimentaire. L'estimation par la méthode des moindres carrés ordinaires des modèles de long terme et de court terme sur la production alimentaire a permis de montrer que, de façon générale, les variables du capital humain et du capital physique ont joué un rôle favorable sur la production alimentaire tel que cela a été suggéré par

la théorie. Au niveau de la sécurité alimentaire, les résultats aussi bien à long terme qu'à court terme apparaissent moins satisfaisants qu'au niveau de la production alimentaire. En effet, si les effets du capital physique sont pour la plupart non significatifs, ceux du capital humain se révèlent décevants, avec des impacts significativement négatifs pour l'indicateur d'alphabétisation et non significatifs pour les indicateurs de santé et de nutrition. Au vu des résultats, il convient, d'ores et déjà, d'envisager l'amélioration de la qualité des investissements en matière de santé et de nutrition.

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### **Mutual Guarantee Associations for Small and Micro-Entrepreneurs: Lessons Learned from Europe and Africa**

*Maria Sabrina De Gobbi*

Mutual guarantee associations (MGAs) can be a viable solution to the problem of access to credit from banks for those small entrepreneurs who cannot offer sufficient collateral, in particular for artisans. After providing a general description of an MGA, the most successful model in Europe, both in number and in volume of guarantees, is considered and its factors of success are analysed. Findings from Europe as well as from some developing countries are presented. Some applications of the MGA scheme in a few African countries are described and potential ways to improve the current situation of those MGAs are highlighted. An MGA is an association comprised of entrepreneurs who join together to create an organization which establishes a dialogue with banks. The association plays the role of an intermediary between artisans and banks: small- and micro-enterprises (SMEs) join the association to obtain credit from banks and the association negotiates with banks to secure loans for its members. Successful MGAs strengthen private initiatives and SMEs, which is widely regarded as a key ingredient to development and poverty-alleviation in most countries. They may become strong entities which can deal with banks on an equal level, helping SMEs gain access to credit that is normally unavailable.

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### **An Empirical Analysis of the Relationship between Cash Flow and Dividend Changes in Nigeria**

*Olatundun J. Adelegan*

The purpose of this study is to re-evaluate the incremental information content of cash flows in explaining dividend changes, given earnings. I carry out an 882 firm-year study by analysing the dividend changes-cash flow relationship on a sample of 63 quoted firms in Nigeria over a wider testing period from 1984 to 1997. Despite the fact that I used a wider testing period than previous studies and more refined cash flow measures than previous studies, I also introduced dummy variables to capture economic policy changes in the economy. The

association of cash flows with dividend changes is tested using the modified Lintner-Brittain model as adopted in Charitou and Vafeas (1998) on pooled cross sectional/time series data from the full sample of observations from 1984-97. The models are estimated using the ordinary least squares (OLS) method and I do find a significant relationship between dividend changes and cash flow unlike previous studies. The empirical results reveal that the relationship between cash flows and dividend changes depend substantially on the level of growth, the capital structure choice, size of each firm and economic policy changes.

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## **Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review**

*Asrat Tessema*

This paper is an analytical review of the prospects and challenges of developing securities markets in Ethiopia. With the fall of communism and the emergence of capitalism, many countries around the world are moving toward market-oriented economies and securities markets are springing up on all continents around the globe. Securities markets have come to symbolize to many the essence of capitalistic economic relations. When studying the economies of developing countries, the first thing that becomes apparent is the existence of immense and, to a considerable extent, unemployed human resources as well as an acute shortage of capital. Shortage of capital is a major constraint in the realization of economic development. Recognizing the role that securities markets play in mobilizing capital, more than a dozen African countries have established stock markets. Ethiopia is not one of them. There is little current research which focuses on Africa's securities markets. This study helps to contribute to that effort by focusing on Ethiopia, the second largest country in sub-Saharan Africa plagued with major economic problems. The paper concludes by recommending the establishment of a stock market and providing suggestions on how to do it.

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## **Factors Affecting Technical Efficiency among Coffee Farmers in Côte d'Ivoire: Evidence from the Centre West Region**

*Joachim Nyemeck Binam, Kalilou Sylla, Ibrahim Diarra and Gwendoline Nyambi*

This paper presents measures of technical efficiency for a sample of 81 peasant farmers in the low-income region of Côte d'Ivoire. DEA techniques were used to compute farm-level technical efficiency (TE) measures. The analysis reveals average levels of technical efficiency equal to 36 per cent and 47 per cent respectively for the CCR (Charnes et al., 1978) and BCC (Banker et al., 1984) models. These results suggest that substantial gains in output and/or decreases in cost can be attained given existing technology. In a second step analysis, two-limit Tobit regression techniques were used to examine the relationship between

TE and various farm/farmer characteristics. From a policy point of view, an important conclusion stemming from the analysis of our sample is that family size, membership to farmer's club or association and the origin of the farmer are the variables found to be most promising for action. The analysis suggests that policymakers should foster the development of the formal farmers' club or association by building the capacity of the farmers. Our analysis also supports the argument for public sector involvement in the provision of information on labour force management to peasant farmers as a means to improve efficiency levels, and thus household incomes.

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### **Predicting Household Poverty: A Methodological Note with a Kenyan Example**

*Germano Mwabu, Mwangi S. Kimenyi, Paul K. Kimalu, Nancy Nafula and Damiano Kulundu Manda*

Household surveys provide data that is used for identifying and measuring the poverty status of households and individuals. However, carrying out such surveys is expensive, especially in poor developing countries. Thus it is important to make maximum use of the available survey data in developing countries, especially in sub-Saharan Africa, where such data are expensive to collect and analyse. This paper develops a simple method for using poverty indices derived from survey data for a given year, to predict poverty rates for subsequent periods without having to conduct a new household survey. We illustrate the workings of the method with data from Kenyan household surveys for 1994 and 1997.

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