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## **Macroeconomic Stabilization and Economic Growth: The Case of Uganda**

*Andrew Feltenstein and Sudipta Sarangi*

**Abstract:** This paper develops a computational general equilibrium model for analyzing some chronic economic problems facing developing countries. We build a multi-period model with multiple types of capital and three different financial assets. Moreover, capital is sector specific to capture the idea that many developing countries focus on a few specific industry groups. We model both rural and urban consumers with the possibility of rural-urban migration. One further modeling feature is a partially interdependent banking sector where the performance of, say, the agricultural bank can affect the functioning of the industrial bank. The model is used to examine problems of budgetary liquidity and alternative ways of alleviating these problems. Our analysis is applied to Uganda, a country that after years of economic decline is undergoing a phase of recovery and reform. Accordingly, we develop a model that captures some of the predominant institutional features of the Ugandan economy and evaluate two realistic reform scenarios. After calibrating the model with a base case scenario we test the implications of a simultaneous tariff reduction and increase in value added taxes. We then look at the implication of debt reduction.

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## **Official Development Assistance and Foreign Direct Investment Flows to Sub-Saharan Africa**

*Mesghena Yasin*

**Abstract:** Foreign direct investment is believed to have a positive impact on the economies of the developing countries but its determinants are not yet fully established. This paper empirically investigates the relationship between official development assistances and foreign direct investment flows using panel data from 11 sub-Saharan African countries for the period 1990–2003. The results show that bilateral official development assistance has a significant and positive influence on foreign direct investment flows. The results also show that trade openness, growth rate in the labor force, and exchange rates have a positive and significant effect on foreign direct investment flows. But multilateral development assistance, the growth rate in GDP per capita, the country's composite risk level, and the index for political freedom and civil liberties do not have a statistically significant effect on foreign direct investment flows. The policy implication of the positive and significant influence of the bilateral official development assistance on foreign direct investment is that the recipient countries need to formulate policies that improve their economic relationships with the donor countries in order to attract greater foreign direct investment flows from the multilateral corporations located in these countries.

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## **Poverty in Ghana from an Assets-based Perspective: An Application of Probit Technique**

*Harry A. Sackey*

**Abstract:** This paper extends the existing literature on poverty in developing economies by examining the effects of human capital, financial capital and physical assets on the incidence of poverty in both urban and rural Ghana. The following is found: low stocks of assets appear to be a more prevalent problem associated with poverty; the returns to human capital are positive and rise with higher educational attainment, irrespective of gender; the correlation between income distribution and incidence of poverty is positive; and ownership of human, physical and financial assets reduces the probability of being poor. Against the backdrop of growth-oriented policies, the paper calls for investments in schooling, provision of institutional credit and an enabling environment for labour market activities as strategies for the reduction of poverty.

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## **Chocs Externes, Gestion de l'Etat et Mortalité des Enfants en Zambie de 1964 à 1998**

*Albert-Enéas Gakusi, Michel Garenne et Guillaume Gaullier*

**Résumé:** La mortalité des enfants était en baisse en Zambie, de l'indépendance en 1964 jusqu'en 1975, grâce aux politiques sociales et sanitaires généreuses alimentées par le revenu du cuivre dont le prix était à la hausse. Cette situation a changé lorsque, en 1974, en même temps que la production par tête du cuivre baissait, le prix international connut un renversement de tendance et entraîna aussitôt un effondrement des indicateurs économiques. Le secteur sanitaire fut fortement affecté et on observa une remontée de la mortalité des enfants entre 1975 et 1992. Les dépenses publiques de santé, de même que les importations de produits pharmaceutiques baissèrent considérablement, et certains médecins dont le salaire réel baissait, quittèrent le pays. La situation économique et sociale était d'autant plus critique que le pays s'enfonçait dans des pratiques patrimoniales et de corruption, source de mécontentement populaire et d'une opposition politique qui gagna les élections présidentielles en octobre 1991. Le nouveau gouvernement se montra, du moins au début, plus favorable à l'adoption d'une politique d'ajustement structurel. Les flux de financements extérieurs faibliront par la suite, du fait des performances décevantes et de la résurgence de l'autoritarisme, la corruption et la réticence à la privatisation. En dépit de la récession économique et des effets pervers de l'ajustement structurel, la mortalité des enfants baisse à partir de 1992, surtout lorsqu'on enlève la mortalité due au sida. Comme le confirme notre analyse économétrique, cette baisse est corrélative au nouveau contexte politique, à la libéralisation de l'économie et à la mise en place de la réforme du système sanitaire.

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## **Le Développement Financier et la Croissance: L'Afrique Subsaharienne est-elle Marginalisée?**

*Kangni Kpodar*

**Résumé:** Dans cet article nous avons étudié le lien entre le développement financier et la croissance dans les pays en développement (PVD) en tenant compte de la spécificité des pays d'Afrique subsaharienne. Sur un échantillon de 64 pays en développement (dont 25 d'Afrique subsaharienne) au cours de la période 1968–1997, les résultats obtenus à l'aide de la Méthode des Moments Généralisés en panel dynamique montrent que comparativement aux autres PVD, le développement financier a un impact marginal plus faible sur la croissance en Afrique subsaharienne. En conséquence, les mauvaises performances économiques des pays d'Afrique subsaharienne peuvent s'expliquer en partie par la faiblesse de la contribution du développement financier à la croissance. La fragmentation ethnolinguistique, les crises bancaires permanentes, la concentration bancaire, la persistance de l'interventionnisme public dans le fonctionnement du système financier sont des facteurs susceptibles d'expliquer cette marginalisation. Quant à la faiblesse de l'environnement légal et de supervision des banques, elle semble être un handicap tout aussi bien pour les systèmes financiers des pays africains que ceux des autres PVD.

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## **Impact of Economic Reforms on Economic Issues: A Study of Ethiopia**

*A. Meenakshi Sundara Rajan, T. Iyappan and Jesiah Selvam*

**Abstract:** This paper is an attempt to investigate the impact of economic reforms on the economic issues in Ethiopia. Different economic issues — parameters determining the effectiveness of economic reforms — are separately discussed to measure how far Ethiopia has benefited from the reform policy. A simple and comparative analysis of various economic indicators between the pre-reform and post-reform, that is, between 1985/86–1991/92 and 1992/93–2001/02, reveals that those economic reforms have revamped the economy by moving its GDP from its long-standing poor record to a respectful growing state. Nevertheless, the reforms have failed in attaining other direct economic objectives, such as standard of living, external debt, trade balance deficit and current account deficit. Economic reforms have, no doubt, attracted a significant amount of private investment, but its volume started declining within the reform period and so were privatization proceeds. This study suggests that a full-fledged and committed reform is indispensable at the earliest to attaining the full benefits of reform policy.

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## **Solde Budgétaire, Croissance et Emploi en Côte d'Ivoire**

*Félix Fofana N'Zué*

**Résumé:** La présente étude avait pour objectifs de déterminer comment le solde budgétaire a évolué dans le temps avec le niveau de l'activité économique et le niveau de l'emploi en Côte d'Ivoire et de déterminer la direction de causalité au sens de Granger entre le solde budgétaire, la croissance et l'emploi. L'analyse des données disponibles sur la période 1976–2002 suggère l'existence d'une forte corrélation positive entre les IDE, l'emploi et le produit intérieur brut de même qu'une corrélation positive mais pas assez forte entre le solde budgétaire et le PIB. Les résultats suggèrent aussi, l'absence d'une dynamique de long terme (pas de cointégration) entre le PIB et le solde budgétaire de même qu'entre ce dernier et l'emploi. En outre, il y a une relation de causalité unidirectionnelle du solde budgétaire vers le PIB mais pas l'inverse. D'où l'appelle à la précaution dans la mise en œuvre de politiques qui se focalisent trop souvent sur le solde budgétaire.

**Abstract:** The objectives of the present paper were to determine how the fiscal balance, the level of employment and the economic growth evolved overtime in Côte d'Ivoire and to determine the direction of causality in the Granger sense between the fiscal balance, employment and growth. The data used for the study cover the period from 1976 to 2002. The empirical results suggest high positive correlation between the FDI, employment and GDP variables. A positive but weak correlation is found between the fiscal balance and growth. There is no cointegration relation between growth and the fiscal balance as well as between this later variable and the employment variable. With respect to causality, the results suggest a unidirectional causality from the fiscal balance towards growth. These results call for caution in the implementation of economic policies that focus too much on the fiscal balance to pull growth.

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## **The Impact of Macroeconomic Risk on Asset Prices in Ghana, 1997–2002**

*D.K. Twerefou and Michael K. Nimo*

**Abstract:** The dwindling nature of overseas development assistance in the early part of the 1990s called for the establishment of capital markets in some African countries, including Ghana, with the view to increasing foreign direct investments and achieving sustainable inflows, growth and development. One important factor which affects the determination of prices and the growth of capital markets is macroeconomic risk which is quite high in developing countries. Following works done on advanced stock markets, this study seeks to investigate the impact of six macroeconomic risk factors on asset pricing in the various industrial classification — financial, manufacturing, food and beverages, distribution and

mining under the Ghana Stock Exchange (GSE) for the period January 1997 to December 2002. Using the arbitrage pricing methodology developed by Ross (1976) and Chen et al. (1986), the study revealed that investors in Ghana considered three main macroeconomic risk factors — short-term interest rate risk, inflation risk and the term structure of the country's interest rate in the determination of the various industrial asset prices during the period under consideration. Analysis of the risks and returns profile of the industries also shows that financial assets made the best gains on the market. Both general and specific policy recommendations aimed at improving the performance of the GSE are explored.