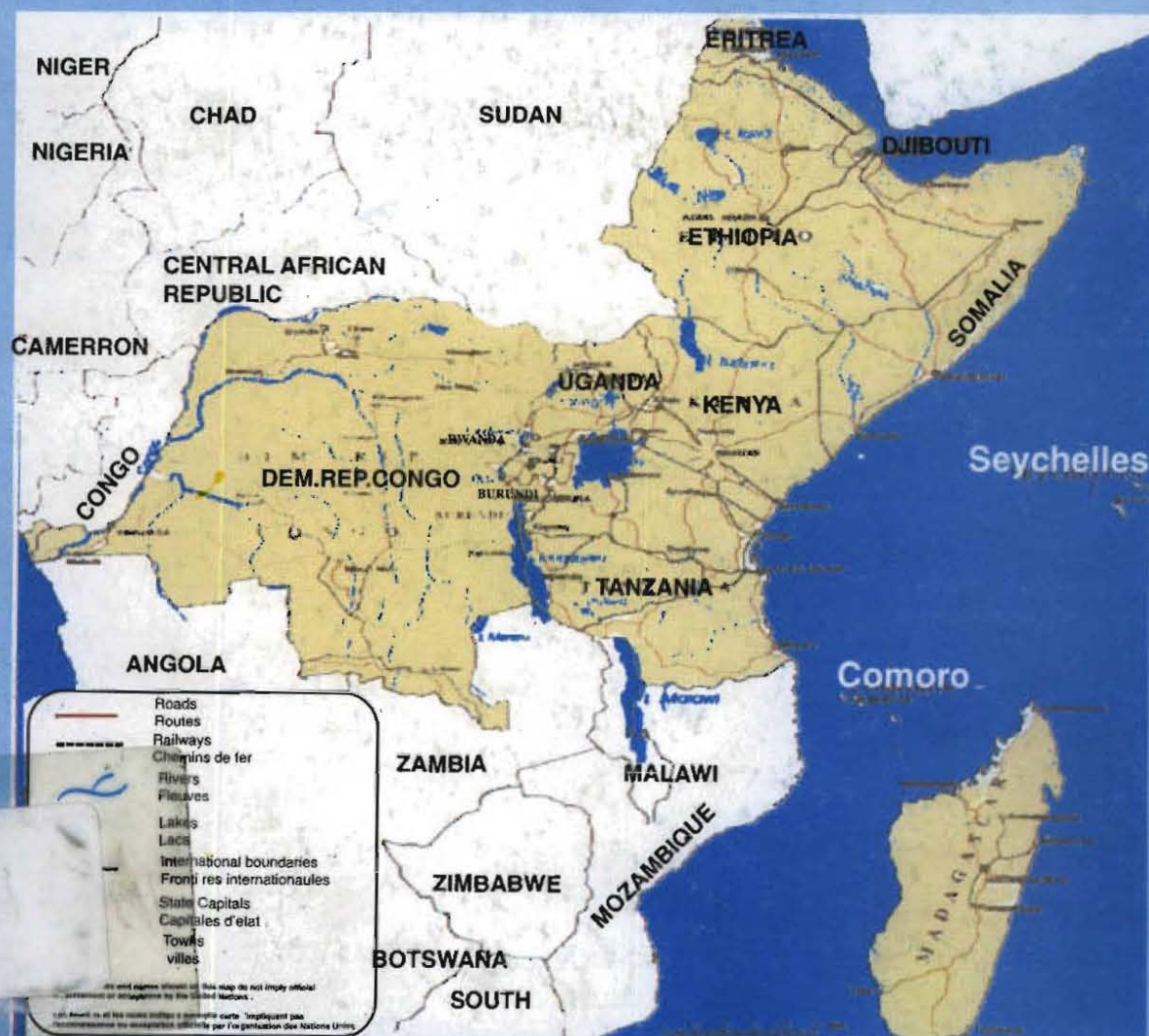
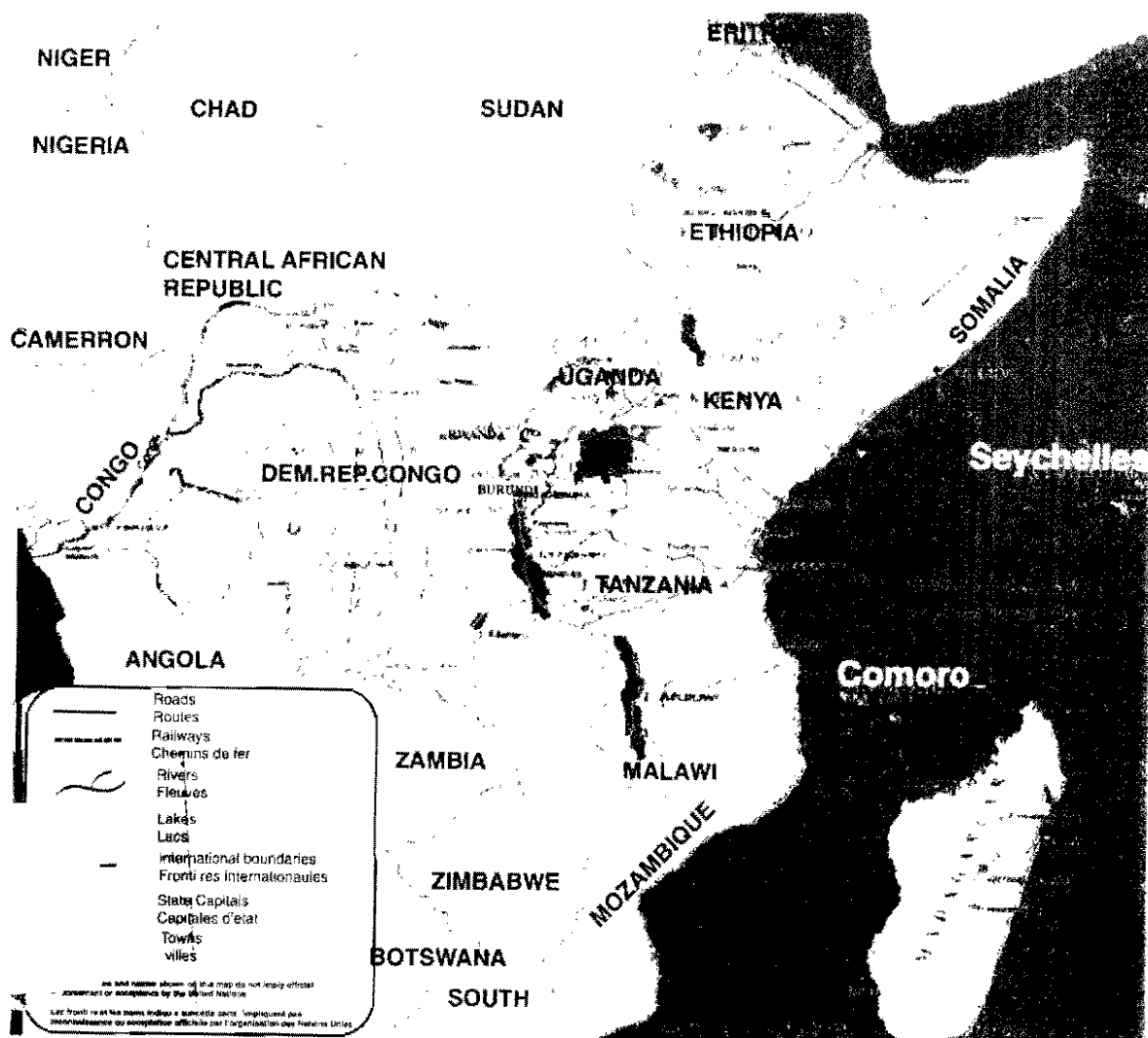




# ECONOMIC AND SOCIAL CONDITIONS OF THE EASTERN AFRICA SUB-REGION, 2000



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**ECONOMIC AND SOCIAL CONDITIONS OF  
THE EASTERN AFRICA SUB-REGION,  
2000**

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## **CHAPTER I : INTRODUCTION**

### **MAJOR CHARACTERISTICS OF THE ECONOMIC AND SOCIAL CONDITION OF THE SUB-REGION**

1. The economic development of the East African subregion in 1999 has revealed persistent structural problems and the effects of violent conflicts in certain countries. Some countries have pursued structural reforms leading to economic growth with, sometimes, results that give hope for real recovery. For the subregion, these developments were somehow eroded by the conflicts that have taken place in the subregion during this decade.
2. The structural reform programmes adopted by some countries of the subregion were aimed at restoring macro-economic balance and creating an enabling environment for private investment. However, disparities in exchange, tariff and financial policies among the countries have not made it possible to take advantage of the subregional export promotion possibilities and the resultant economic diversification. Thus, with the fall in the prices of such commodities as coffee, sugar and vanilla, the countries of the subregion witnessed a significant drop in their export earnings and their budget incomes. The growth of their GDP slowed down and their current account situation deteriorated. Excessive dependence on a limited quantity of primary products has rendered the economies of the countries of the subregion very vulnerable.
3. The scale of the conflicts in the subregion was such that economic recovery efforts came to naught. The resurgence of the conflict in the Democratic Republic of Congo in August 1998 led to the collapse of the political and economic structures of that country, with inflation reaching tripple digits. The war between Eritrea and Ethiopia has slowed down the implementation of economic reforms in those countries. Inter-ethnic conflicts in Burundi have undermined the entire economic base and jeopardized all economic recovery efforts. In Somalia, political rivalries and instability which have been going on for the past 10 years have paralysed all political and economic structures.
4. In 1999, the economic growth of the East African subregion was, on the whole, slightly better than in 1998. The GDP at current prices experienced an increase of 3.8 per cent as against 2.5 per cent in 1998. It is a positive growth in real terms. Nevertheless, it shows disparities among the countries. Some countries have recorded positive GDP growth rates. Others have suffered either from the effects of conflicts or political instability, or from climatic factors, or the deterioration of the terms of trade, or the combination of the three factors. In all the countries of the subregion, agricultural production has been inadequate and some countries had to resort to food imports or food aid. The other obstacles to economic recovery include: the external debt burden, fall in aid flows, drop in investments and low human and technological capacities. Some countries have already benefited from the debt relief initiative for the Heavily Indebted Poor Countries (HIPC), whilst others are in the process of fulfilling the requirements for eligibility.





5. Despite some positive results, the East African subregion remains a poor region. Average per capita GDP in the subregion, which stands at USD181, is far below the average in African countries South of the Sahara (USD510). The poverty level is quite alarming. As a matter of fact, 119 million people, i.e. about 50 per cent of the total population of the subregion, are below the poverty line; in other words, they earn less than USD 1 per day per capita. Coupled with this poverty is the low percentage of children in full-time education, inability for many to have access to health care, poor access to means of communication and to modern technologies, etc. The social situation of the countries of the subregion is compounded by the effects of conflicts which compel the peoples to abandon their villages in search for peaceful areas within and outside their countries.
6. The level of economic integration of the subregion is equally low. Despite the existence of a large number of regional institutions promoting integration and economic co-operation among the countries, the level of intra-community trade does not exceed 20 per cent of the overall trade of the countries of the subregion. Structural and institutional obstacles continue to weigh heavily on regional economic integration, including the very heavy dependence on commodity exports, low industrial base, poor state of communication infrastructures etc...
7. Restoration of lasting peace, adoption of economic diversification strategies and acceleration of regional integration should enable the region to enjoy stability again, a sine qua non for the recovery of its economies. The above assessment stems from country by country synoptic analysis of the economic and social situation as described in chapter II. Chapter III evaluates the Micro-Economic Performances of the subregion, be it at the level of economic growth, the external sector, external debt or official development aid. Chapter V focuses on regional integration process and regional trade. Finally, the last Chapter analyses the 2001 prospects, in terms of economic development and restoration of peace in the subregion.

## CHAPTER II

### ECONOMIC AND SOCIAL SITUATION AT NATIONAL LEVEL: COUNTRY BY COUNTRY SYNOPTIC ANALYSIS

#### BURUNDI

8. The economy of Burundi was seriously affected by conflicts which have been going on since 1993, as well as by the economic embargo imposed by the countries of the subregion in 1996. The 1998 had witnessed a slight revival of economic growth through the gradual return of security, the revitalisation of the production units and the resumption of international co-operation. In 1998 the GDP in real terms and at market prices increased by 4.8 per cent compared to 0.3 per cent in 1997, and -7.4 per cent in 1996. This revitalisation of production was halted in 1999 by the fall in agricultural production which forms the bulk of national production. Lack of rainfall has had a negative impact on food production. Revitalisation of the industrial sector is still slow. The industrial plants, irrespective of regular and adequate supply of raw materials, are suffering mainly from weak market flow as well as tariff and non tariff barriers imposed on exports.
9. Burundi's foreign trade is characterized by an export sector dominated by primary commodities (coffee, tea, cotton) which account for more than 90 per cent of the total value of exports, and by imports composed essentially of capital and consumer goods. Following the drop in food crop production by 4 per cent in 2000 compared to the 1999 harvest and by 28 per cent in relation to the 1993 harvest, the country was compelled to import increasingly large quantities of foodstuffs to make up for the shortfall. Nevertheless, the demands remained high due to inadequate foreign exchange to import adequate food items. Between January and April 2000, food requirements amounted to 55,000 tons of cereals<sup>1</sup>
10. External debt represents a heavy burden on the national economy, amounting in 1999 to USD1.2 billion, i.e. 170 per cent of the GDP, while debt servicing in relation to export earnings increased from 42.9 per cent to 61.1 per cent between 1992 and 1999. This pressure on local resources has forced the government not only to disinvest (public investment dropped by 60.2 per cent in 1997 compared to 1995) but also to provide less and less social services, thus increasing the poverty situation. Investment rate fell from 18 per cent of the GDP in 1992 to about 8 per cent in 1999. On the other hand, development assistance fell considerably from USD300 million per annum during the period 1988-1992 USD25 million in 1999.
11. Socially, the situation that Burundi has been grappling with since 1993 led to a deterioration of the social conditions of the population in both rural and urban. The poverty line in the rural areas which was 35.0 per cent in 1990 rose to 58.1 per cent in 1997 areas before dropping to 56.4 per cent in 1998. In the city of Bujumbura, this ratio increased from 32.4 per cent to 66.5 per cent between 1990 and 1998. The state of

<sup>1</sup> FAO/WFP/Ministry of Agriculture: Evaluation Report of the Agricultural Seasons:1999C, 200A and Food Supplies in Burundi, December 1999.



health of the population has deteriorated considerably, with serious challenges such as the AIDS pandemic, fall in the vaccination coverage and endemo-epidemics (bacillary dysentery, measles, malaria) due to widespread malnutrition, inadequate drugs and nursing staff. Infant mortality increased from 110 per 1000 children born alive in 1992 to 136 in 1997, the average being 105 in Sub-Saharan Africa. Malnutrition among children of less than 5 years increased from 6 per cent to 20 per cent since 1993. About 50,000 people are treated daily in nutrition centres. Out of this number, 36,000 (of which 90 per cent of children of less than 5 years) suffer from chronic malnutrition. In education, the gross rate of primary school enrolment was 67.3 per cent in 1992, dropped to 52.5 per cent in 1998.<sup>2</sup>

## **ISLAMIC FEDERAL REPUBLIC OF THE COMORO**

12. Since the beginning of the 90s, the Comoro has been going through an economic, social and institutional crisis. Economic growth since the mid 80s has fallen below demographic growth rate (-0.4 per cent as against 2.8 per cent), and there has been a constant fall in the GDP in real terms. This decline in production is the result of a drop in export, external aid and private investment. 1998 and 1999 had witnessed a slight revival of economic growth (1.2 per cent and 1.1 per cent) due to the good price of on the international market. The years 1998 of clove and vanilla, which are the main export commodities. Food crop development potential remains uncertain in view of the precariousness of the technologies used and environmental degradation resulting from to demographic pressure. The Comoro continues to import large quantities of foodstuffs such as rice, meat, fish, flour, sugar and dairy products which accounted for 33 per cent of total imports in 1999.
13. The industrial sector, which represents only 12.2 per cent of GDP has difficulties taking off. Most of the enterprises are of average size. The possibilities of flow of industrial goods are limited by the smallness of the domestic market. Furthermore, the export capacity of the Comoro to foreign markets is limited due to the prohibitive costs of international transport. The industrial sector provides about 1000 jobs, essentially small lemonade manufacturing plants, plastic industry, ylang-ylang, vanilla and food processing plants. The National Water and Electricity Production and Marketing Company (EEDC) is the major industry in the Comoro. Unfortunately, however, it has been experiencing production difficulties since 1996, resulting in disruption in the country's economic activities. Since 1998 a new private company has been entrusted with the exploitation, production and distribution of water and electricity. The Government hopes to attract new investors, particularly those from the Gulf States, to work closely with local investors.
14. Tourism represents an important source of foreign exchange. About 30,000 tourists visit the Comoro every year. These tourists are divided into three main groups: tourists on pleasure trips (60 per cent), family visits by Comorians living abroad (25 per cent) and business trips (13 per cent). In 1998, international tourism earned the Comoro about 7.0 billion Comorian francs, compared to 5.0 billion in 1997, i.e. a substantial increase of 40 per cent. This has been made possible through the efforts of the

<sup>2</sup> World Bank: Burundi: Mid Term Strategy 1999-2000  
UNDP: Report on Human Development 1999

Government to encourage the flow of tourists. Visitors from Africa, South Africa in particular, constitute a significant percentage (about 55 per cent). Regional integration has developed as a result of this important sector of the economy. Nevertheless, lack of direct transport service and charter flights between the Comoro and the major tourist supplying countries constitutes a serious obstacle to the increase in the number of tourist arrivals.

15. The Comoro external trade is characterized by an unfavourable balance of payment. Exports hardly covered 10 per cent of imports in 1999, compared to 42 per cent in 1992 and 57 per cent in 1968. More than 60 per cent of Comorian imports were made up of consumer goods. Furthermore, in 1999, official transfers dropped due to a reduction in official development assistance. This deterioration of the situation reflects the fall in export commodity prices on the international markets, as well as the effects of the devaluation of the Comorian franc in 1994, resulting in 33 per cent corresponding rise in the prices of imported goods. This trend worsened with the increase in the prices of some imported commodities such as fuel and rice on the international market, as well as the increase in the exchange rate of the dollar.
16. The financial system in the Comoro is dominated by the only existing commercial bank: "La Banque pour l'Industrie et le Commerce (BIC)" which channels all bank deposit and credit transactions. Lack of competition in this important sector of the economy makes the implementation of a growth monetary policy difficult. The Comoro Development Bank have ceased to exist since 1997. The weak development of loan towards the economy of economic development credit (-1.9 per cent between 1998 and 1999) shows the lack of financial dynamism in the Comorian economy.
17. This structure of the Comorian economy has slowed down development and highly influenced the social development dimension, by increasing the extent of poverty and probably eroding a great part of the efforts made in the area of health and education in the 70s. More than half of the Comorian population live below the poverty line.

## **DEMOCRATIC REPUBLIC OF CONGO**

18. The economy of the Democratic Republic of Congo is characterized by heavy dependence on minerals and other natural resources. Copper and cobalt in the Katanga province, coupled with diamond exploitation in eastern Kasai and other provinces have for a long time constituted the engine of the Congolese economy. Furthermore, the vast forest reserves in the Equateur province, the immense hydro-electric potential in the Bas-Congo, gold in the Haut-Congo and Kivu, as well as coffee in the Kivu region constitute the wealth of the DRC. However, despite the enormous mineral and agricultural potentials of the country, with the third largest population in Sub-Saharan Africa, the second largest in size and possessing vast natural and human resources, fertile soils and abundant rainfall, a real development dynamism has not been injected and it is unfortunately the second the poorest country in the world, with an annual per capita GNP estimated at USD108. Political instability, poor management and inflationary pressure from the basis for the poor performances of the Congolese economy.

19. The agriculture of the DRC which involves 70 per cent of the total population but which, in the 80s, accounted for 25 per cent of the GDP, now represents more than 50 per cent of the GDP and has not been developed. The informal sector, whose share of the GDP is often poorly evaluated, could represent up to 40 per cent of the national production, especially in the past few years when political crises have paralysed many economic activities of the formal sector. The industrial sector (15 per cent of the GDP) is dominated by mining, especially diamond, copper, cobalt and gold and account for more than 75 per cent of the country's total export earnings. The potential of these products is enormous and could place the DRC at the top of the richest countries of the subregion. Mention could also be made of forest, agro-pastoral and energy potentials which may contribute to the socio-economic development of the subregion.
20. Notwithstanding the economic and political difficulties confronting the DRC since the beginning of the 90s, the country has a surplus trade balance. Copper and cobalt exports were low (from USD 1.2 billion to USD253 million between 1990 and 1999) because of the difficulties facing Gecamines and the deterioration of transport infrastructures. Nonetheless, the diamond and coffee exports earned over USD1 billion in 1999 as export earnings, compared to USD360 million in 1990, thus compensating for the losses in the copper and cobalt sectors. Mineral products accounted for about 70 per cent of export earnings, while coffee (second export commodity) represented 20 per cent of earnings. Overall, DRC's exports in 1999 amounted to USD1,937 million, as against USD1,656 in 1998, i.e. an increase of 17 per cent. However, these performances fall short of the 1989 performance. Despite the fact that the DRC is an oil producing country and has enormous hydro-electric potentials, the low capacity of its refineries and poor utilization of the turbine capacities had led to energy imports which represented about 20 per cent of the country's total imports in 1999.
21. Imports also increased by 24 per cent, from USD1,533 billion to USD1,902 billion between 1998 and 1999. After the failure of import substitution in the 70s, the DRC never formulated a clear external trade and industrialization policy. It remained a raw material exporting country, with prices determined by the international market. Capital goods represent only 15 per cent of the total imports. Inflation is erratic. From 659 per cent in 1996, it dropped to 13.7 per cent in 1997 and rose to 15.3 per cent in 1998, through the macro-economic stabilization put in place in October 1997, with the support of the World Bank and IMF. In July 1998, a new currency, the Congolese franc, was introduced, with a parity of 1 US dollar to 1.4 Congolese franc. However, the financial difficulties facing the Central Bank had weighed heavily on the new currency which, as early as October 1998, experienced a 62 per cent depreciation, and its constant depreciation since its introduction has caused inflation to rise again.
22. External debt constitutes a serious constraint to DRC's development, amounting to USD14.8 billion in 1999 (41 per cent of the debt in USD and 16 per cent in French Franc), compared to USD4.5 billion in 1979. Compared with GDP, the external debt of the DRC represents 232 per cent. The huge increase is due to accumulation of arrears of payment which are becoming increasingly large, amounting to USD3 billion as far back as 1996<sup>3</sup>, while debt incurred during the same period amounted to USD4.68 billion. The arrears were automatically capitalized as short term debt, representing 33.8 per

<sup>3</sup> Economic Intelligence Unit, 1998-1999

cent in 1996. Arrears on DRC's external debt amounted to USD8.5 billion in 1999, i.e. about 59 per cent of the total debt incurred. External debt servicing represents 30 per cent of export earnings but in actual fact, this percentage would be higher if all the servicing due were paid. Since 1989, the London and Paris Clubs have not taken any action to reschedule or cancel the debt owed by the DRC, and the arrears continue to accumulate, while official development assistance was frozen.

23. The challenges posed by the rebuilding and recovery of the economy are enormous. The DRC will certainly need significant financial resources to rehabilitate its economic and social infrastructures, rebuild the economic, financial and monetary structures, strengthen its human capacities, as well as the political, legal and administrative reforms. The contribution of the international community will be required to face up to the numerous challenges currently facing the country.

## **DJIBOUTI**

24. According to available data, performances of the Djiboutian economy in the past few years have been poor. In 1998, the GDP in real terms increased by only 8.8 per cent, as against 0.5 per cent in 1997. With a population estimated at 640,000 inhabitants, the per capita GDP is USD 772. A priori, this level of average per capita income puts Djibouti in the lower category of intermediate income countries. This apparent average living standard is distorted by two major factors, namely the high cost of living in Djibouti and the presence of a large expatriate community with a strong purchasing power, which pushes this indicator upward. The per capita GDP based solely on the country's population may be estimated at less than USD450.
25. The structure of the economy of Djibouti is dominated essentially by the services sector which accounts for three quarters of the GDP and 89 per cent of employment. The other two sectors, namely agriculture and industry, are virtually non-existent, and their development is hampered by several factors. In Djibouti, the primary sector is limited to animal husbandry, market gardening and artisanal fishing. Unfavourable natural conditions (low and irregular rainfall, high temperature, constant winds and very high evaporation), scarce arable lands and absence of farming tradition among Djiboutians) constitute impediments to the development of the primary sector which represents only 3 per cent of the GDP. Cultivated lands do not exceed 1000 ha and agriculture provides only 11 per cent of the country's vegetable and fruit requirements. The country virtually imports all its foodstuffs from the neighbouring countries and Europe. Despite the enormous potential of Djibouti's Fishing Harbour (estimated at 47,000 tons per annum), fishing activity is limited and consumption does not exceed 1000 tons per year.
26. The secondary sector contributes 20 per cent to the GDP and the bulk of its activities is made up of services provided by public electricity and water companies, as well as the building and public works sectors. The deterioration of the infrastructures of the national electricity company resulted in a 33 per cent fall of its production in 1998, compared to 1997. The tertiary sector remains the lifeblood of Djibouti's economy, accounting for 75 per cent of the GDP and the bulk of the country's foreign exchange. The tertiary sector is composed mainly of the activity of the International Autonomous Port of Djibouti (PAID)

which increased in recent years through the diversion of Ethiopia's entire trade to PAID in the month of May 1998, following the dispute between Ethiopia and Eritrea. Presently, Ethiopian goods transiting through PAID represent 58 per cent of the port's total activity. At the same time, transport (rail and road), telecommunications and trade sectors have also developed.

27. Djibouti's commercial transactions are essentially geared towards Asian countries which provide about 67 per cent of the country's imports. In this connection, agreements are currently being negotiated with the port of Dubai to relocate some of its activities at the Port of Djibouti.

28. Despite the dynamism of the port sector, the economy of Djibouti remains confronted with structural problems, particularly the high costs of factors of production (manpower, electricity...), high interest rates, human resource development difficulties, political instability and external debt. A programme showing Djibouti's long term development objective will be available at the end of 2000 and will make it possible to launch economic recovery programmes.

This 10-year programme will focus essentially on regional integration, improvement of the quality of services (training managers, school enrolment, ...), strengthening of the role of the port of Djibouti (free trade zone), rehabilitation and reform of economic infrastructure, as well as the improvement of the health status of the population.

## ERITREA

29. The deterioration of the economy of Eritrea is linked to two fundamental factors, namely the war with Ethiopia and drought. The number of people displaced internally and in the Sudan is estimated at about 1.1 million. This movement of the population, coupled with the drought in the country has affected the agricultural and livestock sector which represents 16 per cent of the GDP. The secondary sector, in which the Massawa electricity plant represents a large component, accounts for 27 per cent of the GDP, compared to 57 per cent for the tertiary sector. The economic performances of the country are essentially linked to activity of its two ports, namely Assab and Massawa.

30. Since 1998, the macro-economic situation of Eritrea has deteriorated considerably. The GDP growth fell from 8 per cent to 3 per cent in 1999, while the fiscal deficit in relation to the GDP worsened, rising from 5.5 per cent to 35.1 per cent between 1997 and 1999. This situation shows on the one hand the repercussions of the decision by the Ethiopian authorities to have all their external trade transit through Djibouti and, on the other, the weight of a large number of people displaced because of the war (1.1 million), with the resultant effects on production and public expenditure connected with resettlement. In June 2000 the Eritrean Government appealed for humanitarian assistance to the tune of USD183 million. The requirements for a reconstruction programme were estimated at USD800 million. An emergency reconstruction programme was presented to the International Community in July 2000 in Asmara. Despite the poor economic performances, Eritrea has enormous economic development potentials, particularly in the mining sector. The known mineral reserves are: kaolin, crystal, calcium and sulphate deposits, fibre, salt and aluminium. Eritrea also has enormous fishing reserves along its 1000 km coastline and fishing

opportunities of up to 55 000 tons per annum, including crayfish, shrimps and crabs, with a high commercial value. The Government considers the private sector as the prime engine of growth and strives to create an enabling environment for business promotion.

31. Eritrea's trade balance will for a long time remain in the deficit, as the reconstruction programme requires further imports. Apart from food commodities, the major imports are made up of fertilizers, machinery, spare parts and manufactured goods, as well as building materials. The suspension of trade with Ethiopia, its major trade partner, has had a very negative effect on the country's economy, especially since trade with the Sudan has also dropped in value. The Government is moving towards other regional markets such as East Africa and the Great Lakes region. The major products exported by Eritrea include salt (mainly to Kenya and Tanzania from Massawa), semi-processed leather, flowers, cattle and textile.

## **ETHIOPIA**

32. Ethiopia's economy is dominated by agriculture which accounts for more than 50 per cent of the GDP and employs more than 85 per cent of the population. Coffee accounts for 65 per cent of the export earnings, followed by hides and skins. The service sector contributes one third of the domestic production and continues to undergo changes following the liberalization measures. Industry represents only 12 per cent of the GDP and a few industrial plants are concentrated around Addis Ababa and Dire Dawa. With per capita GNP of USD129, Ethiopia is among the poorest countries of the world.
33. Since 1991, Ethiopia has embarked on structural reform programmes aimed at reviving the economy, especially with the liberalization of the energy and communications sectors. Following the suspension of disbursements on the Reinforced Structural Adjustment Facility from 1997 to 1998, IMF approved in June 1998 the second instalment of the reinforced structural adjustment for a total sum of USD 100 million and the disbursement began in October 1998. Following this agreement with the IMF, Ethiopia can benefit from external debt relief under the Heavily Indebted Poor Countries Initiative. Between 1992 and 1998, the economic performances improved. The GDP recorded a satisfactory annual growth rate of more than 7 per cent. In 1999 GDP growth rate stood at 6.7 per cent, while inflation remained moderate, i.e. 3.8 per cent per annum. Notwithstanding, these performances, the development challenges are immense as 34 million inhabitants, i.e. 55 per cent of the population, still live below the poverty line.
34. On external trade, the export sector is characterized by an excessive dependence on coffee which represents about 65 per cent of total export earnings, followed by hides and skins, sugar, beans, live animals and petroleum products. These six products together represent over 80 per cent of total exports. In 1998/99 export value dropped by 8 per cent, due mainly to a fall in the price of coffee on the world markets. Imports, increased by 16.7 per cent. The deterioration of the trade balance worsened in 1999, with the exports hardly covering 50 per cent of imports. This deterioration of the terms of trade, coupled with fluctuation in the volume of export commodities, makes the Ethiopian economy extremely vulnerable and heavily dependent on external aid.
35. The major constraint to the long term development of the Ethiopian economy lies in the



large dependence on an agricultural sector which is not performing well. Agriculture contributes more than 50 per cent to the GDP and provides livelihood to 85 per cent of the population, while revenue from coffee accounts for 65 per cent of total export earnings. It is vital to formulate strategies aimed at reducing this dependence on agriculture and promoting the industrial and service sectors. A Plan of Action in this regard was drawn up by the Government.

36. The border conflict with Eritrea resulted in additional costs, thereby worsening the budget deficits. The global economic cost was estimated by the World Bank at 7 per cent of the GDP. Military expenditure increased from 2.3 per cent of the GDP in 1996/97 to 5.8 per cent in 1998/99. Besides, transport and assistance costs resulting from the displacement of the population as a result of the war were estimated at 3.3 per cent of the GDP. This situation led to reallocation of investment resources to current expenditure in order to cope with emergency situations.

## KENYA

37. The Kenyan economy experienced a decline in production since the 1996/97 fiscal year and continued in 1998/99. In 1999 the GDP increased to 1.4 per cent, a rate lower than the population growth rate of 2.4 per cent. The fall in production affected all sectors of activity. The main reasons for this poor performance lie on the one hand in the climatic conditions which affected agricultural production and, on the other, in weak investment incentives particularly the state of the infrastructures, lack of investor confidence, delays in the implementation of reforms, and the reduction in development aid flows. Agriculture which contributes 23.2 per cent to the GDP could not exceed a 1.5 per cent growth in 1999 because of the poor state of the roads which affects marketing of such agricultural produce like maize and wheat, coupled with unfavourable climatic conditions. Production of tea fell by 11 per cent, from 284,936 tons in 1997/98 to 253,458 tons in 1998/99, while export earnings dropped by 7.5 per cent. Coffee production, however, experienced a significant increase of 20 per cent, from 47,950 tons to 57,903 tons between 1997/98 and 1998/99, but the prices were very low. The industrial sector which accounts for 18.2 per cent of the GDP witnessed a poor growth of 1.2 per cent in 1999. The tertiary sector continues to play an important role in the Kenyan economy, accounting for over 60 per cent of the GDP.
38. Current account deficit increased in 1999, due to the deterioration in the trade balance and the service balance. It rose from USD138 million to USD332 million between 1998 and 1999. While export dropped by 4 per cent because of the fall in the world prices of coffee and the export volume of tea, imports, increased by 3 per cent, particularly petroleum products and capital goods. The exchange reserves dwindled and represented 3.8 months of import at the end of 1999, compared to 4.2 months at the end of June 1998.
39. External debt contraction, though significant, representing 44 per cent of the GDP, dropped between 1998 and 1999, from USD 5.8 billion to USD4.5 billion. This situation is due to a decline in disbursement of loans, following a drop in the external assistance provided by the International Community to Kenya over a period of four years, while the

country continues to honour its obligations towards its creditors, the multilateral creditors especially. Kenya's external debt servicing stood at USD450.7 million in 1999, i.e. 12.7 per cent of goods and services from governments export earnings.

40. The poor performance of the Kenyan economy in the 90s has increased the poverty level of the population. In 1999, about 13 million people lived in abject poverty and the number increased by 1.5 million, compared to the situation in 1994. At the same time, social indicators deteriorated in the past ten years. The percentage of children in full-time education which was 95 per cent in 1989 dropped to 77 per cent in 1999, and this compromises the objective: education for all by the year 2000. Infant mortality rate increased from 51 for every 1000 children born alive in 1992 to 74 in 1999<sup>4</sup>. The number of Kenyans with HIV/AIDS increased significantly from 629, 313 in 1992 to 1.7 million in 1999, while the prevalence rate increased from 3.1 per cent to 12 per cent during the same period.

## MADAGASCAR

41. In 1996, the Malagassy Government embarked on economic reform programmes aimed among other things at: reducing the budget and fiscal deficits, stabilizing the currency, reducing inflation, liberalizing the economy in order to create an environment conducive to economic growth. These reforms had produced positive results. The Gross Domestic Product increased by 3.7 per cent in 1997, 5.6 per cent in 1998 and 4.7 per cent in 1999, i.e. more than the population growth rate estimated at 2.8 per cent, resulting in positive growth in real terms. The secondary and tertiary sectors were the main driving force behind this growth. Despite the adoption by the Government of a series of measures aimed at increasing agricultural production, the primary sector, which accounts for 49 per cent of the GDP, has yet to record significant performances. It cannot be said that agricultural production is limited by lack of arable lands, as only 10 per cent of the 33 million hectares of potentially arable lands of the country are cultivated. The reason is due mainly to lack of basic infrastructures (roads, credit and marketing services, agricultural extension services etc) and virtual absence of technological progress in farming techniques, as well as the agricultural implements used, which have kept agricultural development at a subsistence and semi-subsistence level. Madagascar moved from a position of net exporter of rice in the 1960s to that of net importer since 1971. The country was also hit by unfavourable climatic conditions such as cyclones, storms, floods and drought during the 1999/2000 farming season, which had a negative impact on food production.
42. Export of agricultural product represents 17 per cent of total exports made up of coffee (8.1 per cent) vanilla, clove and pepper (4.8 per cent) and cotton (4.1 per cent). Madagascar's exports increased significantly in 1999, reaching 13.6 per cent compared to 1998. This was due especially to the performances of traditional agricultural products (+35.8 per cent), manufactured products (+20.9 per cent), products from the free port zone (6.0 per cent). Furthermore, imports increased by 11 per cent due to a 38 per cent rise in the price of oil, resulting in a 21 per cent increase in the country's energy import bill, as well as increase in the importation of consumer goods. Food imports dropped by 18 per cent in value because of increase in domestic production, particularly rice; Unfortunately, the 1999/2000 harvest experienced a fall in agricultural production due to climatic factors. Combined with a substantial increase in direct foreign investment (DST

11.9 million in 1998, as against DST 42.7 million in 1999) and despite a level of external aid lower than estimates), the overall balance of payments stabilized in 1999, i.e. -0.2 per cent of the GDP, compared to a deficit of 4.6 per cent of the GDP in 1998.

43. External debt however remains a major obstacle to Madagascar's development. External debt stood at the end of 1999 at USD 4,845, i.e. 93 per cent of the GDP, while debt servicing stood at USD 232 million, representing 54 per cent from export earnings of goods and services. The Government of Madagascar is in the process of fulfilling the conditions for the cancellation or reduction of its external debt under the HIPC Initiative.
44. The positive economic growth recorded in the past three years has not yet contributed to improve the social condition of the majority of the people of Madagascar. Over 7 million Malagasies, i.e. 52 per cent of the total population, suffer from poverty from the human development point of view. Job opportunities are limited, almost half of Malagasy children suffer from chronic or acute malnutrition; only one third of the children aged between 1 and 2 have received the five basic antigene vaccinations and the other social indicators or human poverty.

## RWANDA

45. The Rwandan economy was strongly marked by the war and genocide of the 1990 to 1994 period. The repatriation, resettlement and reintegration of refugees and returnees from the Democratic Republic of Congo, Burundi, Uganda and Tanzania had been the focus of the attention of the Rwandan authorities throughout the period 1995 to 1998. Substantial resources were needed to carry out these operations, especially in terms of construction of reception centres, land redistribution, social services, distribution of drinking water etc.. According to UNDP, about 177,000 homes were built between 1995 and 1999. At the end of 1999 about 300,000 families had to be rehoused.
46. At the same time, there was the need to rebuild the economic and social infrastructures destroyed during the war and to revive domestic production. The war had brought about the decline of the economic activity. Actual Gross Domestic Product dropped by more than 50 per cent between 1993 and 1994, while inflation rose to up to 62 per cent (compared to 12.4 per cent in 1993). Since 1995, the Government has embarked on economic recovery reforms which made it possible to regain the level reached before the war. The GDP increased by 35 per cent in 1995, 15.8 per cent in 1996, almost 13 per cent in 1997, 9.6 per cent in 1998 and 5 per cent in 1999. Inflation dropped to 16 per cent in 1997 and 4 per cent in 1998 and 1999. In 1999, agricultural production reached 90 per cent of its 1990 level, while the secondary sector reached 80 per cent. The per capita GDP, estimated at USD 252 corresponds more or less to the level of 1993, but remains lower than the average level of the Sub-Saharan region (USD 510).
47. The foreign sector is characterized by a current balance deficit, largely financed by official transfers. External deficit dropped in 1999 compared to 1998, but remains high. Current account deficit, official transfers excluded, was estimated at 12.5 per cent of the GDP in 1999, compared to 17.1 per cent in 1997. The level of gross international reserves remained high at 17 per cent, i.e. 8.1 months of imports (CIF). Exports hardly

covered 30 per cent of imports. There was a drop in export of goods and services from USD93.0 million to USD62.0 million between 1997 and 1999. The fall was due mainly to the slump in the price of coffee on the world market, which fell about 40 per cent in 1998, followed by another 6 per cent and 24 per cent fall in 1999 for coffee and tea respectively. The share of the export sector to the GDP is still low, representing only 3.2 per cent in 1999, compared to 4.7 per cent in 1997. The export structure is characterized by the predominance of coffee and tea which alone represent 80 per cent of the value of total exports. In 1999, imports fell by 13.7 per cent compared to 1997, from USD277.0 million to USD202.0 million between the two years. This fall is due to many factors including the slowing down of activity in the industrial sector, a fall in the disbursements of external aid, transport problems in the transit countries, particularly constraints linked to the axle weight on Kenyan roads, as well as limited availability of foreign exchange to import.

48. Rwanda's external debt constitutes a burden on the state budget. The level of external debt rose from USD400 million in 1995 to USD1.4 billion in 1999 (including arrears), i.e. 58 per cent of the GDP, including 15 per cent of domestic debt and 75 per cent of external debt. The domestic debt amounting to USD220 million is owed mostly to banking institutions (76 per cent), the Central Bank especially. The accelerated external indebtedness is partly due to the fall in the prices of export commodities and investment policy. This indebtedness also had an impact on the development of the social sector. In 1999 the Government spent USD1.4 per capita on health and USD6.5 per capita on education, while per capita external debt servicing stood at USD4.5. External debt servicing which amounted to USD36.3 million in 1999 represented 58.5 per cent of goods and services export earnings, 18 per cent of Government revenues, 21.1 per cent of official reserves and about 57 per cent of Government's contribution to health and education budgets. Rwanda is negotiating the reduction of its debt under the HIPC Initiative and is in the process of establishing the macro-economic framework of the Reinforced Structural Adjustment Facility with the help of the IMF and the World Bank.
49. The positive results achieved by the Rwanda Government in the past five years no doubt constitute a good basis for the pursuit of the country's economic and social development efforts, but do not yet make it possible to tackle the thorny problem of poverty. The structural problems of Rwanda economy, especially decline in agricultural productivity, demographic pressure, low level of domestic savings and others keep about 70 per cent of the population in a state of absolute poverty. The development dynamics for the years to come should address these fundamental issues.

## SEYCHELLES

50. Despite efforts made to diversify the economy, Seychelles is still dependent on the tourism and services sectors which represented 20 per cent and 50 per cent respectively of the GDP in 1999. The primary and secondary sectors (agriculture, fishing, mines, industries and construction) accounted for 26 per cent of the GDP. Notwithstanding the economic difficulties, Seychelles reached an appreciable level of development in the last 20 years. Per capita GDP which stood at USD800 in 1977 rose to about USD7,000 in 1999, thus placing the country among the category of intermediate income countries. As a result,

Seychelles benefits a little from development aid, apart from the former colonial powers, namely France and Great Britain. Nevertheless, the country remains exposed to external shocks such as the 1991 Gulf war, but not much due to an aggressive investment policy, especially in the tourism and service sectors which contribute 20 per cent and 60 per cent respectively to the GDP, as well as to an increase in demand.

51. In 1999, Seychelles' economic growth was hampered by the low foreign exchange reserve in the face of growing demand of the manufacturing sector. This foreign exchange shortage prompted a fall back on the parallel market with the attendant inflationary consequences. Inflation rose from 2.6 per cent to 6.3 per cent between 1998 and 1999. The GDP at market price increased from 2.9 per cent in 1999, compared to 5.5 per cent in 1998. This rise is due essentially to increase in the production of tuna to 75.5 per cent between 1998 and 1999.
52. The other industrial processing units have struggled to maintain their production levels despite the shortage of foreign exchange to import raw materials. The transport, distribution and communications sectors constitute the main driving force behind Seychelles' economic growth, accounting for 29.2 per cent of the GDP. In 1999, production of this sector increased by 2.5 per cent through the expansion of the telecommunications sector, with the introduction of a new system at the end of 1998. The tourism sector which is the country's main source of foreign exchange performed well in 1999. After a 1.4 per cent drop in 1998, the number of tourists in 1999 stood at 124,865, i.e. a 2.6 per cent fall compared to 1998. Nevertheless, earnings from tourism increased by Rupee 12 million in 1999, i.e. a 2 per cent increase.
53. On the foreign trade sector, the trade balance improved slightly by 2 per cent due to a low increase in imports and a high increase in tuna export. The balance of payments deficit worsened in 1999 due to low export revenues to cover imports and a significant reduction in transfers. As a result, Seychelles Rupee depreciated by 1.5 per cent compared to the American dollar.
54. The budget deficit dropped from 23 per cent of the GDP to 13 per cent between 1998 and 1999. The objective in 2000 is to bring it down to 2 per cent. Other monetary and fiscal measures will be adopted particularly the abolition of monopolies in the productive sector and the privatization programme. The programme for the draining of part of Seychelles territorial waters will create spaces for construction of houses and the development of commercial and industrial zones. Seychelles' prosperity has led the Government to introduce social policies, particularly the construction of houses, the provision of free primary health care, basic education etc. Lack of qualified manpower, however, compels Seychelles to resort to the regional services and international experts.

## **SOMALIA**

55. The political situation Somalia has been going through since 1988 does not make it possible to make an assessment of the country's economic development, particularly as there are no stable and functional institutional structures. In August 2000, the peace conference held in Djibouti paved the way for the establishment of political institutions, including the installation of the President of the Republic, the Parliament and an interim

government. So far, the aid from the international community is limited to UNDP co-ordinated humanitarian assistance.

56. According to United Nations estimates, in 1998, the GDP increased by 2.5 per cent compared to 5 per cent in 1997. The bulk of the GDP comes from agriculture which accounted for 62.2 per cent of the GDP in 1999, as against 38.7 per cent in 1980. This situation stems from the paralysis of the other sectors due to political upheavals. The per capita income estimated at USD75 is the lowest in Africa. This is a worrying situation, especially as this income is dropping every year. Agricultural production is made up of maize (120,000 tons), banana (90,000 tons), cassava (45,000 tons), sugar (15,000 tons) and wheat (1000 tons). For some years now, the food situation has deteriorated considerably. There is constant increase in the prices of foodstuffs. To make up for the food shortage, foodstuffs had to be imported to the tune of US\$47.1 million (1997), representing 26 per cent of total imports. Humanitarian organizations provided substantial food aid to cope with the shortages.
57. Somalia's foreign sector is characterized by a substantial trade deficit. The exports value amounting to USD76 million is far lower than imports value estimated at USD179 million, i.e. a 42 per cent cover. Consumer goods, including food items, represent a large share of total imports. Export commodities are essentially made up of meat and fish exported to Saudi Arabia, Yemen, Italy and the United Arab Emirates.
58. The political instability has also led to the deterioration of the social conditions of the population. The per capita GDP of USD75 gives a first impression of human poverty in Somalia. Infant mortality rate estimated at 113 per cent is among the highest in Africa. The revival of the economy of Somalia will depend on the restoration of institutional stability and the response of the international community.

## **TANZANIA**

59. The principal macro-economic objectives for the 1998/99 fiscal year were the attainment of a 3.5 per cent real growth rate of GDP and an average inflationary rate of 7.5 per cent. Other macro-economic objectives focussed on:
  - Government savings from the regular budget and a reduction of State's recourse to bank financing.
  - A balance of payments deficit not exceeding 15 per cent of the GDP.
  - The overall objective of this reform programme covering the period 1996-1999 is to achieve macro-economic stability and a satisfactory economic growth.
60. In the past five years (1995-1999), Tanzania's economy recorded appreciable results. The GDP increased steadily by 4 per cent since 1995. In 1999, the GDP growth was estimated at 4.7 per cent, while inflation dropped considerably from 36.5 per cent in 1995 to 6 per cent at the end of December 1999, the lowest level in 25 years. Agriculture which represents 44.8 per cent of the GDP experienced a 4.7 per cent increase particularly following a good rainfall in 1998/99. This was a good performance compared to 1997/98 when the growth rate of the agricultural sector was 1.9 per cent. The same upward trend was noticed in the secondary sector where growth was estimated at 4.8 per cent with this sector contributing



up to 15.4 per cent of the GDP. The service sector also achieved the same performance of 4.8 per cent. With the micro-economic stabilization, direct foreign investment increased from USD 20 million four years ago to USD 183 million per annum at present. Similarly, the number of tourists increased significantly (+34 per cent), which also contributed to an increase in the value-added in the hotel, restaurant and retail sectors.

61. The balance of payments situation however deteriorated, compared to the previous year. This was due to a 6.2 per cent fall in export revenue of goods and a 7.4 per cent increase in the import value. Current account deficit was estimated at 14.8 per cent of GDP, as against 14.5 per cent in 1998. Foreign exchange gross reserves can cover at least 4 months of import of goods and services. External debt was estimated at USD 6.9 billion in nominal terms, while the total amount of external and internal debt stood at USD 8.9 billion. In the 1998/99 fiscal year, debt servicing payment amounted to USD 310.6 million. Debt servicing represents 29.8 per cent compared to export goods and services. In April 2000, the IMF and the World Bank adopted a debt reduction programme under the reinforced HIPC Initiative. The debt relief package was estimated at USD 3 billion, which represents a 54.7 per cent reduction of debt owed to commercial, bilateral and multilateral creditors.

62. As part of a poverty reduction plan (43 per cent of the population live under the poverty line), the Government has prepared two important documents, namely "Tanzania Assistance Strategy (TAS)" and "Poverty Reduction Strategy Papers (TAS)" aimed at directing external aid towards priority sectors targeted at poverty reduction. The two documents are extracts from the Global Plan Known as "Development Vision 2025" which defines the long term development objectives and provides for the total eradication of poverty in Tanzania by the year 2025, with the attainment of universal school enrolment, a 90 per cent reduction of illiteracy, access to drinking water for at least 90 per cent of the population over a distance not exceeding 400 metres, 50 per cent increase in access to health services, and the reduction of unemployment by at least 10 per cent etc. It is an ambitious programme that will require substantial resources.

## UGANDA

63. In the 90s Uganda achieved a high economic growth and macro-economic stability through the implementation since the late 80s of an ambitious reform and macro-economic adjustment programme. During the period 1994/95 – 1998/99, the average GDP annual growth rate was 7.4 per cent, while the average fiscal and current account deficit (excluding of grants) was 6.9 per cent and 7.8 per cent respectively of the GDP. In 1998/2000, the GDP growth rate was 5.4 per cent as against 7 per cent as initially planned. This decrease in production in relation to estimates was due to two factors: firstly, agricultural production was affected by drought; secondly, the effect of external shocks on the terms of trade resulted in a fall in real income and as well as demand.

64. On foreign trade, export revenues fell by 22 per cent from USD 549 million to USD 450 million between the two 1998/99 and 1999/2000 fiscal years. Coffee revenue dropped by more than USD 100 million because of a 25 per cent fall in production as well as a price slump on the world market. In value terms coffee export losses were estimated at 17 per cent compared to 1998, due to drought and diseases which affected coffee trees.

Furthermore, export revenue fell by more than USD30 million because of the embargo imposed by the European Union on Uganda fish. Imports increased slightly between 1998 and 1999, from USD1.38 billion to USD1.39 billion due to depreciation of the Uganda shilling as a result of a drop in export price and a rapid increase in the prices of petroleum products, on real income and expenditure. The fall in export revenue put pressure on the exchange rate of the Uganda shilling which depreciated by 9 per cent compared to the dollar during the 1999 fiscal year.

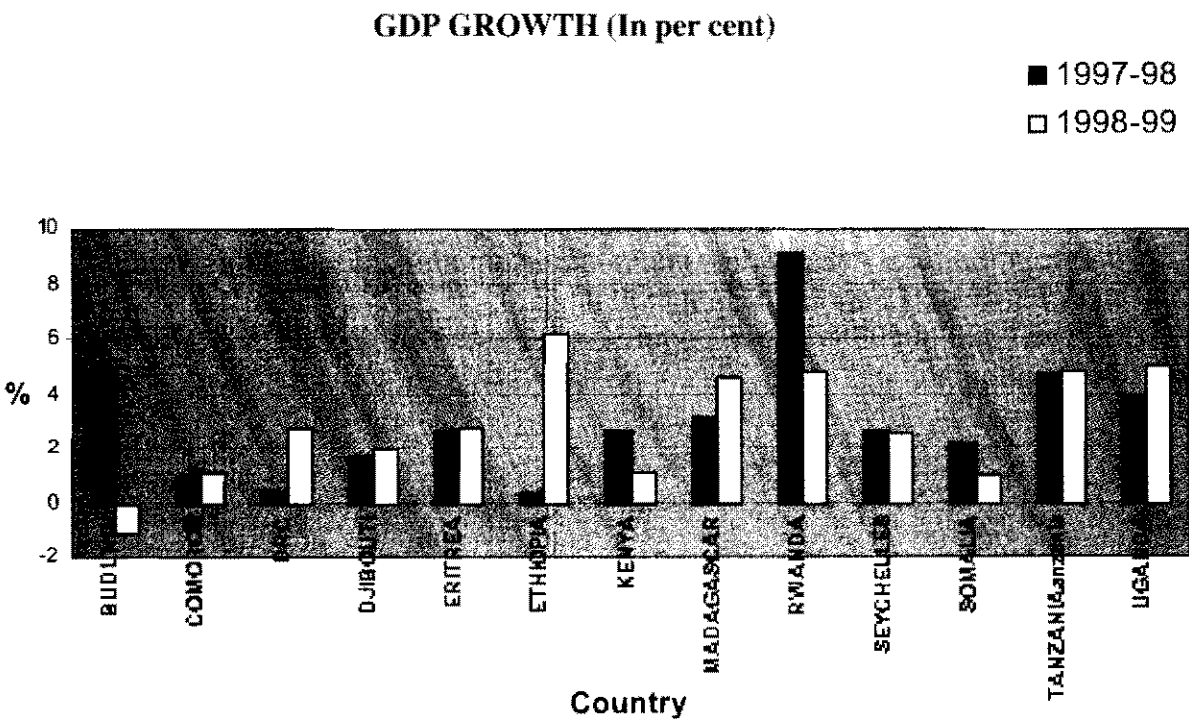
65. The Government budget policy forms part of the Framework Document on Medium Term Public Expenditure and the Plan of Action for Poverty Eradication. The Government benefited from debt relief under the HIPC Initiative to the tune of USD 347 million. Furthermore, in February 2000, Uganda benefited from an additional USD700 million debt servicing relief under the Reinforced HIPC. This debt relief will enable Uganda to pursue its poverty reduction programme, strengthen structural reforms and maintain macro-economic stability.
66. Although Uganda is among the poorest countries of the world, its economy is making significant improvement for the welfare of the population. Between 1992/93 and 1998/99, the percentage of the population below the poverty line fell from 56 per cent to 40 per cent due essentially to a significant economic growth. The percentage of children attending primary school rose from 56 per cent in 1995/96 to 94 per cent in 1998/99. The budget resource allocation for the 2000/2001 financial year demonstrates the concern of the Government to significantly reduce the poverty status of the population. The budget share allocated to education stood at 26.9 per cent, compared to 8.7 per cent and 9.1 per cent respectively for health and roads. In the water sector, 46 per cent of the population in 1998, as against 11 per cent in 1986, had access to potable water in the rural areas, whereas in the urban areas, these rates varied between 44 per cent and 50 per cent. Infant mortality dropped from 188 per 1000 births in 1986 to 88 per 1000 in 1998. These performances in the social sector will be pursued in the years ahead.

# CHAPTER III

## SUB-REGIONAL MACRO-ECONOMIC PERFORMANCE

### 3.1 Economic growth

67. One of the characteristics of the economy of the sub-region, which explains the poor results in economic development and poverty reduction, is the big disparity between the size of its population and the production level. The population of the East African subregion represents 30.7 per cent of Africa's total population (1998), whereas its share of the GDP of the entire continent stands at 8 per cent. Despite some encouraging results in 1999, the per capita average income which is USD 181 is below the average of the Sub-Saharan African region (USD 510) and far below the poverty threshold of USD 1 per day per inhabitant.



Source: a) United Nations: ECA Economic, Report on Africa, 1999  
b) Country Profiles

68. In 1999 the economies of the subregion maintained the growth rate of the previous year. The GDP increased from 2.5 per cent in 1998 to 3.5 per cent in 1999. This growth took place in countries like Madagascar, Ethiopia, Rwanda, Tanzania and Uganda which undertook structural and macro-economic stabilization reforms. The 3.5 per cent GDP growth rate slightly exceeded that of the population of the subregion. However, this rate is lower than the threshold of 8 per cent growth rate which is necessary to reduce poverty by half in the subregion by the year 2015. The prevailing in countries in conflict and/or unstable politically is alarming. The performances of their economies are poor and have a negative impact on the overall performances of the region. Thus is the case in countries like Burundi, the Comoro, the DRC and Somalia.
69. The heavy dependence of the economies of the subregion on agriculture makes these countries vulnerable in terms of their production which are subject to the vagueness of the climate. Indeed, given the predominance of agricultural product in the export commodities, the significance of export revenues depends on the prices of these products on the world market. The industrial sector in the subregion is still undeveloped, accounting for less than 20 per cent of the GDP and made up essentially of small processing plants for agricultural products. This weakness of the industrial sector also limits trade opportunities among the countries. The share of the industrial sector in the GDP has not changed significantly in the past 20 years. This shows the lack of dynamism of this sector to revive supply despite considerable industrial promotion measures undertaken in most of these countries. The island and coastal countries placed their hope principally on the development of services and particularly on port services. For example, transit and re-export operations at the International Autonomous Port of Djibouti accounted for more than 60 per cent of Djibouti's GDP in 1998. Seychelles, Kenya and Ethiopia also developed the service sector which represented respectively 65 per cent, 60.5 per cent and 36.5 per cent of the GDP.

### 3.2 External Sector

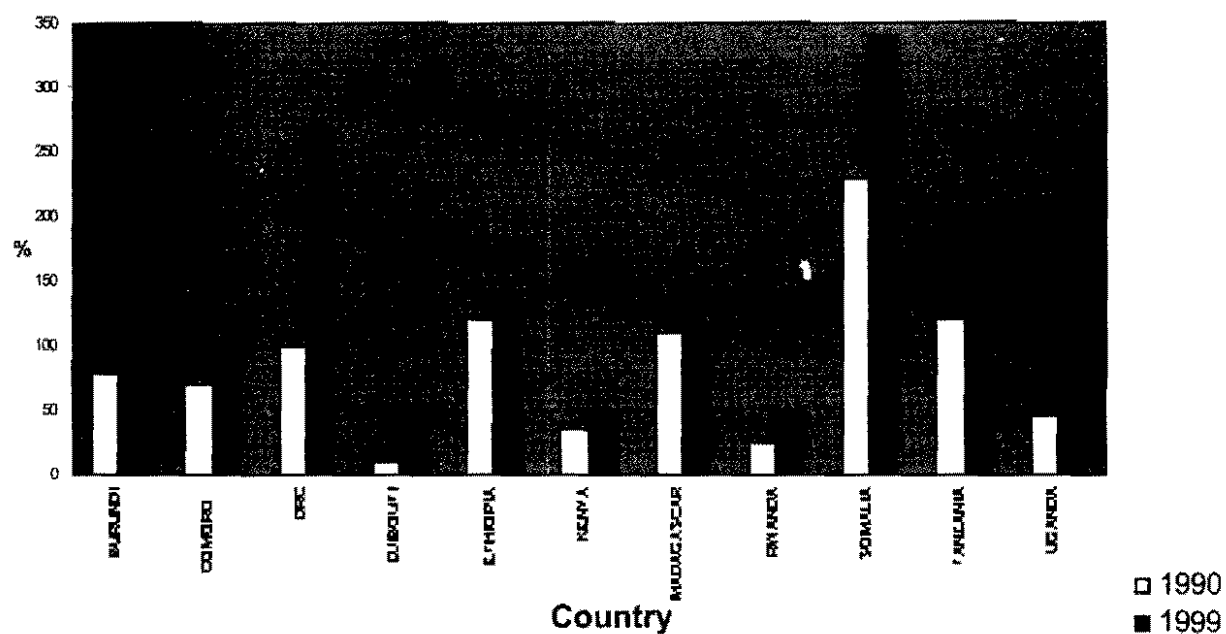
70. The fall in the prices of commodities, particularly, has weighed heavily on the balance of payments of some countries of the subregion. On the whole, however, the subregion's exports increased slightly by 1 per cent compared to 1998, through particularly the revival of the export of products other than agricultural products, such as copper and other minerals. The overly heavy dependence of some countries on a limited range of agricultural export commodities is a major constraint to an increase in export earnings. For some countries like Burundi, the Comoro, the DRC and Rwanda, export earnings in 1999 were lower than earnings collected ten years ago. For the other countries, the situation was rather stagnant, with the exception of Kenya which significantly increased its exports between 1989 and 1999.
71. Imports did not vary much between 1998 and 1999, despite an increase in the price of petroleum products. The subregion experienced a slight growth of 0.7 per cent. The import/export ratio was the same as in 1998, i.e. 46 per cent. Imports of food and petroleum products represent on the average 23 per cent of total imports. For some countries like

Djibouti and the Comoro, these two products account for more than 50 per cent of the expenditure on imports. In view of the persistent low and falling export revenue, a large portion of imports is financed by external resources, a major source of indebtedness (particularly as subventions and direct foreign investments in the subregion are limited).

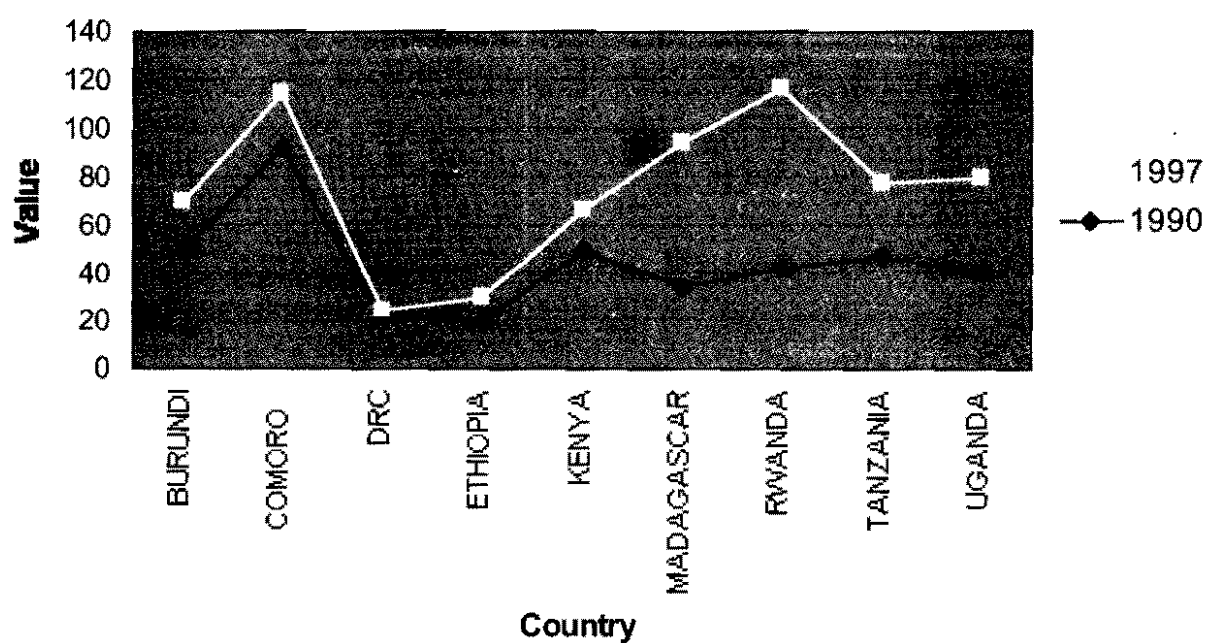
### **3.3 External Debt and Official Development Aid**

72. Payment of public external debt represents an increasingly large portion of foreign exchange earnings from the export of goods. The debt stock owed by the countries of the region amounts to USD53.6 billion, i.e. 122 per cent of the regional GDP. The DRC and Ethiopia together account for almost half of that amount. External debt for these two countries represents respectively 275 per cent and 142 per cent of their GDP. Of all the 13 countries of the subregion, only six have a debt/GDP ratio lower than 100 per cent. This situation means that Governments will allocate increasingly significant portions of their budgetary resources to external debt repayment which is to the detriment of investments in the priority sectors of education, health and agriculture. For example, the amount paid by Madagascar for its external debt servicing in 1999 was three times the health budget and twice the education budget.
73. Initiatives to reduce the debt burden of African countries are facing a slow and cumbersome procedure to fulfil the requirement. Under the Initiative for Heavily Indebted Poor Countries (HIPC) established by Bretton Woods institutions in 1997, only Uganda and Tanzania have so far benefited from it. To be eligible, a country must first demonstrate three successive years of good results from its economic reforms and prepare a Strategic Poverty Reduction Strategic Plan, showing how public expenditure will, as a priority, be geared towards poverty reduction oriented sectors. In addition to Uganda and Tanzania, other countries are in the process of fulfilling the eligibility requirements for 2001 and 2002. Particularly Madagascar, Kenya and Ethiopia.
74. While the external debt is becoming increasingly heavy, and initiatives for its reduction produce marginable results, international aid is dropping significantly. Per capita aid dropped considerably in most of the countries of the subregion. For Kenya, the international community has for more than five years now frozen development aid, while the country continues to honour its obligations on debt servicing. As a result, development aid granted to that country has dropped considerably during the decade. For the DRC, aid is approaching the zero mark.

### EXTERNAL DEBT TREND IN RELATION TO THE GDP(per cent)



### OFFICIAL DEVELOPMENT AID (per capita USD)



**Sources:** UNCTAD: The Least Developed Countries, 2000 Report  
WORLD BANK : Country Profiles



## CHAPTER IV

### POVERTY REDUCTION

#### 4.1 Poverty profile in the sub-region

75. According to UNDP<sup>6</sup>, the indicator of human poverty shows the extent of misery in four aspects of human life namely the capacity to live long and to be in good health, knowledge, economic resources as well as participation in social life. With respect to developing countries, the inability to live long and in good health can be determined by the percentage of people who do not attain the age of 40. The lack of knowledge can be measured against the level of literacy while the lack of economic resources could be determined by the percentage of people who have no access to health services and potable water as well as the percentage of children under five suffering.

76. According to the criteria outlined earlier on more than 50 percent of the population in the sub-region namely 119 million people live below the poverty line in 1999 (see Table). Poverty is very acute in DRC, Ethiopia, Madagascar, Rwanda and Somalia where more than 50 % of the population is affected. Poverty is rampant both among the rural and urban population. Poverty also worsens the health status of the population and provides little access to education as well as increasing illiteracy, ignorance and technological backwardness.

#### 4.2 Promoting growth and reducing poverty

77. Reducing poverty: This is the main development objective of Africa as reaffirmed in Copenhagen during the World Social Development Summit. Poverty should be reduced by half by the year 2015. For the East-African sub-region, attaining this objective implies an annual growth rate of 8 %. Although the economic performance of the sub-region during the last three years have been encouraging, it is below this target. GDP growth rate was 3.2 % in 1997, 2.5% in 1998 and 3.8 % in 1999 with some countries in the sub-region recording a zero or a negative growth rate. To reverse this trend and accelerate growth, there should be substantial increase in investment resources. But the recent developments in the mobilisation of domestic and external resources have not been encouraging. Domestic savings were small and international assistance was dwindling and the long-term prospects for economic growth and social progress seem uncertain. Despite the adoption by the countries of the sub-region of macro-economic stabilisation policies, the issue of development financing should be given greater focus.

78. The challenges to foster this economic growth are immense. Efforts should be made to combine a series of measures in order to increase the impact of official development assistance, rationalise public expenditure, attract private capital, arrest the flight of capital, increase domestic savings and redirect debt service resources generated by debt relief towards development financing. This requires a reform of economic policies as well as considerable support from the international community.

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<sup>6</sup>UNDP: World Report on Human Development, 1999  
Human Development Indication, 2000

### **4.3 Re-establish Peace and Stability in the sub-region**

79. During the 1990s, there was a slow down in the economic development of the sub-region due partly to the conflicts and the political instability that prevailed in some countries such as DRC, Rwanda, Burundi, Somali, Ethiopia, Eritrea, Djibouti and the Comoro. These conflicts and politically unstable situations brought about the destruction of economic and social infrastructures as well as the displacement of peoples both further inland and outside the countries, the paralysis of the political, economic and social structures and a slow down in economic activities. Genocide in Rwanda with more than one million people killed and two million refugees, the massacre in Burundi for the past seven years with more than 200,000 people killed, the war in the DRC which is paralysing the economic activity in that country and in the sub-region, the border conflict between Ethiopia and Eritrea, the absence of political institutions in Somalia, the institutional crisis in the Comoros with the secession of the Island of Anjouan etc. have all caused a slow down of growth in the sub-region. In addition to these already negative factors, the halt or reduction of international development assistance further aggravates the deterioration in the economic situation of the sub-region.
80. The re-establishment of peace in the sub-region would lead to a revival of the economic structures and should lead resolutely to the establishment of sustainable economic growth. A stable political environment will not only promote the economic development of the countries but also enhance greater sub-regional integration within a dynamic region and world of markets and trade.

## CHAPTER V

### SUB-REGIONAL INTEGRATION AND TRADE DEVELOPMENT

#### 5.1. Foundations for Sub-Regional Intergration

81. The globalisation of the world's economy and its scope are progressing at a surprising rate. The whole world is being mobilised and regional and sub-regional groupings are being established and strengthened for the development of trade in goods and capital. During the past 20 years, world export of goods and services has almost tripled whereas the share of industrial products in the export of marketable goods have considerably increased. At the same time, foreign direct investment has increased mainly in favour of industrialised countries and countries called "newly industrialised" of South-East Asia.
82. The present trend in the world economy further marginalises the economies of developing countries particularly sub-saharan African countries. These trends aggravate economic stagnation as well as poverty. The East Africa sub-region is further marginalised in this dynamic process of world integration. The export of manufactured products which are likely to promote economic development and create employment are still limited (less than 20 % of total exports) as well as the ratio of export/ GDP which is weak (20 %). Export from the sub-region is mainly raw materials and direct foreign investment is focussed on the mining industry. The integration of the sub-region in the world economy under the asymmetric trade system and even in the system that emerged from the Marrakesh Accords make the sub-region still more vulnerable to the vagaries of the commodities market. In as much as it is true that there has been an increase in the price of raw materials that it exports, it is equally true that the price of imported manufactured products continue to slip from its control.
83. Confronted with gradual marginalisation, the countries of the sub-region should imperatively diversify their economic activities as well as improve the competitiveness of their products and modernise the economic infrastructures. In order to achieve this goal, reform of trade policies should be undertaken in such a way that Africa could be integrated into the world economy. The foundations for the development of regional cooperation and the integration of African markets exist. The issue is to strengthen, rationalise and provide them with the political support and the required financial assistance.
84. Within the spirit of the ideal enshrined in the African Economic Community aimed at creating and strengthening the sub-regional intergovernmental mechanisms, a certain number of regional institutions were established. In the East African sub-region, there is the East and Southern African Common Market (COMESA), the East African Community (EAC), the Indian Ocean Commission (IOC), the Economic Community of the Great Lakes countries (LEPGL), Kagera River Basin Organization (KBO), the Transit Transport Coordination Authority/Northern Corridor (ACCT/CN), the Intergovernmental Authority on Development (IGAD). The countries of the sub-region are also members of the Economic Community of the Central African States (ECCAS) (LEEAL) (Burundi, Rwanda and DRC) and SADC with one country from the East Africa sub-region namely Tanzania being a member. The objective of these institutions was to accelerate the integration programmes including trade

liberalisation through customs unions as well as through preferential trade zones and common regional markets.

## **5.2. The liberalisation of intra-regional trade**

85. The development of intra-regional trade in the East African sub-region during the last ten years reflects the low level of sub-regional market integration. The export of goods from the sub-region to the African continent is 21.8 % of the total exports in 1997 whereas the imports from other African countries for the same period was 20.3 %. Some countries from the sub-region hardly trade with other African countries. Only Kenya exports to African markets which accounts for 42.5 % of the total Kenyan exports in 1997 (see Table below). This weakness in intra-regional trade is the result of several factors which principally are:

- Heavy dependence on raw materials with the main markets located in the developed countries. The processing plants are very limited in capacity and the production structures are hardly diversified. Consequently, the number of traded products with other African countries are very limited.
- Deterioration of security at the borders due to internal conflicts.
- Weak infrastructures and low level of interconnectivity. The growth in trade between countries require efficient road, rail, maritime, lake, airport or telecommunications infrastructures. However, in most of the countries of the sub-region these conditions do not exist. In countries where these infrastructures exist, they are not efficient in most cases and are also old and constituting obstacles to operators.
- Low level of macro-economic policy harmonisation as well as monetary instability.

## INTRA-REGIONAL TRADE IN EAST AFRICA 1995-1997

Pays	1995				1996				1997			
	Export s (milli ons \$US)	% du Total Export s	Import s (millio ns \$US)	% du total imports	Export s (millio ns \$US)	% du total exports	Import s (millio ns \$US)	% du total import s	Export s (millio ns \$US)	% of total export s	Import s (millio ns \$US)	% of total impo rts
Burundi	8	8.0	63	27.0	9	22.5	22	17	2	2.4	23	22.3
Dem. Rep. of Congo	48	11.0	145	28.0	59	10	143	33.7	46	10.3	169	43.4
Comoro	-	-	18	19.6	-	-	25	25.8	-	-	-	-
Djibouti	17	81.0	32	11	17	73.9	32	10.4	-	-	-	-
Eritrea	-	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	26	6.0	86	8	40	9.6	102	8.7	40	6.8	108	9.7
Kenya	646	33.0	282	9.0	882	42.3	261	9.5	833	42.5	490	14.9
Madagascar	54	15.0	42	7.6	9	3	82	13.6	7	2.5	61	10.6
Rwanda	-	-	71	30.0	1	1.7	72	28.0	3	3.4	99	33.0
Seychelles	3	6.0	42	16.5	2	1.4	44	12.7	1	0.9	43	12.6
Somalia	1	1.0	79	44.0	1	1.2	89	52.3	1	1.4	65	41
Tanzania	94	14.0	321	19.0	111	14.6	198	15.8	88	14.7	231	17.7
Uganda	13	3.0	320	30.0	13	3.6	433	36.4	17	3.0	522	39.6
<b>TOTAL</b>	<b>910</b>	<b>19.5</b>	<b>1,501</b>	<b>16.1</b>	<b>1,151</b>	<b>22.9</b>	<b>1,513</b>	<b>17.3</b>	<b>1,054</b>	<b>21.8</b>	<b>1,879</b>	<b>20.3</b>
Share in the total of African trade(%)	<b>8.9</b>		<b>14.2%</b>		<b>10.0%</b>		<b>14.6%</b>		<b>8.4%</b>		<b>16.9%</b>	

Source:ECA:EA-SRDC

### 5.3. Diversification and product competitiveness

86. Diversification and product competitiveness are important issues for countries of the sub-region. On the issue of diversification, the export structure of the countries of the sub-region indicate the predominance of raw materials which account in some countries for more than 80% of export earnings (Please see table). Moreover, the development of export earnings is heavily dependent on world prices which are far from the control of these countries. Finally, considering the permanent fluctuation in the world prices of these raw materials and the gradual reduction of their share in world trade, it is crucial that the countries involved should urgently design a strategy for a diversification of export products and markets.

87. At the same time, the search for competitiveness is increasingly becoming crucial. When domestic products are challenged on the domestic or export market by foreign products, outside any protectionist environment, the issue of competitiveness therefore arises. Consequently, it is vital to develop efficient production and marketing systems in order to sustain competition in the world market.

#### LEVEL OF DEPENDENCE ON RAW MATERIALS

	Percentage of total exports (in %)	Products
Burundi	93	Coffee, tea
Comoro	82	Vanilla, ylong-ylang
RDC	75	Copper, diamond, cobalt, gold, coffee, manufactured products
Djibouti	80	Re-exports
Eritrea		
Ethiopia	85	Coffee, skims, sugar, beans, animals, petroleum products, oils
Kenya	70	Tea, coffee, petroleum products, flowers, fish
Madagascar	96	Coffee, vanilla, lobsters, manufactured products, industrial free zone, sugar
Rwanda	76	Coffee, tea
Seychelles	98	Tuna, fish, shrimps
Somalia	--	---
Tanzania	69	Coffee, cotton, tea, sisal, tobacco, minerals, cashew nuts
Uganda	72	Coffee, tea, tobacco, fish



## 5.4 Development of infrastructures

### Transport and communications

88. Infrastructures constitute the essential links for regional integration. Without an efficient transport and communications system, trade among the countries of the sub-region will remain insignificant. The countries of the East African sub-region lack an efficient transport network system. The available infrastructures are in a poor state of repair and should be rehabilitated while there are several non-physical trade barriers between the countries. These physical and non-physical barriers sharply increase transport costs and consequently increase the cost of imported goods. At the moment, transport cost (including insurance) account for 15 to 25 % of the CIF value of imports (compared with 5.7 % for developing countries and 3.2 % for developed countries).
89. In the Great Lakes region, international transport uses two principal routes for the transportation of goods from and towards the Indian Ocean. The first route is the **NORTHERN CORRIDOR** which links the port of Mombasa (in Kenya) to Bujumbura via Nairobi, Kampala and Kigali. This route albeit the most commonly route used by the countries in the sub-region has problems particularly high transport costs, as well as issues relating to the regulation of minimum axle load and the cumbersome administrative and customs procedures. The second transport route is the **CENTRAL CORRIDOR** which links the port of Dar-es-Salaam to Rwanda, Burundi and the DRC. This corridor has two major roads. One route is bimodal rail/road and its infrastructures mainly the road section should be rehabilitated. Through this route, goods can also be transported via Lake Victoria from Kemono Bay to the port of Mwanza (in Tanzania) or Kisumu (in Kenya) and proceed to the ports of the Indian Ocean. A third alternative route exists namely the **SOUTHERN CORRIDOR**. It is a multi-modal transport route-road-lake-rail linking Rwanda, Burundi, Tanzania, Zambia and Zimbabwe to the Southern African port of Durban. This corridor is a long route stretching 3 100 kms from Kigali to Durban with four transshipments in Durban, Zambia, Mpulungu and Bujumbura and therefore severely reducing its economic value. In order to address this constraint, COMESA is currently studying a major project called "Great Lakes Railway" in collaboration with ECA and South Africa with the aim of linking the sub-region of the Great Lakes with Southern Africa through a multi-modal transport system rail/lake without any transshipment.
90. In the Horn of Africa, international transport is done mainly through the Indian Ocean from the ports of Massawa (Eritrea), Djibouti and Berbera (Somalia) using a bimodal rail/road transport system. The border conflict between Eritrea and Ethiopia has resulted in the diversion of Ethiopian transit goods towards Djibouti International Port. As a result, the rail and road traffic on the Djibouti-Addis Ababa link has greatly increased.
91. It is crucial for the countries of the sub-region to develop an integrated transport system for the expansion of inter state trade and the promotion of sub-regional economic integration. The strategy should aim at:
- The improvement of infrastructures, services and equipment;
  - The extension of the existing transport and communication systems;

- The elimination of non-physical barriers; and
- Industrial diversification.

## **Telecommunications**

92. The telecommunication systems in the East African sub-region are still weak and hardly integrated. The weakness in the sub-regional network is the result of the lack of infrastructure as well as the low level of interconnection and high tariffs. The cost of telephone connections is four times higher in the sub-region as compared to developed countries. The waiting period for telephone connections is estimated in the sub-region to range from eight months to one year while the requests met are 69.1 %. The available data indicate that the sub-region has one of the lowest telephone density in the world. The average telephone line per 1000 inhabitants is 3 compared to an average of 17 for the whole of Africa and 177 for the world.

93. Nonetheless, efforts have been made to modernise the regional communications networks. The East Africa Community (comprising Tanzania, Kenya and Uganda) has a project underway to modernise the system which will also later include Burundi and Rwanda. The Organisation of the Kagera River Basin (comprising Burundi, Rwanda, Tanzania and Uganda) has established a project for the modernisation and the interconnection of the telecommunication networks as well as the establishment of reliable systems of communication between the four countries. COMESA is preparing a project aimed at connecting the telecommunications networks of all the Members States (COMTEZ project) as well as the tariff harmonisation. Finally, all the countries concerned recognise the importance of telecommunications in economic and social development.

94. Consequently, a dynamic cooperation framework should be established among the countries of the sub-region for the provision of increased resources in the development of telecommunications. As a first step, the existing services should be strengthened, modernised and made more competitive. Later on wide-ranging reforms should be undertaken in particular to privatise and liberalise the telecommunications sector and incentives should be put in place to encourage the private sector to invest in telecommunications.

## **Energy Development**

95. The need to develop sub-regional and regional cooperation between neighbouring countries and/or countries belonging to the same economic grouping for the development and utilisation of energy resources stems from the following:

- i) The important role played by energy in economic and social development as well as in trade.
- ii) The absolute need to achieve economies of scale and to ensure the viability of investments and
- iii) The transborder nature of the principal sources of energy. Economic development goes together with increasing demand for energy but it is a capital intensive sector requiring huge investments which countries on their own can not easily afford. Furthermore, potential energy sources spill over national boundaries and to carry out an evaluation

requires collaboration and cooperation among the countries concerned.

96. The Eastern Africa sub-region has two fold particularity for being abundantly endowed with energy potentials and having very low consumption levels of about 2% to 4%. The region's potential energy sources are wood, peat, methane gas and hydro-electricity. The intensive use of wood for cooking and heating (which represents about 80% of the households needs in the region) has led to a fast shrinkage of the forest cover as well as to a serious ecological and environmental deterioration. Peat and methane gas are little used in some parts of the eastern Africa region because of their low competitiveness in terms of cost and availability compared to hydro electricity. Many countries in the region have a substantial hydroenergy potential because they have abundant rains that ensure both a permanent water flow and water falls required to produce energy. Unfortunately the region's potential for hydro-electricity production is only exploited to an average of about 5 to 6%. The Democratic Republic of Congo's electricity potential alone is estimated at 100,000 MW<sup>7</sup>. The Inga Complex alone, for example, has a potential capacity of 40,000 MW to 45,000 MW and already makes it possible to export power to neighbouring countries (Zambia, Zimbabwe, Angola, Congo Brazaville) and to South Africa.

97. The various sub-regional groupings in the East African sub-region (CEPGL, OBK, COMESA, EAC, IGAD, OIC) have energy cooperation agreements and there are arrangements between some electricity companies, with government support, to interconnect electricity networks and/or power pooling arrangements for the mobilisation of the required investments in the sector as well as ensuring their viability. There are also great possibilities to exploit other sources of energy, such as solar energy, wind energy, geothermic energy, etc... The causes for that low energy production within the region are mainly due to:

- The high costs of investments required to set up hydroelectric dams, as well as low level of resources, local and external;
- The low performance of electric companies and plants;
- The low level of urbanization of some countries, which reduces the demand for electricity;
- The scattering housing systems in rural areas.

98. In view of the low level of electricity production and consumption in the sub-region, the countries of the sub-region should combine their efforts in particular to:

- Harmonise and coordinate their energy policies;
- Cooperate to establish an inventory as well as in the planning, production and in the rational exploitation and distribution of hydro-electric power;
- Develop research programmes on new and renewable sources of energy;
- Develop trade and international trade in energy; and
- Establish a conducive environment for the mobilisation of financial resources for the encouragement of both state and private investment in the sub-region.

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<sup>7</sup> World Bank: World Development Report 1999/2000

101. Finally, in an effort to promote real regional integration particularly developing intra-regional trade and within the framework of a regional and sub-regional common market, there should be a harmonisation of macro-economic policies. These policies should particularly be directed at interest rate and exchange rate policies, public finances, fiscal systems, investment finance policies, etc. These should be, for example, the harmonisation of sub-regional monetary policies so that currencies can play a key role in particular in the restructuring of various production systems and in credit policies as well as in financial and commercial transactions between the various economic operators of the sub-region.

## 5.6 Improve the efficiency of the Regional Integration Institutions

102. Regional cooperation and integration in the East African sub-region is carried out within the framework of 9 intergovernmental organisations. These organisations cover the entire or part of the region but there are also some that cover countries in the Southern Africa or Central Africa regions. These organisations are: COMESA, CEEAC, CEPGL, IGAD, OBK, ACTT/CN, EAC. This list does not include specialised institutions established by some IGOs particularly COMESA, CEPGL or EAC. Membership of the countries of the sub-region in the various organisations is shown below.

Membership of countries of the East Africa Sub-region in the Regional Organizations

IGO	B U R	C O M	D J I	E R Y	E T H	K E N	M A D	R W A	S E Y	S O M	R D C	T A N	U G
COMESA	X	X	X	X	X	X	X	X	X	X	X		X
CEEAC	X							X			X		
CEPGL	X							X			X		
IGAD			X	X	X	X				X			X
KBO	X							X				X	X
IOC		X					X		X				
ACCT/CN	X					X		X			X		X
SADC													
EAC						X						X	X
TOTAL	5	2	2	2	2	4	2	5	2	2	5	3	5

103. This table shows that each country is a member of quite a number of regional organisations. Only the island states such as (Madagascar, Comoro and Seychelles and countries in the Horn of Africa such as (Djibouti, Eritrea, Ethiopia and Somalia) are still members of only two organisations promoting regional integration. The countries of the Great Lakes sub-region (Burundi, Rwanda, Uganda and Kenya) are members of 4 to 5 sub-regional organisations. In the year 2000, Tanzania withdrew from COMESA making it a member still of 3 regional organisations namely EAC, OBK and SADC. Membership of several sub-regional organisations often involves difficulties in meeting financial contributions or problems relating to programme coordination which also leads to the breaking down in the operations of some organisations (such as CEPGL or OBK). There was really no follow-up on the ECA study conducted in 1997 on the rationalisation of these institutions. Meanwhile, some organisations have been inoperative and the Member states have not taken any measure to revitalise and rationalise them.

### Economic Community of the Great Lakes Countries (CEPGL)

104. The Economic Community of the Great Lakes Countries established in September 1976 is composed of the following countries: Burundi, Rwanda and the Democratic Republic of the

Congo. The aim of this sub-regional organisation is security of the Member States as well as the development of economic and social integration. Article 2 of the Convention states that the objectives of CEPGL are :

- To ensure the security of the Member states and their peoples;
- To design, define and promote the establishment and development of common activities of interest to the Member states
- Promote and intensify trade relations as well as the movement of persons and goods;
- Cooperate closely in the social, economic, commercial, political, scientific, cultural, financial, technical and tourist fields and more specifically on legal, customs, health, energy and transport and communications matters.

105. Several agreements, protocols and other community arrangements were signed in the priority areas by the authorities of the three Member states and CEPGL has established specialised institutions in such priority areas as energy (EGL and SINELAC), scientific research (IRAZ), training and human resources development as well as development financing (BDGEGL). These institutions have developed programmes of common interest to the Member States.

106. CEPGL has also carried out project studies in all areas of activities in collaboration with the Economic Commission for Africa (through its SRDCs) as well as with other bilateral and multilateral donors. These projects are mostly in the key sectors like agriculture, industry, transport and communications and trade. In agriculture, projects were formulated on research/training notably on capacity building in IRAZ, on the development of inputs (improved seeds, fertiliser, phyto-sanitary products, etc.) and the diversification of production. CEPGL is also planning to establish regional centres for the collection and processing of agrometeorological and hydrologic data. On industry, CEPGL has plans to design programmes for the improvement of the competitiveness of manufactured products. Transport and communications projects focussed on the rehabilitation, development and modernisation of infrastructures as well as the establishment of joint enterprises or lake transport and a joint airline training and the adoption of protocols on free navigation on the lakes. Energy projects relate to the interconnection of electricity networks, the exploitation of alternative sources of energy and the installation of gas turbines. On trade, the medium-term objective of CEPGL is the establishment of a new preferential community tariff as well as the elimination of all tariff barriers, carrying out preliminary studies on the common external tariff and the harmonisation of the CEPGL monetary arrangement with the CEEAC and COMESA mechanisms.

107. For more than ten years, CEPGL and its specialised institutions are in a moribund state. The main projects are put on the back burner while the protocols on trade liberalisation have not been put into force. Revitalising and strengthening this institution should revitalise the integration and cooperation process in the sub-region.

### **Organisation for the Development of the Kagera River Basin (KBO)**

108. The Organisation for the Development of the Kagera River Basin (KBO) was established in 1977 and it is composed of Burundi, Rwanda, Tanzania and Uganda. Its main objectives are: the development of the hydrologic and hydraulic potentials of River Kagera as well

as the development of agricultural, pastoral and silvicultural activities, the production of fertilisers, the exploitation of peat, the development of transport and communications, the development of industry and mining, tourism and environmental protection.

109. The first KBO projects that were implemented included: the establishment and management of an economic data bank which is vital for the planners of the Member States, an experimental project on the tsetse fly and trypanomiasis and the interconnection of the telecommunications network of the four Member countries. A study on the construction of a central hydro-electricity power station to supply electricity to the four countries within an interconnected system has been completed.
110. In 1990 KBO refocused its priority action in four sectors namely agriculture, energy, transport and communications, training and information. Based on these priorities, four projects have been established for the first phase namely:
- The execution of the project for the construction of a hydroelectric dam on the Rusumo Falls with a capacity of 61 MW
  - The construction of two road sections namely the Lusahunga-Kemondo Bay, Bukoba-Mutukula (in Tanzania) covering a length of 291 kms and the road Miram ahili – Ntungamo – Ishaka (in Uganda) with a length of 96 kms.
  - The operational phase of the major anti tsetse fly and trypanomiasis campaigns in the Kagera Basin.
111. Despite these new priorities and the implementation of major communication projects, KBO has been plunged since the beginning of the 1990's in a major paralysis and it has not been able to pursue its development programmes mainly due to the unfavourable political environment in the sub-region characterized by the conflicts in (RDC, Rwanda and Burundi) and the weak will of the Member States.

#### **Authority for the coordination of Transit Transport/Northern Corridor (ACCT/CN)**

112. The agreement establishing the Authority for the coordination of Transit Transport on the Northern corridor was signed on 19<sup>th</sup> February 1985 for a period of ten years and renewable. Its main areas of activities are the management of transit transport within the Northern Corridor. Its objectives are:
- To facilitate the movement of transit goods between Member States;
  - To reduce delays on the transportation of goods
  - To eliminate customs fraud on transit goods
  - To simplify and harmonise transit procedures and documentation.
113. Within its terms of reference, ACCT/CN has formulated some measures for the implementation of the above-mentioned objectives particularly the institutionalisation of a uniform custom document, the DTDR, the establishment of a list of registered financial

institutions on the customs bond regime and other supporting documents as well as the harmonisation of administrative procedures. ACCT/CN has also included road rehabilitation activities in its programme for the improvement of road links on the Northern corridor as well as the development of alternative routes in order to diversify the transport routes, the evaluation of rail transport to identify the bottlenecks as well as the development of lake transport particularly on Lake Victoria.

### **Common Market for Eastern and Southern Africa (COMESA)**

114. The treaty establishing the Common Market for Eastern and Southern Africa (COMESA) was signed in November 1993. The overall objectives of this institution are the following.

- To attain growth and sustainable development of Member States through the promotion of balanced and harmonious development in its production and marketing structures;
- Promote collective development in all economic sectors and the adoption of collective policies and macro-economic programmes, improve the living standards of the people and to maintain close links with the Member States;
- Cooperate in the establishment of a conducive environment to attract foreign investment across borders and domestic investment including joint research development and adopting science and technology for development;
- Cooperate in the strengthening of peace, security and stability between the Member States to promote economic development in the region;
- Cooperate in the strengthening of ties between the Common Market and the rest of the world and adopting common positions in international meetings; and
- Contribute towards the establishment as well as the progress and attainment of the objectives of the African Economic Community.

Within its overall objectives, some specific objectives were formulated in key areas such as trade liberalisation and customs cooperation, transport and communications, industry and energy, monetary issues and finance, agriculture and finally economic and social development.

115. COMESA has already made considerable progress particularly in trade cooperation, ongoing projects or completed on trade liberalisation and development in particular in pursuance of the guidelines on tariff dismantling, the formulation of a common external tariff as well as the rectification of distortions arising from the absence of a compensation mechanism and the different tax levels in the normal entry of goods. In chapter 6 of the treaty, there is provision particularly for the gradual establishment during the transitional period of ten years of a customs union among the Member States. Non-tariff barriers including quantitative restrictions, prohibitions and administrative obstacles to trade between Member States will be completely removed. Moreover, the treaty makes provision for a common external tariff for all Member States for products originating from third countries. On customs levies, Member States have made a commitment to reduce and eliminate customs levies and other taxes with similar effect or in relation to the importation of goods eligible for special treatment by the Common Market to be reduced to zero at the latest by 31<sup>st</sup> October 2000.



This approach has certainly significant advantages namely increasing the markets, opening up new investment opportunities, encouraging specialisation, producing economies of scale, attracting foreign investments, improving the balance of payment of the regional grouping, increasing employment opportunities and accelerating industrialisation. Nevertheless, some countries which do not possess well developed production structures will in the short and long term suffer permanently and therefore unable to take advantage of the elimination of tariff and other barriers. This situation explains why some countries have not been keen to see these measures come into immediate effect in the absence of appropriate compensatory measures. Finally, the recent withdrawal by the United Republic of Tanzania from COMESA during the year 2000 put the countries in the sub-region in a difficult position.

116. On transport, COMESA actions will be focussed on the adoption and full implementation by the Member States of some regional cooperation measures: harmonised rate of transit taxes, customs declarations of road transit (DDTR), rapid large information system ACIS, COMESA insurance regulations or COMESA yellow card. Other projects are underway on navigation in most of the internal waterways – Rivers Shire, Zambezi, Nile, Lakes Malawi, Tanganyika, Victoria and Cabora Bassa. An alternative multi-modal transport project road/rail/river from the South African port of Durban is currently being prepared. Cooperation in agriculture, industry and energy comprises several projects: production of agricultural machines (seed drills), construction equipment, development and irrigation of river and Lake basins, anti tsetse fly and trypanomiasis campaigns, agronomy research and forest industry. On finance, the short and medium term objective is the revitalisation of the compensation arrangement and the regime on travellers' cheques ZEP through the adoption of these measures to suit the new international economic and monetary environment. Finally, it should be noted that all these programmes have a particular feature which is their similarity with the sectoral projects of the sub-regional institutions.

### **East African Community (EAC)**

117. The East African Community comprising Tanzania, Kenya and Uganda was launched in 1996 with the primary aim of establishing an East African common market. It plans as a precondition to harmonise the economic policies of the three Member countries to lay the foundation for fair economic competition. The strategic sectors identified for the first decade of the community are: transport and communication, trade and industry, the movement and security of persons, energy, agriculture and tourism. Presently, there are several ongoing programmes on road rail, lake, maritime and air transport, postal services and telecommunications, meteorology, immigration and security, trade, industry and energy, agriculture and tourism promotion. Rwanda and Burundi have expressed the wish to become members of this community.
118. On the harmonisation of fiscal and monetary policies, the activities undertaken by the East African Community since the beginning of its operations in 1996 are particularly on the convertibility of the three currencies, harmonising the beginning of their budget year, pre and post budgetary consultations between Ministers of finance, the establishment of a joint committee on banking issues comprising the three central banks, the establishment of a mechanism for consultation among security officials, the signature

of an agreement to prevent dual taxation as well as the systematic reduction of duties, tariffs and their rationalisation and harmonisation. Other measures have been taken such as the free movement of persons within the three countries using either the inter-state pass or the EAC passport. Tripartite agreements have been signed on road transport and on transportation on inland waterways and a Memorandum of Understanding on cooperation on Defence and the coordination of foreign policy. Finally, other studies are being carried out on the integration mechanisms particularly on the intra EAC trade regime, on industrial strategies, border trade in agricultural products, tourism liberalisation and the East African Inter-University Council and the Master Plan on Energy and Regional Cooperation.

### **Indian Ocean Commission (IOC)**

119. The Indian Ocean Commission was established in January 1984 by the Victoria Cooperation Agreement. It comprises Madagascar, Seychelles, Comoro and the French Overseas Territory of Reunion. The agreement sets out a wide area of cooperation including:

- Diplomatic cooperation
- Cooperation in agriculture maritime fishing as well as the conservation of resources and the ecosystem;
- Cultural scientific, technical, educational and legal cooperation

120. Following its establishment, IOC has developed activities in a wide range of fields such as environment, tourism, trade development, fishing, telecommunications, culture, local crafts, meteorology and human resources development. IOC receives considerable financial support from the European Union for the implementation of its projects within the framework of the Lome Convention. A framework document entitled "Regional Indicative Programme" is the medium through which European Community assistance is channeled. For example under the 8<sup>th</sup> EDF (1995 - 2000) the sum of 25.5 million Euros were provided for activities in the following priority areas: protection and management of natural and maritime resources (50 %), development of trade and goods (35 %) and other sectors (15%). IOC also receives assistance from other donors such as the World Bank in its maritime pollution campaign.

### **Intergovernmental Authority on Development (IGAD)**

121. IGAD was established in 1986 with the principal objective of combating drought and desertification in the six countries affected by drought or at risk in East Africa namely Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda. Later on, the organisation was restructured to focus its activities on development and not only to combat drought and desertification. The principal priority areas of operation of IGAD as approved by the Summit of Heads of States in March 1996 in Nairobi (Kenya) are:

- Food Security and environmental protection;

- The prevention, management and resolution of conflicts and humanitarian issues.
- The development of infrastructures.

122. Within this framework, 17 projects have been identified in October 1996 on three priority sectors. They are the establishment of a documentation and information centre in the Member States of IGAD, the implementation of the ORSEC plans, early warning on food security and agronomy research and increase in food production, evaluation of environment data (Infonet and IGAD meteorology network), energy development for domestic use, livestock corridors, management of water resources, biodiversity and the development of the fishing sector.

123. However, it should be noted that all these programmes have only been implemented in a limited way due to the lack of financial resources. The international community did not respond positively to these programmes. Furthermore, most of the programmes identified are similar to other programmes developed by other sub-regional organisations.

## CHAPTER VI

### THE PROSPECTS FOR THE YEAR 2000/2001

124. The results of the last three decades for the sub-region are still inadequate to stimulate a real dynamism for growth as well as for poverty alleviation. The objective is to reduce poverty by half now and against 2015 and in order to achieve this, the economies of the sub-region should grow by an average of 8 % per annum. The present situation indicates that the sub-region is far from attaining this objective. Furthermore, the integration or the marginalisation of the sub-region in the world economy will lie in the capacity of the countries to increase the level of their trade and in particular their export of manufactured goods and in attracting direct foreign investment. A conducive environment should be created for the attainment of these objectives.

#### 6.1 Economic Growth

125. The GDP of the region in 1999 indicates the significance for countries like Kenya, Ethiopia, DRC, Madagascar, Uganda and Tanzania of the growth of sub-regional production for these countries account for 85 % of the GDP of the sub-region. These are the countries that should develop very high GDP growth in the years ahead. With the exception of the DRC, the other countries have undertaken macro-economic reform measures and the effects are already being felt. The pursuance of these stabilisation measures, encouraging investment and restructuring production units as well as the measures to ease external debt could enhance the revitalisation of growth. The prospects for substantial economic growth for the DRC are closely linked to the reestablishment of peace in the country and in the neighbouring countries of Rwanda and Burundi.

126. With the prospects of re-establishing peace, institutional order as well as political stability in Burundi, Somalia, Comoro and Eritrea in 2000, these countries could register impressive economic performances during 2001. Rwanda which was severely hit by the war and genocide in 1994 could also pursue the level of economic growth recorded during the last years especially in the light of an end to the conflict in DRC. Djibouti is maximising the operations of its international port not only following the diversion of Ethiopian traffic but also by making the port a trade free zone for the sub-region. This programme will considerably increase GDP. Seychelles which has established a huge investment programme in the tourism sector as well as the establishment of free zones and reclamation could record major economic performance in the years 2000/2001. The export of tuna fish, fish and shrimps continue to account for a major part of Seychelles' exports.

#### 6.2 Trade Development

127. Raw materials continue to play a key role in the external trade of many countries in the sub-region. Countries such as Kenya, Tanzania and Madagascar provide increasing importance to the manufacturing sector. In the light of the reform measures undertaken, the manufacturing production in these countries will increase reasonably in 2000/2001.

For other products, mainly agricultural products, the prospects for growth of exports will be determined by climatic conditions as well as the price of these products on the world market.

128. Imports should also slightly increase in 2000/2001. However, in view of the climate conditions in the 2000/2001 season which were unfavourable in many countries leading to a drop in agricultural production, the import of food items could increase in 2001. These countries are particularly Burundi, DRC, Ethiopia, Kenya and Madagascar. The trend in the imports of the sub-region will depend also on the price of oil from the petroleum-producing countries and the fluctuation in the exchange rate of the American dollar, as most of the imports and exports of the sub-region is quoted in dollars.

129. The development of intra-regional trade can only be achieved through the elimination of tariff and non-tariff barriers which are often imposed on products from the sub-region. Free trade agreements have been signed particularly within the COMESA framework, the Trans border Initiative or the East African Community, etc. but the measures contained in these agreements are not often implemented. These barriers constitute a stumbling block to the development of intra-regional trade. It is expected that they would be eased in the years 2000/2001. Border security and an old communication system are also hindering trade development.

### **6.3 Food Security**

130. One measure through which a country can reduce poverty is its capacity to ensure food security for its people. At the moment, some countries of the sub-region are confronted with substantial food shortages due to poor rains or the effects of cyclones as well as inefficient production systems. In order to meet the shortfalls, the country has to resort often to import of food items or seek international food aid leading to balance of payment deficits as well as dependence on food aid. Furthermore, the obstacles in the trade of food products between neighbouring countries have not contributed to the development of balanced regional food supply.

131. In the years ahead, food production can only increase (at a faster rate than the population growth) when countries reform their development programmes towards intensifying agriculture as well as providing incentives for agricultural development. As a majority of the peoples of the East African region do not possess access to the formal banking sector, the countries should encourage the development of decentralised financial systems to assist farmers to modernise their farming tools and to receive cash for their products as well as embracing the monetary economy. Poverty reduction programmes could provide support to such an approach. The liberalisation of border trade in agricultural products could further increase monetarisation within the rural areas as well as ensuring food security. Nevertheless, agriculture in the sub-region is facing technological problems as well as weakness of the infrastructures for the transportation of surplus products.

### **6.4 Peace and Prospects for Economic Recovery**

132. Economic development cannot be attained without a minimum of peace within the country, the security of its citizens and the stability of the institutions. During the 1990s, the efforts made by some countries to revive their economies were eroded by political conflicts resulting in people killed, a large number of people displaced as well as the destruction of economic

and social infrastructures. Regional cooperation came to a halt. In the countries where there were conflicts, a climate of tension was created as well as mistrust and suspicion between countries and the movement of people and goods became impossible. Consequently, a conflict situation and tension inhibits economic development and compromise the efforts aimed at sub-regional cooperation and integration.

133. As peace is one of the determinants of economic development and sub-regional integration, it is vital for the countries in the sub-region undergoing conflict situations to be further involved in the peace process and its consolidation with the support of the international community. At the same time, the reconstruction programmes for the economies of the countries devastated by conflicts should be designed and implemented with a long-term development prospects. In order to achieve this goal, the guidelines of the reform programmes should be reviewed to take into account the fragile nature of the economies of the majority of the countries of the sub-region which have been affected recently by conflicts.

## STATISTICAL ANNEXES

**TABLE 1: BASIC ECONOMIC DATA, 1999**

Country	Area sqkm	Population (thousands of inhabitants)	GDP per capita in USD	GDP millions of dollars	Demograp Density. Hab/ sqKm
<b>BURUNDI</b>	27.800	6.470	163	1.059	232
<b>COMORO</b>	1.860	530	506	268	285
<b>RDC</b>	2.345.000	49.800	108	5.367	21
<b>DJIBOUTI</b>	23.200	659	722	476	28
<b>ERITREA</b>	117.600	4.000	202	810	34
<b>ETHIOPIA</b>	1.110.000	61.670	129	7.937	56
<b>KENYA</b>	582.600	29.700	368	10.937	51
<b>MADAGASCAR</b>	587.000	14.260	253	3.601	24
<b>RWANDA</b>	25.000	8.300	255	2.117	324
<b>SEYCHELLES</b>	455	78	6.308	492	171
<b>SOMALIA</b>	637.700	10.100	75	756	15
<b>TANZANIA</b>	945.100	32.900	107	3.524	35
<b>UGANDA</b>	241.000	21.500	283	6.075	89
	<b>6.644.315</b>	<b>239.767</b>	<b>181</b>	<b>43.419</b>	<b>36</b>

**Source:** Countries reports

**TABLE 2: EASTERN AFRICA SUB-REGION ECONOMIC GROWTH (GDP AND GROWTH RATE)**

	<i>1997 millions of USD</i>	<i>1998 millions of USD</i>	<i>Growth rate 1997- 1998 ( %)</i>	<i>1999 million of USD</i>	<i>Growth rate 1998-1999 (%)</i>
<b>BURUNDI</b>	1.025,1	1.070,2	4,4	1.059,5	-1,0
<b>COMORO</b>	262,4	265,3	1,1	268,5	1,2
<b>RDC</b>	5.247,6	5.210,9	-0,7	5.367,2	3,0
<b>DJIBOUTI</b>	457,8	465,5	1,7	475,7	2,2
<b>ERITREA</b>	764,0	786,9	3,0	810,5	3,0
<b>ETHIOPIA</b>	7.415,2	7.452,3	0,5	7.936,7	6,5
<b>KENYA</b>	10.502,1	10.785,7	2,7	10.936,7	1,4
<b>MADAGASCAR</b>	3.322,8	3.439,1	3,5	3.600,7	4,7
<b>RWANDA</b>	2.293,4	2.447,1	6,7	2.569,4	5,0
<b>SEYCHELLES</b>	463,9	477,8	3,0	491,6	2,9
<b>SOMALIA</b>	726,6	744,8	2,5	756,0	1,5
<b>TANZANIA</b>	3.175,4	3.534,2	5,0	3.524,2	5,7
<b>UGANDA</b>	5.547,2	5.769,1	4,0	6.074,9	5,3
<b>TOTAL</b>	<b>41.203,5</b>	<b>42.248,9</b>	<b>2,5</b>	<b>43.871,6</b>	<b>3,8</b>

Source: Countries Reports



**TABLE 3: PRODUCTION STRUCTURE, 1999(%)**

<b>PAYS</b>	<b>Agriculture</b>		<b>Industry</b>		<b>Manufactural Industry</b>		<b>Services</b>	
	1980	1999	1980	1999	1980	1999	1980	1999
<b>BURUNDI</b>	61,1	56,6	13,5	13,8	8,2	5,5	25,3	29,6
<b>COMORO</b>	46,3	38,7	16,5	12,8	5,7	5,6	37,1	48,5
<b>RDC</b>	34,0	50,2	25,3	14,9	2,8	0,0	40,6	34,8
<b>DJIBOUTI</b>	4,6	3,4	21,0	20,3	10,1	3,0	74,4	76,3
<b>ERITREA<sup>8</sup></b>	16,9	16,1	33,6	27,3	30,0	13,9	49,5	56,6
<b>ETHIOPIA</b>	50,3	52,3	15,5	11,1	10,7	7,0	34,2	36,5
<b>KENYA</b>	32,4	23,2	21,7	18,2	12,7	10,7	45,9	60,5
<b>MADAGASCAR</b>	42,6	30,0	18,0	13,8	11,5	11,3	39,3	56,2
<b>RWANDA</b>	44,8	45,7	19,4	20,5	14,2	11,7	35,8	33,8
<b>SEYCHELLES</b>	7,8	5,1	20,4	29,9	10,5	13,7	71,8	65,0
<b>SOMALIA</b>	38,7	62,2	19,6	9,4	8,2	3,3	41,7	28,4
<b>TANZANIA</b>	46,3	44,8	15,6	15,4	10,2	7,4	38,1	39,8
<b>UGANDA</b>	73,8	44,4	5,2	17,8	4,4	8,7	20,9	37,8

<sup>8</sup> 1980 data relate to year 1989

**TABLE 4: DEBT STOCK AND DEBT SERVICE, 1999**

Country	Debt Stock (millions USD)	Total debt GDP (%)	Debt Service (millions USD)	Debt Service/ Exports of G&S (%)	Debt Arrears (millions USD)
BURUNDI	1.207	174,2	61	88,9	68
COMORO	210	109,2	3	6,2	0,7
RDC	14.782	275,0	595	30,4	8.450
DJIBOUTI	285	60,0	5	7,9	20
ERITREA	225	33,5	4	6,5	-
ETHIOPIA	11.270	142,0	236	17,6	-
KENYA	5.900	53,9	727	27,7	-
MADAGASCAR	4.371	121,4	169	16,3	-
RWANDA	1.485	57,8	36	32,0	-
SEYCHELLES	169	34,4	18	4,5	-
SOMALIA	2.607	344,8	0	-	-
TANZANIA	6.584	186,8	144	11,8	2.146
UGANDA	3.480	57,3	179	13,0	-
TOTAL	53.569	122,1	2.177	35,9	-

Source: World Bank: World Development Report 1999/2000  
Countries Reports.

**TABLE 5: TREND IN THE BALANCE OF TRADE ,1989-1999**

	EXPORTS			IMPORTS			BALANCE		
	1989	1998	1999	1989	1998	1999	1989	1998	1999
<b>BURUNDI</b>	93	64	56	184	157	118	-91	-93	-62
<b>COMORO</b>	18	6	8	43	52	53	-25	-46	-45
<b>RDC</b>	2.417	1.598	1.872	1.925	1.146	1.459	492	452	413
<b>DJIBOUTI</b>	61	58	68	220	237	262	-159	-179	-194
<b>ERITREA</b>	-	28	26	-	527	507	-	-499	-481
<b>ETHIOPIA</b>	444	602	484	1.020	1.519	1.570	-576	-917	-1.086
<b>KENYA</b>	913	2.012	1.755	1.978	3.337	2.915	-1.065	-1.325	-1.160
<b>MADAGASCAR</b>	358	519	594	372	791	885	-14	-272	-291
<b>RWANDA</b>	97	64	61	332	323	281	-235	-259	-220
<b>SEYCHELLES</b>	15	77	111	165	317	364	-150	-240	-253
<b>SOMALIA</b>	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	-	-	-
<b>TANZANIA</b>	415	577	541	1.211	1.519	1.631	-796	-942	-1090
<b>UGANDA</b>	282	458	549	562	1.411	1.376	-280	-953	-827
	<b>5.052</b>	<b>6.063</b>	<b>6.125</b>	<b>8.384</b>	<b>11.336</b>	<b>11.421</b>	<b>-3.332</b>	<b>-5273</b>	<b>-5.296</b>

Source: Countries Reports