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FOREIGN AID, DOMESTIC FINANCE, AND THE DEVELOPMENT PLAN*

A. The Need for Larger Development Budgets in East Africa.

The fundamental condition for accelerating material progress in East Africa is to raise the overall rate of development activity, that is, the share of gross domestic product devoted to capital formation and related improvement activities in the economy as a whole. Development activity in this broad sense takes a veriety of forms -- central government expenditure on new and improved roads, investment by public enterprises on expanding electricity generating capacity, construction of new textile mills by private business firms, expansion of enrollment in secondary schools and colleges, and improved agricultural practices by peasant cultivators. Attention must be paid to all of these forms in a comprehensive development plan. From a policy standpoint, however, those forms of activity involving investment by the central government and public enterprises are strategic. Public development expenditures are most directly subject to central planning, and in underdeveloped economies must take the lead in generating the momentum of more rapid economic progress, within which private investment and private productivity improvements can take their place. These expenditures, commonly brought together in the development budget, are also most directly related to foreign aid. In this paper, therefore, I shall focus on the roles of foreign aid and domestic finance in supporting larger development budgets in East Africa.

The need for larger development budgets than in the past is clearly indicated by the unhappily slow rates of material progress in recent years. As summarised in Table 1, though there are some significant differences among the three countries, the general picture is that rates of growth of gross domestic product slowed down in the years 1958-62 compared to 1954-58, that shares of gross investment in GDP have fallen sharply, and that opportunities for non-agricultural employment have declined. In 1963 export booms raised GDP abruptly, particularly in Uganda and Tanganyika, but unfortunately so far these external stimuli have not spread noticeably through the economy, and the investment and employment situations have not improved. When account is taken of rates of population increase between two and three per cent per year, it is clear that material progress in the recent past has been substantially below the goals which the present governments can accept. Technological and economic constraints, as represented analytically in the aggregative capital-output ratio, require that a country which wishes to accelerate its rate of growth significantly must raise the share of its product devoted to investment. Since public investment has to take the lead in stepping up the development effort, the share of resources, foreign or domestic, allocated to development budgets in East Africa must be markedly expanded.

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The three governments have recognised this urgent need in their development plans, some features of which are summarised in Table 2. The Tanganyika plan projects an increase in the share of investment in GDP from 20% to 26%, with the development budget rising from an annual rate of £8 million to £20 million, for a target rate of growth of 8.5% per year. The Kenya plan discusses the interaction between the desired rate of growth and the necessary share of investment in some detail, and for the 5.7% rate of growth accepted as a target, projects an increase in the share of investment from 15% to 23% of GDP, and a development budget rising from £9 million (excluding settlement) to £13 million annually. The Uganda plan is not worked out so fully, but implies an increase in the development budget from under £6 million to about £9 million per year for the remainder of the current plan. A recent academic analysis of the conditions for doubling per capita income in Uganda over fifteen years suggested that the share of investment would have to be doubled, to around 30%, along with several other structural adjustments.[1] All three plans anticipate government and other public investment leading the expansion.

A notable feature of the enlarged development budgets in the three governments' development plans is that they are expected to be financed largely by foreign aid. As noted in Table 2, the anticipated proportion of foreign financing is 78% for Tanganyika, 91% for Kenya, and 73% for Uganda. Thus accelerating material progress in East Africa to a more satisfying rate appears to depend, not only on energetic planning and execution of comprehensive development efforts by the East African governments, but also in good part on the willingness of foreign governments to provide an expanded flow of foreign aid. It is therefore a matter of critical importance to consider carefully the proper roles of foreign aid and domestic finance in supporting East African development plans.

B. Contributions of Foreign Aid to Enlarging Development Budgets.

It may be clarifying at this point to distinguish four possible contributions which foreign aid can make, directly or indirectly, to enabling a country to enlarge its development budget. They are (i) generalised saving, (ii) foreign exchange, (iii) government finance, and (iv) specialised manpower.

These four contributions are simply different aspects of the inflow of foregin resources. The reason for distinguishing them is that they correspond to four possible constraints on the development effort, that is, barriers preventing the country from expanding its development budget as it wishes. If the country's economy were completely flexible, then all four of these constraints would be applying simultaneously, and it would not matter which contribution of foreign aid we emphasised in our analysis. Since underdeveloped economies are far from completely flexible, however, it is quite likely that only one of these four constraihts will be the critical constraint at a particular time, so that if it could be eased all by itself, the other three would already permit a larger development budget. In that case the key contribution of foreign aid is the one which eases the operative constraint. The proper role of foreign aid depends significantly on which of the four possible constraints is operative for a particular underdeveloped country at a particular time.

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1. See P. Clark and B. Van Arkadie, "Development Goals for the Uganda Economy in 1981", E.A.Institute of Social Research, 29.7.64.

i. <u>Generalised saving</u>. Foreign aid provides additional foreign resources -- whether in the form of capital equipment, general intermediate goods like petroleum, or services of foreign technicians -- which supplement the country's own gross domestic product. In recent years foreign aid to the central governments has been adding about 4% to East Africa's GDP. Now if the arrangements for the in-flow of foreign resources are such that total private consumption and current government expenditures are no higher than they would have been without foreign aid, then the additional foreign resources permit an equivalent increase in total investment, whether public or private. Thus foreign aid provides generalised saving to supplement saving out of the country's own GDP. One condition for generalised saving to be the critical barrier to enlarging the development budget is that the country's economy be operating substantially at capacity, so that it is not possible simply by demanding more to expand the GDP and investment. Moreover, the economy would have to be sufficiently flexible to keep the balance of payments in reasonable equilibrium, to expand tax revenues in line with rising development expenditures, and to provide appropriate specialised manpower, whether national or expatriate.

ii. <u>Foreign exchange</u>. Foreign aid provides these additional resources in foreign exchange, or in goods which would otherwise have to be paid for in foreign exchange. Thus foreign aid supplements the country's earnings of foreign exchange from its exports, and permits a corresponding increase in its imports. Some of the additional imports may be used directly in development projects, while others are required indirectly by the resulting rise in GDP. In recent years foreign aid has been adding about 12% to East Africa's export earnings of foreign exchange. The contribution of foreign exchange is particularly important because the direct and indirect import content of investment is higher than for any other use of resources, and raising the share of investment in GDP tends in itself to increase imports more rapidly than exports. The circumstances in which foreign exchange would be the critical constraint are that the country be experiencing particular difficulty in raising export earnings or carrying through import substitution projects, but be reasonably flexible in adjusting tax revenues and manpower supplies.

iii. <u>Government finance</u>. The resources provided by foreign aid are transferred to the government of the country, which can now determine how they shall be used. This is an important difference between government-to-government foreign aid and the inflow of private capital or private donations. Thus foreign aid provides additional finance, either as a loan or as a grant, to supplement the government's domestic tax revenues and domestic borrowing. In recent years in East Africa, foreign aid has been adding about 16% to domestic sources of finance. This additional finance is typically allocated to the development budget, and unless other funds are indirectly diverted to current uses, permits a corresponding increase in the government's development activities. The main circumstances in which government finance would be the key contribution of foreign aid are that the country be hampered by underdeveloped financial institutions, so that it is not able to borrow in significant amounts domestically, and that administrative and political difficulties seriously impede raising tax revenues. At the same time, the economy would have to be reasonably flexible in handling its balance of payments and specialised manpower problems.

iv. Specialised manpower. Typically foreign aid programs include a substantial element of technical assistance, and this is surely an important contribution, particularly in the transition to a more rapid rate of economic growth. Thus it is a notable point of the Tanganyika plan that in order to move from the present manpower situation to one in which virtually all specialised manpower services are provided by nationals in 1980, the absolute number of expatriate specialists in education and government must be increased during the current five-year plan. The conditions for specialised manpower to be the critical constraint on stepping up the development effort are that even though government finance, foreign exchange, and generalised saving are available, more development projects cannot be carried through and operated effectively because of shortages of administrators and technicians. Note, however, that though it is often convenient to obtain expatriate specialists by foreign aid, they can also be hired directly if finance and foreign exchange are at hand.

C. The Constraints on Larger Development Budgets in East Africa Today.

Can one make a reasonable judgment as to which of these four possible constraints is the most critical in East Africa today? Of course the situation is complex. Fundamentally, comparing present living standards with levels of material well-being which are desirable to attain, saving, foreign exchange, finance, and specialised manpower are all terribly scarce. Even recognising that the East African economies have many internal rigidities and adjustment problems, it might just happen that two (or even three) of these constraints are simultaneously operative today. Or the available empirical evidence simply may not permit a reliable distinction among the four possible constraints.

Nonetheless I think a reasonable conclusion, for East Africa today, is that government finance is the most critical barrier. If additional government finance could be obtained from foreign aid or domestic sources, it seems likely that development budgets could be substantially enlarged without being promptly checked by lack of generalised saving, foreign exchange, or specialised manpower. Moreover, if this is a reasonable conclusion, it has some notable implications for the proper roles of foreign aid and domestic finance in East Africa.

To begin with, the evidence seems very strong that generalised saving is not the most critical constraint. The recent trends summarized in Table 1 -- slower rates of growth, falling shares of investment, stagnating non-agricultural employment -- suggest that the economies are operating significantly below capacity. This is clearly the case in industries like cement, where capacity and output are well-defined. I think we can be reasonably confident that most non-agricultural enterprises in manufacturing, transport, commerce, and construction would be quite prepared to expand output at least ten or twenty per cent if demand for their products increased.

To put the point another way, the risk of general excess-demand inflation in East Africa today seems negligible. Recent trends in prices, as shown in Table 1, may be generally characterised as declining import prices, which represent a wide range of intermediate and finished commodities, stable retail prices of basic goods and services consumed by the mass of the urban population, and gradually rising prices of the particular goods (including most duties and indirect taxes) and services (including servants' wages) consumed by the highest-income groups in the population and represented in cost of living indexes. This is not at all the picture of economies on the verge of general excess-demand inflation, but rather of economies with more stable prices than most countries in the world, changing the pattern of their relative wages and prices. It is true that more rapidly rising demands generated by larger development budgets might put pressure on prices of basic foodstuffs consumed by the mass of the population. But prior to the test of experience no one can be confident about how elastic the supply of foodstuffs would be, and some rise in the relative price of foodstuffs would doubtless help to expand the supply as well as to distribute part of rising urban incomes to the rural population.

Thus if additional finance could be found to enlarge development budgets in East Africa, it seems very likely that rising public investment could be accompanied by rising GDP without inflation. The slack in the economy would permit consumption to rise along with generalised saving, appearing either in the form of tax revenues or of voluntary saving. In particular, rising public investment could generate the momentum in the economy needed to call forth additional private saving and private investment. It is true that there is an important piece of evidence which casts doubt on this last suggestion -- the recent outflow of private capital from East Africa, which will be discussed further below. But a more rapid rate of growth of GDP would itself provide an important counter-force to this capital flight, and if in the end the outflow had to be checked by exchange controls on residents' capital transactions, private saving would have to seek profitable uses.

Turning to another possible constraint, it seems to me quite doubtful that specialised manpower is today the most critical barrier to enlarged development budgets. This view does not diminish at all the high priority to be given to expanding secondary and higher education, as well as in-service training programs, within any given development budget. But if additional finance were available surely the East African governments ought not to hold back because of the shortage of specialised manpower. On the one hand, East Africa's demand is only a tiny fraction of the world supply of specialists, and if desired, additional expatriates can be readily obtained either by foreign aid or by direct hire. On the other hand, the need for specialised manpower is not to permit development projects to go forward at all, but to enable them to go foward more efficiently. Thus the shortage of specialised manpower poses problems of expanding training both inside and outside the schools, arranging to import expatriates and use them

effectively, and "making do" with available manpower in carrying through development projects, which ought to be soluble along with marked expansion of development budgets.

This leaves two of the four possible constraints -- foreign exchange and government finance -- as the main candidates for the role of the operative barrier to expanding development budgets in East Africa today. The evidence about the foreign exchange constraint is somewhat ambiguous. If it were the most critical barrier today, we would expect to observe several related symptoms: (a) imports rising substantially faster than export earnings, (b) pressure on domestic production capacity and prices, (c) declining foreign exchange reserves, (d) capital flight due to fear of inflation and devaluation, and (e) deliberate government cutbacks in development expenditures as part of a campaign to protect foreign exchange reserves. As summarized in Table 3 and the previous discussion, symptoms (a), (b), and (e) have not been a feature of the recent past. Foreign trade balances and balances on current account have tended to improve or remain stable, there has been slack in the economies, and governments have been trying to speed up their development expenditures. On the other hand, symptoms (c) and (d) have been in evidence. However, it is generally recognised that the motivation for recent capital flight has not been fear of inflation and devaluation, but concern about the political situation. In turn this capital flight has been the entire cause of the declining foreign exchange reserves, the loss being borne largely by the commercial banks. If this unusual capital flight were reduced either by the pull of more rapidly growing GDP or by exchange controls, East Africa's foreign exchange situation would be quite healthy. Indeed, the export boom in 1963 must have raised foreign exchange reserves substantially.

The evidence about government finance seems distinctly clearer. If it were the most critical barrier today, we would expect to observe a different pattern of symptoms: (a) shortfalls in development expenditures relative to the plan, (b) declining surpluses of tax revenues over current expenditures. (c) general slack in the economy and ease in the current account of the balance of payments, and (d) postponement of dev lopment projects because of delays in arranging finance. As summarised in Table 2 and Table 1, all of these symptoms have in fact been apparent in the recent past. In 1963 the abrupt increase in export tax revenues has reversed the decline in current budget surpluses, but in the face of rising demands for current expenditures it seems inevitable that the relief will be only temporary.

My conclusion that government finance is today the critical constraint on development efforts in East Africa is not usual in economists' discussions. Our tradition is to stress "real" factors, such as the availability of generalised saving, and largely to take it for granted that "purely financial" factors can be adjusted if there is will and understanding.

But in underdeveloped economies intractible institutional and political obstacles to expanding government finance often do exist. Thus in East Africa the currency board monetary system, even after the liberalization of recent years, and the underdeveloped state of financial markets make it quite difficult for the governments to, say, double annual rates of domestic borrowing (if that were desirable on "real" grounds). Moreover, the existing structure of the tax system clearly is not adequate to provide suitably elastic revenues for the development process, yet every major adjustment is hedged in with serious administrative and political difficulties which can only be surmounted gradually by far-seeing national leadership.

What is the situation likely to be by 1970? It is possible, if additional government finance is found today, so that substantially larger development budgets as envisioned in the plans are carried through, and the rate of growth of GDP is accelerated significantly, that the critical constraint in the intermediate-run future will come to be foreign exchange. Both of the estimates of 1970 aid needs presented to this conference were derived from balance of payments projections.[2] On the other hand, comparing Tables 2 and 3, both the Kenya and the Tanganyika plans appear to project sharper increases in financing needs, particularly taking account of other public investment, than in aid needs shown in the balance of payments. However, my principal concern here is with the immediate future, and the problem of initiating the marked expansion of development budgets specified in the official plans.

D. Implications for Domestic Finance.

The central implication of my analysis for domestic finance (leaving implications for foreign aid to the next section) is that in order to attain the goals of the official plans, the East African government ought to give greater emphasis to explicit plans for expanding domestic finance of the development budgets. Of course if foreign aid can be readily found to finance, say, 80 per cent of a budget two to three times its current size, that is splendid, particularly in the transition from a low-investment, low-growth economy to a high-investment, high-growth economy. But if there are difficulties and delays in arranging such a large increase in the inflow of foreign aid, it would be self-defeating to permit substantial shortfalls in planned development budgets for lack of government finance.

Additional domestic finance can be a strategic complement to rising foreign aid in carrying through the development plan. Its chief contribution, as just indicated, is to ensure that planned development expenditures

2. See B. Van Arkadie and P. Ndegwa, "Future Trade, Balance of Payments, and Aid Requirements of East Africa", and P. Newman, "Foreign Investment and Economic Growth: The Case of East Africa, 1963-70".
Newman's 1970 estimate of about £90 million a year for foreign and private capital seems to me implausibly high, because the import demand equation for Uganda appears unreliable and increased future import substitution has not been allowed for. Van Arkadie and Ndegwa's estimates of £25-40 million foreign aid and £27 million private capital, for a comparatively high rate of growth and two alternative export trends, is still about double recent aid levels.

which are feasible in terms of generalised saving, foreign exchange, and specialised manpower are carried through even if foreign aid is insufficient to finance them. This is likely to be especially important if much foreign aid is provided as project aid; a larger share of domestic finance would enable projects not accepted for foreign financing to be carried through as planned. Furthermore, additional domestic finance would probably increase the availability of foreign aid in the immediate future, partly by demonstrating the commitment of the governments to projects in the plan and partly by increasing the number of projects needed as elements of an intensified development effort. In the long run, it would enable the East African economies to support the carrying charges on a larger cumulative inflow of foreign aid.

Unfortunately the least explicit portions of the present plans are those which refer to additional domestic finance. In the Tanganyika plan the finance chapter suggests that even with GDP growing at 8.5% per year, tax revenues from the present system are likely to expand at around 5% per year, and does not spell out the lines of tax policy needed to overcome this problem. Instead, after noting that the planned development expenditures would normally raise current expenditures more than would be financed in this way, quite apart from any increased contributions to the development budget, the plan assumes that the discrepancy can be resolved by budgetary austerity and increased efficiency in government. The Kenya plan estimates only those additional current expenditures due to projects and actions mentioned in the plan, and cautions that if additional revenue cannot be found projects may have to be delayed. The Uganda plan originally made no provision for revenue transfers from the current budget, and charged about half the additional current costs to development; fortunately the abrupt rise in export taxes has permitted renewed contributions to the development budget.[3]

Thus it seems to me that a major task of far-seeing national leadership in East Africa is to work out explicit plans for expanding domestic finance of development plans. Progress cannot be made overnight, for the institutional and political obstacles are real and resistant. But the task ought to be addressed with energy.

What are the most promising ways of expanding domestic finance? The question raises complexities which cannot be treated off-hand, but in the present context let me make two main points. First, an East African central bank with discretion to carry out an energetic expansionary monetary policy, up to the capacity limits of the East African economies, could contribute substantially more

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3. The academic study of possible future Uganda development referred to earlier (P. Clark and B. Van Arkadie, "Development Goals for the Uganda Economy in 1981") concluded that one of the conditions for doubling per capita income by 1981 - along with specified increases in investment, import substitution, and agricultural exports - is raising average tax rates in the order of 30%, so that the share to tax revenue in GDP rises from 20% to about 24%.

than the average of about £2 million of fiduciary finance in recent years. Particular emphasis ought to be given, through the design of reserve requirements and central bank leadership in extending financial markets, to inducing the commercial banks to participate fully in the process. A colleague of mine has recently estimated that if the East African economies grow by 7% per year from 1962 to 1970, potential monetary expansion to support rising transactions might be in the order of £80 million, about £30 million in currency and £50 million in demand deposits. The latter would be created by the commercial banks largely in extending private loans, but partly by purchasing government securities.[4]

The second general point is that in the tax structures of the East African countries, in which customs duties are the largest single source of revenue, adjustments in duties and domestic excises to increase revenues despite the process of import substitution are urgent. Since the present tariff structure has high rates on the manufactured consumer goods most subject to import substitution, and low rates on intermediate goods and particularly capital goods whose share in the import bill will rise, substantial changes in the pattern of duties will be needed. At the same time, practicable devices for taxing expanding domestic production of import substitutes ought to be devised.[5]

E. Implications for Foreign Aid.

The central implication of my analysis for foreign aid is that, in order to increase the effectiveness of their support for development in East Africa, aid-giving countries ought to adapt their aid practices to recognise explicitly the critical constraint of government finance. The institutional and political obstacles to raising government finance are no less "real" than the obstacles to adjusting exports and imports or to expanding generalised saving. In the current circumstances of East Africa, if aid is limited to direct foreign exchange costs, for goods and services imported from the aid-giving country, to be used in a particular project, and with a short period for repayment, it will simply contribute less to the development process than aid provided on other terms. It seems to me that four directions for adaptation of aid practices are particularly desirable.

First, providing aid on a program basis would be much more constructive than on a project basis, because it would permit explicit consideration of the ultimate constraints on overall development budgets. Since the United Kingdom is far and away the largest contributor of aid to East Africa, and already operates

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4. See G. Lomoro, "Monetary Expansion in East African Economic Development", E.A. Institute of Social Research, forthcoming.

5. For a fuller discussion of the entire subject of tax reform see D.P. Ghai, "Toward Tax Reform in East Africa", E.A. Inst.of Social Research, 6.8.64.

mainly on a program basis, this really means that it would be desirable for other aid-giving countries and international agencies to join with the U.K. in an aid consortium like those for India and Nigeria. Presumably aid would be planned for all three East African countries as a group. If my conclusion that the critical constraint is government finance is sound, then the total aid ought to be agreed on the basis of overall development budgets, after allowing for the monetary creation which a growing economy can absorb and for practicable increases in tax contributions to development budgets. Moderate accumulation or running down of foreign exchange reserves in the course of the plan should not be a cause for concern that too much or too little aid has been provided.

Some project aid is likely to continue, however, either as an allocation of agreed total aid or because some aid-giving countries continue to operate bilaterally. It should be recognised that project aid does meet a need of aid-giving countries to be able to identify concrete results and to check on effective use of aid contributions. A second implication of my analysis is that project aid to the East African countries ought to be calculated on the basis of full costs, including domestic costs, except possibly for a token percentage contribution from the receiving government. This would imply substantially more aid for a given project than direct-import content, but in East African conditions only moderately more aid than a complete assessment of direct and indirect import requirments generated by most projects. On the basis of a detailed statistical projection model fitted to Uganda data, and allowing for both induced consumption demands and increased investment requirement it appears that direct and indirect import requiremets, for expansion of various final demands range between 54% and 83% for Uganda.[6]

Third, there is the practice of tied aid, that is, either transferring specific goods and services as aid or requiring that financial transfers be spent on purchases from the aid-giving country. From the development standpoint of course if would be preferable if all aid were provided in convertible currencies usable anywhere, but balance of payments and internal political support problems of aid-giving countries unfortunately make it likely that the practice will continue in some form. The problem is not only that this tends to raise the cost of goods received, but that in conjunction with the practice of project aid it imposes another awkward hurdle in the way of agreement to support a particular project by a particular aid-giving country. If foreign aid is to be keyed more closely to the problem of finding government finance -- or even if fuller recognition is to be given to large indirect import requirements of aid projects -- something should be done to ease the restrictive effects of tied aid. A promising possibility seems to be greater use of earmarked aid accounts, which could be drawn on for increased imports of any kind from the aid-giving country.

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6. See P. Clark, "The Rationale and Use of a Projection Model for Uganda", E.A. Inst.of Social Research, 10.7.64.

Such accounts would loosen the connection between provision of financial support for a development project and the package of additional tied imports which the aid-receiving country finds desirable to purchase. If despite efforts to make use of such accounts, balances nonetheless tended to build up, they might conceivably be exchanged in a multilateral transfer among several aid-giving and aid-receiving countries, or in appropriate circumstances simply released to add to the receiving country's non-earmarked foreign exchange reserves.

Fourth, the longer the term of foreign aid loans, and particularly the longer the grace period before repayment begins, the more readily the East African economies can generate rising government finance and foreign exchange earnings to cover annual payments. This point is independent of whether the critical constraint today is finance or foreign exchange, for in either case an extended period of time is needed to carry through adjustments in financial institutions, tax structures, export production, and import patterns within the development process.

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The ambitious development plans of the East African countries, and the promise of East Africa as one of the leading regions of the continent, undoubtedly warrant substantially increased foreign aid. Adaptation of aid practices in the directions just discussed would significantly increase the effectiveness of such aid in easing the constraints on development efforts. If in addition further domestic finance can be found to supplement increase aid, the prospects for these ambitious development plans will be distinctly brightened.

TABLE 1.

Indicators of Economic Trends in East Africa

(£ million, unless otherwise indicated)

	1954	1958	1962	1963	Rate of Growth 54-58(%)	Rate of Growth 58-62(%)
A. Kenya.						
GDP, monetary	112.4	155.5	180.0	193.3	+8.4	+3.7
GDP volume[a]	111.2	156.4	178.9	192.3	+8.9	+3.4
Agricultural product	28.4	34.6	39.6	44.2	+5.1	+3.4
Non-agric.product	84.0	120.9	140.4	149.1	+9.5	+3.8
Gross investment	35.3	40.0	33.3	29.0	+3.2	-1.4
Investment/GDP volume	32%	26%	19%	15%		
Non-agric.employment (th)	321.3	343.7	335.8	315.4	+1.7	-0.6
Exports, foreign	20.3	29.3	37.9	43.8	+9.6	+6.7
Imports, foreign	60.3	60.9	69.5	73.7	+0.2	+3.3
Trade balance[j]	-37.6	-27.6	-24.3	-22.7		
Govt.curr.expend.[h]		32.8	37.5			+3.4
Tax revenue[h]		33.5	35.5			+1.4
Curr.budget surplus[h]		.7	- 2.0			
Import prices(index)	100	106	91		+1.4	-3.3
Retail prices(index)[i]		100	108	108		+1.9
Cost of living (index)[i]	100	116	127	128	+3.5	+1.7

a. Agricultural exports at 1960-62 prices.

b. For fiscal year beginning in calendar year, excluding financial transfers.

c. 28% in 1955.

d. 1955

f. June

g. 1961

h. For fiscal year beginning in calendar year, unadjusted

i. December

j. Including re-exports

k. Increase in new series added to old series for 1962.

m. Decrease.

TABLE 1.

Indicators of Economic Trends in East Africa

(£ million, unless otherwise indicated)

	1954	1958	1962	1963	Rate of Growth 54-58(%)	Rate of Growth 58-62(%)
B. Tanganyika.						
GDP, monetary	79.1	97.9	123.3	140.3[k]	+5.5	+5.9
GDP volume[a]	74.8	101.8	124.7	131.3	+8.0	+5.2
Agricultural product	35.1	39.2	48.5	60.4[k]	+2.8	+5.5
Non-agric.product	44.0	58.7	74.8	79.9[k]	+7.5	+6.2
Gross investment	21.8	22.7	24.4	25.1	+1.0	+4.2
Investment/GDP volume	29%	22%	20%	19%		
Non-agric.employment(th)	221.0	217.5	195.8[g]	m	+0.4	-3.2
Exports, foreign	36.2	41.7	51.2	63.6	+3.5	+5.3
Imports, foreign	32.0	33.6	39.8	40.4	+1.2	+4.3
Trade balance j	5.8	10.3	13.6	24.5		
Govt curr.expend.[b]	14.3	17.3	19.6		+4.9	+3.2
Tax revenue[b]	18.5	20.5	23.4		+2.6	+3.3
Curr.budget surplus[b]	4.2	3.2	3.8			
Import prices(index)	100	95	89		-1.2	-1.5
Retail prices(index)[f]	100	103	100	100	+0.7	-0.7

a. Agricultural exports at 1960-62 prices.

b. For fiscal year beginning in calendar year, excluding financial transfers.

c. 28% in 1955

d. 1955

f. June

g. 1961

h. For fiscal year beginning in calendar year, unadjusted.

i. December

j. Including re-exports.

k. Increase in new series added to old series for 1962.

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TABLE 1.

Indicators of Economic Trends in East Africa

(£ million, unless otherwise indicated)

	1954	1958	1962	1963	Rate of Growth 54-58(%)	Rate of Growth 58-62(%)
C. Uganda.						
GDP, monetary	93.0	106.3	106.4	128.7	+3.4	+0.0
GDP volume[a]	79.1	95.1	105.6	125.7	+4.7	+2.6
Agriculture product	56.6	57.2	50.7	65.5	+0.0	-2.7
Non-agric.product	36.4	49.1	56.5	63.2	+7.8	+3.6
Gross investment	18.5	19.6	16.5	19.4	+1.4	-5.0
Investment/GDP volume	23%[c]	18%	15%	15%		
Non-agric.employment(th)	178.5	171.4	159.9	m	-1.0	-1.6
Exports, foreign	40.6	45.4	37.6	51.5	+2.8	-4.0
Imports, foreign	25.2	27.0	26.2	30.9	+1.7	-0.7
Trade balance [j]	15.8	19.4	14.5	23.6		
Govt.current expend.[b]	13.3	19.1	22.0		+9.5	+3.6
Tax revenue[b]	19.8	21.8	21.8		+2.4	+0.0
Curr.budget surplus[b]	6.5	2.7	- .2			
Import prices(index)	100	97	96		-0.7	-0.2
Retail prices(index)[f]	100 [d]	96	85	87	-1.3	-2.8
Cost of living(index)[f]	100	115	125	130	+3.6	+2.1

a. Agricultural exports at 1960-62 prices
b. For fiscal year beginning in calendar year, excluding financial transfers.
c. 28% in 1955
d. 1955
f. June
g. 1961
h. For fiscal year beginning in calendar year, unadjusted.
i. December
j. Including re-exports
k. Increase in new series added to old series for 1962.
m. Decrease.

TABLE 2.

Features of Development Plans in East Africa.

A. Kenya.

	Recent Past[a]	Future Plan[b]
GDP volume, growth rate (%)	+3.4	+5.7
Agricultural product, growth rate (%)	+3.4	+6.8
Non-agric.product, growth rate (%)	+3.8	+5.4
Non-agric.employment, growth rate (%)	-0.6	+2.5
Gross investment share (% of GDP)	15% [c]	23%
Govt investment (£ million)	6.9	10.9[e]
Other public investment (£ million)	5.9	13.0[e]
Private investment (£ million)	20.5	30.7[e]
Govt.devel.budget, ann.ave. (£ million)	11.6[d]	13.4
Actual devel.expend., ann.ave. (£ million)	10.6	
Foreign finance, devel.budg., ann.ave. (£ mil.)	8.7	12.2[e]
Domes.finance, devel.budg., ann.ave. (£ mil.)	1.9	1.2[e]

n.s. Not specified.

a. Recent past is 58-62 for all countries' growth rates, 1962 for all countries' investment, 61/62-62/63 for Uganda devel.budget and actual and finance, 61/62-63/64 for Tanganyika devel.budget, 61/62-62/63 for Tanganyika actual and finance, 60/61-63/64 for Kenya budget, 60/61-62/63 for Kenya actual and finance.

b. Plan is 61-66 for Uganda growth rates, approx.1966 for investment, 63/64-65/66 for budget and finance in order to complete 5-year totals; 61-62 ave.to 1970 for Tanganyika growth rates, approx. 1967 for investment, 64/65-68/69 for budget and finance; 62-70 for Kenya growth rates, approx. 1967 for investment, 64/65-69/70 for budget and finance.

c. 1963.

d. Budget 60/61-62/63 plus settlement 60/61-62/63 plus budget including settlement 63/64. Settlement share is £2.6 million, general development £9.0.

e. Estimated from projected 1967 GDP, gross investment share, gov. and public investment in 66/67, financing plans 64/65-66/67.

f. Estimated from gov.and gov.financed public investment in 66/67, investment plans 64/65-68/69, projected 1967 GDP.

g. Estimated from projected 1966 GDP, gov. and public investment plans 61/62-65/66, private investment estimates 1961-65, financing plans 61/62-65/66.

TABLE 2.

Feature of Development Plans in East Africa.

	Recent Past[a]	Future Plan[b]
B. Tanganyika.		
GDP volume, growth rate (%)	+5.2	+8.5
Agricultural product, growth rate (%)	+5.5	+7.3
Non-ag. product, growth rate (%)	+6.2	+9.2
Non-ag. employment, growth rate (%)	-3.2	n.s.
Gross investment share (% of GDP)	20%	26%[f]
Gov. investment (£ million)	6.6	14.2
Other public investment (£ million)	2.9	14.9[f]
Private investment (£ million)	14.9	18.6[f]
Gov. devel. budget, ann. ave. (£ million)	8.0	20.4
Actual devel. expend., ann. ave (£ mil.)	6.7	
Foreign finance, dev. budg., ann. ave. (£ mil)	4.5	15.9
Domes. finance, dev. budg., ann. ave. (£ mil.)	2.2	4.5

n.s. Not specified.

a. Recent past is 58-62 for all countries' growth rates, 1962 for all countries' investment, 61/62-62/63 for Uganda devel. budget and actual and finance, 61/62-63/64 for Tanganyika devel. budget, 61/62-62/63 for Tanganyika actual and finance, 60/61-63/64 for Kenya budget, 60/61-62/63 for Kenya actual and finance.

b. Plan is 61-66 for Uganda growth rates, approx. 1966 for investment, 63/64-65/66 for budget and finance in order to complete 5-year totals; 61-62 ave. to 1970 for Tanganyika growth rates, approx. 1967 for investment, 64/65-68/69 for budget and finance;
69-70 for Kenya growth rates, approx. 1967 for investment, 64/65-69/70 for budget and finance.

c. 1963.

d. Budget 60/61-62/63 plus settlement 60/61-62/63 plus budget including settlement 63/64. Settlement share is £2.6 million, general development £9.0.

e. Estimated from projected 1967 GDP, gross investment share, gov. and public investment in 66/67, financing plans 64/65-66/67.

f. Estimated from gov. and gov. financed public investment in 66/67, investment plans 64/65-68/69, projected 1967 GDP.

g. Estimated from projected 1966 GDP, gov. and public investment plans 61/62-65/66, private investment estimates 1961-65, financing plans 61/62-65/66.

TABLE 2.

Features of Development Plans in East Africa.

	Recent Past[a]	Future Plan[b]
C. Uganda.		
GDP volume, growth rate (%)	+2.6	+4.0
Agricultural product, growth rate (%)	-2.7	n.s.
Non-ag.product, growth rate (%)	+3.6	n.s.
Non-ag.employment, growth rate (%)	-1.6	n.s.
Gross investment share(% of GDP)	15%	14% [g]
Govt. investment (£ million)	4.9	9.1[g]
Other public investment (£ million)	6.0	5.2[g]
Private investment (£ million)	5.6	5.1[g]
Govt. devel. budget, ann.ave.(£ mil.)	5.6	9.3
Actual devel.expend., ann.ave.(£ mil.)	4.8	
Foreign finance, dev.budg., ann.ave.(£ mil.)	2.5	6.8[g]
Domes.finance, dev.budg., ann.ave (£ mil.)	2.3	2.5[g]

n.s. Not specified

a. Recent past is 58-62 for all countries growth rate, 1962 for all countries' investment, 61/62 - 62/63 for Uganda devel.budget and actual and finance, 61/62-63/64 for Tanganyika devel.budget, 61/62-62/63 for Tanganyika actual and finance, 60/61-63/64 for Kenya budget, 60/61-62/63 for Kenya actual and finance.

b. Plan is 61-66 for Uganda growth rates, approx.1966 for investment, 63/64-65/66 for budget and finance in order to complete 5 year totals; 61-62 ave. to 1970 for Tanganyika growth rates, approx.1967 for investment, 64/65-68/69 for budget and finance; 62-70 for Kenya growth rates, approx. 1967 for investment, 64/65-69/70 for budget and finance

c. 1963.

d. Budget 60/61-62/63 plus settlement 60/61-62/63 plus budget including settlement 63/64. Settlement share is £2.6 mil., general development £9.0.

e. Estimated from projected 1967 GDP, gross investment share, gov. and public invest in 66/67, financing plans 64/65-66/67.

f. Estimated from gov. and gov.financed public investment in 66/67, investment plans 64/65-68/69, projected 1967 GDP.

g. Estimated from projected 1966 GDP, gov. and public investment plans 61/62-65/66, private investment estimates 61-65, financir plans 61/62-65/66.

TABLE 3.

Balance of Payments Estimates for East Africa

(£ million)

	1958	1959	1960	1961	1962	1963	1970
East Africa Bal. of Payments[a]							
Merchandise, incl. gold.	+10.5	+ 5.9	+ 2.1	- 0.9			
Invisibles	-17.5	-18.0	-12.7	- 7.8			
Current account.	-17.0	-12.1	-10.6	- 8.7			
Grants & public capital	+15.3	+ 4.3	+20.7	+29.9			
Long-term private capital	+10.2	+10.4	+21.0	+ 6.1			
Short-term private & omissions.	- 7.8	- 6.9	-47.0	-21.0			
E.A.C.B. and banks, (gain-)	- 0.8	+ 4.2	+15.9	- 6.4			
Sterling Assets, June 30							
E.A.C.B.	51.2	48.6	47.7	49.6	51.6		
Commercial banks	14.2	19.2	- 2.1	7.0	2.4		

a. A.G.T. Carter, "The Balance of Payments of East Africa 1956-61", E.A. Econ. Rev., Dec. 1963.

b. Peter Newman, "Description of Data Used in 'Foreign Investment and Economic Growth: The Case of East Africa, 1963-1970.'"