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ASSESSMENT OF SOCIO-ECONOMIC CONDITIONS IN THE EASTERN AFRICA SUBREGION

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EXECUTIVE SUMMARY

1. This socio-economic survey report covers 13 countries of the Eastern Africa subregion. It is divided into seven parts comprising, the overall economic, social and demographic situation in the subregion in 1996-97, prospects for 1998-99, and country highlights; performance of the principal economic sectors; external sector; fiscal and monetary policies and consumer prices; social developments in the subregion; recommendations and statistical annexes. An exhaustive Table of Contents precedes the executive summary and can be used as a quick reference source by readers who may be interested in particular zzaspects of the survey.

2. The 13 countries included in the Eastern Africa subregion are Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia, Tanzania, Uganda. The inclusion of these countries in the Eastern Africa subregion under the operational space of the Eastern African Sub-Regional Development Centre (EASRDC) is based on the May 1997 decision of the ECA Conference of Ministers. The survey of the economic and social conditions in Eastern Africa is one of the approved activities in the ECA work programme for the biennium ended 31 December 1997.

3. Therefore, international source documents, country reports, estimates and projections based on these documents have been used to meet the data requirements for the survey of the countries in the group. In some cases, non-national data sources and estimates are used due to the absence of adequate, up-to-date and reliable national data. Overall, the subregion is not exempt from the problem of finding up-to-date and reliable socio-economic data. This problem is common to most of the African countries. It is not unusual to observe different figures for the same economic and social indicators in different sources or even within the same document, in most of the countries. However, while the actual data, estimates and projections may vary, it is important to emphasise the fact that the differences in data do not tend to change the general economic and social analysis trends of the countries in the survey. Therefore, data differences must not be allowed to overshadow the trend of social and economic conditions in the subregion.

4. It is encouraging to note that the continuing implementation of macro-economic reforms and structural adjustment programmes, supply side improvements and improvements in security conditions in some of the countries

resulted in the overall recovery of Gross Domestic Product (GDP) in the subregion in 1997. The group's real GDP growth rate was estimated at 3.9% at 1990 prices during the current period, compared with real GDP growth rate of 3.0% and 2.8% in 1996 and 1995 respectively. The current average growth performance is above the average growth rate of population in the subregion. Inflationary pressures have continued to be controlled through the proper management of monetary and fiscal policies. At the end of 1997 most countries had succeeded in maintaining inflation at the one digit level.

5. GDP performance by sectors in most cases shows that agricultural activity (particularly food production) was stifled by poor weather conditions in 1997 compared with 1996. As a result, most countries are identified as requiring emergency food aid during the 1997/98 marketing year. However, the group's prospects of better economic performance for the period 1998-99 seem to be positive provided that the weather conditions become friendly, economic reforms are sustained, the security conditions are improved, private sector confidence is built and the external economic environment is favourable. The overall situation indicates that, economic performance in the subregion depends heavily on what happens to the agricultural sector and what is done for agriculture.

6. The social scenario indicates that social conditions have been improving for those countries of the subregion which are relatively more stable. The continued population movements in some of the countries because of social unrest, coupled with the low performance of agriculture as a result of both poor weather conditions and insecurity problems, have exposed many of the countries to the vulnerability of food shortages. The proportion of the total population living below the poverty line still remains high and in some cases has increased dramatically. The aggravated poverty situation in some of the countries is due partly to the chronic unemployment situation which has been worsened by the effects of the ongoing structural adjustment programmes in the subregion.

7. The subregion's recent estimated average under five mortality rate (U5MR) currently stands at about 149.5 per thousand of live births. The subregion's U5MR ranges from the lowest 20 in Seychelles to the highest 195 in Ethiopia and Eritrea. Life expectancy for the subregion averaged at 54.5 years in 1995 compared to 41 years in 1960. This compares positively with Sub Saharan Africa's average of 51 years. The percentage of the population with access to safe water in the subregion averaged at a very low 41% during 1990-96. Only 47% of the total rural population had access to adequate sanitation during the same period. An average of 57.3% of the total population has access to health services.

8. The adult literacy rate for 8 countries of the subregion was on average 72% for male and 53% for female, which compares positively with the Sub Saharan African average of 67% for male and 48% for female. Although a relative improvement was registered in the overall rate, female literacy rate still remains low, particularly in the rural areas.

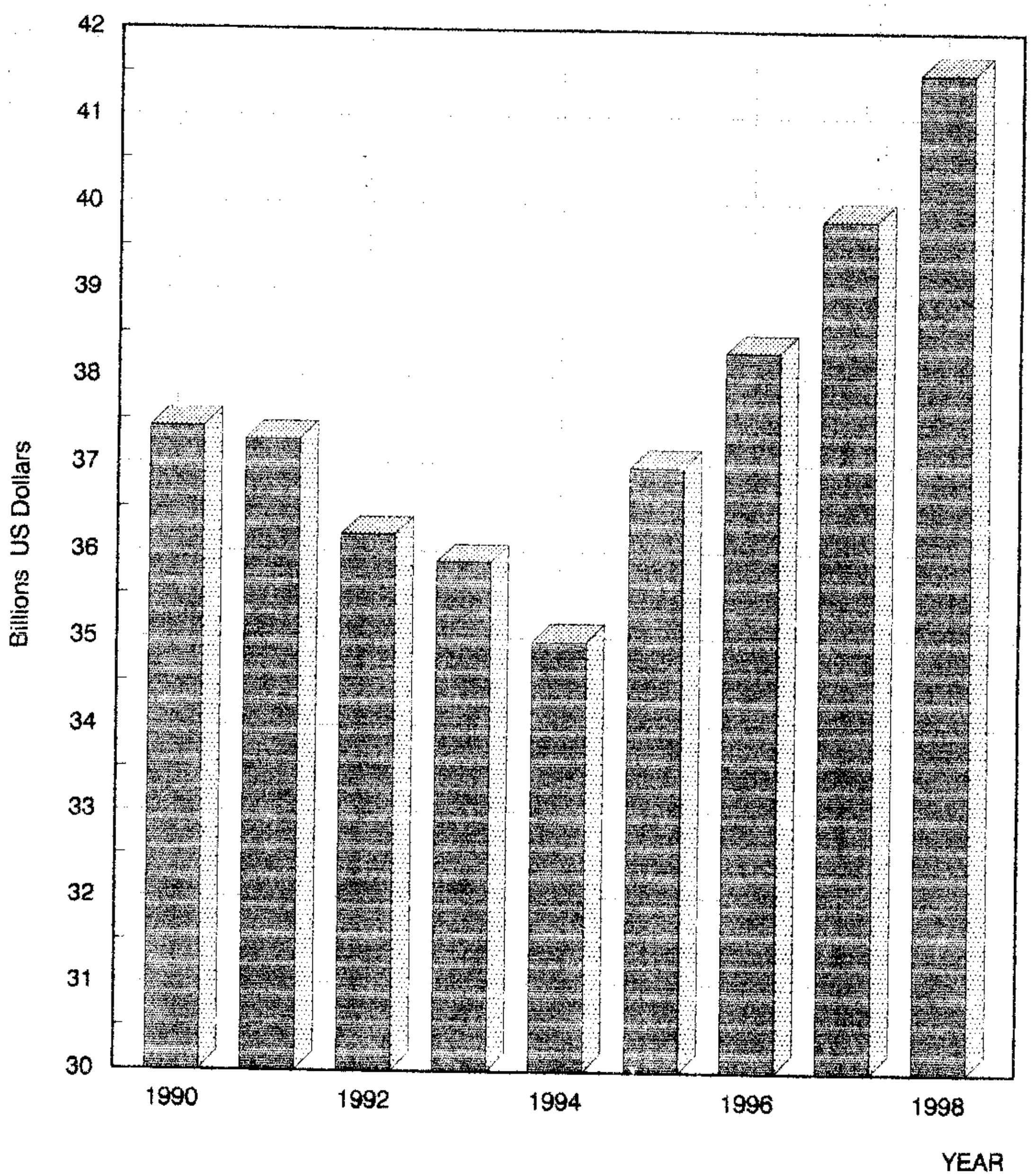
9. The demographic trend of the subregion shows that population growth rate is relatively high. The average for the subregion is 3.0% per annum. The growth rate ranges from the smallest growth rate of 1.7% for Seychelles to 3.8% for Tanzania. The average annual population growth rate for Sub Saharan Africa is 2.9%. The striking feature of the demographic trend in the subregion is that an average of 52.9% of the total population is under five years of age. This has serious implications for employment, dependency ratio and the population policy of the countries in the subregion.

10. The prospects for improved social conditions in the subregion are very bright and encouraging. Many governments have allocated resources to the improvement of the physical and social infrastructures. The proportion of the public budget allocated to education and health sectors is increasing in most of the countries. Above all, attention is given to primary education and primary health care. Some of the countries in the subregion have also initiated poverty eradication programmes in order to mitigate the social costs of adjustment. Relentless efforts are also being made to restore peace and stability in the subregion by the subregional governments, OAU and the UN. All in all, the countries of the Eastern African subregion are poised for positive socio-economic growth and development beyond 1997. The overall prospects are good.

Part I. Overall Economic Situation in the Subregion in 1996-97

11. The overall trend in economic performance of the countries in the Eastern Africa subregion indicates some degree of recovery as reflected in Fig.1 and Annex II on the group of countries' Gross Domestic Product (GDP). In 1997, the group of countries recorded an estimated average GDP growth rate of 3.9% at 1990 prices, which positively compares with the growth rate of 3.0% in 1996 and 2.8% in 1995. However, the group's GDP performance in 1996 was lower than (4.25%) that of Africa and that (5.5%) of developing countries. The relative growth improvement was attributed mainly to improvements in security conditions in some of the countries, the total end of war in others, good weather conditions in a few of the countries, and economic reform efforts that have continued in most of the countries of the subregion. The overall estimated performance of the agricultural sector was sluggish in 1997 compared to 1996 while the overall performance of the manufacturing, construction and service sectors was better than in 1996.

Fig. 1: 1990 - 1998 GDP IN 1990 PRICES
(Billions US Dollars)



Source: Derived by DISD from Statistical Annex 2

12. Although, upturns are mixed most of the countries in the subregion have implemented GDP structural adjustment programmes and efforts are made to achieve improved monetary and fiscal stability. Accordingly, a positive growth in GDP was recorded in 1997, the expansion of money supply was put under control and inflation was maintained at a manageable level. Budget deficits were under control. Thus, monetary and fiscal policy management engendered macroeconomic stability. In this regard, external economic shocks were also contained.

Overall Social and Demographic Situation In the Subregion in 1996-97

13. On the social development scene, situations were improving for those countries which were relatively more stable. According to the figures provided by the UN Department of Humanitarian Affairs (DHA) in Nairobi, the total number of displaced Burundians as of 17 November 1997 was estimated to reach a figure of 614, 277. A total number of 245,561 Burundian refugees were hosted in Tanzania. In Democratic Republic of Congo, the total number of population affected by civil strife and political instability were about 142,005, of which 17,745 were refugees of Rwandan origin, and the balance was made up of internally displaced people. In Rwanda, the number of detained and displaced population reached 155, 129, while there were an estimated 31,000 Congolese refugees in Rwanda. There were 388,000 internally displaced people in Uganda, and estimated 201,183 refugees in the country. Tanzania also hosted an estimated figure of 73,486 Congolese refugees, although as of 27 October 1997, approximately 51,428 Congolese registered for voluntary repatriation. These unplanned population dislocations and movements tended to complicate the socio-economic rehabilitation and reconstruction programmes of governments in the subregion.

14. The subregion's recent estimated average under five infant mortality rate (U5MR) stood at 149.5 per thousand live births compared to 248 rate in 1996. The recent estimated average rate for Sub Saharan Africa was 175 which was worse than that of the subregion. Life expectancy for the group improved from 41 years in 1960 to an estimated 54.5 in 1996 which compared positively with the Sub Saharan Africa's estimates of 51 years in 1996. The average rate of progress in the under five mortality rate reduction since 1960 for 10 countries in the subregion has been very low compared to the required rate as estimated by UNICEF. The low rate of progress in this basic social indicator was a result of poor nutritional status.

15. The percentage of total population with access to safe water averaged 41% during 1990-96 for the seven countries in the subregion (Ethiopia, Uganda, Democratic Republic of Congo, Burundi, Tanzania, Madagascar and Kenya). In these countries an average 40% of the rural population had access to safe water, while the average figure for the urban population was 81%. For the same countries, an average 52% of the total population had access to adequate sanitation during 1990-96. The total percentage of rural population with access to sanitation was lower than the national average which was about 47%. The proportion of population with access to health services was estimated at an average of 57.3%

during the same period for the same group of countries. The adult literacy rate for 8 countries of the subregion was on average 72% for male and 53% for female, which compared positively with the Sub Saharan African average of 67% for male and 48% for female. Relative improvements were registered when compared to the figure of 60% for male and 40% for female in 1980.

16. The demographic trend (Annex I) of the subregion as a whole shows that, population was increasing at a rapid rate. The total population of the group of countries added up to 222.3 million in 1995, and was estimated to be 228.8 and 236.1 million in 1996 and 1997, respectively. The projected figures indicate that the population of the subregion could reach 243.5 and 251.5 million by the year 1998 and 1999 respectively. The annual average growth rate of population for the group stood at 3.0% ranging from the smallest growth rate of 1.7% for Seychelles to a growth rate of 3.8% for Tanzania. The average annual population growth rate for Sub Saharan Africa is about 2.9%. The percentage of urbanized population averaged 20.6% in 1995, compared with an average figure of 31% for Sub Saharan Africa. The average annual growth rate of urban population for the group was estimated at 4.9% for the period 1980-95.

17. The major factor behind the fast growth rate of population in the subregion is that although both crude death rate and birth rate have declined on average, the average decline in death rate was greater than that of birth rate, resulting in increased annual population growth. The other striking feature of the demographic trend in the subregion is that an average of 52% of the total population is under 18 years of age and about 18.7% are under five years of age. The implication is that there exists a high dependency ratio in the subregion. Even if the average family size could be set at a desired level in the subregion as a result of effective population and development policy the absolute number of the population would continue to increase, at least in the shortrun because of the hidden momentum in the total population structure. Employment policy management would become a major challenge to the governments of the countries of the subregion.

Prospects for 1998 and 1999

18. Many countries of the subregion have a programme of further reducing overall budget deficits, improvements in the current account balance and a further reduction of inflation through tight monetary and fiscal measures. If these pertinent policy measures are sustained and supplemented by domestic supply side improvements and if the international environment, particularly the export market, is friendly to the subregion and there are good weather conditions, and improved security and peace moves, the group's economic performance may well continue to improve during 1998 and 1999.

19. With a positive scenario, the group's GDP is projected to grow at 4.3% in 1998 compared to an estimated 3.9% in 1997. The major improvements are expected to come

from the performance of the private sector as various governments are creating a conducive and an enabling environment to attract both domestic and foreign investment. Public investment programmes will continue to give priority to strategic sectors, namely, road construction and maintenance, energy, education and health services. This trend is reflected explicitly in the medium term investment programmes of some of the countries.

Country Highlights

20. The economic and social conditions among the countries in the subregion vary in their respective forms. The following are the highlights of the economic and social conditions in each country.

Burundi

21. The gross domestic product in Burundi grew by 0.6% (1990 prices) in 1996 as against 3.1% in 1995. But real GDP growth rate was estimated to be a negative 17.4% in 1996 against a negative growth rate of 3.0% in 1995. The decline in the GDP resulted mainly from a decline in the agricultural output, particularly food production in 1996. Although the production of food in the second season of 1997 was estimated to be better than the preceding year, the overall food production was expected to remain at the same 1996 level.

22. The service sector contributed about 42% of GDP followed by the agriculture's contribution of 37%. The contribution of industry to GDP was 20.9% in 1995. The weak performance of the agricultural sector in Burundi was due to the fact that some of the energetic populations became either refugees in neighboring countries or displaced within the country. Moreover, the regional sanctions against the exports of coffee and tea hindered performance of Burundi's agricultural sector to some extent. Coffee is the main export of Burundi. It constituted about 57.3% of the total export earnings in 1997. The second major export item was tea sharing about 12.3% of the total exports.

23. The principal imports of Burundi were gas, oil, merchandise goods and electrical appliances constituting about 7.95%, 6.8% and 6.5% of total import bills, respectively. The figures released recently show that from August to December 1996, 1,313 tons of petrol and 4,322 tons of diesel were imported, and 3,650 tons of petrol and 4,322 tons of diesel oil consumed.

24. The current account balance of Burundi stood at the negative US$ 54.0 million in 1996 compared to a positive US$ 9.0 million in 1995. The current account deficit constituted 5.3% of the GDP at current market price in 1996. Burundi's foreign exchange reserve had declined by 34% in 1996 compared to 1995. Burundi's external debt of at least $ 1.2 billion was such that the country still needed sustained balance of payments support from donors.

Until it gets that support, Burundi will continue to default on its debts, thus eroding what was once one of the best credit ratings in the Eastern Africa subregion.

25. In the monetary sector, the broad money (M_2) increased from 7.2% in 1993 to 33.3% in 1994. The ratio of M_2 to GDP was 20.7% in 1994 compared to 16.7% in 1993. Partly due to the expansion of money supply, consumer price inflation rose to 26% in 1996 compared to 19.3% in 1995.

26. On the social front, population growth rate stood at 3%, per year which was equal to the subregion's average growth rate, and Population was estimated to reach 6.8 million in 1997. Most of the over 300,000 regrouped people, many of whom the UN World Food Programme (WFP) described as dangerously malnourished, could well still be in their camps for months to come. The FAO/GIEWS (August 1997) report showed that, aggregate food production in Burundi for the period 1997 was estimated to be 4% lower than the pre-crisis average, despite an improved input supply situation. A significant proportion of the population in the conflict area was not able to cultivate land in past seasons and was, therefore, highly food insecure, with high rates of severe malnutrition reported among them. Substantial emergency food assistance, therefore, continued to be needed, and therefore, Burundi was included in the group of countries requiring emergency food aid during the 1997/98 marketing year by FAO.

27. The under five mortality rate in Burundi remained high although it dropped by a third from 255 per thousand live births in 1960 to 188 in 1995. The infant mortality rate reduced from 151 per thousand live births in 1960 to 120 in 1995, which was still higher than the average figure of 87.5 per thousand live births for the subregion in 1995. Life expectancy at birth increased from 42 years in 1960 to 47 in 1995, while the subregion's average figure was 54.5 years. The proportion of population with access to safe water averaged at 52 % from 1990-96, which was greater than the average figure of 46.7% in the subregion. The percentage of population with access to health services reached an encouraging figure of 80%, compared to 57.3% of the group's average from 1990-95. Adult literacy rate for male and female stood at 49% and 23% in 1995 respectively, compared with an average of 74% and 55.2% for male and female in the subregion.

Comoros

28. In Comoros, real GDP growth was continuously negative since 1993. In 1996, the real GDP growth rate recorded was a negative 7.0%, compared to a negative 2.3% in 1995. The country's GDP was dominated by the service sector accounting for about 48.9% in 1995, followed by agriculture including fishing and forestry whose share stood at 39.1% during the same period. The country's expenditure on GDP was dominated by private consumption which represented 74.4% of the total expenditure on GDP in 1994. The gross domestic

investment represented 21.3% of the total expenditure on GDP during the same period. The per capita income in Comoros stood at an estimated US$ 365.1 (at 1990 prices) in 1996.

29. The principal exports of the country were vanilla and ylang-ylang. Of the total exports amounting to US$ 11.2 million in 1995, vanilla and ylang-ylang contributed an estimated 55.4% and 20.5% respectively. Total exports of the country were reduced from the level of US$ 11.2 million in 1995 to US$ 9.2 million in 1996, a reduction of about 18%.

30. The main imports of the country are rice and petroleum products. They shared about 31.5% and 17.3% of the total import bill in 1995. The total import bill (fob) was reduced from US$ 44.5 million in 1995 to a level of US$ 35.7 million in 1996, a reduction of about 20.0% which was greater than the reduction in exports. The current account deficit has been reduced from a level of US$ 19.0 million in 1995 to an estimated US$ 16.0 million in 1996, an improvement of the deficit by 18.7%. The ratio of current account deficit to GDP improved from 8.5% in 1995 to an estimated 7.8% in 1996. However, the country's external debt increased from US$ 189 million in 1994 to US$ 203 million in 1995, representing an increase of about 7.4 percentage points.

31. The French aid to Comoros was entirely consistent with its policy elsewhere in Africa - that large scale budget and balance of payment aid was conditional on a country's readiness to sign up for an IMF - sponsored economic reform programme. The European commission signed the outline protocol for a five year European Development Fund (EDF) programme covering 1996-2000. This promised ECU 27.5 million, of which 70% was immediately available and 80% of the money was earmarked for transport, communications and the environment, with the rest divided between local projects.

32. The monetary sector survey showed that the expansion of broad money (M_2) had decreased. In 1995 the growth of M_2 was a negative 5.5% compared to a positive 10.2% growth rate in 1994. Consumer price inflation accordingly decreased from 10.2% in 1994 to 7.1% in 1995.

33. On the social and demographic scene, the population of Comoros was growing at a rate of about 3.2% annually. In 1997 the total population was estimated to reach 692 thousand. The under five mortality rate improved from 248 per thousand live births in 1960 to 124 in 1995. The infant mortality rate also improved from 165 per thousand live births in 1960 to 91 in 1995. Life expectancy at birth stood at 57 years which was above the average of the subregion's 54.5 years.

34. Most of the country's agricultural land was planted with cash crops, bananas and root crops. According to FAO/GIEWS, only one-quarter of the cereal requirement was produced locally and, consequently there was a structural deficit of some 44 thousand tons of cereals, largely covered by commercial imports. Food aid needs were estimated at 10 thousand tons

for 1997/98 marketing year. Social unrest posed a challenge for the government. This undoubtedly exacerbated the economic and social problems of the country.

Democratic Republic of Congo (DRC)

35. The gross domestic product (GDP) of DRC in real terms exhibited negative growth since 1990 and the same trend continued in 1995 and 1996. There was a negative growth rate of 0.6% and 1.3% in 1995 and 1996, respectively, inspite of the country's favourable natural resources environment and potentials. Until most recently, public disorder, mismanagement and galloping inflationary pressures were rife in what was then known as Zaire.

36. DRC's economy depends largely on agriculture, services and mining. In 1996 and 1997 its GDP was estimated at US$ 6635 million at 1990 prices. In 1994, the contribution of the agricultural sector to GDP stood at 53.4% while the contribution of the service sector and industry was 31.2% and 15.6%, respectively. The country's main mineral resources include diamond, copper, cobalt and gold. In 1996, EIU estimated its copper production to be 37.4 thousand tons, which was greater than the 1995 level of 33.9 thousand tons. Diamond production was estimated at the level of 21.8 million carats in 1996 which was slightly lower than the 22.0 million carats in 1995. In 1996 the estimated cobalt production stood at the level of 5.1 thousand tons, which positively compared to the level of 4.0 thousand tons produced in 1995. With these immense mineral resources, the country has the potential to be the richest in the subregion. DRC also has huge agro-forestry-pastoral and hydroelectric power resources. If properly exploited and managed these resources could contribute considerably to the socio-economic development of the Eastern Africa subregion. The most recent socio-political changes could usher in a new era of socio-economic development for the country.

37. The principal exports of DRC are diamonds, coffee, cobalt and copper, while its principal imports are consumer goods, capital goods, raw materials and energy products. In 1994, diamond exports reached US$ 451 million while coffee exports amounted to US$ 247 million and copper and cobalt generated US$ 184 million during the same period. Total exports of the country at FOB price in US Dollars were officially estimated at $ 1451, and $1629 million in 1995 and 1996, respectively. The total import bill stood at about US$ 13137 and $13, 900 million during the same periods. The country's current account deficit reached an estimated figure of US$ 630 and US$ 621 million in 1995 and 1996, respectively, a slight improvement was recorded in the later period. The current account deficit as a percentage of GDP stood at the same level of 9.4% in 1995 and 1996. Total external debt of the country has been increasing throughout the past periods. In 1996, the figure was estimated to reach US$ 13900 million compared to the figure US$ 11270 million in 1993. The ratio of total debt to exports of goods and services stood at 905.4% and 853.3% in 1995 and 1996 respectively.

38. In the monetary sector, the ratio of broad money (M_2) to GDP stood at 16.5% in 1994, while the annual M_2 growth rate averaged 6969.9% and 357.6% in 1994 and 1995 respectively. An alarming four digit consumer price inflation was recorded between the period 1992-94, while the inflation rate slightly improved, coming down to a three digit rate of 542% and 659% in 1995 and 1996, respectively. This is partly explained by the expansion of money supply throughout the past periods.

Djibouti

39. The economy of Djibouti exhibited an estimated growth rate of 0.8% in 1996 at 1990 prices. This compared with a real negative growth rate of 3.1% in 1995. The total GDP of the country was within a range of US$ 477 million-492 million between 1993-1995. About 76% of the overall output was generated from the services sector alone. The second major contributor to GDP was industry, while the contribution of the agricultural sector was 2.8%. Expenditure on GDP was dominated by private consumption, sharing about 78.7% of the total expenditure on GDP in 1993. The share of gross domestic capital formation in the GDP was 11.9%. GDP per capita at 1990 prices was estimated to reach US$ 835 in 1996. The preponderance of the services sector and the implications for per capita GDP and income distribution must be noted.

40. The country's total exports amounted to US$ 34 million in 1995 compared to US$ 56 million in 1994, a reduction of export value by about 40% in 1995. The total value of merchandise imports amounted to US$ 205 million in 1995 compared to US$ 237 million in 1994, a reduction of import value by about 13%, lower than the reduction in exports. The current account of the country deteriorated from a surplus of US$ 46 million in 1994 to a deficit of US$ 23 million in 1995. Djibouti's main destination of exports are to Somalia, Ethiopia and Yemen. In 1995, 42% of the total exports were destined to Somalia compared with 30.7% in 1994, while the share of exports destined to Ethiopia stood at 35.2% and 26.5% in 1995 and 1994, respectively. The total value of exports of Djibouti destined to Yemen has decreased. It was about 8% of the total exports of Djibouti compared with 37.6% of the total in 1994. Ethiopia was the main importing partner for Djibouti in the subregion in 1995. It is of essence to note that Djibouti handles merchandise in transit to neighbouring countries.

41. The volume of cargo handled by the Port Autonome International De Djibouti (PAID) increased by 35% to over 1.5 billion tons in the 12 months to December 1996. This followed a slump in traffic during 1995, due largely to the sharp reduction in the movement of petroleum products and a 24% reduction in imports to Djibouti's small domestic market. Activity at the port was bolstered primarily by a recovery in inflows and outflows of petroleum products and a doubling of transshipment. While inbound goods in transit handled by the port rose by 25%, goods bound for Ethiopia still accounted for under 22% of the general merchandise handled at the port. The total volume of hydro-carbons handled by the

port in 1996 was up by 47% on the previous year. This was largely due to the US Navy resuming the use of Djibouti as refueling post. Ethiopia also increased its use of Djibouti's petroleum importation facilities, a trend which will almost certainly be strengthened during 1998 due to the closure of the Eritrea's Assab refinery, from which the bulk of Ethiopia's imports were supplied. Just over one-third of the 892 boats calling at Djibouti were container ships, representing half of the total gross tonnage of 7.78 million tons registered by the port during the year. Of the rest of the ships using the port, 176 were conventional cargo ships, and 101 war ships. Total container traffic rose by 26%, with 105,000 containers handled by the port during 1996, of which 60% were transshipped.

42. Despite the slow growth of the Djiboutian economy, the port has managed to upgrade its image and increase efficiency. The administrative reform programme, which was funded by France and supervised by the French Port Authority, has now been successfully completed. Three main changes were introduced namely, rationalisation of administrative and management structures and port tariffs; closer liaison between customs and transport officials has been fostered allowing for much faster clearance; and the status and autonomy of the port was being upgraded. The revitalization of the port and the beginnings of a revival of trade links with Ethiopia and the revitalization of IGAD have led to optimism in the outlook for the Djiboutian economy.

43. Regarding the food situation, FAO/GIEWS Report showed that: rains in late March 1997 and early April brought relief to pastoral areas that were affected by severe dry weather conditions in the past months. As livestock raising was the main economic activity in the country, the food situation of the affected population was assumed to be tight. The country is extremely dependent on food imports, especially cereals for consumption.

44. On the social scene, the population of the country was growing at a rate of 2.7% annually. The total population was estimated to reach 634 thousand in 1997. The under five mortality rate was recorded at 174 per thousand live births in 1995 compared to 289 in 1960. The infant mortality rate improved from 186 per thousand of live births in 1960 to 113 in 1995. Life expectancy at birth stood at 49 years in 1995.

Eritrea

45. Eritrea has a coastline of more than 1000 km, which is the second longest coast line in the subregion next to Somalia; with the continental shelf covering more than 52 thousand square kms within the Eritrean economic exclusive zone. There are abundant marine resources off the coast of Eritrea of which only a small proportion is currently being exploited, indicating that the potential for substantial growth in this subsector could be significant. Current estimates indicate that, the country could potentially enjoy an annual revenue of US $ 55 million if all available resources were to be fully utilized at the maximum sustainable level, representing an increase of about 20 times the present level of

utilization. The government has already initiated a programme of rehabilitation of the fishery sector with the assistance of the UNCDF-Financed Semhar Fisheries Project as well as UNDP support for fisheries development planning and management and FAO/NORAD assistance for domestic fish consumption promotion.

46. Macroeconomic and social data on the Eritrean economy has yet to be comprehensively documented and disseminated. Therefore, in general, the data situation, particularly with regard to national accounts, balance of payments, price trends, monetary and fiscal situation and social indicators are either not yet published or are scanty. Nonetheless, it is a fact that at the time of liberation in May 1991, Eritrea inherited enterprises that were non-operational; an agricultural sector that was severely disrupted by the war; a damaged infrastructure; and health and educational facilities that were destroyed.

47. Based on the latest available data, the GDP at current rate was US$ 544 million in 1992. At the level of its composition, the service sector came first with 48.5% followed by industry with 29.2%, agriculture 28.5% and construction 22.6%. With the recovery and rehabilitation programme on track, Eritrea has began the task of defining a development strategy. The transition towards building new institutions and developing new instruments for managing a peace-time market-based economy, as well as a fully rehabilitated economy and society will take long. In addition, given the limitations on Eritrea's absorption and implementation capacity, hard choices will need to be made by the government.

48. According to EIU country report (2nd quarter 1997), a South Korean Company, Keangnam which has already won sizable construction contracts with the Housing and Commerce Bank of Eritrea (HCBE), the Eritrean Ports' Authority (EPA), and Ministry of Health has been awarded the contract to build the vast power generator at Hirgigo, near Massawa. The project which was expected to be finished by the end of 1997 is jointly funded by the Eritrean government and loan secured from the development funds of several middle Eastern States and the Arab Bank for African Development (ABAD).

49. As part of the structural adjustment programme, the country is pursuing a gradual privatization programme. The latest enterprises to be divested were announced by the National Agency for the Supervision and Privatization of Public Enterprises (NASPPE) in April 1997, including the Asmara Milk Factory, Eritrea Shoe Factory, Barka Furniture Factory, Gash Cigarette Factory and the Red Sea Soap Factory.

50. Meanwhile, the Dahlak Islands Hotel and Casino project, worth an estimated $ 250 million, will build a tourist village, including two casinos, on the arid Dahalk archipelago. Another tourism initiative is the Asmara Palace Hotel, the cornerstone of the $ 17 million project, scheduled to be completed by 1999. According to the latest available figures from the Ministry of Tourism, more than 4000 tourists visited Eritrea in 1996, 32% increase on the previous year.

51. Money can now be wired to the Commercial Bank of Eritrea (CBE) through Western Union. Bank charges have been marginally lowered and the Eritrean Development and Investment Bank (EDIB) announced on March 12, 1997 that it will begin to lend money, primarily to investors in the agricultural and fisheries sectors. The Eritrean government issued a new Eritrean currency, Nakfa, in early November 1997, on the same date of the issuance of the new Birr notes in Ethiopia. It is self-evident that the government has its monetary policy in place and has expanded the services of the banking sector.

52. Historically, Eritrea has been a nation of skilled people, and human resource potential is Eritrea's greatest asset. Therefore, the growth strategy has tended to emphasize investing in people where education and health are key inputs in the growth process. Secondly, Eritrea has a small domestic market. Thus, reestablishing and promoting exports will be critical for accelerating growth through increased productivity as well as earning foreign exchange to meet the objectives of food security. The livestock subsector represents an important potential source of growth for Eritrea while the subsector is presently in a reasonably efficient state, the scope for improved productivity of livestock and livestock byproducts such as milk, eggs and hides through improvements in animal husbandry, forego production, nutrition and breeding and the alleviation of certain supply constraints, would be significant. Livestock resources currently account for a major portion of rural household incomes and make a significant contribution to the economy and exports.

53. On the social and demographic scene, the population of Eritrea is estimated to grow at 3.7% annually. The total population was estimated to reach about 3.4 million in 1997. The under five mortality rate has improved from 294 per thousand of live births in 1960 to 157 in 1995. Life expectancy stood at 50.3 in 1995. The proportion of population with access to safe water averaged at 18% in 1990-96. Regarding the food supply situation FAO/WFP estimates show that 289 thousand tons of cereals would be required in the form of aid during the 1997/98 marketing year. And Eritrea was identified among the East African countries which faced exceptional food emergencies due to reduced harvest and large number of vulnerable people in the country.

Ethiopia

54. The government of Ethiopia introduced a number of macro-economic policy measures so as to foster the socio-economic recovery and development of the country. The important policy measures introduced includes identifying what the role of the state should be in the context of a transition to a market-oriented economy. Accordingly, government intervention is designed to be in line with changes in macro-economic management. Thus, the country is pursuing a strategy of economic management by inducement essentially through tight fiscal and monetary policy instruments. The government has also commenced the preparation of a public investment programme aimed at improving the economic efficiency and the productivity of the economy as a whole.

55. As a result of the economic reform programme and the attainment of peace and stability, the availability of sufficient and timely rainfall, efforts to improve the supply of fertilizer and other agricultural inputs, high growth of agricultural output has been achieved in the country. International organizations have supported the economic reform programme which gave management autonomy to public enterprises. The restructuring of enterprises has led to the revival of industrial production. Though agricultural production decreased as a result of the drought of 1993/94, GDP has exhibited a revival from 1992/93 to 1995/96, and by 1995/96, a 7.6% growth rate of GDP (at 1980/81 prices) was registered. In 1996/97 an annual growth rate of 5% was estimated, which was lower than the performance in 1995/96. The lower performance of GDP in the current period could be attributed to the low performance of agriculture due to poor weather conditions. The annual growth of industry stood at 6.4% in 1995/96 over 1994/95, while the growth of the service sector decreased to 6.4% in 1995/96 from 9.9% in 1993/94, but a slight improvement compared to a 5.5% growth in 1994/95. The decrease in the service sector was due to the restructuring programme of the government. There was the retrenchment of public sector employees. According to an expert opinion, GDP at 1980/81 prices was projected to decrease in 1997/98, projected at 2.8% real growth rate taking account the present harsh weather conditions. The sectoral composition of GDP (Table 1) shows that the economy is dominated by agriculture whose share stood at 50.5% in 1995/96, while the share of the service and industrial sector was 38.2 and 11.2%, respectively, of GDP at 1980/81 prices. Thus, the structural transformation of the economy seems a long way ahead.

56. Expenditure on GDP at market prices was dominated by consumption whose share was estimated at 83.4% in 1995/96. Of the total consumption, private consumption constituted the lion's share of 88.7% and a total expenditure share of 74% during the same period. The low level of savings and investment registered certain improvements. In 1995, the saving and investment ratio to GDP was 6% and 14.8%, respectively. The saving ratio has improved slightly to 6.5% while the investment ratio to GDP rose to 16.6% in 1995/96. The negative resource balance increased by about 30% in 1995/96 compared to the period 1994/95, and hence significant investment was financed by foreign loans and assistance.

Table 1: **Sectoral Shares of GDP (at 1980/81 price) (%)**

Sector	1992/93	1993/94	1994/95	1995/96
Agriculture	54.2	50.8	50.3	50.6
Industry	10.2	10.8	11.1	11.2
Service	35.6	38.4	38.6	38.2

57. On the fiscal front, concrete measures were taken in the sphere of fiscal reforms and produced encouraging results. Following the establishment of regional governments

resources to be collected and expenditures to be made were identified, reducing the tax rates which create a disincentive, reducing-anti-tax evasion activities, improving internal revenue collection administration and limiting recurrent and capital expenditures and improving the quality of their administration were put in place. As a result of these measures, government revenue, excluding aid, was estimated to register a growth rate of 22.3% in 1996/97.

58. The total revenue (excluding aid) as a percent of GDP was 17.5 in 1995/96 and was expected to remain almost at the same level of 17.4% in 1996/97. The annual growth of government expenditure was estimated to be 1.7% in 1995/96 compared to 9.7% growth rate in 1994/95, while the 1996/97 budget shows that a 22.6% growth rate of government expenditure was expected for the period.

59. The proportion of total expenditure to GDP was estimated at 22.9% in 1995/96 compared to an estimated 23.7% in 1996/97. The budget deficit (excluding aid) had been reduced to a manageable size, from a high 8.6% of GDP in 1994/95 to an improved 5.4% in 1995/96. However, the budget data showed that the deficit (excluding aid), was estimated to increase to 6.5% of GDP by the end of 1997. The budget deficit including aid stood at about 2.9%, 3% of the total GDP in 1995/96 and 1996/97, respectively. The amount of state credit from domestic banks was drastically reduced during 1995/96, removing its crowding out effect on the private sector.

60. The government attempted to implement a tight monetary policy by controlling the expansion of money supply (Table 2). The growth of M_2 decreased from 24.2% in 1994/95 to 8.7% in 1995/96 but increased to 11.7% in December 1996/97. As a result of tight fiscal and monetary policy measures and improved supply conditions in agriculture, inflation based on Addis Ababa consumer price index has been checked and minimized for consecutive years (except in 1994/95) and stood at 0.9% in 1995/96, and estimated to be 1.2% in 1997. The improvement of the price inflation (Table 3) resulted mainly from a reduced price in food items. In 1991/92 the food index stood at 25% growth while it was below zero (-3%) in 1995/96.

Table 2. Annual Growth Rate of Money Supply (%)

	June 93/94	June 94/95	June 95/96	December 96/97
Net Foreign Asset	49.5	58.36	9.15	-4.89
Gross Internal Borrowing	9.7	12.22	7.38	16.34
Government	4.3	-5.81	-12.91	3.13
Others	57.4	66.86	42.08	34.92
Broad Money (M_2)	20.9	24.22	8.65	11.70

Source: National Bank of Ethiopia

Table 3. Annual Growth of Inflation Based on Addis Ababa Price Index

	Annual Increment (%)					
	90/91	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**
General Index	20.9	21.0	10.0	1.2	13.4	0.9
Food	22.9	24.9	9.2	0.2	18.3	-0.3
House Hold Furniture	23.0	15.7	-2.5	1.9	0.0	6.6
Clothes	10.4	14.0	55.7	-8.3	-0.8	2.6
Transport	3.1	-0.9	24.8	17.8	2.1	3.5
Medical	1.1	5.9	60.6	35.0	33.0	-17.3
Personal Care	6.4	21.9	87.8	8.2	-0.7	9.1
Education and Recreation	16.0	12.2	-2.9	8.1	2.4	15.4
Others	2.9	5.8	13.9	4.4	3.2	3.9

Source: Central Statistical Authority

61. The government of Ethiopia took various measures to encourage exports (Table 4): devaluation of the local currency, elimination of export taxes with the exception of coffee export and recently the government eliminated taxes on raw materials used in the production of exportables and issued duty drawback regulations. In addition exporters are allowed to open a foreign exchange account to deposit part of their revenue in foreign currency. As a result of such conducive atmospheres, exports have increased in volume and the country's magnitude of foreign exchange earnings have shown a positive trend since the past four years. However, a decrease in foreign exchange earned was recorded in 1995/96 as a result of depressed international price of coffee in 1994/95, which is the largest source of the country's foreign exchange earnings followed by hides and skins.

Table 4: Exports

In million US$

							Annual Growth Rates (%)			
	1992/93	**93/94**	**94/95**	**95/96**	**96/97^E**	**97/98^P**	**93/94**	**94/95**	**95/96**	**96/97**
Coffee	125.8	158.3	287.8	239.9	356.6	341.6	25.8	81.8	-16.6	30.6
Hide & Skins	31.5	35.1	59.8	59.7	49.4	62.7	11.4	70.3	-19.0	0.8
Others	65.1	86.2	106.0	130.7	130.7	145.0	32.4	22.9	23.3	11.5
Total	222.4	279.6	453.6	430.3	536.7	1019.3	25.7	62.2	-5.0	24.6

Source: NBE and Macro Department of MEDaC staff estimate
E: Estimate, P: Projections

62. As could be seen from Table 4, coffee dominates the export sector, still constituting a lion's share of 55-65% of the total export earnings, indicating that the country could benefit from export diversification.

63. The import sector registered a significant movement in the last four years. This was due to increased imports of fertilizer, raw materials for industry and consumer goods resulting from the gradual liberalization of imports. However, the expansion of imports was not at par with export receipts, and as a result the country's foreign trade balance (Table 5) suffered a deficit. The deficit increased in 1995/96 and 1996/97 compared to the period 1994/95. The same pattern was observed for the current account balance.

Table 5: Balance of Payment (in US$ million)

	1992/93	93/94	94/95	95/96[E]	96/97[E]
Exports (f.o.b)	222.4	279.6	453.6	430.3	536.7
Import (c.i.f)	1051.8	914.6	1063	1412.9	1403.1
Trade Balance	-829.4	-635.1	-609.4	-982.6	-866.4
Current Account Balance	-604.6	-377.3	-237.5	-594.2	-488.0
Over All Balance (excluding official transfer)	-98.8	167.7	148.9	-40.4	-242.2

Source: Macro Department of MEDaC Compilation
E: Estimate

64. The food situation in 1997/98 marketing year seems to be tight due to harsh weather conditions during the main harvest season. According to FAO Assessment Reports August 1997, there was a difficult food situation in several areas, notably in the pastoral areas in the Eastern and Southern parts of the country. In the Northern part of the Amhara region, some 1.4 million persons were said to be in need of food assistance. The total number of persons needing food assistance was estimated by government at about 3.4 million. This was sharply higher than 1.9 million estimated previously and reflected mainly the inclusion of drought-affected population in the pastoral areas of the Somali region, Bale and Borena of Oromia, and parts of southern region. According to FAO, Ethiopia is in the category of countries facing exceptional food emergencies due to a large number of vulnerable people and localized weather hazards.

Kenya

65. Estimates of the growth of the Kenyan economy in 1996 show that GDP in real terms grew by 4.6% against the projected 5.5% and the revised performance of 4.8% growth rate in 1995. Inadequate rainfall, reduced use of farm inputs due to increased prices, high cost

of domestic credit, power rationing in the latter part of 1996 and a more competitive trading environment brought about by macro-economic reform measures were the main causes of the slow down in the growth of the economy. The agricultural sector performed poorly as a result of drought. Other sectors of the economy recorded significant growths, albeit lower than those of 1995.

66. Growth of the economy was supported essentially by higher exports of coffee, tea and horticulture products, a fairly stable exchange rate, moderate inflation and a larger market arising from the establishment and Kenya's membership of the East African Co-operation. In addition, the initial shocks experienced after liberalization particularly those of imports and the exchange rate, have largely been absorbed by the economy. The manufacturing sector was resilient to improved finished goods and recorded satisfactory performance. The finance, insurance and business services sector has become one of the driving forces of the economy in terms of growth. The finance subsector invested heavily on information technology, posting high profitability against a background of almost static investment in some sectors and low capital expansion in others. Trade, hotel and other services sectors accounted for a significant share of the total economy over the last three years.

67. The growth of unadjusted real GDP per capita (Table 6) remained at the 1995 level of 1.9%. After making the necessary adjustments on account of terms of trade, the growth rate was 0.7% in 1996 as compared to the low growth rate of -0.4% in 1995. This was substantially lower than the rate of growth of 5.5% which was attained in 1994. Table 6 shows the impact of commodity terms of trade on per capita GDP in 1992-1996.

Table 6: Impact of Commodity Terms of Trade on per capita GDP, 1992 - 1996

		1992	1993	1994*	1995	1996**
1.	Unadjusted GDP at constant factory cost (kfmn)	4332.2	4342.8	4474.8	4690.1	4901.9
2.	Adjustment for changes in terms of trade (kfmn)	-356.1	-203.1	21.0	-87.0	-146.1
3.	Adjusted GDP (kfmn)	3976.1	4138.9	4495.2	4603.1	4761.9
4.	Growth in unadjusted per capita GDP***	-8.9	-2.7	0.1	1.9	1.9
5.	Growth in adjusted per capita GDP***	-3.7	1.1	5.5	-0.4	0.7

Source: Central Bureau of Statistics
* *Revised*
** *Provisional*
*** *Adjusted on an account of new population projection figures.*

68. In The National Development Plan (1997-2001) document of Kenya, GDP is projected to grow at an average rate of 5.9%. During the plan period agriculture, industry, services (private) and public services are on average expected to grow at 4.4%, 7.8%, 6.0% and 6.2%. The projected sector share of GDP by the year 2001 are put at 26.0%, 18.0%, 38.8%, 17.2% for agriculture, industry, private services and public services, respectively.

69. Total available domestic resources for domestic investment (Table 7) and consumption rose by 11.7% in 1996 which was a slower growth rate than that experienced in 1995. The share of indirect taxes to GDP at market prices has remained virtually unchanged at 15.6%. On the other hand, gross investment over the years has taken up greater shares of GDP at market prices from 17.6% in 1993 to 22.2% in 1995 and declining to 21.0% in 1996. Although private consumption has experienced slower growth, public consumption recorded a very large growth of 23% in 1996. This was mainly due to increases of consumption expenditure on public administration and defense, each of which shared 27% growth while the health sector recorded 26%.

70. Financing of total investment was mainly supported by grants, net borrowing and domestic savings. Apart from 1993, when domestic savings financed up to 93.0%, in other years, domestic savings support was between 61.0% and 78.0%. In 1996, the economy received capital grants amounting to Kf 1,120 million, which was 26.6% higher than in 1995. Gross investment as a share of GDP at market prices stood at 21% while total savings have increased, registering 15.9% of GDP.

Table 7: Saving and Investment Ratios 1993 - 1996
(% of GDP at Market Prices)

		1993	1994	1995	1996
1.	Domestic Savings	16.4	18.1	13.8	15.9
2.	Gross Investments	17.6	19.3	22.2	21.0
3.	Financing Gap	-1.2	-1.2	-8.4	-5.1

Source: Calculation based on the data obtained from Central Bureau of Statistics

71. Kenya's budgetary and public expenditure policies have focused on tightening control on expenditure while at the same time improving the quality and sectoral allocation of financial resources. It has also been aimed at allocating more resources for development activities while compressing growth in recurrent expenditure so as to minimize budget deficits. During 1996/97 financial year development expenditure allocation was Kf 2,308 million compared to Kf 380 million in 1995/96. Some of the projects that were being undertaken in 1996/97 included construction of sewerage, dams, control of communicable disease, parastatal reform and reorganization and maintenance of roads. Recurrent expenditure was expected to increase marginally from Kf 7,790 million in 1995/96 to Kf 7,838 million in 1996/97 financial year. More funds were also allocated for goods and services, including non-wage maintenance and operations.

72. The government control of expenditure growth, improved revenue collection, implementation of good tax policies were projected to lead to a current account surplus of Kf 37.4 million in 1996/97, but smaller than the expected provisional figure of Kf 436 million in 1995/96. This was partly as a result of improvement in current revenue collection and a modest increase in current expenditure.

73. Capital expenditure was likely to grow by 18.2% from Kf 890 million in 1995/96 to Kf 1,053 million in 1996/97. Net lending was expected to grow significantly from a net repayment of Kf 209.7 million to net lending of Kf 133 million in 1996/97. External grants were also expected to improve from Kf 450 million to Kf 787 million. These changes recorded in the out-turn would result in a lower overall deficit of Kf 23.8 million in 1996/97 compared to Kf 356 million in 1995/96.

74. Analysis of key fiscal trends (Table 8) shows that, the ratio of current surplus as percentage of current revenue decreased from 6.0% in 1995/96 to 0.5% in 1996/97, due to improvement in current revenue collection and some increases in current expenditure. The

ratio of capital expenditure to current expenditure improved over the last two fiscal years. This was due to improvement in gross fixed capital formation.

Table 8: Analysis of Key Fiscal Trend, 1994/95 - 1996/97

		1994/95	1995/96*	1996/97**
1.	Current surplus/Deficit as % of current revenue	3.4	6.0	0.5
2.	Current surplus/Deficit as % of capital expenditure	28.0	64.1	3.1
3.	Ratio of capital expenditure to current expenditure	12.1	13.2	14.2
4.	Overall deficit as % current revenue	2.7	3.3	-4.8
5.	Overall deficit as % total expenditure	2.0	2.6	-3.6
6.	External grants and loans as % of capital expenditure plus net lending	74.5	78.8	77.9
7.	Net short term borrowing as % of capital expenditure plus net lending	104.6	-35.4	9.1
8.	Current revenue as % of GDP at current market price	32.4	31.1	28.7
9.	Total government expenditure as % of GDP at current market price	48.6	41.4	39.2
10.	Overall deficits as % of GDP at current market price	-3.6	-0.9	-1.4

Source: Central Bank of Kenya.
* *Provisional*
** *Estimates*

75. Actual expenditure has consistently been above the budget and 1996/97 was no exception. The 1996/97 extra expenditure has been necessitated by drought which forced the government to spend more on food supply to famine stricken areas and related activities. More funds were also spent on compensation to staff of Kenya National Assurance Company, purchase of additional vehicles, registration of voters and reimbursement to Kenya Ports Authority. As a result of these developments, the overall estimated budget deficit stood at Kf -1,910 million in 1996/97 as compared to approximately the same amount of Kf 1908 million in 1995/96 budget deficit.

76. Kenya pursued a tight monetary policy in 1996 which was geared towards the maintenance of low and stable inflation rate. The monetary authorities harmonized monetary policy operations with fiscal policy in order to contain money supply within the desired levels. Towards this end open market operations (OMO) were used to check money supply growth. Commercial banks and Non-Bank financial institutions (NBFS) were required to observe a minimum cash ratio of 18.0% and a liquidity ratio of 25.0%.

77. Net foreign assets which had almost declined by one half in 1995, more than quadrupled in 1996. Compared with 20.5% in 1995, domestic credit increased by 10.8% in 1996. This was mainly due to a reduction in government borrowing. Money supply (M_3) expanded by 15.9% while the target growth rate was 15.7%. The increase in M_3 is reflected in the increase in net foreign assets and domestic credit. The average liquidity ratio of commercial banks and NBFIS averaged 42.0% and 36.9% respectively in 1996. These developments are consistent with Kenya's good performance of the balance of payments.

78. The upward pressure on interest rates which started during the second half of 1995, continued into 1996. The upward trend in the interest rates was restrained partly by Central Bank intervention in the money market through enhanced sales of Treasury bills. The process was aimed at mopping up excess liquidity injected in the economy as a result of Central Bank intervention in the foreign exchange market and the need to finance the budget deficit from domestic sources. High interest rates on Treasury bills was set by Central Bank to attract deposits. In addition, there was generally high demand for domestic credit as reflected by the high advances/deposits ratio. All these created upward pressure on interest rates. Inflation was contained at a single digit level. It was 9.0% in 1996.

79. A favourable balance of payments position resulting from the good performance in both current and capital accounts was evident in 1996. The overall current account balance stood at a deficit Kf 211 million in 1996, compared to a deficit of Kf 1031 million in 1995. The terms of trade, on the other hand, further worsened by 2.0 percentage points. In 1996, value of exports of goods grew by 21.0% while value of imports recorded a slower growth of 8.6%.

80. African countries continued to be the major destination of Kenya's exports for three consecutive years. In 1996, the value of exports to Africa and European Union (EU) accounted for 79.7% of the total exports. The share of exports to EU expanded from 32.0% in 1995 to 33.0% in 1996. While exports to Africa narrowed from 48.8% to 46.7%.

81. Classification of imports by major category reveal that imports of industrial machinery, motor vehicles and chassis, crude petroleum and refined petroleum products continued to absorb the bulk of Kenya's foreign exchange. In 1996 total import share was 63.3% of the total payments for selected imports, representing 40.8% of total import bill. Notable increase in imports were in wheat and fertilizers. Import values of fertilizer doubled and wheat almost tripled.

82. The country's indebtedness to donor nations and organizations improved marginally. The total external outstanding debt stood at Kf 13,036 million in 1996 against Kf 13,605 million in 1995. Japan maintained its position as the principal lender to Kenya amongst the bilateral donors, accounting for 40.2% of the outstanding debt. The World Bank affiliate International Development Association (IDA) was the leading contributor in the category of international organizations by giving 74.3% of the total multilateral debt.

83. On the social sector scene, the poverty profile survey of Kenya showed that monthly food and absolute poverty lines per adult equivalent in rural and urban areas were estimated at Kshs 703 and 978; and 875 and 1489 respectively in 1994. Based on these poverty lines, about 47% equivalent adults were food poor in rural Kenya compared to about 72% in 1992. Overall, about 47% were classified as absolute poor. The number of people below poverty line was estimated to be 11 million. During the survey household heads were asked to state their major problems that affect their community. The problems identified according to rank were: lack of water, famine or drought, lack of health facilities, lack of schools, inadequate income and unemployment.

84. The Recent Crop and Food Assessment Mission of FAO in Kenya found out that domestic availability of maize, the country's main staple, fell short of 1997 requirements by 721 thousand tons. Most of this deficit was expected to be covered by commercial imports, leaving an estimated food aid requirement of 218 thousand tons. Overall, the food supply situation remains tight and this was also reflected in increased food prices. The distribution of food aid continued in pastoral and marginal agricultural areas affected by a succession of drought years.

Madagascar

85. The growth of real GDP in Madagascar was estimated at a rate of 3.0% in 1996, compared to a real growth rate of 2.0% a year ago. The services sector dominates the economy, contributing about 47.5% to GDP, followed by agriculture's 39.1%. The contribution of the industrial sector averaged at 13.3%. In 1997, the growth of the agriculture sector was estimated to decline as a result of total devastation of crops by locust swarms accompanying cyclones which hit Southern Madagascar in April and May 1997. As a result of the disaster, the EIU revised its forecasts downwards for the real GDP growth to 3.5% in 1997. The demand composition of GDP was dominated by private consumption whose share averaged at 90.9%, while the share of gross domestic investment remained at a low level of 11.1% of the GDP.

86. Coffee, vanilla, prawns are the major exports of Madagascar whose average share stood at 18.0%, 15,6% and 12,1% in 1994, respectively. Coffee production decreased from 65 thousand in 1995 to an estimated 37 thousand tons in 1996. Not surprisingly, foreign direct investment (FDI) inflows continued to decelerate. The World Bank was particularly keen to reverse the trend in the industrial sector, given that foreign companies operating in Madagascar accounted for half of all exports of manufactures in 1995, and increased their

employment by 22% compared with 6.8% in Malagacy private companies. The total volume of exports increased from US$ 501 million in 1995 to an estimated 580 million in 1996, indicating a 15.7% increment.

87. The principal imports of the country were capital goods, food crops, raw materials and consumer goods and fuel products. Capital goods imports constituted the major import bill of Madagascar, about 25.6% in 1994. The total volume of imports increased from US$ 649 million in 1995 to an estimated US$ 695 million in 1996, a 7.1% increase.

88. The current account balance has been in deficit and reached an estimated level of US$ 342 million in 1996 as against a current account deficit of US$ 254 million in 1995. The current account deficit in 1996 was estimated to constitute 7.9% of the GDP. The total external debt of the country increased from US$ 4,117 million in 1994 to US$ 4,302 million in 1995. In July parliament approved an amount to the budget to raise the 1997 tranche of the 1997-99 Public Investment Programme (PIP) from about US$ 278.3 million to US$ 289.7 million. The introduction of value added tax (VAT) on petroleum products would help to boost government revenue. Increased public spending will be focused on reconstruction projects damaged by recent cyclones and for improvements of the road network. The overall budget deficit in 1997 was estimated to shrink from US$ 1638 million in 1996 to US$ 1,403 million, reflecting the debt-rescheduling deal reached in March 1997 with Paris Club bilateral creditors.

89. The monetary survey of Madagascar shows that, broad money (M_2) increased by 16.2% in 1996 compared to 15.9% in 1995. Consumer price inflation was reduced by an estimated 78% in 1996, lowered from 47.2% in 1995 to 10.5% in 1996.

90. In human terms, the growth rate of population stood at 3.1% compared to a 2.9% average growth rate of the subregion. The total population was estimated to reach 15.8 million in 1997. According to the latest available data on employment trend, unemployment in Antananarivo fell from 6.8% in 1996 to 5.8% in the first quarter of 1997. The decline was attributed largely to employment generation in the private sector. Government reforms of the regulatory environment, notably a reduction in corporate and export taxes, have helped to create jobs in the industrial free zone. Although the free zone accounted for 4.6% of the private sector employment in 1996, 12% of all new jobs created were in that sector. The informal private sector continued to be the largest employer in Antananarivo, accounting for 58.8% of employment in 1996 and 59.6% in the first quarter of 1997.

91. The under five mortality rate improved from 364 per thousand of live births in 1960 to 116 in 1997. Life expectancy at birth stood at 58 years in 1995, compared with the subregion's average of 54.5 years. The percentage of population with access to safe water stood at 29% during the period 1990-96. The proportion of population with access to health services stood at 65% during 1990-95 compared to an average of 57.3% for the subregion.

The adult literacy rate for male and female was 47% and 23% in 1995 respectively, compared with the average 74% and 55.2% for the subregion as a whole.

92. The FAO/WFP mission visited Madagascar in March 1997 to assess the damage and loss caused to food production and agricultural infrastructure by cyclone "Gretelle" which struck the country in January 1997. The Mission estimated total crop loss at 7000 tons of rice, 123,500 tons of cassava and 8000 tons of cash crops (mainly coffee). However, as production prospects in the areas of the country not affected by the cyclone were favourable, the bulk of the shortfall could be covered locally.

Rwanda

93. Nominal GDP in Rwanda was estimated at US$ 1.3 million in 1996, which registered 5.9% real growth rate over 1995. GDP was estimated to recover by 11.8% in 1997 over the 1996 period and the projected annual real growth rate for 1998 and 1999 was 12.6 and 8.9% respectively at constant 1995 prices. The per capita income in 1996 was $ 179, which was slightly less than half the $ 373 in 1990. In real 1990 Rwanda Francs (not US dollars above), per capita income had fallen by one-third from 1990 to 1996. In 1990 Rwanda's income per capita was the second highest in East Africa. In its 1996 report, the World Bank listed Rwanda as one of the poorest countries in the world in terms of per capita income which had deteriorated since the 1994 civil strife. The Ministry of Planning in Rwanda anticipates that the 1993 levels of production will not be achieved until the year 2000.

94. The recovery by sector (Table 9 and 10) is uneven. Real agricultural production was 79% of 1993 levels, while the industry and the service sectors were 62% and 72%, respectively. The agricultural sector grew by 12.2% in 1996 and the real growth rate estimated for 1997 was 11.7% over the preceding year. A continuous recovery is expected upto the year 2000. The service sector fell the most in 1994 but also recovered the most in 1995. The sector even continued to grow by 8.3% and 7.1% in 1996 and 1997, respectively. The industrial sector has been the slowest to recover with continued low agricultural incomes hampering the recovery of manufacturing. Real growth rates for industry was a negative 4.7% in 1995, while it registered 18.5% and 20% real growth rate from its negative base in 1996 and 1997, respectively.

95. In the primary sector, food crops (mainly beans in the September, February growing season and sorghum in the March - August season) recovered by nearly 10% in 1995 and another 15% in 1996. The major export earner and cash crop is coffee, which accounted for 70% of all export earnings in 1996. Coffee is primarily grown by small holders with most trading, drying and roasting done by the private sector. Exports were 46,000 m.tons in 1990, but the lack of any attention to the coffee bushes during 1994 led to a fall in output to 21,000 mt., and a fall in exports to 13 thousand mt. To rehabilitate the trees it was necessary to severely prune them. Nonetheless, exports were able to recover somewhat to

15 thousand mt. with a further recovery to 205 thousand mt. in 1996, still less than half of pre-war levels.

96. Tea is the second major source of foreign exchange earnings in the country. In 1990, it accounted for 20% of all export earnings, with a total volume of nearly 12 thousand mt. Four of the government-owned tea factories were destroyed or seriously looted during the war. In 1994 exports were 35 thousand mt. with a recovery to 4 thousand mt. in 1995 and 79 thousand mt. in 1996, nearly two-thirds of pre-war levels. Estimates show that production ought to approximate pre-war levels in 1997. The single private factory has recovered better than almost all others, which produced about 2 thousand mt. before the war and was producing 29 thousand mt. at present.

97. The industrial sector is small, accounting for 22% of GDP in 1990 and 18% in 1996. It comprises mainly small manufactures, beer, soft drinks, cigarettes, plus plastics foam, soap, cooking oil and furniture making. Unlike the service sector which revived because of the re-establishment of government and large infusions of donor assistance, many large industries were government controlled and will need to be revitalized before they can be privatized. For example beer, soft drinks and cement manufacturing recovered well, but textiles and public industries like sugar, rice milling and mining were yet to be rehabilitated.

Table 9: Percentage Sectoral Shares of Rwanda's GDP at Market Prices

Sector	1995	1996	1997^E	1998^P	1999^P
Agriculture	35.1	33.6	32.3	32.2	32.2
Industry	18.4	18.0	20.9	21.5	22.5
Service	44.4	44.2	44.2	43.0	41.9
Others	2.1	2.7	2.6	3.3	3.4

Source: MINI FIN Plan, Direction de la Macro-economic
E: estimate
P: projection

Table 10: Growth Rate of GDP at Constant prices (1995 = 100)

Percent

	1995	1996	1997^E	1998^P	1999^P
Agriculture	23.5	11.0	12.3	14.7	10.3
Industry	-4.7	18.5	20.0	15.9	13.9
Services	39.0	8.3	7.1	6.1	4.3
Overall GDP	24.6	12.2	11.8	12.6	8.9

Source: MINI FIN Plan, Direction de la Macro-economic
E: estimate
P: projection

98. The government budgetary profile (Table 11) shows that, total government revenue (excluding grants but including non-tax revenue) increased from $ 80 million in 1995 to $ 129 million in 1996, an increase of 61% in US dollar terms. Rwanda was collecting approximately the same percentage as in 1990. Given the expenditure needs of the government, it is felt that this percentage needs to increase. As with most developing economies, consumption based taxes, contribute the bulk of revenue. In the case of Rwanda two-thirds of revenue came from consumption taxes in 1996, while taxes on international trade contributed 29%. Taxes on property, income and profits contributed 26%. In 1996 the government decided to begin a 3% turn over tax on business while reducing taxes on business income and profits. However, due to business protesting the action, government agreed to study the implementation of the tax, look at alternatives, but to continue to collect revenue from the tax. Import duties are about 60% for goods that are produced in the country or considered luxuries. The government also imposed an additional tax on the importation of goods that are produced in the country.

99. Recurrent spending in 1995 was $ 145 million and capital expenditure was $ 94 million for a total spending of $ 239 million. There was a substantial growth in spending in 1996 by 33.8% to a total of $ 320 million. Of this amount $ 187 million was recurrent (a growth of 28.9%) and $ 133 million was capital, a growth of 41.5%. As in 1995 almost all capital spending was donor financed. In 1996, 58% of total government spending was recurrent and of this 35% was for wages and salaries, 44% for the purchase of goods and services and 11% was for actual interest paid (not interest due) on government debt (split about evenly between domestic and foreign debt). The remaining 10% was for transfers and exceptional items. Government breaks down wages and the purchase of goods and services into civil and defense, with defense wages accounting for 45% of the total and the defense purchase for 55% of all purchases implying that defense spending was about 23% of the total government spending, and 40% of all recurrent spending. In 1996 recurrent budget spending on services was 21.1% (health received 2.9% and education received 16.8% of total recurrent expenditure) and economic services shared 7.4%. The education budget was split almost evenly between primary/secondary education and higher/ tertiary education.

100. Government's revenue was sufficient to meet 69% of the recurrent budget and 44% of the total budget in 1996. Thus, government has to receive assistance through foreign grants and loans to meet the bulk of its spending needs. The gap would have been even greater had the government met all its obligations to repay its domestic and international debt. In 1996, internal arrears increased by $ 12 million. Excluding foreign grants and loans, the overall deficit in 1996 was $ 191 million, constituting 14% of the GDP.

Table 11: Financing the Deficit of the Government of Rwanda (US$ million)

Item	1995	1996
Total spending	239	320
Current spending	145	187
Capital spending	94	133
Total revenue	80	129
Deficit	159	191
Deficit as % GDP	12.3	14.1
Foreign grants	132	103
Increase in arrears	46	27
Net foreign loans	20	42
Net domestic loans	(44)	12

101. Gross fixed investment as a proportion of GDP in Rwanda was about 17.5% in 1995 and decreased to 13.5% in 1996. It was estimated to increase to 17.9% in 1997. The projected share of gross fixed investment could be 20.3% of GDP by the year 1998. The Central Bank of Rwanda has inflation estimates for Kigali. The average inflation rate for Kigali was 21% in 1995 and decreased to 8.7% in 1996. The main reason for the improvement was substantial liberalization of the banking sector and tightening of monetary policy in the last quarter of 1995. The Ministry of Plan's Direction des Statistiques has an index of urban inflation that includes data from all the major urban centres. According to the Ministry's data, inflation rates were 34 % in 1995 and 14.2% in 1996. The differences in the inflation rates (for instance, 8.7% and 14.2%) would need to be studied. The difference might be due to basic assumptions or methodology used by the Central Bank and the Ministry of Planning.

102. In 1996, Rwanda exported goods valued at $ 63 million, an increase of 34% over the value of exports in 1995. The two major exports were coffee and tea, which together usually account for 85% of total exports. The major export was coffee, accounting for about 60% of the value of pre-war exports. In 1995 most of the coffee was exported to Brazil to be used in blending. The export of coffee was $ 44 million in 1996, an increase of 15% over 1995. In 1990 exports were $ 66 million. During the war production fell considerably culminating in a fall of 56% in tones in 1994. In 1997 it was expected that, production will fall another 25% to only about a third of 1990 levels. Thereafter a slow recovery was expected.

103. Tea exports were about 25% of the value of all exports. In 1996 the value of tea exports was $ 9.4 million. However, this was a large improvement over 1995's exports of $ 3.7 million. The volume of exports nearly doubled in 1996 to 79 thousand mt., compared

to levels of 12 thousand mt. before the war. Rwanda has been selling its tea at the Nairobi and Mombasa tea auctions rather than in London. The third major export was hides and skins which accounted for 6.7% of the total exports compared to 3% of the pre-war period. In 1996 based on data from importing countries, Brazil was the destination for 51% of Rwanda's exports, Germany and the Netherlands each were the destination of 9% and Belgium the destination of 4% of Rwanda's exports. This was a considerable change from the mid-80's when Germany was the destination for half of Rwanda's exports and Belgium was the second major export market.

104. Based on the information from Rwanda's trading partners in 1995, the US was the source for 14% of Rwanda's imports (mainly food aids), Tanzania and Kenya for 13% each. Food shipments from the US probably increased the US share of the market to nearly a third in 1996. Belgium, Germany, Japan, and Kenya were the major sources of imports in the mid 1980's. The trade balance in 1996 (exports of merchandise minus imports of merchandise) was a deficit of $ 140 million, compared to a deficit of $ 147 million in 1995. It was $ 93 million in 1985, and $ 146 million in 1987. Current levels were not all that dissimilar from earlier levels.

105. The overall balance shows what could be financed by extraordinary measures: drawing down on foreign resources or in the case of Rwanda, non-payment of foreign debt. At the end of December 1996, net foreign assets were $ 138 million. The total arrears were $ 79 million in 1996, an increase of $ 14 million from 1995. A usual target for net foreign asset was to have sufficient foreign assets to pay for three months of imports (goods and services). In the case of Rwanda, imports in 1997 were projected to be $ 423 million, resulting in Rwanda having nearly four months of import cover. Under normal circumstances, this would imply that more could be paid on foreign debt. The deficit on the balance of trade was expected to increase to $ 181 million or by 30% in 1997. As a result, the current account balance would worsen to $ 259 million in 1997 (current account excluding grants). Government was anticipating total foreign grants of $ 135 million in 1997, resulting in a current account balance of payments (including grants) deficit of $ 115 million. With an estimated capital account balance (loans and investments) of $ 62 million, this leaves a deficit in the overall balance of about $ 54 million.

106. Regarding the food situation in Rwanda, FAO/WEP mission estimated that conditions would be better in 1997 than in 1996. Overall, the food situation could be considered better than in 1996 given that harvests were larger in 1997. Aggregate food production for 1997 was estimated at 3.8 million tons, about 7% higher than in the previous year, but down from the average of the recent five years. Reflecting below-average food production, the food supply situation was precarious in several areas. For those relying on purchase for part or all of their consumption requirements access to food became exceedingly difficult. As a result, the need for donor assistance remained strong. The mission estimated food aid requirement for cereals and pulses at 31 thousand tons and 103 thousand tons, respectively.

The mission also recommended that donors need to provide further assistance in the form of seeds, farming tools and other inputs for returnees, to ensure that preparation for next year's planting of food crops would not be hampered.

Seychelles

107. Real GDP growth in Seychelles was estimated at 1.2% in 1996 compared to the growth rate of 1.1% in 1995, and the negative growth of 0.4% in 1994. The GDP was dominated by the service sector whose share was about 60% in 1993, followed by industry whose contribution was 18.4% during the same period. The contribution of the tourist sector was 17.5% to GDP. Tourist arrivals in Seychelles increased by 32.8% in 1996 compared to 1992, from 98.5 in 1992 to 130.9 thousand in 1996. Agriculture's contribution to GDP was 3.5%. The demand composition of the GDP was dominated by private consumption, sharing about 52.6% of the total expenditure on GDP. The share of gross domestic investment stood at 26.9% in 1993. Seychelles estimated per capita income was about US$ 5.4 thousand in 1996 at 1990 prices, which was the highest in the subregion.

108. Seychelles' main export items include: canned tuna, frozen and fresh fish whose share in the total exports was 80.6% and 10.5% in 1994, respectively. The country's export (fob) increased from US$ 26.3 million in 1995 to an estimated US$ 28.1 million in 1996, registering a 6.8% annual growth rate. The country also had re-exports which amounted to US$ 28.4 million during the same period. The major imports of the country were manufactured goods, machinery and transport goods, chemicals, fuel and food and live animals. In 1994, the share of these items were 20.8%, 17.9%, 14.1%, 12.7% and 11.2% of the total import bill, respectively. The total import bill of the country was estimated at US$ 251.3 million in 1996 compared to US$ 237.6 million in 1995.

109. The current account of Seychelles has been in deficit for the past four years. The deficit stood at US$ 33.1 million in 1995 compared to a level of US$ 6.9 million in 1992, indicating a 479.7% increase in deficit in 1995 over 1992. The ratio of the current account deficit to GDP rose from 1.6% in 1992 to 6.3% in 1995. However, the total external debt of the country has been reduced from US$ 170 million in 1994 to US$ 164 million in 1995. Debt to export of goods and services stood at 56.3% (at 1990 prices), which was the lowest in the subregion.

110. Consumer price inflation in the country was a mere 0.5% in 1996, compared to a deflationary situation in 1995. The growth rate of broad money (M_2) was 14.8% in 1996 compared to 10.5% in 1995. This implied that, it was the supply side of the economy which accounted for the insignificant inflation level rather than the impact of the monetary expansion which would otherwise, have exerted inflationary pressures on the economy. Inflation continues to be low in 1997. According to the Commercial Bank of Seychelles (Quarterly review), average inflation fell by 1.4% at the end of March 1997. The traditional

fish catch rose by 62%, causing a significant drop in the market price for fish, which more than compensated for the 0.2% price rise in other foods over the same period. However, the foreign exchange shortages, which have dogged the Seychelles economy remained critical. Hopes had been pinned on increases in dollar dominated revenue from rises in output by Indian Ocean Tuna (IOT), which was in the middle of a massive investment campaign. However, expected increases would probably materialize only in the medium to long-term. Ironically, employment opportunities at IOT were often regarded as demeaning by the local population, and the company has had to import labour, which in turn has absorbed a significant proportion of revenue increases. Moreover, because IOT operates in the Seychelles international Trade Zone (SITZ), it is exempted from local taxes and does not contribute to the social security fund (SSF). Consequently, the additions that it might otherwise make to the country's foreign exchange reserves were vastly eroded.

111. Torrential rains caused recorded floods. Seychelles experienced the worst floods this century during late August 1997. Some 180 homes suffered varying degrees of damage, and according to initial estimates, the repairs will cost $3 million - 4 million. According to the Ministry of Community Development, the extent of the damage was due to weak foundations in many houses and heavy flows of water destroying poorly constructed retaining walls. Thus, better coordination was envisaged between the construction and transport infrastructure sectors to improve physical planning.

112. Regarding the food situation in Seychelles, the cultivated area of some 10 thousand hectares was used mainly for coconuts, fruit, vegetables and livestock. The cereal needs for human consumption and feed were all imported commercially. According to FAO/GIEWS estimate, the 1997 cereal import requirement stood at 13 thousand tons.

113. The outlook for tourism was bright. The British Airways (BA) and Air France (AF) cutback their services to the archipelago. Air Seychelles was poised to take a more prominent role in the air transport sector. The airlines position will be further reinforced by a regional cooperation agreement signed in late July 1997 with other airlines serving the Indian Ocean, including Air Mauritius, Air Madagascar and Air France. If successful, Air Ocean Indian (AOI), due to be launched in mid-1998 and multi-point routes, will be opened and expected to play a key role in the integration of the regional tourism market. Furthermore, exorbitant fares and poor connections between the islands of the South West Indian Ocean, notably Seychelles, Re'union, Comoros, Madagascar, Mauritius and Zanzibar, have long been a hindrance to regional tourism, with visitors selecting just one destination, as opposed to combining several islands in one holiday package.

114. Regarding social issues, the population of Seychelles was growing at 1.7% annually, which was the lowest in the subregion. The total population was estimated to reach 75 thousand in 1997. Seychelles's under five mortality rate stood at 20 per thousand of live

births in 1995. The under one infant mortality rate was 16 per thousand of live births in 1995. Life expectancy at birth was 72 years in 1995, the highest in the sub region.

Somalia

115. Somalia was torn apart by armed socio-political conflicts which have continued to disrupt the nation's socio-economic activities. Data collection in the country has been in abeyance because of the disruption of the civil strife. However, in 1990, Somalia's GDP was US$ 66.87 million, at the current market prices and consisted of agriculture 65.5%, services 25.8%, industry 8.7% and construction 4.6%.

116. The main exports of Somalia were livestock and bananas, which constituted about 17.3% and 16.6% of total exports in 1990. The country's main destination of exports were Saudi Arabia, Yemen and Italy, absorbing 57%, 14% and 13% of the total exports of the country as of 1995. Total exports amounted to US$ 130 million in 1994.

117. The major imports of the country include manufactures, non-fuel primary products and fuels. The major origins of the country's imports include Kenya, Djibouti and Pakistan, sharing 24%, 18% and 6% of total imports of Somalia in 1995, respectively. Total imports of Somalia amounted to US$ 29 million in 1994. The country's total external debt reached an estimated US$ 2616 million in 1994, and the trade balance was a negative US$ 165 million and US$ 139 million in 1993 and 1994, respectively.

118. An appeal was made in December 1996 by four UN agencies for urgent international aid for Somalia which amounted to US$ 46 million. However, pledges have been slow except that UNDP had announced in Geneva that a mere US$ 100 thousand had been received from Australia towards this total. The UNDP added that drought had affected much of the country and around 1 million Somalis were threatened by malnutrition. On February 18, 1997, the two rival factions jointly asked the UN for US$ 100.5 million in aid, but insecurity continued to deter any major relief effort.

119. On the social scene, the total population of Somalia was estimated to reach 9.7 million in 1997, growing at annual rate of 2.4%. In 1994, 67.4% of the working population was engaged in agriculture. In 1992, Somalia's labour force was estimated at 3.3 million (2.0 million men and 1.3 million women), representing respectively 41.2% of the total population as well as 52.4% and 33.2% of the working population. Life expectancy at birth for this same period was estimated at 47 years whereas the fertility rate was 6.6.

120. Somali refugees were dispersed in many parts of the world. The first families involved in a pilot programme to return 10,000 Somali refugees from Ethiopia left their camp in February 1997, following agreement between the Ethiopian government and the UN High Commission for Refugees (UNHCR) in January. At least, 4,500 Somalis living in refugee

camps in Kenya were to be given leave to enter the USA in 1997. About 6,500 Somalis left for the USA in 1996.

121. According to FAO/GIEWS: Africa Report, August 1997, the food situation had deteriorated rapidly following the drought, coupled with the continuing civil strife. The main "GU" crop harvested last September 1996 was also poor and thus the aggregate 1996/97 cereal production was estimated at about one-half of the pre-civil crisis level. The difficult food supply situation was reflected in very high grain prices and the increased selling of livestock. Although growing conditions for the 1997 'GU' season cereal crops have generally been favourable as rains since March were abundant and fairly distributed, plantings were substantially restricted by shortages of seeds and other inputs, as well as by the civil conflict that has been going on since 1988. The secondary harvest crop ('der') already harvested earlier in 1997 was poor due to late and poor rains during the growing season. This crop normally accounts for 25% of the total cereal production.

122. The result of this development has been a continuing deterioration in the country's food supply situation. Food prices have been rising significantly since September 1996. To counter the deficit in food supply from domestic production, the estimate of cereal import requirements until end-August 1997 remained at 256,000 tons. This consisted of an estimated 170,000 tons of commercial imports and 86,000 tons in food aid. The food aid received by end-June 1997 amounted to only 14,000 tons. Food aid distribution continued to be hampered by the general lack of security. To avert a further deterioration of the food supply situation until the harvest from the next 'GU' season became available, substantial donor assistance was required.

123. As to the prospects for socio-economic rehabilitation, reconstruction and development, it was evident that Somalis themselves were making every effort to restore peace to their country. They have received support from the governments in the region and from international bodies, including the UN, OAU, the Arab League (AL) and the EU. The UN Security Council expressed its support for any efforts to re-establish peace in Somalia. Thus, the fate of the nation depends on the degree of the efforts that would be made by Somalis, subregional governments and the degree of international response as well.

Tanzania

124. Fiscal Year (FY) 1997 was the first year of Tanzania's three-year macro-economic reform programme (1996-1999). The reform programme falls within the agreed framework of the IMF's Enhanced Structural Adjustment Facility (ESAF), with additional support from the World Bank's Structural Adjustment Credit (SAC). The broad aim of the reform programme is the attainment of macro-economic stability, combined with satisfactory economic growth.

125. During 1996, real GDP grew by 4.2%, (Table 12) some 0.6% percentage points over what was achieved in 1995 but slightly lower than the targeted rate of 5%. Considering population increases, per capita GDP growth was 1.4%, compared with 0.8% in the previous year. The positive growth performance was spread across most sectors, with negative growth recorded only in the financial and business services sector. Significantly, high growth rates were recorded in electricity and water (11.1%), mining and quarrying (9.7%) and construction (9.4%). Good performances were also recorded in manufacturing (4.8%) and agriculture(4.5%). There were no pronounced shifts or changes to the structure of the economy, as sectoral contributions to GDP remained relatively unchanged. Agriculture continued to be the mainstay of the economy, despite a slight drop in GDP contribution from 50.7% in 1995 to 50.5% in 1996.

126. In line with agriculture's slight decline in GDP share, there was also a drop in output performance from 6.6% in 1995 to 4.5% in 1996. The decline in agriculture production can be explained largely by lower food crop production because of weather conditions. The other productive sectors of the economy (manufacturing, mining and quarrying and construction) recorded, as a group, an increase in GDP share of 12.9% in 1995 to 13.9% in 1996. Within the productive sectors, a significant turn around was recorded in the manufacturing sector where output performance improved significantly from 1.6% in 1995 to 4.8% in 1996. This encouraging performance following five successive years of output decline reflects the impact of changes to the incentive structure for manufactured goods, through the expansion of opportunities for private participation.

127. The share of services in total GDP declined from 34.7% in 1995 to 34% in 1996. All of the service sectors (trade, hotels and restaurants, transport and communications, financial and business services, public administration and other services) recorded positive performance, with the exception of public administration which recorded negative growth. The decline reflects the on-going retrenchment exercise in the government civil service structure which continued into 1996.

Table 12: Relationship Between Real GDP Growth, Investment Growth and Productivity Growth 1986-1996

	1986-89	1990-94	1995	1996
GDP growth (%) at constant (1992) prices	3.9	2.5	3.6	4.2
Changes in investment (%)	54.1	40	5.3	4.8
Productivity changes (%)	2.7	2.5	4.0	4.1

Source: Central Bureau of Statistics (1997) and Planning Commission (1997).

128. The levels of savings and investment (Table 13) were one of the key determinants to the sustainablity of Tanzania's positive growth performance. Data contained in Table 13 indicate a decline in the trend of domestic savings from an average of 6% of GDP during the period 1986-1989 to 2.6% in 1996. The general level of investments also shows some deterioration from a peak average of 25.3% during 1990-94 down to 16% in 1996. These weak performances in investment growth rates, while reflecting in large part the tight fiscal stance of the government, also highlights the fact that economic agents have been slow in responding to policy changes. This implies that bottlenecks still exist in the incentive structure, which will require a further deepening of reforms to overcome the bottlenecks.

Table 13: Saving and Investment Ratios 1986-1996 (% GDP)

		1986-89	1990-94	1995	1996
1	Domestic savings	6	3.8	4.6	2.6
2	Gross investments	17.7	25.3	19.1	16
3	Financing gap	-11.7	-21.5	-14.5	-13.4

Source: Bank of Tanzania, various years; Central Bureau of Statistics (1997).

129. The Rolling Plan and Forward Budget document of Tanzania projected that GDP will grow by 5.6% in 1998. This GDP growth improvement was expected to come from the better growth performance of the construction and service sector, projected to grow at 4.6 and 9.2%, respectively. The agricultural, mining, manufacturing, electricity and water sectors were projected to decline in 1998. They were projected to grow at 3.5%, 3.0%, 3.9% and 3.0%.

130. The overall fiscal position (Table 14) strengthened during the 1997, with developments in the government budget showing some encouraging signs. Total revenue collections during FY 97 amounted to some Tshs. 572 billion, about Tshs. 8.2 billion or 1.4% above target. Within the total revenue, tax revenue collections were 2.9% above target, while non-tax revenue fell short of target by 8.3%. The good performance of tax revenue collection was due mainly to the substantial improvement of import tax collections, where collections were 9.6% above target. Regarding total expenditures actual spending was well within limits (87% of budget). Performance within this category was varied. For example while there was overspending within the recurrent expenditure budget of some 2%, there was very little spending within the development budget, where development expenditures consumed just 22% of the development budget. Overspending in the recurrent budget could be explained by above targeted expenditures on wages and salaries (16.5% above target) and debt servicing (5.3% above target). In general the primary balance of the

budget recorded a deficit of Tshs. 13.9 billion. When external grants of some Tshs. 50.4 billion were taken into account, the overall balance of the budget recorded a surplus of Tshs. 36.5 billion. On aggregate the fiscal position witnessed a small improvement of 0.2% points: from a surplus of 1.8% of GDP in FY 96 to 2% in FY 97.

Table 14: Trends in Fiscal Performance FY 1990 - FY 1997 (% of GDP)

	Item	FY 90-94	FY 95	FY 96	FY 97
1.	Total Revenue *	16.3	15.3	15.3	18.0
	Recurrent **	(13.5)	(13.5)	(14.3)	(15.8)
2.	Total expenditure*	22.0	17.8	13.5	16.0
	Recurrent**	(17.6)	(16.6)	(13.4)	(15.3)
3.	Surplus/Deficit	-5.7	-2.0	1.8	2.0

Source: Bank of Tanzania Economic Bulletin (June 1997).
* *Including external grants*
** *Without external grants*

131. Monetary Authorities had targeted the growth of money supply (M_3)* to fall within the range of 13-15% and reserve money (MO)** growth to fall within the range 7-10% during FY 97. During the period, the expansion in M_3 ranged from 15% in July 1996 to 19.8% in April 1997. On average, M_3 expanded by 13.4% for the 12 month period, well within its target range. The good performance of money supply growth could be explained largely by the decrease in Net Domestic Assets (NDA) of the Central Bank, occasioned by the contraction in domestic credit, including both claims on government and private sector lending. During the year, claims on government contracted by 6.2% while credit to the private sector dropped 11.3%. The foreign assets position of the Central Bank recorded a significant increase of some 70% for the period. This was mostly due to substantial foreign exchange purchases on the interbank forex market, much of which went towards strengthening official reserve positions.

132. The year-to-year headline inflation, as measured by changes over twelve months in the consumer price index exhibited a downward trend for much of the period: from 18.2% in July 1996 down to 16.4% in June 1997. Similarly, the underlying non-food rate of inflation also exhibited a downward trend: falling from 23.8% in July 1996 to 13.9% in June 1997. Food inflation on the other hand, exhibited a rising trend: from 15.9% to 17.5%

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* M3=M2 plus foreign currency deposits

** MO=the Central Bank's liabilities in the form of currency in circulation outside banks and bankers' reserves.

during the same period. Below normal seasonal rainfall in food growing areas, drought conditions in large parts of the country and declining national food stocks explain much of the food price increase.

133. Regarding financial markets, a total of US$ 505.1 million was offered for sale on the interbank foreign exchange market (IFEM) in FY 97 compared with US$ 592.1 million offered during FY 96. This suggests a 14% decline in the amount of forex supplied to the market, a further reflection of the tight monetary policy stance of the Central Bank. The shilling depreciated further by 3.9% against the dollar, from an average of Tshs. 582.47% USD in FY 96 to Tshs. 605.75% USD in FY 97. The depreciation of the shilling partly contributed to increased competitiveness in the performance of exports, as export earnings rose 12.1% over the FY 96.

134. The interest rate structure continued to feature a wide spread between lending and deposit rates, with real interest rates remaining negative for much of the period. The broad spectrum of interest rates experienced general declines: interest rates on the saving deposits declined from an average of 16.7% in FY 96 to an average of 10.3% in FY 97, while Commercial Bank lending declined from an average of 37% down to an average of 25.5% during the same period. The general decline in interest rates during the period was a reflection of the improved liquidity position of Commercial Banks.

135. As part of an agreement reached in January 1997 with Paris Club creditors for cancellation of about US$ 1 billion in external debt and the rescheduling of some US$ 700 million in maturities expected to fall due with in the next three years, external debts worth US$ 148.1 million have since been cancelled and another US$ 111.6 million rescheduled. These amounts relate only to bilateral agreements reached so far with the Government of France, Germany, Austria and Norway. Bilateral agreements were still to be reached with the other creditors, namely, Belgium, Canada, Italy, Japan, the Netherlands, United Kingdom, United States of America and Brazil. A recent World Bank analysis*** of debt sustainability has indicated that Tanzania's debt burden will remain heavy into the next decade, regardless of a strong policy performance and highly concessional external debt relief.

136. The trade balance (Tables 15a and 15b) in FY 97 showed an improvement of some 9.1% over the previous fiscal year: US$ 636.5 million deficit in FY 97 against US$ 700.4 million in FY 96. The significant improvement could be explained by the strong growth performance of exports (12.1%) coupled with a small rise in imports (1.3%). The surge in exports during the period could be attributed largely to the substantial rise in the share of

*** Country Assistance Strategy (CAS) of the World Bank Group for the United Republic of Tanzania, May 6, 1997.

non-traditional exports (97.6%) and the significant drop in the share of traditional exports (-40.4%). A three-fold rise in mineral and manufactured exports, while substantial declines in tobacco (-56%) and coffee (-19.7%) production, both occasioned by drought condition in much of the country during the period. This accounted for a significant drop in traditional export shares.

Table 15 (a) Trade Balance In Million US$

	Item	FY 96	FY 97	% Change
1.	Export	669.9	751.3	12.1
2.	Import	1370.3	1387.8	1.3
3.	Trade balance	-700.4	-636.5	-9.1

Table 15 (b) Structure of Exports and Imports (1995 - 1997)
Six Months Period

Item	1995	1996	1997
A. Exports (in volume)			
Traditional % change	63.6	70.7	42.1
Non-traditional % change	36.4	29.3	57.9
B. Imports (%)			
Capital Goods	40.1	36.4	37.4
Intermediate goods	33.5	39.0	35.4
Consumer goods	26.3	24.6	27.6

Source: Bank of Tanzania Economic Bulletin (June 1997)

137. According to FAO's assessment of the food situation in Tanzania, there would be serious shortfalls for 1997/98 marketing period. The harvesting of the main season crops was completed. Although rains were normal in May and abundant in April in the central and southern parts where rainfall was unimodal, the late start of the season and insufficient precipitation in some areas affected yields adversely. Extensive plantings with short-term varieties were undertaken but this did not sufficiently offset the impact of the delay of about a month. As a consequence, yields and production of maize which accounts for the bulk of the country's cereal production was anticipated to decrease. Good harvests were expected in only limited areas, notably in Western parts where rains were normal. As a result, aggregate cereal production for the 1997/98 marketing year has officially been forecast at 3.41 million tons, significantly lower than the previous year's output. Given this reduced production, there will be a substantial shortfall, currently estimated at about 1 million tons.

Crops in these areas have been reduced sharply by drought conditions. The number of affected persons needing food assistance was reported to have risen to 5.5 million.

Uganda

138. On the basis of the Statistical Abstract of Uganda, June 1997, the Uganda economy registered a growth rate of 5% per annum in 1996/97, lower than the past four years, and also below the average for the last decade of 6.5% per annum. The main factor that had the largest negative influence on GDP growth was the prolonged dry weather conditions that led to a significant drop in food crops. This sub-sector slowed down by 2% during the year, leading to much smaller growth in the whole agricultural sector of 1.1% as compared to 4.4% in 1995/96 and an average growth of 4.5% per annum in the last five years. Because of the drought shock in 1996/97 and also in 1991/92, there was quite an urgent need to insulate agricultural production from rain failure by cost effective irrigation methods.

139. The contribution of agriculture to overall GDP was currently about 44% (although its share was gradually declining), of which food crops accounted for over 28%. The contraction in food crops output resulted in a significant decrease in overall economic output. During 1996/97, the 2% drop in real output of food crops accounted for a reduction in overall GDP growth of 0.6% per annum. If growth in food crops had been 3% per annum, which was the average for the past 10 years instead of negative 2%, it was calculated that, GDP growth rate would have been about 6.5% in 1996/97 instead of 5%.

140. Given the small base, provisional estimates indicate that, the manufacturing sector grew by 14.2% per annum in 1996/97, lower than the 19.7% growth achieved in the previous year. This compared with growth rates of 7%, 15%, 1% and 17.3% achieved in 1992/93, 1993/94, and 1994/95, respectively. The industrial sector as measured by the overall index of industrial production, rose by nearly 17.0% in December 1996 compared to December 1995. The index of main manufacturing based on the eight major manufacturing sub-sectors (that is, sugar, beer, soft drinks, cigarettes, textiles, cement, electricity and laundry soap and edible oil) showed even better performance. This index registered a rate of 31.7% increase in February 1997 as compared to February 1996. Overall the items which have shown strong growth include beverages, leather and leather products, timber and paper, and cement. The index of food processing fell by 20.5% in September 1996 from its level 12 months earlier. The decrease was attributed to lower supply of grain for the processing industries. The continued good performance of the industrial sector was in line with government policy of increasing the size of the industrial sector in proportion to overall economic activity.

141. During 1996/97, the transport and communication sector grew by 9.7% p.a. as compared to 10.8% in 1995/96 mainly due to reduced activity in the railways sub-sector. Much of the growth in the sector came from air transport services and telecommunications

which grew by 30.3% and 13.0% p.a., respectively, during the year 1996/97. The road and rail activities expanded only by 6.1% and 2.8% p.a. respectively, during the same period. Although good performance has been achieved in this sector in the last four years, its contribution to GDP remained small, estimated at 3.9% in 1996/97 compared to 2.9% a decade ago.

Table 16: Structure of GDP Over Last Ten Years (1986 -1996) Sectoral Shares in GDP in Percent

Period	1986	1991	1996
Agriculture	56.1	52.0	44.7
Mining	-	-	0.5
Manufacturing	4.7	5.9	8.2
Electricity/Water	0.9	0.8	0.9
Construction	4.5	5.8	8.0
Wholesale	1.3	11.4	12.9
Hotels	0.9	1.3	1.8
Transport	4.1	4.2	4.8
Services	18.3	18.3	18.2

142. Regarding the performance of public finance, the provisional figure for the government budgetary expenditures indicates a continued commitment to fiscal adjustments to achieve a sustainable budget deficit. The government has been committed to overall macroeconomic stability through the implementation of monthly cashflow budgeting since FY 1991/92. Overall, recurrent revenue (including taxes on imports) was 10.6% lower than the budget estimate. Central government expenditure was contained within the provisions of the overall macroeconomic framework during 1996/97 despite significant shortfalls in revenue and the excessive pressures to finance extra-budgetary expenditures. Although the revenue shortfall and the decision to capitalize Uganda Commercial Bank put an immediate pressure on expenditure side, prudent management of the budget and the monthly cash flow budgeting enabled the Treasury to keep expenditure within non-inflationary limits.

143. Fiscal Policy has played a key role in the maintenance of macroeconomic stability, mainly by keeping inflation low and the exchange rate stable. This effort will continue to be the case until the financial sector, which is currently fragile, was restructured and the Bank of Uganda has developed effective instruments to sustainably carry-out open market operations. Consequently, the government has continued with its build up of fiscal savings with the banking system despite the stringent budgetary constraints. In spite of the excessive budgetary pressure in 1996/97 created in part by the implementation of UPE, and in part by the recapitalization of Uganda Commercial Bank and the war against rebellion in the northern part of the country, overall central government expenditure (recurrent, development and net

lending) was almost as budgeted, estimated at USh. 12,156 billion representing a nominal growth of 14.9% over 1995/96. Total central government expenditure as a percentage of GDP was estimated at 19.3%, 1995/96 level.

144. Development expenditure was below the budget estimate by 1%. In absolute terms, development expenditure was USh 566.2 billion in 1996/97 as compared to USh 489.7 billion in 1995/96. This represented a nominal growth of 15.6% in 1996/97 lower than the increase of 21.2% recorded in 1995/96 p.a.. As percentage of GDP, development expenditure accounted for 9.0% in 1996/97 as compared to 8.9% in 1995/96 and 8.4% in 1994/95. The downward adjustment in total expenditure necessitated by the shortfall in domestic recurrent revenue receipts and extra-budgetary expenditure was born by a reduction in non-wages, non-strategic recurrent expenditures which averaged about 10% during 1996/97.

145. In real terms, the overall budget deficit on a commitment basis remained at the same level as in 1995/96, estimated at 1.9% of GDP in 1996/97. Excluding external grants, the same ratio improved somewhat from a deficit of 7.9% of GDP in 1995/96 to 7.5% of GDP a year later, but higher than the budget estimate by 1.1% of GDP.

146. Broad money (currency in circulation and bank deposits inclusive of foreign exchange accounts - M_3) was projected to have grown by 20.0% by end of June 1997 from a stock of Ushs 684 billion in June 1996 to Ushs 820.8 billion a year later. Money in circulation and demand deposits, saving deposits and foreign exchange accounts grew by 11.0%, 24,8% and 60.4% respectively in 1996/97 over the previous year.

147. Financial deepening, as measured by the ratio of financial savings (time and saving deposits) to broad money (M_2) increased to 33.7% in 1996/97 up from 29.2% in 1995/96. This compares with 12.0% in 1988/89. Financial savings in the banking system are influenced more by the overall confidence in the economy created by low inflation rather than the return on money. Therefore, there was potential for increased financial savings in the banking system if the low inflation was coupled with realistic interest rates for savers.

148. During fiscal year 1996/97, the inflation rate in Uganda remained in single digit except for the months of April and May 1997. Annual inflation (composite) increased from 5.4% in June 1996 to 9.4% p.a. in October 1996. This was due to increasing food prices during that period. As a response to the problem, the Ministry of Finance restrained government spending in order to dampen overall demand and the fiscal savings with the banking system increased by Ushs 17.2 billion during the second quarter of 1996. Also the Bank of Uganda intensified the issuance of Treasury bills . As a result, inflation edged down ward, reaching a record low of 3.2% p.a in February 1997. Although the food prices dropped and started rising again during that period.

149. Given the strong influence of food prices, the impact on overall inflation was strong. Consequently overall inflation increased to 6.7% p.a. in March 1997 and 11.8% in May 1997. Average inflation for the 12 months to May 1997 was 7.3% compared to 7.4 p.a. 12 months a year ago.

150. Uganda's external sector policies continued to be guided by the need to strengthen the overall balance of payments including the build up of adequate reserves, consistent with the progressive phasing out of donor balance of payments support in favour of infrastructure and other project financing. Balance of payments projection for 1996/97 indicate that the terms of trade were likely to decline by about 11%, but this was expected to be more than offset by a strong performance of non-coffee export volumes, and continued high private transfers and capital flows. The capital account was projected to improve significantly, reflecting continued strong support from multilateral and bilateral donors. As a result, the overall balance of payments was expected to show a surplus in 1996/97. The overall balance of payment in 1996/97 was a provisional surplus of 109.6 million US dollars compared to 19.6 million US dollar in 1995/96. The trade balance was a provisional negative 609.0 US dollar million in 1996/97 compared to a negative 563.3 US dollar million in the previous year.

151. The government of Uganda is committed to implement its programme of privatization with the target of divesting 85% of the public enterprise (PES) by the end of 1998. As of December 1996, a total of 63 PES including subsidiary units had been divested as follows; 19 Asset sales, 15 share sales (including a debt equity swap), 7 auctions, 4 joint ventures, 1 lease, 3 repossessions and 14 liquidations or strike-offs. The first phase of the divestiture programme involved privatization through asset and share sales to individual investors, joint ventures or leases and auctions. Implementation during 1997/98 will be on the large PES with specific focus on public participation through share sales to the general public. The share of the private sector in the domestic credit was 137.2% in 1996/97 while that of government remained negative. This trend compared with the 30.0% share of government in domestic credit in 1991/92 underscored government policy not to crowd out the private sector, despite the tight fiscal policy and monetary policy stance. The structure of private sector financial portfolio has gradually been changing towards relatively more savings in the banking system as a proportion of total financial assets. This seems to imply that the private sector had developed confidence in holding shilling as a store of value in the banking system. Confidence resulted from government's firm control over inflation and monetary stability.

152. Regarding social issues, the most challenging phenomenon during 1996/97 was the introduction of free education for four children per family in fulfillment of the President's Election Manifesto. The challenge was mainly in the area of inadequate infrastructure such as schools and shortage of trained teachers. However, despite these constraints, this policy stance has greatly improved the enrolment rate to almost double the level in 1995/96. Education should grow more quickly as the full impact of the Universal Primary Education (UPE) policy were realized.

153. The share of education to monetary GDP was about 7% in 1995/96 but registered a slower growth rate of 5.9% p.a. in 1996/97. In the 1996/97 budget an additional USh. 14 billion was committed to primary education and was disbursed monthly through the conditional grants to districts. The release to districts under the conditional grant were calculated on the bases of registration data and they were currently being revised to take into account the latest enrolment information.

154. The health services registered a growth rate of 4.4% as compared to 4% in 1995/96. This was due to government commitment to a real increase in public expenditure on health and continued private sector interest in providing health services. The Ministry of Health continued to pursue the strengthening of existing health services and orienting them towards more cost effective Primary Health Care (PHC). The health services commission has also been established to improve the personnel management of health services in the country.

155. The per capita income growth rate decreased from a high growth rate of 7.2% in 1994/95 to 5% and 2.1% in 1995/96 and 1996/97, respectively. This was mainly due to the slow down of GDP and increased population.

156. The Human Development Report, 1997 by UNDP indicated that, poverty in Uganda was rampant and wide spread inspite of remarkable economic growth achieved over the past years. The negative impact of SAP, which, among other things, include loss of jobs and reduced provision of social services consequent upon government expenditure cuts, exacerbates the already dire poverty situation particularly in rural areas. In launching the 1997-2002 Public Service Reform Programme, President Museveni was quoted in " The New Vision, Saturday, November 29, 1997 to have cautioned that "an efficient public service combined with strong economic growth are the cornerstone to poverty eradication and development in Uganda".

II. PERFORMANCE OF THE PRINCIPAL ECONOMIC SECTORS OF SUBREGION

A. AGRICULTURE, FISHERY AND FORESTRY

a. Overall Situation

157. The agricultural sector played a dominate role in the subregion, contributing an average of about 48% of the total production in 1996. Output of agriculture rose from US$17.7 billion in 1995 to about US$18.7 billion and an estimated 19.3 billion in 1996 and 1997, respectively. The role of agriculture is more dominant in Ethiopia, Tanzania, Somalia, Uganda, Comoros, Madagascar and Burundi. The overall good performance in 1996 was due to the end of civil strife in some countries and friendly weather conditions in others.

158. However, the overall agricultural situation in 1997 for the subregion was not as encouraging as in 1996 essentially because of the erratic weather conditions. Civil unrest

in parts of some of the countries also led to the displacement of large populations and reduced agricultural sector activities.

b. Food Situation

159. Although the overall food situation in the subregion was encouraging in 1996, seven of the 13 counties (Table 17) of the subregion were identified as facing acute food shortages in the 1997/98 marketing year. The impact of the recent drought continued to be felt in the subregion. In Kenya, the food supply situation remained tight with prices at high levels. In Uganda, prices of maize and beans more than doubled over the 1996 period. The situation was particularly difficult in the eastern part hit by the drought and the northern part affected by civil strife. In Somalia, the recent drought worsened an already bad situation caused by previous poor harvests, input shortages and continuing civil strife. In Tanzania, the food situation in the drought-hit north and north east was still difficult and prospects are yet to be favourable. In Madagascar, the food situation was worse due to loss of food production and agricultural infrastructure caused by cyclone and locust swarms. In Rwanda, as a result of massive return of refugees, the country has had to feed 1.6 million more people in 1997 compared to 1996. The total food production in 1997 was estimated by FAO to be significantly below pre-crisis (1994) levels, leading to heavy strain on available supplies and soaring prices. In Burundi, aggregate food production in 1997 was estimated to be 4% lower than the pre-crisis average due to continued social turmoil in some parts of the country. In DRC, the food and security situation of the remaining Rwandan refugees and internally displaced population remained critical, with a high incidence of severe malnutrition. In Ethiopia, there were several areas, particularly in the pastoral south and south east, where the food supply situation became critical, following the drought-reduced short season crops and deterioration of pasture and livestock conditions. In some of these areas, crops from the short rains season accounted for a high proportion of household annual food production. The deterioration of food supply situation was particularly serious in several areas of the Somali region and the southern part of Oromia region bordering Somalia and Kenya. Recently, food shortages were reported in Amhara region. In Eritrea the food supply situation remained fragile, although food prices were stable reflecting the inflow of supplies across the border from Ethiopia. Food aid would be needed in the 1997/98 marketing year.

160. Table 17 extracted from FAO/GIEWS Africa Report (August 1997) shows that seven countries of the subregion were facing exceptional food emergencies.

Table 17. Eastern African Countries Facing Exceptional Food Emergencies

Country	Reason for Emergency
Burundi	• civil strife, below normal production, economic sanctions
Eritrea	• reduced harvest, large number of vulnerable people
Ethiopia	• large number of vulnerable people, localized weather hazards
Kenya	• unfavourable weather for first season crops
Rwanda	• returning refugees, below normal harvest
Tanzania	• unfavourable weather
Uganda	• localized weather hazards and civil disturbances

1. Commodity Situation

161. Table 18 shows the overall commodity by commodity desegregation of food production in the subregion. All commodities showed reasonable progress in 1996 as compared to 1995, except pulses. However, cereal production was estimated to register a decrease in 1997, while other commodities continued to register an improvement over the 1996 period.

Table 18: Production of Selected Commodities in the Subregion 1990 - 1997 ('000' mt)

	1990	1991	1992	1993	1994	1995	1996[E]	1997[E]
Cereals total of which:	16277	16865	17579	17188	21789	24422	25895	23651
maize	8566	8175	8553	7854	9842	10445	10719	9418
wheat	1173	1201	1159	1140	1718	2093	2435	2050
rice	1285	1210	1012	1245	3586	3856	3921	3800
Roots and tubers total of which:	40495	40572	40654	41276	40905	40055	40987	41125
casava	31612	31975	31896	32471	31405	30084	30721	30730
potatoes	1483	1613	1523	1558	1654	1691	1756	1779
Pulses total	2589	2728	2608	2626	2727	3096	3066	3087
Vegetables total	3699	3742	3678	3568	3961	4039	4088	4098
Fruits total	19842	20121	20145	20619	20854	21380	21634	21654
Cow mild	4574	4390	4237	4194	4350	4410	4490	4580
Meat total	1351	1352	1341	1351	2181	2208	2219	2229

Source: FAO: Production Year Book, 1996
E: Estimates

__Note__: Production data for 1990-93 do not include Eritrea, Seychelles, Comoros and Madagascar

2. __Cereals__

162. The estimated production of cereals (Annex VI) reached 25,895 thousand and 23,651 thousand metric tons, in 1996 and 1997, or 6% growth in 1996 over 1995 but 9% decline in 1997 over the period 1996. Maize contributed 41.4% of the overall volume of cereal production in 1996, while its contribution decreased to an estimated 39.8% in 1997. Ethiopia contributed 42.9% of the total cereal production in the subregion in 1996, while its contribution is estimated to decrease to 40.2%. Tanzania was the second major contributor whose share stood at 16.7% and 17.3% in 1996 and 1997 respectively, followed by Kenya and Madagascar whose share stood at 11.2% and 10.8% in 1996, while their respective shares were estimated at 11.8% and 11.2% in 1997. Thus, the positive or negative results achieved in the case of major cereal producers contributed to the overall cereal production situation in the subregion.

163. Ethiopia which produced a lion's share of 30.3% of the total wheat production in the subregion in 1996, achieved a growth rate of 30% in 1996 over the previous period. A 38%

decrease in the growth of wheat production was estimated in 1997 compared to the previous period. This undoubtedly contributed to the overall decrease of cereal production in the subregion in 1997. Paddy rice production performed well in Madagascar, DRC and Tanzania (which were the major producers in the subregion) in 1996 and marginal improvements were estimated for 1997 for the countries except in Tanzania where a decrease was estimated.

3. Roots and Tubers

164. A total volume of 40,987 thousand and an estimated 41,125 thousand metric tons of roots and tubers were produced in the subregion in 1996 and 1997. This represents a 2.3% and a marginal 0.3% growth rate during the two periods respectively. Casava production constituted about 74.9% and 74.7% of the total roots and tubers harvested in 1996 and 1997. Casava harvest increased by 2% in 1996, but was estimated to remain almost at the same level in 1997. The estimated casava harvest in 1997 constituted 94.5% of the production level in 1993. The major producers of casava in the subregion in order of magnitude were DRC (58.6%), Tanzania (19.2%), Uganda (8.6%), and Madagascar (8.1%) in 1996.

4. Other Commodities

165. The production of vegetables in Tanzania, which was the largest producer in the subregion increased by 5.4% in 1996, while the production of fruits decreased by 2% during the same period. The production of pulses in Tanzania increased by 1.8% in 1996. Ethiopia which was the largest producer of pulses registered a constant level of production in 1996. Uganda, the largest producer of fruits in the group, marginally improved its production by 0.4% in 1996 and was estimated to remain at the same level in 1997. DRC, which is the second largest producer of fruits in the subregion also registered marginal increment of 0.2% in 1996 compared to 1995.

166. Overall, production of pulses, vegetables, fruits, cow milk and meat were estimated to increase by 0.7, 0.2, 0.1, 2.0 and 0.5 percentage points in 1997. The increases were far below expectations. The prospects for the production of other commodities of food items would depend upon the prevalence of good weather and stable political conditions as well as the availability of improved post-harvest preservation and storage facilities.

c. Industrial Crop production

167. The subregion's cash export crops were dominated by coffee, tea, sugar and sisal. The subregion's total production of coffee was estimated at 815 thousand metric tons in 1996, representing 13.7% of total world production and 70.9% of the total volume of production in Africa. The subregion's share of coffee production in the world and Africa total was 12.8% and 67.5% in 1995. The volume of coffee production (Table 19) increased

from 738 in 1995 to 815 thousand mt. in 1996. This represented a 10.4% increase over the preceding year. Coffee production in Uganda increased by 36.7% in 1996. Uganda was the largest coffee producer in the subregion in 1996. The country's share reached 31.5% of the total during the same period. Ethiopia was the second largest producer in 1996, lowered from its first rank in the subregion in 1995. Kenya was the third major producer throughout the past five years.

168. The aggregate share of tea production (Table 20) in the subregion stood at an average of 77.6% and 11.4% from Africa and the world total in 1996. Kenya is the largest producer of tea whose share averaged at 85.3% in the group in 1996. Kenya's production of tea increased by 4% over 1995.

169. The output of sugar stood at the level of 1136 thousand mt., sharing 13.6% and a marginal 0.9% from Africa and the world total in 1996 respectively. In the subregion, Kenya dominated the production of sugar whose share reached 43% in 1996, followed by Ethiopia's share of 16%. The production of sugar in Ethiopia is expected to double in 1998 as a result of the Fincha Sugar Factory which is to start normal production by January 1998. Sugar production in Kenya increased by 16.9% and that of Ethiopia by 31.9% in 1996 compared with the 1995 level.

Table 19: Output of Coffee '000' Mt. by Major Producers 1990 - 1996

Country	1990	1991	1992	1993	1994	1995	1996[E]
Burundi	33	34	37	23	41	26	25
Ethiopia	204	210	216	180	207	228	230
Kenya	104	86	85	75	80	96	98
Madagascar	Na	Na	Na	Na	70	72	72
Rwanda	35	26	39	27	2	22	21
Tanzania	54	46	56	57	49	44	52
Uganda	129	147	110	145	198	188	257
D.R. of Congo	96	92	107	53	76	62	60
Somalia	-	-	-	-	-	-	-
Djibouti	-	-	-	-	-	-	-
Eritrea	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-
Seychelles	-	-	-	-	-	-	-
Sub region total	655	641	650	560	723	738	815
Africa total					1062	1094	1149
World total					5781	5751	5931

Source: FAO: Production Year Book 1996
E: estimate

Table 20: Output of Tea and Sugar '000' tons by Major Producers 1994 -1996

Country	Tea			Sugar (centrifugal, raw)		
	1994	1995[E]	1996[E]	1994	1995[E]	1996[E]
Burundi	7	5	5	13	15	17
Ethiopia	1	1	1	132	139	182
Kenya	209	245	255	330	418	489
Madagascar	-	-	-	86	98	107
Rwanda	5	6	6	1	1	1
Tanzania	25	25	23	124	110	130
Uganda	5	6	6	48	76	109
D.R. of Congo	3	3	3	85	80	80
Somalia	-	-	-	20	20	21
Djibouti	-	-	-	-	-	-
Eritrea	-	-	-	-	-	-
Comoros	-	-	-	-	-	-
Seychelles	-	-	-	-	-	-
Sub region total	255	291	299	839	957	1136
Africa total	336	373	385	7265	7406	8357
World total	2615	2581	2622	110072	118819	124000

Source: FAO: Production Year Book 1996
E: estimates

170. The other industrial crops produced in the subregion are sisal and cotton. The total sisal harvest in the subregion increased from 81 thousand mt. in 1995 to an estimated 84 thousand mt. in 1996, which represents a 3.7% growth rate. The subregion's share of sisal production stood at 25.7% of the world total, and 92.3% of Africa total. The largest producer of this crop is Kenya followed by Tanzania whose joint share stood at 78.6% in the subregion in 1996. Madagascar was the third major producer sharing 20.2% of the total production. The three major producers of sisal jointly share almost 100% of the group's sisal harvest. Production in Tanzania increased by 6.6% in 1996, while in Kenya it remained at the same level of 1995. Cotton is produced in all countries of Eastern Africa except Djibouti, according to FAO records. The recent available data showed that the output of cotton dropped from 120 lint in 1993 to 114 lint in 1994. The producer countries, Tanzania, Ethiopia, Kenya, Uganda and Democratic Republic of Congo exhibited a similar decreasing trend during the same period.

d. <u>Livestock Production</u>

171. Table 21 below shows that livestock numbers in the subregion have continued to slightly recover since 1994. This improvement was recorded despite the rise in prices of animal feed due to price liberalization by governments of the subregion. The factor which accounted for the recovery of the past three years could be the good weather condition that enabled farmers to get improved grazing pastoral lands and availability of water particularly in nomadic areas. The estimated number of cattle stocks stood at 81,715 thousand in 1996 compared with 80,155 thousand in 1994, representing a 1.9% growth rate.

172. Ethiopia is the largest producer of cattle sharing about 36.6% of the total numbers in the subregion, followed by Kenya whose share was 16.9% in 1996. The overall marginal recovery of cattle production was attributed mainly to the recovery recorded in these two countries. However, the subregion's share of cattle stock decreased to 41.2% in 1996 from 42.2% in 1994 of Africa total.

173. The number of pigs improved by 0.6% in 1996 compared to 1994. Their total number stood at an estimated 4,344 thousand in 1996. This marginal improvement came from the largest stakeholder, Madagascar, in the subregion whose share stood at 37.5% in 1996. Democratic Republic of Congo which is the second largest producer of pigs in the subregion, recorded a decrease of 35 thousand heads in 1996 compared to 1994. The group's share of pigs stock of Africa total remained a constant 20.4% both in 1994 and 1996. Whilst, the group's share of the world total was an insignificant 0.47% in 1996.

174. The total number of goats and sheep increased from 109,144 thousand in 1994 to an estimated 110,482 thousand heads in 1996, representing a 1.2% growth rate. The marginal improvement recorded in the subregion came from a slight improvement from the largest stakeholder, Ethiopia, whose share of sheep and goats was at 35% in 1996. The subregion's

share of sheep and goats from Africa total recorded 28.6% in 1996, while its share of the world total represented at 6.4% during the same period.

175. The overall situation of the subregion in livestock production could be improved. The present situation could be attributable mainly to the fact that livestock raising is dominated by individual farmers and nomads who are yet to acquire skills in modern breeding technology. Besides, in some cases, there is a tendency to prefer traditional ways of breeding and preference for traditional livestock species in the case of smallholders and nomads. Thus, there is a long way ahead to bring about change in attitude towards adapting modern breeding technology in the subregion as a whole in order to bring about a qualitative change in livestock raising.

Table 21: Livestock Production in '000' heads in the Subregion 1994-1996

Country	Cattle			Pigs			Sheep and Goats		
	1994	1995	1996[E]	1994	1995	1996[E]	1994	1995	1996[E]
Ethiopia	29450	29825	29900	20	20	20	38400	38400	38700
Tanzania	13376	13350	13360	335	335	335	13637	13637	13637
Uganda	5150	5200	5200	910	920	920	5300	5400	5400
Kenya	13000	13567	13838	102	104	104	12800	13000	13000
Rwanda	454	465	465	90	80	80	1230	1170	1170
Somalia	5000	5200	5200	9	9	9	25000	26000	26000
Djibouti	190	190	190	-	-	-	977	977	977
Madagascar	10298	10309	10320	1558	1592	1629	2173	2065	2085
Eritrea	1290	1312	1320	-	-	-	2920	2930	2930
D.R. of Congo	1475	1480	1480	1192	1170	1157	5259	5395	5215
Comoros	50	50	50	-	-	-	143	143	143
Burundi	420	400	390	80	75	72	1300	1240	1220
Seychelles	2	2	2	18	18	18	5	5	5
Sub Region Total	80155	81350	81715	4314	4323	4344	109144	110362	110482
Africa Total	189465	192712	198212	21170	21432	21290	377080	383178	386334
World Total			1320081			923924			1721859

Source: FAO, Production Year Book 1996
E: estimate

176. Table 22 shows that the overall poultry stock showed some improvement in terms of numbers, between 1994 and 1996 and an estimated number of 197 million stocks in 1996. Production increased by 5.9% in 1996 compared to 1994. The six countries of the subregion

(Ethiopia, Democratic Republic of Congo, Tanzania, Kenya, Uganda and Madagascar) shared 93.4% of the subregion's total stock in 1996. Of the six countries, Ethiopia alone contributed 28.4% to the subregion's total stock. The subregion's share of poultry stock from Africa total stood at 19.3%, while its share in the world total was estimated at 1.5% in 1996.

177. The production performance of the poultry subsector is highly dependent on availability of feeds, and improved methods of production, for instance through artificial insemination, (which is almost virtually absent) in the subregion. Besides, a large number of veterinary vaccines and practically all drugs are not manufactured locally thus implying that they are remote and unaffordable to local farmers.

178. Depending on the area and the country in question, feed costs account for nearly 80% of the total egg production cost which when added to equipment and veterinary expenses could be a discouraging factor in the production of poultry, particularly where sale prices are not high enough to compensate for all these expenditures. There is also a tendency from the point of view of consumers that the traditional species are preferred to non-traditional ones.

Table 22: Poultry Production in 'million' heads in the Subregion (1994 - 1996)

Country	1994	1995	1996^{E}
Ethiopia	54	54	56
D.R. of Congo	35	36	34
Tanzania	24	27	28
Kenya	25	25	27
Uganda	22	23	23
Madagascar	14	16	16
Eritrea	4	4	4
Burundi	4	4	4
Somalia	3	3	3
Rwanda	1	1	1
Seychelles	-	1	1
Comoros	-	-	-
Djibouti	-	-	-
Sub Region Total	186	194	197
Africa Total	968	991	1020
World Total	12349	12715	12952

Source: FAO: Production Year Book 1996
E: estimate

e. Fisheries

179. Five countries in the subregion have stretched coastal line that open into the Indian Ocean (Somali, Eritrea, Kenya, Djibouti and Tanzania). Democratic Republic of Congo has about 40 kilometers of ocean coast and the rest of the countries are islands and land locked although with different volume of fresh water lakes and rivers. Total fish catch and fish production in tonnage from the subregion was estimated at 1,307.3 thousand metric tons in 1995.

Table 23: Fish and Fish Products in '000' Mt. Among Producers

Country	1990	1991	1994	1995*
Tanzania	377	400	450	470
Uganda	245	255	210	240
Kenya	142	199	215	220
Burundi	17	23	25	27
Somalia	18	33	36	15
Rwanda	3	4	4.5	5
D.R. of Congo	162	160	190	200
Madagascar	107	107	107	107
Comoros	11	11	11	11
Seychelles	7	7	7	7
Ethiopia	4	4.5	5	5
Djibouti	0.3	0.3	0.3	0.3
Eritrea	NA	NA	NA	NA
Sub Region Total	1093.3	1203.8	1260.8	1307.3

Source: FAO, Fishery Statistics Year Book 1995
** National Sources and Estimates*

180. Production of fish and fish products was estimated to rise by 3.6% in 1995 compared to 1994. Tanzania, the largest producer of fish and fish products in the subregion, contributed about 35.9% of the total in 1995, followed by Uganda representing about 18.4% of the total. In Tanzania total fish catch grew by 4.4% in 1995 compared to 1994. The bulk of the fish comes from marine sources. In Uganda, total fish catch and fish products grew by 14.2% during the same period, but below the level achieved in 1990, representing a decrease of 5 thousand metric tons in 1995.

181. In Kenya, total fish catch and fish products (mainly from marine sources, inland lakes and dams) improved from 142 in 1990 to an estimated 220 thousand metric tons in 1995, registering a 54.9% growth rate from the 1990 production. In Democratic Republic of

Congo, total production increased by 23.4% in 1995, compared to 1990 production, while in Madagascar, production stagnated from 1990 to 1995, at the constant level of 107 thousand metric tons. Although, the major export of Seychelles is canned tuna, frozen and fresh fish, production has remained at the constant level of 7 thousand metric tons throughout the past four years. Similar trends were recorded in Ethiopia, Djibouti and Comoros. In Somalia production decreased by 58.0% in 1995 compared to 1994, due to the prolonged civil war situation.

182. Eritrea with a coast line of more than 1000kms has economic potential for domestic consumption and export of fish. There are abundant marine resources off the coast of Eritrea but only a small proportion is currently being exploited. Therefore, there is potential for substantial growth in this subsector. Current estimates show that, the country could potentially enjoy an annual revenue of US$ 55 million if all available resources were fully utilized. The present level of utilization is only about 5% of the existing potential. The government has started to revitalize the fishing subsector with the assistance of donors.

183. Overall, productivity in the fishery subsector is very low due to the fact that in most countries traditional Artisanal fishermen account for the largest share of the fish catch activities. High prices and shortages of fishing gears and storage problems are serious obstacles to the development of the subsector. In some countries, the spread of the rapidly regenerating water-weed, water-hyacinth, equally has negative effect on fishing activities. Although the subsector has great potential as a source of food protein, this has not been recognized by some of the countries of the subregion.

f. Forestry and the Environment

184. In 1995, the estimated roundwood production reached 218360 thousand cubic meters, representing a growth rate of 2.2% compared (Table 24) to 1994. Compared to 1990 production, the output increased by about 13.9% in 1995. The largest producers in the subregion were Ethiopia, Democratic Republic of Congo, Kenya, Tanzania and Uganda, in that order of their significance. In Ethiopia, production of roundwood increased by an estimated 2.1% in 1995 compared to 1994, in volume from 47,200 thousand in 1994 to an estimated 48,200 thousand cubic meter in 1995. Ethiopia shares about 22.1% of the subregion's total roundwood production followed by Democratic Republic of Congo, whose share is estimated at 21.2%. In 1993 the subregion's share of roundwood production stood at 37.9%, for Africa and 6.2% of the world total. The environmental impact of forestry activities, especially tree-felling without replanting has yet to be, document. The fact is that the felling of trees has serious supervision on the sustainability of the environment.

Table 24: Total Wood Production in the Subregion 1990 - 1995 (in '000' cum.)

Year	Round Wood	% Change	Charcoal + Fuel Wood	% Change
1990	191723	-	180212	-
1991	197513	3.0	185867	3.1
1992	203676	3.1	191690	3.1
1993	209885	3.0	197660	3.1
1994	213607	1.7	203070	2.7
1995[E]	218360	2.2	208384	2.6

Source: FAO, Forest Products Year Book 1982 - 1995
E: estimates

185. Total production of fuelwood and charcoal increased by an estimated 2.6% in 1995, climbing greater than the growth of roundwood production, compared to a growth rate of 2.7% in 1994. The state of production ranged between 2.6 and 3.1 percentage growth between 1991 and 1995. Like roundwood production, the important producers of fuelwood and charcoal in the subregion are Ethiopia, Democratic Republic of Congo, Kenya and Tanzania. The four counties alone produce about 79.5% of the total fuel wood and charcoal production in the subregion.

186. The overall situation of both roundwood and fuelwood production clearly reflect the diminishing potentials of the forestry resources in the subregion, and its actual and potential impact on the environment and the wildlife as well as the future loss of production. Urgent action is required to stem the deleterious effects of roundwood and fuelwood exploitation in the subregion.

g. Deforestation

187. In the subregion, deforestation continues at an alarming rate. Growing poverty, civil wars and social unrest, drought, increased burning and clearing of forest cover for cultivation and the presence of large number of refugees in the subregion are the main causes of the depletion of forestry resources. The growing number of the population living below the poverty line has a serious consequence on natural forestry. These poor people are forced to make a living by exploiting forest resources. The growing demand for fuelwood and charcoal also put heavy pressure on forest resources because of the lack of alternative energy sources and technological problems. There is also a pressing need in the subregion to earn foreign exchange by exporting forest products. This accelerates the rate of exploitation of the natural forests. In Kenya, for example, an average of about 500 hectares of forest land is lost annually. Similarly, over the years Ethiopia's forests have been depleted at an alarming rate.

188. The possibility of looking for effective instruments to reduce the long term repercussions and to achieve a more rational use of natural resources deserve attention. Deforestation, loss of biodiversity and poor management of solid and hazardous wastes, all exert pressure on the atmosphere, endanger land and water reserves and constitute a serious health risk to all. Unwise use of the natural forests at varying times at increasing degrees thus has direct effects on the health, productivity and sustainability of these economies. Although governments of the subregion have various regulatory measures on the use of natural resources the effectiveness of these measures has yet to be monitored and their impact and implications analyzed for necessary policy action.

B. Energy

189. Necessitated by expanding development needs and rapidly growing population, the energy consumption of the subregion has increased over time. According to World Development Report, 1997, Ethiopia, Kenya, Uganda, Burundi, Madagascar and Rwanda increased their commercial energy use, in terms of oil equivalent, substantially. Tanzania's commercial energy use decreased from 1,023 in 1980 to 975 thousand metric tons in 1994. However, in Ethiopia and Burundi, the per capita commercial energy use increased from 17kg in 1980 to 22kg (oil equivalent) in 1994 and from 14kg to 23kg between the two periods, respectively. In other countries in the subregion the per capita consumption of commercial energy registered a decrease. The rising demand for power has led to power shortages in many countries. Power shortages have become serious impediments to industrial growth and productivity. For example, the World Bank report had indicated that Uganda was losing 2% of its growth each year because of poor supply of electricity.

a. <u>Electricity, Gas and Water</u>

190. Energy for both industrial and domestic needs in the subregion is harnessed mainly from petroleum fuels, electricity and fuelwood. The industrial activities are mostly supplied from electricity and the bulk of domestic energy requirements come from fuelwood.

191. In Kenya, electricity is generated from hydro, thermal and geothermal sources. It is used in the domestic, industrial and commercial sectors of the economy. The total installed capacity went down marginally from 808.7 MW in 1995 to 805 MW in 1996, as a result of a fall of hydro based installed capacity by 0.7%. The decline in installed capacity in hydro-electricity was attributed to reduction of the installed capacity in Kindaruma Dam (from 44 MW in 1995 to 40 MW in 1996) due to mechanical problems. The installed capacity of geothermal electricity remained the same while that of thermal electricity capacity went up marginally. Total electricity generation increased by 7.8% in 1996. Hydro based electricity generation increased by 1.9%, while thermal based electricity generation went up

significantly by 39.7%, due to rehabilitation of Kipeva thermal station. Similarly, geothermal based electricity generation rose by 34.5%.

192. Demand for electricity in Kenya increased from 3,289 KWH in 1995 to 3,478 KWH in 1996, a 5.7% increase. Although, the country experienced power rationing throughout 1996, sales of electricity to large commercial and industrial establishments increased by 9.2% in 1996. The rural demand for electricity increased from 125 million KWH in 1995 to 138 million KWH in 1996. The decline in electricity sales during off-peak hours was attributed to rationing of electricity during off-peak period, while imports of electricity from Uganda declined by 13,4%, electricity transmission losses went up from 636 million KWH in 1995 to 660 million KWH in 1996. Total net energy imports accounted for 45.0% of total energy consumed in 1996. Imports of hydropower declined by 20.3% due to government commitment to reduce dependency on imported energy. Local production as a percentage of total energy declined by 0.4% in 1996 over that of 1995. Total energy consumption increased by 6.1%.

193. In Uganda the contribution of the electricity subsector to GDP at constant 1991 prices remained constant at 0.9% from 1994 to 1996. The country exports electricity generated from Nile Owen Falls to Kenya, Rwanda and Tanzania. The total value of electricity exports to the three countries amounted to 4,038 million Ushs in 1996, and the volume reached to 151 million KWH. Uganda's export of electricity to Kenya declined from 176 million KWH in 1995 to 131 million KWH in 1996, while export to Tanzania remained constant at 19 million KWH during 1995 and 1996.

194. Uganda had an installed total electricity capacity of 183 MW in 1995 and 1996, of which 180 MW is in Owen Falls and the remaining 3 MW is in other stations. The total hydroelectric generated stood at 1,230.7 million KWH in 1997 compared to 1,129.0 million KWH in 1996, while power generated from diesel remained constant at 1.1 million KWH from 1994 to 1997. The government is pursuing the least-cost programme for developing the country's abundant hydroelectric potential, the next phase of which is the 200 MW expansion of the Owen Falls plan, expected to be completed by 1999/2000. But as demand has grown beyond the Uganda Electricity Board's (UEB) current capacity, the most important measure envisaged to be taken is the removal of UEB's monopoly on power generation by allowing the development of private generation capacity.

195. In Tanzania, significantly high growth rates (11.1%) were recorded in electricity and water sector in 1996. Tanzania's primary energy production was about 81 thousand mt. of coal equivalent in 1992 compared to 79 thousand mt. in 1990. Of the total energy production, electricity constituted about 95% during 1992.

196. In Ethiopia, the electricity subsector was estimated to grow by about 19.6% in 1997 and projected to grow by 7% in 1997/98. Ethiopia has vast hydropower resources, with an

estimated potential of 15 to 30 thousand MW., of which only a small fraction has been utilized. Despite this, Ethiopia has one of the lowest levels of energy consumption per capita in the world. Only 5% of the total population has access to electricity. The household sector dominates with 88% of total final energy consumption, dominantly on fuelwood and other traditional biomass fuels, which are mainly for cooking. Industry accounts for 5% of final energy consumption, the commercial sector for about 4% and the transport sector for 4%. Commercial energy accounts for about 7% of total energy supply. The total volume of primary energy production is largely constituted by electricity.

197. Overall, the demand for electric power by far exceeds the supply. As a result many governments in the subregion resorted to power rationing as a short-term measure. The loss in production could be alarming.

b. <u>Petroleum</u>

198. Petroleum products are a major source of energy in the subregion for industrial, transport and lighting activities. National demand for this energy source has continued to be met largely from imports. This is because of the virtual absence of local petroleum production in the subregion except in DRC. As a result, the net energy imports as percentage of energy consumption is very high in many countries of the subregion. These figures were: Ethiopia (87%), Tanzania (83%), Burundi (90%), Rwanda (78%), Madagascar (83%), Uganda (58%) and Kenya (83%) in 1994. This implies that any rise in petroleum prices adversely affects the national economies of the subregion.

199. In Kenya imports of both refined and crude petroleum amounted to US$ 480.7 million in 1996, sharing about 15.7% of the total import bill. The overall quantity imported decreased marginally by 0.9% from 2,429.4 thousand tons in 1995 to 2408.1 thousand tons in 1996. Crude oil imported declined by 15.9%, while imports of refined petroleum fuels rose substantially by 33.9%, from 719.7 thousand tons to 963.9 thousand tons in 1996. The decrease in imported crude oil and rise in imports of refined petroleum fuels was attributed to technical constraints in the local refinery and high cost of refining crude oil locally. Despite marginal decrease in total petroleum imports, the oil import bill went up by 25.3%. This was attributed to fluctuations of Kenya currency against major world trading currencies coupled with changes in the global prices of petroleum.

200. In Ethiopia imports of crude petroleum amounted to US$ 115.6 million in 1995/96 compared to US$ 88.8 million in 1994/95. This represented a growth of 30.2% in 1996. The significant growth was attributed to the increase in the prices of crude petroleum and due to gradual depreciation of the local currency vis-a-vis the US dollar. Imports of crude petroleum shared some 8.1% of the total import bill in 1996. Currently, Ethiopia started to import refined petroleum due to the termination of the Assab refinery. The shift is expected

to benefit the country because the Assab refinery was characterized by inefficiency due to the extreme wear and tear of the refinery plant.

201. In Uganda, petroleum imports amounted to US$ 78.6 million in 1997 compared to US$ 89.9 million in 1996. This represented a decrease of about 13.0 percentage points. The share of petroleum imports was 4.8% of the total import bill in 1997.

202. In Tanzania petroleum imports amounted to US$ 154.1 million in 1996 compared to US$ 187.5 million in 1995. This represented a decrease of about 18.0 percentage points in 1996. The share of petroleum imports as percentage of total import bill stood at 23.6% in 1996.

203. In DRC, petroleum production was reported to be increasing upwards and was estimated to exceed 30 thousand bpd mark in 1995 after reaching an average of nearly 29 thousand bpd in 1994. The country's gulf-oil (chevron) has resumed offshore development activities. Offshore discoveries and reserves could reach upto 80 million barrels according to some estimates. Production was expected to stagnate in 1997 and no new deposits of any significant economic quantities were projected.

c. Energy Sector Prospects - 1998 and 1999

204. Electric power provided the bulk of requirements for the industrial and commercial activities throughout the group in 1996 and 1997. There is great potential for exploiting other sources of energy such as solar, wind, gasoline, geothermal power and combined solar wind. Countries in the subregion acknowledge the significance of the energy sector in production as reflected in their development plans.

205. In Uganda, the government has embarked on modernization of the country through an electrification programme. It has been recognized that one of the factors contributing to the high cost of production was the inadequate and unreliable supply of energy, notably electricity. Consequently, as the increasing demand has put excessive pressure on the available resources, government is moving fast to put in place a framework to improve the efficient use and supply of electricity in the country. The policy framework puts emphasis on private sector participation in this sector.

206. Under the Power Sector Reform Programme, the monopoly power of UEB for electricity generation in now broken. Accordingly, three hydro power stations along the Nile are being built / to be built by private firms. The Owens Falls project is being built by an Italian firm. This project will add a 200 MW extension to the existing power station and is expected to be completed by the year 1999. Kalagala Power Station at Kangulunura in Mukono district, is to be built by an Egyptian firm and Arabian International Construction Company, and Bujagali is to be built by Nile Independent Power firm. Kalagala falls dam

is to cost US$ 600 million, while Bujagali power dam will cost 500 million US dollar and is to produce 290 MW.

207. In Madagascar, an agreement was signed between the state mining agency and the Canadian Oil Research company for oil prospecting in the Tsiribihina and Antanetibe regions in southern Madagascar. The first phase of exploration will cost around US$ 1 million and will run from 1997-2005. Although prospecting is scheduled to run for eight years, the contracting company is confident that, it will have sufficient data for 1999 to begin exploitation. In July 1997, the mining agency signed two agreements with Trinto Energy Corporation (TEC) of the USA on offshore petroleum exploration in north-west Madagascar and Cap Sainto-Marie in the south. If oil is discovered, the government will be entitled to 35% of the output, and the remainder will be divided between the two partners.

208. In Kenya, to ameliorate power rationing, five major power projects with a combined capacity of 338 MW will be added to the system during the period 1997-2001. The Kipevu I Diesel plant, 01 Kari II Geothermal plant and Sondu - Miritu Hydro plant will be implemented by the government through the power sector public enterprises, while Kipevu II Diesel plant and 01 Karia II Geothermal plant are expected to be implemented by private investors, commonly referred to as the Independent Power Producers (IPPS). In addition, a stop-gap thermal unit of about 50 MW capacity is planned for commissioning during the early part of the plan period.

209. Ethiopia started work on the Calub project to produce 65,000 t/year of motor and household fuels from the wet gas deposit in the Oganden region. Production start up is set sometimes in 1998. Other projects are also expected to turn up 21 thousand tone annually of LPG, 16 thousand of gasoline, 13 thousand of diesel fuel and 15 thousand of kerosene. This is expected to reduce its overall imports by 10% and the amount of fuel wood that is currently burned for household purposes.

210. The government of Ethiopia has given attention to the energy sector by allocating significant investment to the energy sector, particularly for hydropower projects. The Tis Abay II hydro power generation project, the Gilgel Gibe hydropower project and the Fincha hydro power project are the major power projects which are put into the plan, and are found at various stages of implementation. When these projects become fully operational, they are expected to alleviate the power shortages of the country. The private sector involvement in this sector is not visible, although the government has encouraged the private sector to invest in small scale power generation plants.

211. DRC has the largest energy potential, mainly hydroelectric power, in the subregion. The great Inga project holds an estimated potential amounting to 39 thousand MW of installed capacity.

C. Mining and Quarrying

212. The economic feasibility of the mineral deposits in the 13 countries of the subregion has yet to be proven. Presently, only DRC has significant economic deposits of certain metals and other minerals. Diamond is the principal export of DRC. In 1994 diamonds earned US$ 451 million. The third major export of the country is copper and cobalt which amounted to US$ 184 million during the same period.

213. In Ethiopia, much of the mining activities are to come from gold and other traditional minerals from existing sites and probably from the expanding marble extraction activity. The growth of the mining subsector was estimated at 13%, while the growth of quarrying was put at an estimated 14% in 1997. The country's export of gold significantly increased from the level of US$ 10.9 million in 1995/96 to the level of an estimated US$ 63.9 million in 1996/97. The volume of extraction rose from 0.8 thousand Mt. in 1996 to an estimated 5.13 thousand Mt. in 1997. Government's effort to explore various agro-mineral deposits in the country has increased its exploration momentum. As part of the liberalization of the economy, the government is inducing the private sector to participate in the exploration and extraction of various mineral resources.

214. In Kenya, there was a decrease of 5.8% in mineral production from 466.6 thousand tones in 1995 to 439.7 thousand tones in 1996. This was attributed to a reduction in the production of salt from 73.5 thousand tones in 1995 to 41.0 thousand tones in 1996, while production of minor minerals was 70.9 thousand tones and 60.8 thousand tones in 1995 and 1996 respectively. Limestone production increased by 7.8% from 29.6 thousand tones in 1995 to 31.9 thousand tones in 1996, as result of increased demand for limestone in cement manufacture. The production of soda ash increased from 218.5 thousand tones to 223.0 thousand tones in 1996, as a result of increased demand for the product, especially for glass manufacture. The government, in its efforts to optimally utilize its mineral resources, in the process of mapping all mineral areas. Though, the government in its strategy of liberalization of the economy is leaving the exploitation of mineral resources to the private sector, it is expected to play a crucial role in regulating mining activities including the enforcement of physical and social environmental standards.

215. Mining and quarrying activities in Uganda remained insignificant although its contribution to GDP at constant 1991 prices improved from 0.3% in 1994/95 to 0.4% and 0.5% in 1996 and 1997, respectively. During 1996/97, mining and quarrying grew by 29.1% p.a. in real terms, compared with the growth rate of 33.6% p.a. achieved in 1995/96. Mining activities, especially gold, increased the potential remains high. Gold mining increased during 1996/97. Other mining activities during 1996/97 involved Tin Ore, Wolfram, Limestone, Gypsum and Iron Ore. During 1996/97, the drafting of the new Mining Act was completed. The new act is designed to provide an enabling environment for private sector investment in the mining sector and to set a framework for its regulation and

taxation. Government policy in the mineral sector is to promote private investment in the exploration and exploitation of mineral resources while protecting the environment where these activities are taking place.

216. In Tanzania, the contribution of mining and quarrying to GDP decreased from 1.3% in both 1994 and 1995 to 1.2% in 1996. According to the data recorded by Ministry of Energy, Minerals and water, diamond production improved significantly from 17.0, 49.0 thousand carats in 1994 and 1995 to 127.0 thousand carats in 1996 representing a 59.2% growth over 1995. The production of gold was very unstable. It stood at 318.0 kgs in 1996 compared with 2,861.4 kgs in 1994 and 320 kgs in 1995. Gemstone production improved from the level of 111.4 thousand kgs in 1995 to 142.2 thousand kgs in 1996, representing a 27.6% increase in percentage points. The extraction of salt decreased from the level of 105 thousand tons in 1995 to 86.7 thousand tons in 1996, recording an 18% decline. The amount of gypsum extraction increased from 42.0 thousand tons in 1995 to 55.4 thousand tons in 1996.

217. In DRC, diamond production has remained almost stagnant, from the level of 22.0 million carats in 1995 to 21.8 million carats in 1996. The production of copper improved from the level of 33.9 thousand tons in 1995 to an estimated 37.4 thousand tons in 1996, representing a 10% annual increment. But compared with 1992 level of 147.3 thousand tons, the country produced only 25.3% of the 1992 level in 1996. The production of cobalt has improved from the level of 4.0 thousand tons in 1995 to 5.1 thousand tons in 1996, representing a 27.5% annual increment. Zinc production decreased from a level of 1.2 thousand tons in 1996 to an estimated 0.5. thousand tons in 1997.

218. Burundi has deposits of nickel, cassiterite, phosphates, vanadium and gold. An estimated 750 tons of cassiterite, deposits of nickel are found in a belt 300 kms long and 40 kms wide at Mussongati. There are proven reserves of 17.6 million tons of phosphate at Matango, near Bujumbura. Thus, potentially profitable mining and processing prospects exist in Burundi. Gold imported from DRC was processed in Burundi between 1993 and 1996.

219. Overall, diamond, gold, copper, silver, zinc, cobalt, limestone and gypsum, salt and marble are the major mineral resources in the subregion. The subregion's major mineral production is dominated by the DRC.

D. Manufacturing

220. The positive movements in manufacturing were reflected in improvements in the average growth rate of manufacturing value added (MVA) from 1990-94. This was also reflected in some countries by the improved share of MVA to GDP (Table 25).

Table 25: Indicators of Manufacturing Sector Performance by Country (1980 -1996)

Country	MVA - Average Growth Rate (%)		MVA Share in GDP at Constant 1990 Prices						
	1980-1990	1990-94	1990	1991	1992	1993	1994[a]	1995[E]	1996[E]
Burundi	5.1	1.4	8.8	9.2	9.2	9.2	11.1	11.1	11.2
Ethiopia	1.1	3.8	11.2	8.9	9.0	10.1	10.2	10.5	11.1
Kenya	Na	Na	11.2	11.5	11.7	11.8	11.5	12.0	12.1
Tanzania	-0.8	4.2	Na	Na	Na	Na	Na	Na	Na
Uganda	3.7	12.0	5.5	6.2	6.4	6.6	7.0	7.5	7.7
D.R. of Congo	1.5	-12.4	11.2	10.7	10.7	10.6	10.2	10.1	10.2
Madagascar	Na	Na	12.7	12.7	12.8	12.8	12.9	129	12.9
Rwanda	Na	Na	14.0	14.2	14.2	15.9	12.7	13.0	13.5
Somalia	1.8	-1.0	4.6	5.4	5.4	5.8	5.8	5.8	5.8
Comoros	3.0	7.4	4.5	5.5	5.5	5.6	5.7	5.8	5.8
Seychelles	Na	Na	11.7	11.9	11.9	12.9	14.0	14.2	14.2
Djibouti	1.0	2.1	10.3	10.1	10.1	10.0	10.2	10.2	10.3
Eritrea	Na	Na	Na	Na	Na	Na	Na	Na	Na

Source: UNIDO : International Year Book of Industrial Statistics, 1997
a: provisional
E: estimates

221. In 1990-94, Uganda achieved a reasonably high average growth rate of MVA which stood at 12.0% compared to 3.7% average growth rate in 1980-1990. The share of MVA to GDP at 1990 constant prices improved from 7.5% in 1995 to an estimated 7.7% in 1996. Provisional estimates indicate that the manufacturing sector grew by 14.2% per annum in 1996/97, somewhat lower than the 19.7% p.a. growth registered over the previous year. This compares with the growth rates of 7.0%, 15.1% and 17.3% achieved in 1992/93, 1993/94, and 1994/95 respectively. The index of main manufacturing based on the eight major manufacturing sub-sectors (that is, sugar, beer, soft drinks, cigarettes, textiles, cement, electricity and laundry soap and edible oil) showed even better performance. This index rose from 230.5 in February 1996 to 303.5 in February 1997, an increase of 31.7%. Overall, the items which showed strong growth include beverages, leather and leather products, timber and paper, and cement. As volumes of manufactured products continue to increase, it is imperative that high quality is maintained. During the past two years, the Uganda National Bureau of Standards (UNBS) intensified its activities in order to achieve this objective. During 1996/97, it launched a national product certification scheme. Under the scheme, various manufactures are inspected for quality purposes and companies producing quality products are permitted to fix a national quality mark on their products. Government is also committed to implement its programme of privatization with the target of divesting

222. In Kenya, manufacturing value added decreased slightly from 19.5% growth rate in 1995 to 18.2% annual growth rate in 1996. The share of MVA in the GDP at 1990 constant prices was estimated at a high 12.1% in 1996. Real output growth of manufacturing production slowed down slightly to 3.7% in 1996 compared to the 3.9% growth reported in 1995. Inadequate rains, power rationing, adverse effects of basic infrastructure constraints, rises in manufacturing processing costs attributed to high prices of petroleum products and other key inputs and the prevailing high interest rates in 1996, led to lower capacity utilization of manufacturing establishments in food processing, beverages and tobacco industries. Similarly, continued trade liberalization led to increased competition from imported low cost manufactured products, with detrimental effects on the growth of textiles, safety matches, and razor blades industries. Sluggish household income growth in 1996, as a consequence of bad weather conditions, resulted in reduced aggregate demand for domestic manufactured goods. The stable value of Kenya shilling against the major trading foreign currencies, helped the manufacturing sector from further decline by facilitating easy importation of raw materials, machinery and spare parts. Exemption of key manufactured food staples from value added tax (VAT) ameliorated the food processing sector from further decline.

223. In Tanzania, the average growth of MVA stood at 4.2% in 1990-94 compared to the average negative growth of 0.8% in 1980-90. Good performance was also recorded in the growth of manufacturing output which stood at 4.8% in 1996 compared with 1.6% in 1995. This strong performance, following five successive years of output decline in the manufacturing sector, reflects the impact of changes to the incentive structure for manufactured goods, through the expansion of opportunities for private participation. However, the growth of manufacturing sector still did not bring any structural change in the economy, as the contribution of the sector more or less remained unchanged, which was 7.9% at constant 1992 prices in 1996.

224. In Ethiopia, the growth of MVA improved from 1.1 average growth in 1980-90 to 3.8% average growth in 1990-94. The share of MVA in GDP at 1990 constant prices stood at an estimated 11.1% in 1996, compared with the 10.5% in 1995. The value added growth of the public manufacturing sector estimated at 4.9% in real terms while that of the private sector grew by 14.0% in 1997. According to the survey of manufacturing and electricity industries conducted by the Central Statistical Authority, private manufacturing contributed roughly 11% to total value added generated from medium and large scale manufacturing sector. Thus, the growth of the total manufacturing value added was estimated at 5.9% (private and public) in 1997, in real terms.

225. Burundi recorded a decline in average MVA growth rate between the period 1990-94 compared to 1980-90, which stood at 1.4%. A negative average growth rate was registered in manufacturing value added in DRC and Somalia which averaged at a negative 12.4% and 1.0% between the period 1990-94, respectively. These countries were

characterized by civil strife and social unrest which adversely affected the performance of their national economies.

226. Agro-based industries dominated the sector in all countries of the subregion. Food processing, beverages and tobacco manufacturing and textile products accounted for the bulk of the manufacturing output. A bulk of the products originate from Kenya with a relatively advanced industrial sector. Diversification of manufacturing output is still a long way to come. Most of the manufacturing sectors of the subregion were cost-ineffective. Structural weaknesses of most the industries include inadequate investment, obsolete machineries, technology and other essential inputs. The industries faced stiff competition from cheap imports from advanced countries. However, recent developments show that enhanced private sector involvement would improve the situation.

E. Transport, Communication and Tourism

227. The performance of the Kenya transport and communication sector recorded a growth of 12.8% in the total value of output (at current prices) in 1996 as compared to 18.9% recorded in 1995. The slowed growth was attributed to mixed business performance following trade liberalization in the domestic economy. The sector recorded appreciable economic output growths in road transport (20.6%), air transport (15.6%), pipeline transport (14.1%), services incidental to land transport (19.6%) and communication (14.5%). Railway transport registered decreased output of 13.3% while water transport recorded a marginal growth of 1.2%. Flight activity at major airports declined after cessation of international flights for peace mission and relief food supply whereas registration of new road vehicles grew by 29.0%.

228. The transport and communication sector in Uganda grew by 9.7% p.a. in 1996/97 compared to 10.8% p.a. in 1995/96, mainly due to the reduced activity in the railways subsector. Much of the growth in this sector came from air transport services and telecommunications. These two subsectors grew by 30.3% and 13.0% p.a. respectively during 1996/97, while road and rail activities expanded by 6.1% and 2.8% p.a.. Inspite of the good performance achieved in the transport and communications subsector in the last four years, its contribution to GDP remained small, estimated at 3.9% in 1996/97 compared to 2.9% a decade ago. Government continued to give high priority to main roads maintenance in the 1996/97 budget.

229. The growth rate of value added from transport and communication sector in Ethiopia was estimated at 10.7% in 1996/97. The government accorded high priority to the road sector. An average 25% of the total public investment was allocated to the sector during the past three years. And as part of the long term programme, a five year Sector Investment Programme (SIP) was prepared for the road sector. A loan agreement was signed between the World Bank and the government to finance some of the projects included in the SIP.

Ethiopia has approximately 145 thousand connected telephone lines, giving it a penetration ratio of 0.25 lines per 100 of population. This compares with 0.49 in Sub Saharan Africa and 1.74 for Africa as a whole.

230. The transport and communication sector in Tanzania slowed down to 1% growth rate in 1996 compared to 5.9% growth p.a. in 1995. The sector's share of GDP remained at almost a constant level of 5.1% from 1993-1996.

231. Overall, in 1997 most countries of the subregion identified transport and communication infrastructure as a priority sector for government intervention. Therefore, most governments allocated a significant amount of public investment expenditures to the road infrastructure so as to facilitate the movement of people, goods and services and enhance socio-economic development.

Tourism

232. In Seychelles, tourist arrivals have been increasing continuously, reaching 130.9 thousand tourists by 1996 compared to 120.7 thousand tourist arrivals in 1995. The sector's contribution to GDP stood at 17.5% in 1993. In Kenya, the number of visitors to national parks and game reserves continued to contract during 1996. In absolute terms, the number of visitors decreased from 1383.9 thousand in 1995 to 1, 381.7 thousand in 1996. In Uganda, the tourism sector continued to register remarkable growth, which averaged 18% per annum in the past five years. Tourist arrivals increased by over 29% from 73 thousand in 1995 to 94.2 thousand in 1996. The remarkable growth was attributed to government's policy decision to abolish visa requirements for 33 countries, the launching and successful implementation of the tourism master plan, government policy to remove foreign exchange controls, and political stability ushered in by the NRM government since 1986. Tanzania also has quite an enormous wildlife potential and tourist attractions. Ethiopia also has a number of wildlife, historical sites, rivers and lakes which have great potentials as tourist attractions. However, the sector's contribution to the GDP has yet to be developed.

233. Overall, the tourism resources and potentials are many and varied in the subregion but tourism must be promoted. Security problems were obstacles that continued to hinder visitors to some of the countries.

III. EXTERNAL SECTOR

234. DRC, Kenya, Tanzania, Madagascar, Seychelles and Rwanda registered some growth in merchandise export in 1996. Ethiopia, Burundi, Comoros and Uganda recorded a decrease in 1996 compared with 1995. In the subregion, exports covered 65.7% of import bill in 1996. Synthetics now substitute in an increasing volume of the primary commodities exported by these countries. Competition from Asian could be considered challenging to the subregion.

235. Coffee, hides and skins registered a price decrease on the international market in 1996 compared to 1995, while the price of tea and cotton improved during the period compared to 1995. However, the prices of such items were subject to fluctuations and instability, depending on stiff international competition. The downward trends of exports in some countries of the subregion, world prices for raw materials and adverse domestic production conditions adversely affected the trade balance of these countries. The negative balance of trade in Ethiopia, Burundi, Seychelles, Uganda and Rwanda increased in 1996 compared to 1995. All countries of the subregion registered a negative trade balance, except DRC. Debt has mounted and debt-service payment severely threatens the capital requirements needed for development. Combined with high growth rate of population, the current dependency on external financing can only minimize the problem but cannot overcome the dynamics of poverty in the subregion, unless the countries improve and sustain their competitive position in the global market.

A. Merchandise Trade

236. In 1996, as shown in Table 26, the combined export of the subregion amounted to an estimated US$ 6,220.7 million compared to US$ 5,686.0 million in 1995. This represented a 9.4% annual growth in 1996 compared to the 10.7% growth rate achieved in 1995.

237. Kenya achieved a growth rate of 18.7% in export earnings in 1996, while Uganda registered a decrease of 7.0% during the same period. DRC recorded a growth rate of 12.3% in 1996, while Ethiopia registered a decrease in her export earnings by 3.5% during the same period over 1995. The exports of Madagascar, Seychelles and Tanzania have grown consistently in the last four years.

238. Kenya dominated merchandise exports in the subregion throughout the past four years, sharing about 33.2% of the total in 1996. The second major exporter in the subregion was DRC throughout the past four years, sharing about 26.2% of the total in 1996, followed by Tanzania whose share stood at 12.2% in 1996. The combined share of Kenya, DRC, Tanzania and Uganda stood at 81.4% of the total export earnings in the subregion in 1996, while the rest of six countries of the subregion (Ethiopia, Madagascar, Burundi, Comoros, Seychelles and Rwanda) shared 18.6% of the total exports in the group.

239. The total value of imports in the subregion amounted to US$ 9,458 million in 1996 compared to US$ 8,326.6 million in 1995, representing a growth rate of 13.6%. The trade balance of DRC was consistently positive for the past four years, representing a 21.8% growth rate of surplus in 1996 compared to 1995. Madagascar, Comoros, Kenya and Tanzania improved their trade balance in 1996 compared to 1995, although it remained negative. The largest importer in the subregion was Kenya. The imports amounted to US$ 3,062.0 million in 1996, followed by Uganda whose import value amounted to US$ 1,600.0 million during the same period.

Table 26: Merchandise Trade (Millions of US Dollar)

Country	Exports (FOB)				Imports (FOB)				Balance of Trade			
	1993	1994	1995	1996[E]	1993	1994	1995	1996[E]	1993	1994	1995	1996[E]
D. R. of Congo	1144	1272	1451	1629	668	629	870	921	476	643	581	708
Ethiopia*	222.4	279.5	453.6	438.1	1051.8	914.6	1063	1413	-829.4	-635.1	-609.4	-974.9
Madagascar	332	447	501	580	510	546	649	695	-178	-99	-148	-115
Burundi	64	106	122	44	129	114	147	112	-65	-8	-25	-68
Somalia	102	130	Na	Na	263	269	Na	Na	-161	-139	Na	Na
Eritrea	Na	Na	Na	Na	Na	Na	Na	Na	-	-	-	-
Djibouti	71	56	34	Na	255	237	205	Na	-184	-181	-171	-
Comoros	21.5	10.8	11.2	9.2	49.4	44.7	44.5	35.7	-27.9	-33.9	-33.3	-26.5
Seychelles*	15.2	24.8	26.3	28.1	238.3	204.5	237.6	251.3	-223.1	-179.7	-211.3	-223.2
Kenya*	1673.3	1910.3	1741.3	2068	1483.6	2567	2776	3062	189.7	-6577	-1035	-994
Uganda*	157	333.1	649.2	604	451	841	1367	1600	-294	-508	-718	-996
Tanzania	375.2	496.5	645.2	760	1101.2	1247.6	1274	1155	-726	-751	-629	-395
Rwanda	93.0	72.0	51.2	60.3	276	270	193.5	213	-183	-198	-142	-153
Subregion Total	3670.5	5138.0	5686.0	6220.7	6476.3	7884.4	8326.6	9458	-2805.8	-2746.4	-2640.6	-3237.3

Source: EIU Country Report and National Data Sources
** For these countries imports are calculated at CIF prices*
E: estimates

B. Commodity Structure of Trade

240. The bulk of the exports of the countries in the subregion under review were made up of primary commodities in 1996. However, Kenya, Tanzania and Uganda exported manufactured goods, textiles and clothing. Overall, coffee still dominated the export earnings in the subregion. Tea, hides and skins and cotton have also a significant share although this varies from country to country. The subregion's export was also dominated by traditional exports, constituting about 90% of all principal exports. Europe and other non-African economies were the largest market for traditional exports, while insignificant proportion of non-traditional goods circulated within and around the subregion.

241. The subregion's import trade shows similar characteristics as exports. Capital goods and petroleum dominated the import bill. For example, Ethiopia spent US$ 675.0 million on import items. This was more than its total export earnings of US$ 410.2 million in 1995/96, implying total exports only financed 60.7% of these imports. Uganda's oil imports stood at US$ 78.7 million in 1996/97, sharing 12.6% of the total exports which amounted to US$ 622.3 million. In Kenya, the imported value of petroleum and machinery and other capital equipment shared some 50.6% of the total export earnings of the country in 1996. The composition of import and export trade were similar for Tanzania, Burundi and Rwanda.

C. Intra-subregional Trade

242. The level of trade from Europe and industrialized countries with the Eastern Africa group is currently high, which continued to pose difficulties in the balance of payment accounts. In 1996, some improvements were registered in the intra-subregional trade. The total value of exports to the subregion amounted to US$ 735.5 million representing a 15.8% of the total exports of the subregion compared to a share of 12.0% of the group's total export in 1994. Table 27 indicates trade between the group members, signaling that greater degree of complementarity exist among these economies.

Table 27: Configuration of Intra-sub regional Trade by Major Exporters, Partners, Value and Percentages of Total Export (1996)

Exporting Country	Importing Partner within the Subregion	Value of Export to the Subregion in million $	Portion of Total Exp. (%)	Total Worth of Country's Export (million US$)
Ethiopia	Djibouti	16.5	3.7	438.1
Kenya	Burundi, DRC, Ethiopia, Rwanda, Somalia, Tanzania	542.3	26.2	2067.5
Madagascar	Comoros, Kenya	7.1	1.2	616.3
Rwanda	Burundi, DRC, Kenya Tanzania	1.0	1.6	60.3
Tanzania	Burundi, DRC, Kenya, Rwanda, Uganda	73.8	9.7	759.9
Uganda	Kenya, Rwanda, Tanzania	11.8	1.9	603.8
Djibouti*	Somalia, Ethiopia	83	76.9	108.0
Sub Region Total		735.5		4653.9
Sub Region's Share of the Total			15.8	

Source: IMF, Directory of Trade Statistics, Sep. 1997
** refers to the 1995 situation and the data is obtained from EIU country report, 2nd quarter, 1997*

243. Table 27 shows that, every economy in the group either exported or provided a market for goods produced by other countries of the group. Kenya traded the most in the subregion. The value of exports of Kenya to the subregion reached an amount of US$ 544.3 million in 1996, showing an improvement compared to an amount of US$ 366 million worth of goods to the subregion in 1994. The importance of Kenya in the subregion trade was also reflected in the improvement of the share of total exports to the subregion which stood at 26.2% in 1996, compared with 22% in 1994. The largest proportion of Kenya's subregional trade is with Uganda and Tanzania. Within COMESA, Uganda and Tanzania continue to be Kenya's major trading partners absorbing 42.4% and 33.7% of Kenya's total exports to the COMESA region, respectively. Major commodities exported to Uganda were motor spirit, cement, wheat and sugar, while those to Tanzania were iron products, beer, sugar, soaps and medicaments. Major exports to Ethiopia were iron, steel and perfumes. Exports to DRC

increased substantially by 31.7% in 1996 over 1995. During 1996, there was substantial increase of exports to Uganda and Tanzania by 24.3% and 20.2% respectively. Exports to Ethiopia and Rwanda decreased by 30.9% and 27.3% during 1996.

244. Djibouti also traded somewhat heavily with Somalia and Ethiopia exporting about US$ 76.9 million worth of goods, representing 76.9% of its total export value. Trade between Djibouti and Ethiopia is expected to surge in the future, as Ethiopia currently increased the use of the country's port facilities. The fact that the two countries have both rail and road link, Djibouti has become a cost-effective inlet for goods coming to Ethiopia, which explains the dynamics in the trade in the form of transit goods. There is a good opportunity for Ethiopia to trade with Eritrea, particularly for cereal exports to Eritrea.

245. Tanzania and Uganda traded 73.8 million dollars and 11.8 million dollars worth of goods, each with other countries of the group, representing 9.7% and 1.9% of their total exports in 1996. The two countries' total export value to the subregion was smaller in 1994, which stood at US$ 26 and US$ 7 million compared with 1996. Tanzania's portion of total exports to the group in 1994 was lower than 1996, which stood at 5.2%, while Uganda's portion was a high 7% in 1994 compared with 1.9% in 1996.

D. Prospects

246. The subregion has vast agricultural and natural resource potentials. The varying degrees of availability of minerals and energy potential provide a good opportunity for cooperation among the countries of the subregion.

247. The enormous production potential and market outlets that exist for trade within the subregional products reflect the important base for successful take-off for cooperation and growth in the future. The revival of the East African economic cooperation, the expansion and revitalization of IGAD and the interface with COMESA augur well for increased intra-regional trade and enhance the competitive edge of the subregional economic blocs in the global marketplace.

248. In the absence of major obstacles, the group trade for these countries is expected to increase from the present level of about 15.8% in 1996 to 30% by the year 2025. Important attention should be paid to exploitation of the production potentials to complement each other and eliminate problems imposed by differences in political viewpoints, non harmonized tariff systems, multiplicity of currencies, entry visa requirements within the subregion non-integrated transport and communications systems for a much smoother flow of trade exchange. Cooperation in trade and customs arrangements are expected to play a crucial role in the face of global competition. Integration of the fragmented local markets would prepare the subregion for international competitiveness and make it viable and develop linkages in the economies as well as avoid marginalization.

E. **Balance of Payments**

249. In 1996 the current account balance of the subregion was estimated to have deteriorated although not very significant in the case of Kenya, Tanzania, Rwanda and Comoros. In Ethiopia the current account deficit increased by some 50.0% in 1996 compared with 1995. In Uganda, Burundi and Madagascar, the current account deficit deteriorated by 39.4%, 600.0% and 34.6% in 1996. In these countries imports were in excess of exports.

250. In Kenya, Tanzania, Rwanda and Comoros the current account deficit was 21.0%, 66.3%, 90.9% and 84.2% of the 1995 level in 1996. In these countries there was a positive trend towards narrowing the gap in the balance of payments (BOP). In Kenya, although imports increased dramatically, the improvement in exports more than compensated for the increase in imports. In Rwanda imports increased by about 10.0%, while exports increased by about 17.7% in 1996 compared with 1995. In Comoros, the value of exports decreased by some 18%, while the import bill decreased by 20% during the same period, implying that improvement in the current account deficit came from a reduction in imports.

251. Overall, the current account deficit of the subregion in 1996 amounted to US$ 1,698.8 million compared to the current account deficit of US$ 1,366.4 million in 1995, representing a 23.6% increment. Table 28 shows the current account situation of the subregion during 1995-1996.

Table 28: Current Account Situation of the Subregion (1995 - 1996)

Country	Current Account Deficit / Surplus (in million US$)	
	1995	**1996**
Ethiopia*	-237.5	-594.2
Tanzania	-618.1	-410.1
Kenya	-17.6	-3.7
Uganda	-164.1	-228.7
Rwanda	55.0	-50.0
Burundi	9.0	-54.0
Madagascar	-254.0	-342.0
Somalia	Na	Na
Djibouti	-23.0	Na
Comoros	-19.0	-16.0
Seychelles	-33.1	Na
Eritrea	Na	Na
Somalia	Na	Na
Sub Region's Total	-1366.4	-1698.8

Source: Compiled from National Data Sources
** Excluding Official Transfers*

F. Foreign Exchange Rates

252. A good number of countries pursued a foreign exchange adjustment regime. These changes took the form of national currency devaluation which was meant to give new impetus to production activities and exports by strengthening competitiveness. The range of actions were marked by full exchange rate liberalization, and automatic rate of adjustment through "the crawling peg", "free float" and semi-free float systems.

253. The Tanzanian shilling continued to depreciate further by 3.9% against the dollar, from an average of Tshs. 582.47 per US$ in 1996 to Tshs 605.75 per US$ in 1997. The surplus of forex associated with the shillings increased competitiveness was reflected in the performance of exports, as export earnings rose 12.1% in 1997 over the previous year.

254. The Kenyan shilling somewhat remained stable against the dollar, which stood at an average Kshs 55.939 on 31st December 1995 against the dollar and an average Kshs 55.021 on 31st December 1996, indicating a marginal appreciation between the two periods.

255. The value of the Ethiopian Birr vis-a-vis the US$ is currently determined by auction, and in 1997 its price ranged between Birr 6.50 and Birr 6.83 against the dollar, indicating a gradual depreciation of the local currency.

256. In DRC, the local currency NZ was severely depreciated against the US dollar. The average rate in 1996 was NZ. 52400, compared to NZ. 7024 in 1995. As of July 25, 1997, NZ. stood at 137,500 to $1. The contribution of the NZ to local transactions was being eroded over time, and there was apprehension that the 1994 inflationary pressures might reemerge. The Seychellois local currency depreciated slightly from SRS. 4.762 in 1995 to SRS 4.970 in 1996 vis-a-vis the US dollar. The Djiboutian local currency, Dfr remained almost fixed at 177.7 against the US dollar throughout the past five years, while the Somalia shillings ceased to be traded officially following the collapse of the monetary authorities.

G. <u>Debt</u>

257. The group's total debt service to export ratio was 14.5% in 1995. The group's total debt stock reached US$ 44171.6 million, while the subregion's total outstanding debt stood at US$ 36592.1 million during the same period.

258. Total external debt in Ethiopia increased from US$ 5059 in 1994 to US$ 5,221.0 in 1995, while the debt-service to export ratio also increased from 11.6% in 1994 to 13.6% in 1995. In Kenya, the total debt stock increased from the level of US$ 7,273 million in 1994 to US$ 7381 million, while the debt-service to export ratio decreased from 33% in 1994 to 25.7% in 1995. Tanzania's debt stock improved slightly from the level of US$ 7,442 million in 1994 to the level of US$ 7333 million, while the debt-service to export ratio decreased from 20.4% in 1994 to 17.4% in 1995. In Uganda, total debt stock was US$ 3,473 million in 1994, compared to an increased level of US$ 3,564 million in 1995, while the debt-service to export ratio decreased from a high of 44.2% in 1994 to 21.3% in 1995.

259. Ethiopia, Kenya, Rwanda, Tanzania, Uganda and DRC all witnessed some positive changes in their external debt to export ratios which stood at 458.4, 248.2, 658.8, 585.2, 555.1 and 905.4 percentage points each in 1995. The improvement in this ratio was partly attributed to improved exports in DRC, Ethiopia, Uganda and Tanzania in 1995, while in others, it was attributed to repayment of the principal during the period. Djibouti witnessed a deterioration in external debt to export ratio, which increased from 61.2% in 1994 to 211.8% in 1995. In Somalia, the total external debt somewhat stagnated since the collapse of the administration and in 1994 amounted to US$ 2,600 million.

260. Although the subregion benefitted from various debt relief innovations, in the form of the restructuring of the existing debt portfolios, outright forgiveness of bilateral debt, and swapping of equities and currencies, this has not resulted in the fundamental change of the debt burden. More fundamental solutions to support local production capacity and improved

price for exportables need to be reviewed for the countries to be able to repay what they owe.

IV. FISCAL POLICY, MONETARY DEVELOPMENTS AND CONSUMER PRICES

A. Fiscal Policies

261. The fiscal policies in the countries of the subregion were aimed at attaining fiscal discipline, gradual budgetary balances, controlling the expansion of money supply and keeping inflation at a reasonable magnitude. This was also in line with the IMF and WB requirements of structural adjustment programmes (SAP) which are pursued by most of the countries in the group. Accordingly, every country in the group puts serious emphasis on simultaneous reduction of expenditure, increased and improved collection of revenue to bridge the fiscal gap. The upturn expected from this continuous effort would limit fiscal deficits and restrain the rising trend of other imbalances in the economy, especially the expansion in money supply.

262. To meet the above objectives, many countries in the subregion introduced various tax reform programmes, implemented new institutional reforms which could facilitate the process of tax collection, introduced and implemented new tax policies which would increase revenue and at the same time create incentives. Moreover, public expenditure policies were focused towards tightening control on expenditure, while improving the quality and sectoral allocation of financial resources. More resources were allocated for development activities while compressing growth in recurrent expenditure so as to lower the budget deficit.

263. Table 29 reflects the mixed trends in 1996, on budgetary balances for the countries of the subregion for which data was available.

Table 29: Budgetary Trends in Selected Countries, their Relationship to GDP and Growth Rates in 1995 and 1996 (percentages)

Country	% of GDP						Growth Rate					
	Revenue		Expenditure		Deficit/Surplus		Revenue		Expenditure		Deficit/Surplus	
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
Ethiopia*	17.1	17.6	25.7	22.9	(8.6)	(5.4)	51.9	16.7	9.7	1.6	(30)	(28)
Kenya	32.4	31.1	48.6	41.4	3.6	0.9	21.0	17.7	1.9	15.6	16.3	42.8
Rwanda	7.1	10.0	21.6	22.5	(0.8)	(3.3)	Na	15.8	Na	33.0	Na	(96)
Uganda*	10.8	11.8	Na	19.2	Na	(7.9)		21.8	Na	15.7	Na	(13.6)
Tanzania	15.3	15.3	17.8	13.5	(2.0)	1.8	36.6	35.3	6.4	-0.04	(22.0)	14.1

Source: Compiled and Calculated from National Data Source
** excluding external assistance and loans*
( ) deficit

a. **Revenue**

264. From Table 29 it would be observed that there was improved revenue collection in Rwanda, Uganda and Ethiopia in 1996 compared with 1995. Kenya registered some decrease in its revenue collection from 32.4% of GDP in 1995 to 31.1% in 1996. Revenue collected in Tanzania remained constant at 15.3% of the GDP during 1995 and 1996.

b. **Expenditure**

265. The expenditure trend reflected a different pattern to those of revenues except in Ethiopia. Ethiopia managed to reduce expenditure in 1996, a reduction of expenditure from 25.7% of the GDP in 1995 to 22.9% in 1996. Although Kenya's revenue collection was slightly reduced it managed to reduce expenditure from 48.6% of the GDP in 1995 to 41.4% in 1996. However, in Rwanda while receipts were improved in 1996, expenditure increased to 22.5% of the GDP in 1996 compared with 21.6% in 1995. While in Tanzania, revenue collection remained constant, expenditure was reduced to 13.5% of GDP in 1996 compared with 17.8% in 1995.

c. **Balance**

266. The subregion's budget balances ranged from a surplus of 1.8% of GDP in Tanzania to the highest deficit level of 7.9% for Uganda in 1996. The deficit in Ethiopia decreased from a level of 8.6% to GDP in 1995 to a level of 5.4% in 1996. Kenya registered a surplus in 1996, but the surplus was reduced to the level of 0.9% of GDP in 1996 from the level of 3.6 percentage points in 1995. Rawanda's budget deficit increased from the level of 0.8% of the GDP in 1995 to 3.3% in 1996. Tanzania moved from a deficit level of 2.0% of the GDP in 1995 to a surplus level of 1.8% in 1996. Djibouti, Somalia and Eritrea have very little or no information on the budgetary developments in their countries.

267. An important development in most of the countries of the subregion was that governments resorted to non-banking financial instruments such as the sale of treasury bills, bonds and the like to finance the budget deficits. This helped to eliminate the crowding out effect of government bank borrowing on the private sector apart from its contribution to the gradual development of the financial markets.

B. Monetary Development

268. The subregion's tight financial policy for which data is available is indicated by the ratio of money supply (M_2) (the sum of currency outside banks and private demand, time and savings deposit) to the GDP. Among other factors, the slow down of this ratio in Ethiopia, Tanzania, Rwanda, and Uganda in 1996 shows that continued measures implemented in the financial sphere have somewhat led to achieving reasonable real GDP growth rate, reducing

annual rate of inflation and improving the balance of payments. It is only in Kenya that M_2 to GDP ratio increased from a level of 50.8% to GDP in 1995 to the level of 51.8% in 1996, which negatively compares with the low level of 36.2% to GDP achieved in 1994. However, the trend in domestic monetary developments in these countries is by no means the only factor for achieving financial stability, the external shocks have an important contribution towards instability. Table 30 shows that in the subregion, Uganda achieved a low ratio of M_2 to GDP in 1996 followed by Rwanda and Tanzania. In 1996 the ratio of M_2 to GDP was still high in Kenya and Ethiopia.

269. Based on available data (Table 31) Djibouti continued to enjoy a very low rate of growth of M_2, which stood at a negative 7.4% in 1996, being the lowest growth rate in the subregion. Rwanda also managed to achieve a relatively low growth of M_2, of 10.9% in 1996, compared with a high growth rate of 72.8% in 1995. In Ethiopia, M_2 increased slightly from 9.0% in 1995 to 9.4% in 1996.

270. Kenya recorded the highest (26.2%) growth of M_2 in the group, in 1996, compared to a low growth rate of 16.4% in 1995. While, Tanzania achieved a reduced growth rate of M_2 in 1996 compared with a high figure of 33.0% in 1995. Moderate growth rates in M_2 were also recorded in Seychelles, Madagascar and Uganda. Although data for 1996 was not available for DRC, the average growth rate of 357.6% in 1995 was the highest figure in the subregion, compared with a 0.07% growth rate achieved in 1994.

271. The volume of broad money (M_2) has been growing steadily in five of the countries of the subregion in 1996, while a decrease was registered in only three of the countries for which data was available. Thus, a sustained effort would be required to keep the growth of M_2 at a desirable level.

Table 30: Ratio of M_2 to GDP for Selected Countries for which Data is Available-Indicator of Tight Financial Policy

Country	1990	1991	1992	1993	1994	1995	1996
Ethiopia	40.0	42.3	48	41.2	48	42	41.5
Kenya	29.7	31.4	37.7	38.6	36.2	50.8	51.8
Tanzania	21.7	22.9	26.7	29.9	39.1	21.9	19.8
Rwanda	16.4	15.8	17.4	17.3	24.0	19.1	17.1
Uganda	-	-	7.8	9.9	10.3	11.6	12.1
Burundi	18.2	18.4	15.8	16.7	20.7	Na	Na
Djibouti	78.4	77.4	71.8	71.2	75	Na	Na
D.Rep. of Congo	12.9	15.2	16.0	15.9	16.5	Na	Na

Source: Calculated from National Data Sources

Table 31: M_2 Growth Rate

Country	1990	1991	1992	1993	1994	1995	1996
Eritrea	Na	Na	Na	Na	Na	Na	Na
Burundi	10.8	5.6	4.4	7.2	33.3	-	-
Comoros	4.0	1.9	5.2	0.5	10.2	-5.5	-
D.Rep. of Congo	195.4	2388.6	3794.3	2853.1	6969.9	357.6	-
Djibouti	3.6	4.0	-5.3	0.9	3.7	5.3	-7.4
Ethiopia	18.5	17.0	16.2	9.8	25.3	9.0	9.4
Kenya	20.1	19.6	39.0	28.0	31.5	16.4	26.2
Madagascar	4.5	31.1	22.3	24.2	52.6	15.9	16.2
Rwanda	5.6	5.5	12.4	2.5	-3.7	72.8	10.9
Seychelles	14.5	11.5	13.1	20.9	-0.8	10.5	14.8
Somalia	-	-	-	-	-	-	-
Tanzania	41.9	30.1	40.6	139.2	35.3	33.0	10.7
Uganda	-	-	-	35.7	33.4	15.0	17.3

Source: Calculated from IMF International Financial Statistics, 1997
- : missing
Na: not available

C. Consumer Prices

272. As a result of various macroeconomic management measures, including budgetary discipline, which have been implemented in the past four to five years, most countries in the group were able to reduce inflation and attain stability in prices. In some countries, improvements in the supply side has also contributed to managed inflationary pressure. Table 32 provides a bird's-eye view of the trend of consumer prices in the countries of the subregion.

Table 32: CONSUMER PRICE INDEX IN COUNTRIES OF EASTERN AFRICA SUBREGION (1987=100)

COUNTRY	1980	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Burundi	60.2	100.0	104.5	116.7	124.8	136.1	152.0	152.5	174.5	208.2	263.2
Comoros	...	...	...	...	...	...	...	...	...	...	...
D.R. Congo	6.3	100.0	171.1	349.1	633.0	14,270.0	603,501.0	12,594,490.0	3,006,698,771.0	19,305.654,721.0	146.216.598.052.0
Ethiopia	78.9	100.0	107.1	115.5	121.4	164.8	182.1	188.6	202.9	223.2	
Kenya	47.4	100.0	111.2	125.6	145.2	173.9	225.3	328.5	423.9	427.2	464.9
Madagascar	30.5	100.0	126.6	138.3	154.6	167.8	192.2	211.5	293.8	438.0	524.6
Rwanda	70.9	100.0	103.0	104.0	108.4	129.7	142.0	159.6		317.5	341.0
Seychelles	79.7	100.0	101.8	103.4	107.5	109.7	113.2	114.7	116.8	116.4	
Tanzania	15.6	100.0	131.2	165.1	224.2	288.6	351.6	440.5	590.7	752.7	910.6
Uganda	0.9	100.0	296.1	478.1	636.4	815.0	1,242.4	1,317.9	1,446.2	1,569.9	1,684.6

Source: COMESA Secretariat

273. The year-to-year headline inflation, as measured by changes over twelve months in the consumer price index, exhibited a downward trend in Tanzania: from 18.2% in July 1996 down to 16.4% in June 1997. Similarly, the underlying non-food rate of inflation also registered a downward trend: falling from 23.8% in July 1996 to 13.9% in June 1997. However, below normal seasonal rainfall in food growing areas, drought conditions in large parts of the country and declining national food stocks led to food price increases.

274. In Ethiopia, the general price index as measured by Addis Ababa consumer price index decreased to 0.9% in 1996 as compared with the annual rate of 13.4% in 1995. This was attributed mainly to a reduction in food prices as a result of the supply improvement in food production in 1996.

275. In Seychelles, average consumer price inflation stood at a minimum of 0.5% in 1996 although there had been a deflationary situation in 1995. In Madagascar, average consumer price inflation declined to an estimated 10.5% in 1996 from a high level of 47.2% in 1995. In Djibouti, Rwanda and DRC, the annual average consumer price inflation was reduced to 4.9, 22.2 and 541.8% in 1995 from 6.5, 71.5 and 23760.5% in 1994 respectively.

276. Although average inflation was contained at a single digit level in Kenya in 1996, the average rate rose from 1.6% in 1995 to 9.0% in 1996. The rise was largely due to upward price adjustment of petroleum products, rapid growth of money supply and gradual extension of value added tax (VAT) on consumer goods and services. The drought also led to price increase of staple items such as rice, maize, milk and flour. Average inflation in Uganda for the 12 months to May 1997 was 7.3% compared to 7.4% per annum 12 months a year ago. In Burundi, the average consumer price inflation was estimated to rise from 19.3% in 1995 to 26.0% in 1996. This was attributed mainly to the aftermath of the 1994 political instability in the country.

V. SOCIAL DEVELOPMENTS IN THE SUBREGION

277. Although the basic social indicators show gradual improvement overtime the overall social conditions in the subregion could be improved. The adverse social conditions have their roots in high population growth rates, unemployment and high dependency ratios, the aftermath of the 1994 massacres in Rwanda and the continued civil strife in parts of some of the countries of the subregion. These distabilizing factors resulted in the large number of displaced persons and refugees as shown in Table 33. Illiteracy rate, particularly for females was reported to be high in 1997 and the number

of people living below the poverty datum line increased substantially in 1997. In effect, the tasks of social rehabilitation and reconstruction were overwhelming for all governments in the subregion.

A. Population Displacement and Refugee Settlement

Table 33: Population Movement in the Selected Countries of the Subregion for which Data is Available (as of 17 November 1997) (Displaced - Dispersed - Refugees)

Country	Origin	Population	Comment
D.R. of Congo	Rwandan and Congolese	142,005	17,745 were refugees, of whom 13,015 were estimated to be Rwandans
Tanzania	Burundians and Congolese	326,155	324,139 were refugees, of whom 245,561 were Burundians
Rwanda	Congolese, internally displaced Rwandans and Burundians	188,429	33,300 were refugees, of whom 31,000 were Congolese and 155,129 are detaines and internally displaced people
Uganda	Rwandan, Congolese, Sudanese and internally displaced population	589,183	201,183 were refugees of whom 174,040 were Sudanese, 11,000 and 13,143 were Congolese and Rwandans respectively. The balance, 388,000 were displaced Ugandans
Burundi	Internally displaced Burundians	614,277	All were internally displaced people
Total		1,860,049	576,367 were refugees, of whom 245 ,561; 174,040; 42,000; 26,160 were Burundians, Sudanese, Congolese and Rwandans respectively and the remaining were internally displaced people

Source: UN Department of Humanitarian Affairs, Nairobi

278. Table 33 shows that the five countries of the subregion alone had an estimated total population of 1,860,049 of internally displaced, persons and refugees, as of 17 November 1997. Of this, 576,367 were refugees, of whom 245,561, 174,040, 42,000, and 26,160 were Burundians, Sudanese, Congolese and Rwandans, respectively. Tanzania alone hosted 326,155

people from Congo and Burundi, while in Uganda there were 589,183 refugees and internally displaced people. Ethiopia also hosted a significant number of Somali refugees.

279. In view of the sample situation explained above, the reduced harvest due to civil strife in some countries and drought in others, many of the countries of Eastern Africa were estimated to face exceptional food emergencies during the 1997/98 marketing year.

280. Overall, the impact on social infrastructure, agricultural farmland, food, housing, education, health facilities and the environment could be destabilizing and challenging to governments. Health hazards such as cholera outbreaks, diarrhoea and others were reported to prevail in the refugee camps. The countries of emigration, on the other hand, lost the human resources required for cultivation and other economic activities. The resources required by the affected countries to turnaround the deteriorating social conditions were enormous and beyond the resources capacity of governments in the subregion.

B. Prospects for 1998

281. In 1997 governments in the subregion made concerted efforts to bring about political, social and economic stability to their countries and hence to the subregion. These efforts will be continued in 1998 and beyond. Therefore, the prospects for political-social rapprochement in 1998 are encouraging.

282. Overall population movements in the subregion in general, and in the Great Lakes Region, in particular, could be a source of concern for the future. Efforts to stop insecurity are being redoubled in order to sustain the peaceful co-existence of the population. These efforts would facilitate the attainment of economic progress in the countries of the subregion in 1998 and beyond.

C. Education

283. UNICEF data show that, some countries such as Kenya, Seychelles, Madagascar and DRC had all achieved adult average literacy rate well over 70% in 1995, while Tanzania, Rwanda and Uganda achieved over 60% during the same period. The highest literacy rates were registered in Seychelles, Madagascar, Kenya and DRC at 88, 80, 78 and 77% in 1995 respectively. The figures for Sub Saharan Africa were 57% and 74% for the world during 1995. The highest female literacy rate was recorded in Madagascar and Kenya at 73% and 70% in 1995. The figures for Sub Saharan Africa and the world were 48% and 66%. Kenya reportedly channelled resources from various sources to finance and manage pre-primary

schools. The primary school average gross enrollment ratio for females was 91% in Kenya for the period 1990-94, which was the highest in the subregion.

D. Health

284. The reform process in most of the countries in the subregion created a conducive environment for the private sector to participate in this sector apart from the continuous efforts of the governments to channel resources to the sector. The combined government and private sector efforts to tackle the problem of health inspired improvements in some of the basic health indicators. The subregion's crude death rate averaged at 15.2% (excluding Seychelles, Comoros and Djibouti for which data was not available) in 1995 compared with 23.9% in 1960, representing a reduction of 37%. The highest improvement was registered by Madagascar which reduced the crude death rate to 11% in 1995 from 24% in 1960, followed by Kenya which reduced to 12% in 1995 from the level of 22% in 1960. In Uganda the crude death rate stood at 20% in 1995 compared with 21% in 1960. Similar trends were observable in Rwanda, Burundi, Ethiopia, Eritrea and Somalia.

285. The under five mortality rate in the subregion although improved still remained high, averaged at 154 deaths per thousand of children born alive in 1995. This compared positively with the Sub Saharan Africa average of 175 during the same period, but relatively high when compared with the world average of 90 deaths per thousand of children born alive. Seychelles and Kenya registered the lowest under five mortality rate in the group, at 105 and 20 in 1995. Somalia, Eritrea, Ethiopia, Uganda and DRC exhibited a higher under five mortality rate in the subregion, at 189, 157, 186, 194 and 142 deaths per thousand of children born alive in 1995.

286. The group's life expectancy at birth still remained low, at 52.7 years in 1995. However, this compared positively with the average of 51 years in Sub Saharan Africa during the same period. The highest life expectancy at birth was registered in Seychelles at 72 years (more than the world average of 64) followed by Madagascar and Comoros. The lowest being recorded by Uganda, Ethiopia and Djibouti in 1995.

287. The rate of progress achieved in reducing the under five mortality rate has been very small in the subregion between the period 1980-95. The average annual rate of reduction for the group (excluding Comoros, Seychelles and Djibouti for which data was not available) was 1.32%. Inadequate performance was recorded in Uganda, DRC and Burundi, the average annual reduction being a negative 0.2 for Uganda and 0.6% for Burundi and DRC. According to UNICEF, the required average rate of reduction between the period 1995-2000 for the subregion (excluding Comoros, Seychelles and Djibouti) was estimated at 17.5%. Therefore, most of the

countries in the subregion are expected to introduce measures that would significantly reduce the present high under five mortality rate.

E. Sanitation

288. Available data from UNICEF indicate that access to safe water and adequate sanitation was inadequate for the poor segments of the population. Thus, the poor were the most vulnerable to diseases such as diahorrea, cholera, bilharzia. On average only 39.4% of the total population had access to safe water between the period 1990-96 in the subregion (excluding Eritrea, Comoros, Seychelles, Djibouti and Rwanda for which data was not available). The average proportion of the population with access to sanitation was 41.2% for the group during the same period. Both indicators compare negatively with the Sub Saharan Africa which averaged 51% and 44% for access to safe water and access to adequate sanitation. Although in Kenya and Burundi access to safe water was relatively better than others, the problem was serious in Ethiopia and Madagascar, with only 25% and 29% of the population with access to safe water. The rural poor were the most vulnerable in these countries, which stood at only 19% for Ethiopia and 10% for Madagascar. The percent of rural population with access to adequate sanitation was only a mere average 7% for Ethiopia and 3% for Madagascar during the period 1990-96.

F. Employment Situation and Trends

289. The unemployment of labour was the most acute social and economic problem in the subregion in 1997. It should be viewed as a social problem because it creates social unrest; and it must also be viewed as an economic problem because it is a waste of human resources thereby leading to a loss of economic activity. Thus the human factor is not peripheral but central in the economic progress of a nation.

290. Data on employment in the subregion were incomplete, outdated and unreliable. However, the scant available evidence indicates that there was a severe crisis in employment. In most countries of the subregion the increment in productive employment was much less than the growth rate of the labour force. In terms of distribution, the formal sector wage employment was not only low but also decreasing, while employment in the urban informal sector showed an upward trend during the 1990s. This suggests an increasing informalization of the labour market. Agriculture and non-farm rural activities accounted for almost 65% of the total employment in the subregion in 1997.

291. Open unemployment was estimated to have risen during the 1990s and projected to increase, particularly in urban areas of most of the countries in the group. The increased rate

of migration of the rural population to urban areas (displaced by war in some cases, collapse of agricultural and rural services and general problems with unacceptable living conditions in rural areas) has accelerated the unemployment problem in urban areas. The other factors contributing to the worsening employment situation in some countries included drought, degradation of the physical environment, civil strife and the resort to retrenchment and a freeze on employment in the civil service and in public enterprises that accompanied structural adjustment and economic recovery programmes. The contribution of the public sector to the total formal employment has tended to decline in most countries, while the contribution of the private sector has shown an increasing trend during recent years. Among other factors, the increased rate of poverty in the subregion is closely associated with the increased rate of unemployment. Underemployment, that is relatively low productivity, is also a condition that is found in the subregion's large rural sector as well as the growing informal sector.

292. A particular discouraging feature of unemployment trends in the subregion was the growing number of young persons (15-24 years old) who were among the unemployed. Moreover, within this group young women tended to record high rates of unemployment. In this regard, it should be noted that, the subregion's proportion of young persons in relation to the overall population will continue to grow over the next decades as reflected by the current demographic composition of the group.

293. Another feature of the subregion's employment trend is the questionable quality and relevance of the education system to the group's local conditions. An increased number of young people enters the labour market with skills and qualifications that employers find difficult to use. Inspite of the well-known skill shortages in the critical areas of development, an increased number of educated people cannot be optimally and effectively utilized. Moreover, the working environment and lack of incentives in most countries of the group has acted as a push factor which continued to result in the brain drain of badly needed middle and high level professionals and technicians.

294. A cursory employment trend survey in specific countries of the subregion reflect a common feature of the overall employment condition in the subregion. For instance, in Ethiopia, about 85% of the population depend on small scale agriculture. Underemployment and seasonal unemployment in agriculture are thus major features of the employment situation in the country. Of the 15% of the population that live in urban areas, which is around 8.7 million, the government civil service accommodates only about half a million of the labour force. Hence, the majority of the people in the urban areas have to depend on the private sector, mainly on informal sector activities. Given the fact that, growth in the private sector is a very recent phenomenon, the extent of the unemployment problem is obvious. This also indirectly

shows the significance of the informal sector in the employment situation of the country. Urban women are typically employed in the informal sector.

295. According to the 1994 census report, total unemployment was recorded at 694 thousand people (assuming people with temporary employment continued to be employed). According to this crude report, the percentage of female rural unemployed persons out of the total rural unemployment was 50.7%, while 46.4% of the total urban unemployed were females. Overall, 47.2% of the unemployed were females and 52.8% were males. Except for the age group of 15-19, where females make up 58% of the unemployed, males were over represented in all age groups, their shares varied between 57% and 70%. It is also significant that about 44% of the urban unemployed have attained an educational level at the secondary school level and beyond. While, there was no documented information as to the extent of the employment level, an indicative trend could be derived from reports of the private sector investment of the Ethiopian Investment Authority (EIA). Between July 1992 and April 1996, the EIA and the Regional Investment Bureaux issued investment certificates to 2629 investment projects. Once operational, these projects were expected to create employment opportunities for 142.9 thousand permanent workers and 263.5 thousand casual workers. In the short-term not all the intended investments will be realized fully. Thus, the actual employment creation through these private project could be much lower than the planned targets. From July 1992 - April 8, 1996, the number of projects implemented were only 499, with actual employment creation for 19.7 thousand persons.

296. In Kenya, the comprehensive economic reforms that the country is undertaking have led to significant changes in the employment situation. Among the changes, a large proportion of the labour force is joining the informal sector. Also employment in the public sector is being constrained by the on-going public sector reforms. The increase in wage employment in the modern sector was confined to the private sector, as wage employment in the public sector in 1996, remained at the 1995 level. Wage employment in the private sector expanded by 5.8% to 917 thousand persons in 1996. The share of the private wage employment which was below 50% prior to 1990 rose from 52.6% in 1992 to 57.1% in 1996.

297. In the course of 1996, total employment in Kenya outside small scale agriculture and pastoralist activities increased by 11.8% to 4.3 million persons. Employment in the informal sector rose by 18.0% to 2.6 million and accounted for 61.3% of total persons engaged in 1996. Employment in modern sector expanded by 3.2% to 1.7 million persons. Wage employment within the public sector declined from 693.7 thousand persons in 1992 to 689.8 thousand persons in 1996, and registered a zero growth between 1995 and 1996. The number of female wage employees in the modern sector rose from 407.7 thousand in 1995 to 459.3 thousand in 1996,

with their share in total wage employment rising from 26.2% to 28.6% over the same period.

298. In Uganda, data on the level of employment has yet to be updated. According to estimates from the 1992/93 Social Dimensions of Adjustment Integrated Household Survey (SDA-IHS), the total labour force in Uganda was about 7.3 million persons. Out of this total labour force, 56.6% were self-employed and 28.02% were helpers in household enterprises, while 9.4% and 5.05% were private enterprise employees and public employees, respectively.

299. However, the finding in the district visited by ILO/UNDP employment mission report 1995 shows that in fact unemployment was more serious than it appears because it exists in acute forms of underemployment, and structural unemployment. Based on 1991 census results, the mission estimated that the active labour force in mid-1994 was about 8 million, and growing at 3.4% annually. Accordingly, the Ugandan economy has to create 300 thousand new jobs annually to prevent the employment situation from deteriorating. And this, at a time when 170 thousand retrenched civil servants and 50 thousand demobilized soldiers were to be productively integrated into the labour market. Unemployment has continued to be more rampant among the youth, who do not find regular jobs but engaged in sub-optimal occupations in the urban informal sector.

300. The 1990/91 Labour Force Survey (LFS) in Tanzania indicated that public sector employment (government and parastatal employment) was currently about 50% of the total wage employment compared with 74% during the mid 1980s. This was a result of an increase in private sector activity and the freezing of employment by the government. With regards to sectoral distribution of employment, the service sector accounted for about 57% of public employment during the survey period.

301. The agricultural sector in Tanzania employs about 80% of the total population, and within this sector, the subsistence subsector predominates with about 85% of the holdings being below 2 hectares, showing a fairly high rate of underemployment. Underemployment in the agricultural sector is also related to seasonality of production and the low level of technology used. This points to the need to introduce more non-farm activities as a way of reducing underemployment. The importance of the informal sector as a source of self-employment is now acknowledged. This is in part due to the inability of the formal sector to absorb increasing numbers of people coming into the labour market. The 1990/91 informal sector survey (ISS) indicated that a total of 1.6 million people were self-employed in the informal sector, and that there were about 1.8 million informal sector enterprises, of whom 40% of them were in urban areas Dar-es-Salaam alone has about 12% of the total informal sector enterprises. It is estimated that employment in the informal sector was growing at 3.5% per annum, implying that the sector was generating about 56 thousand jobs per year.

302. The total number of youths joining the labour market every year was estimated at over 650 thousand, but the economy has been unable to generate a sufficient number of jobs, particularly in the formal sector, to absorb the large number of students who finish the school system. During the whole of the 1980s, the Tanzanian economy generated an average of only 22 thousand wage employment jobs annually compared to a demand of more than 350 thousand jobs every year. The labour force survey has also shown that a total of about 1.5 million youths were unemployed or underemployed. This represents about 25% of the youth population available for wage or self-employment.

G. Poverty

303. Poverty has many facets. It is much more than low income. It also reflects poor health and education, deprivation in knowledge and communication, inability to exercise human and political rights and the absence of dignity, confidence and self-respect. The combined effects of natural disasters, poor domestic policies and management, wars, and rapid growth of population would lead to a rapid increase in the demand for resources.

304. Poverty survey in Kenya in 1994 shows that some 47.19% equivalent adults were food poor in rural Kenya compared to about 72% in 1992. Overall 46.75% were classified as absolute poor in rural areas, which was almost the same as in 1992. In urban areas, 29.23% were food poor, while 28.95% were absolute poor during the survey period.

305. Overall, a significant percent of the total population live below the poverty datum line. The aged, a growing group in most countries, live their twilight years in poverty and neglect. Pressures for reform and continuing conflicts in some countries of the subregion, drought and harsh weather conditions and chronic unemployment are all exacerbating the poverty situation. The transition from centralized to market-oriented system in most countries has proved more difficult and costly in terms of the number of people impoverished. In some cases, significant number of the population are denied opportunities and choices most basic to human development. In view of the prevailing critical poverty problem in the subregion pragmatic policy measures have to be initiated to eradicate poverty in the subregion. Poverty eradication must be viewed as the cornerstone of development policy management.

306. In 1997 governments in the subregion were refocusing their policies and action to ensure that the poor are able to participate in and benefit from economic growth. The poverty eradication plans prioritize public action across various sectors to meet the objective of poverty eradication. Key sectors are identified and will be given priority in resource allocation and incentives provided to enhance employment generation in the private sector.

H. Environment

307. Drought and desertification threaten millions of lives in the subregion. Poverty and environmental degradation are closely interrelated. Several poor eke a living by collecting fuelwood and charcoal, leading to depletion of forestry resources. The lack of alternative sources of energy inevitably leads to use of fuelwood for household energy consumption. Even where alternative sources are available in few urban areas, the poor are forced to use forest products because they cannot afford to pay for the alternative energy sources. Foreign exchange shortages in some of the countries led to exports of roundwood by accepting the high opportunity cost associated with it. The traditional practices of clearing and burning down forestry resources in search of cultivable land also continued to put pressure on the environment. The high growth rate of population also continued to put pressure on the land and the environment.

308. The cumulative effect of the above problems is continued desertification, soil erosion and environmental degradation , depletion of natural forests and hence a loss of ecological balance, which inevitably leads to reduced productivity. The agricultural sector which supports the livelihood of the many is the most affected by this pernicious aftermath of reckless deforestation for economic survival of current population. Many governments in the group started to pay attention to the environmental problems. This is reflected in the fact that most development plan documents of the subregion include a chapter on environmental planning. Institutions responsible for environmental management have become common. Such institutions in each country have embarked on priority programmes such as capacity building for environmental management, enhancement of legislative and regulatory frameworks, development of procedures and regulations for environmental impact assessment, development of environmental standards, public awareness, education and training as well as strengthening of the environmental information system. Some countries also have a programme of afforestation. The domestic efforts, however, alone are unlikely to overcome the problem. Sustained subregional cooperation and the support of international organizations are crucial. It is only through sustained partnerships that the resources required for environmental protection would possibly be channelled on sustainable basis to where the need is greatest.

VI. RECOMMENDATIONS

309. Among the myriad of problems faced by Eastern Africa subregion are mounting poverty, over dependence of export earnings on a small number of agricultural and mineral commodities, a small and narrow manufacturing base, high population growth rates, low savings and investment rates, low human capital developments, high debt-servicing ratios, poor infrastructure and structural rigidities, as well as political instability in some countries. However, solving all the above problems overnight is entirely impossible given the resources, capacity, technological,

structural and other constraints. Therefore, the question of setting priorities in an interrelated manner within the limits of the current capacity is the crux of policy formulation and management. The following problems are identified as pressing and recommendations made for consideration in problem solving.

Statistics: capacity building to strengthen data management in the subregion

310. Statistics and data management are very crucial to design and implement appropriate economic and social policies and in the preparation of medium and long-term development plans where priorities are to be set. The subregion is underdeveloped in this area. Therefore, countries in the subregion, should give priority attention to the development of mechanism and upgrade the capacity for data collection, analysis, reporting and dissemination. There must be detailed, consistent, adequate and reliable data on the economies of the countries of the subregion. Allotment of resources to capacity building on data collection, analysis and management should be considered as a worthwhile and invaluable investment.

Eradication of Pervasive Poverty Amidst Abundant Resources

311. Inspite of the subregion's endowment of resources, poverty has become pervasive. The paradox, infact, brings into sharp focus the dichotomy between national / macro level potential and micro level realities. Despite generous arable land and other numerous resource potentials, over 50% of the population in the subregion are classified as poor, of whom about one third belong to the category of 'core poor'.

312. The problem of poverty in some countries of the subregion is aggravated by the implementation of structural adjustment programmes. The social cost of adjustment in such countries has become intolerably high while the trickle down of the benefits accruing to the poor is negligible. Thus, the adjustment process in such countries must seriously consider the human factor in development. Unless pragmatic policy measures are implemented along with the adjustment process to eradicate widespread poverty in the subregion, the development endeavours are likely to face a challenge from those who do not have the wherewithal. Thus, public action programmes to overcome this main development challenge could entail government assistance in the following areas:

- access to productive assets, particularly land and rehabilitation of the agricultural sector;

- continued macroeconomic stability including fiscal stability, low inflation and predictable policy environment, infrastructure, particularly rural roads which give access to markets;

- information about how to use resources efficiently;

- adequate levels of health and education to enable the poor to work and use the information effectively. Particular focus on primary health care and primary education, and programmes to improve female enrollment ratio; and

- sustained effort to promote the private sector, with particular attention to the informal sector which is the major source of employment.

Deepening the Structural Reforms

313. In many countries of the subregion, the implementation of SAP has involved liberalization of prices and marketing systems, financial sector policy reforms, international trade regulation reforms, government budget rationalization, divestiture and privatization to the possible extent, parastatal reforms and civil service reform. To facilitate the realization of rapid and sustained development, governments need to undertake further economic reforms to enhance the level and efficiency of public administration and to increase private investment, incomes and job creation. These may include:

- sustenance of macroeconomic stability by strengthening monetary and public sector financial management and reinforcing fiscal discipline;
- improvement of the efficiency of the public sector by accelerating and streamlining reform in the civil service and public enterprises;
- improving the efficiency and effectiveness of public sector investment, including the delivery of infrastructure services through improved efficiency and better management;
- enhancing external and domestic competitiveness of the economy through further liberalization of markets;
- addressing the social aspects of development particularly through targeted poverty interventions and increased access of the poor to social services; and
- curbing corruption, re-training and re-orienting both the professional and administrative staff in the civil service on their expected roles as facilitators and not inhibitors of the development process.

Manufacturing, Trade and Economic Cooperation

314. Manufacturing is the core of supply-creating channels of production linkages with other sectors of the economy. In the absence of the market, however, the industrial growth in general and manufacturing activities in particular cannot be sustained. Therefore:

- Countries in the subregion need to strengthen closer cooperation among themselves and gradually form a common market or economic bloc. The need to establish a subregional market which eventually facilitates the creation of regional market should no longer be controversial. Reconciling this need with exigencies of the emerging multilateral trading system is one of the issues the subregion should have on its agenda for negotiations within the World Trade Organization (WTO). Subregional trade cooperation should be regarded as part of the adjustment process through which the subregion could build the necessary capacities for meaningful participation in the emerging multilateral trading system. The current economic cooperation groupings in the subregion need to speed up the process of evolving into a single subregional economic community.

- Continued reduction or total removal of custom duties, quota restrictions and other hindrances are crucial for strengthening trade within the subregion. This requires modifications and simplification of rules and convergence of efforts.

- Cooperation arrangements should focus on rationalization of industrial bases, so as to ensure increased value-added to available raw materials.

- Transport and communication networks have to be rapidly developed between the neighbouring countries of the subregion first and then extend the networks to other subregions.

- Given the current stage of economic development and the existing production structures within the subregion, faster manufacturing growth could be built initially on labour intensive, low technology industries closely linked to agriculture, so that initial comparative advantages could be gained in a relatively short time. Meanwhile, the subregion will have to face the challenge of broadening and deepening its manufacturing base and expanding into skill-intensive industries with higher income elasticities on the international market. This would require technological capacities to be upgraded and human capital to be developed. Greater involvement in investment by foreign investors and the domestic private sector would help to fuel the process.

Education and Health

315. Education, health and poverty are interrelated critical social problems in the subregion. With reference to education, the single most important problem is probably the very low enrollment rates in primary education in rural areas. A second problem is that enrollment is very much lower for girls than for boys in the subregion's rural areas. There is some evidence that the social benefits to primary education are high for girls, and that they could indeed be higher than for boys. Hence getting girls into primary education will achieve both the education and health objectives which should be the central concern of policy in the subregion. Thus, a very high rate of under five mortality per thousand of children born alive in the subregion could be significantly decreased by promoting female primary school enrollment particularly in rural areas. Rural poverty strongly affects the twin problems of education and health. For instance, the parental decision as to whether to send children to school is heavily influenced by income, and similarly the decision to go to the nearest available health facilities is largely influenced by affordability. The usually high under five mortality and low enrollment of girls have a common origin in the extreme poverty of the poorest part of the rural population in most of the countries in the subregion. Thus, it seems plausible to focus on enhancement of income through education along with increased expenditure on social services.

Environment, Poverty and Energy

316. Among others, the interdependence between poverty and deforestation results in environmental degradation. Any policy measures to eradicate poverty equally would mean saving the environment. Thus, finding alternative sources of energy must be viewed along with elimination of poverty. Therefore, a holistic approach to environmental issues is recommended.

Conflicts

317. Civil strife, ethnic violence and social unrest are the major problems in some countries of the subregion. Infact these non-economic factors tend to hamper economic and social progress in the whole subregion. The influx of refugees from one country seriously affects the stability of the other. There must be sustained efforts to restore peace and stability. Thus, the question of building investors' confidence and the inflow of direct foreign investment, curtailment of capital flights, development of tourist industry, movement towards subregional trade cooperation, use of the most cheap available productive labour resources for further progress and others have to do with maintenance of peace and stability in the subregion. All the governments in the subregion and the international community must not relent on the sterling efforts they have already initiated in this direction. They must redouble their efforts. The prospects for 1998 are encouraging.

VII. STATISTICAL ANNEXES

Total Population in Million and Annual Growth Rates

Country	1995	1996^{E}	1997^{E}	1998^{P}	1999^{P}	Growth Rate (%)
Eritrea	3.5	3.6	3.7	3.8	3.9	2.8
Ethiopia	55.1	56.8	58.5	60.3	62.2	3.1
Uganda	21.3	22.1	22.9	23.7	24.6	3.7
D.R. of Congo	43.9	45.3	46.7	48.2	49.7	3.2
Burundi	6.4	6.6	6.8	7.0	7.2	3.0
Madagascar	14.8	15.2	15.6	16.0	16.4	2.8
Tanzania	29.7	30.8	31.9	33.0	34.3	3.8
Rwanda	8.0	8.3	8.6	8.9	9.2	3.6
Kenya	28.3	29.3	30.3	31.3	32.4	3.4
Somalia	9.3	9.5	9.7	9.9	10.1	2.4
Djibouti	0.577	0.594	0.612	0.630	0.649	3.0
Comoros	0.653	0.671	0.692	0.714	0.737	3.2
Seychelles	0.073	0.074	0.075	0.076	0.077	1.7
Total	222.3	228.8	236.1	243.5	251.5	

Source: UNICEF
E: estimates based on annual growth rate of population
P: projections based on annual growth rate of population

Basic macroeconomic growth trends in countries of the Eastern Africa Subregion 1990-1998

GDP in 1990 Prices (Millions US Dollars)

Country	1990	1991	1992	1993	1994	1995	1996	1997^E	1998^P
Ethiopia	6005	5366	5516	5681	5063	5986	6255	6498	6855
Kenya	8676	-	8887	8820	9163	9721	10168	10768	11403
Uganda	3707	-	3939	4213	4572	4777	5163	5420	5664
Tanzania	2542	-	2631	2746	2723	2818	2953	3077	3258
Rwanda	2530	-	2596	2631	1020	1283	1359^E	1531	1722
Burundi	1107	-	1320	1379	1402	1445	1455^E	1465	1480
Djibouti	471		477	477	479	492	496^E	506	516
Eritrea	Na	-	Na	Na	Na	Na	Na	Na	Na
D.R. of Congo	8677		7142	6216	6832	6678	6635^E	6635	6701
Comoros	230	235	238	241	243	244	245^E	246	247
Somalia	Na	Na	Na	Na	Na	Na	Na	Na	Na
Seychelles	369		444	410	398	401	403^E	406	409
Madagascar	3100	2964	3000	3063	3065	3126	3163	3226	3264
Totals	3741 4	37265	36190	35877	34960	36971	38295	39822	41519

Source: ECA, UNIDO
E: estimates
P: projections

GDP Per Capita

Country	GDP in 1996 (Millions US$ 1990 Prices)	Population* 1996 in Million	GDP Per Capita
Eritrea	Na	3.6	-
Ethiopia	6255	56.8	110.1
Uganda	5163	22.1	233.6
D.R. of Congo	6635	45.3	146.5
Burundi	1455	6.6	220.4
Madagascar	3163	15.2	208.1
Tanzania	2953	30.8	95.9
Rwanda	1359	8.3	163.7
Kenya	10168	29.3	347.0
Somalia	Na	9.5**	-
Djibouti	496	0.594	835.0
Comoros	245	0.671	365.1
Seychelles	403	0.0074	5445.9

*: compiled from national data sources
**:calculated on the basis of EIU estimated figure for 1994
Na: not available

The Rate of Progress Under 5 Mortality Rate (average annual rate of reduction and required in percent)

Country	1960-80	1980-95	1995-2000 (Required)
Ethiopia	0.6	1.9	20.5
Comoros	Na	Na	Na
Eritrea	0.6	1.9	20.5
Uganda	0.9	-0.2	19.4
Djibouti	Na	Na	Na
D.Rep. of Congo	1.7	0.6	19.4
Burundi	1.4	0.6	18.4
Madagascar	2.6	1.8	17.0
Seychelles	Na	Na	Na
Tanzania	1.6	0.8	16.5
Rwanda	-0.8	3.1	13.7
Kenya	2.9	1.5	8.1
Somalia	Na	Na	Na
Sub Region Av.	1.5	1.6	15.9
Sub Saharan Av.			18.9

Source: The State of World's Children, UNICEF 1997
Na: not available

Some Basic Social Indicators

Country	U5 MR		IMR		Life Expect.		% of Pop. Access to Safe Water	% of Pop. with Access to Heath Services 1990-95	Adult Literacy Rate 1995	
	1960	1995	1960	1995	1960	1995			Male	Female
Burundi	255	176	151	106	42	51	59	80	49	23
Madagascar	364	164	219	100	-	58	29	38	88x	73x
Eritrea	294	195	175	114	40	52	18	-	-	-
Ethiopia	294	195	175	114	37	49	25	46	46	25
Kenya	202	90	120	61	46	55	53	77	86	70
Rwanda	191	139	115	80	43	47	66	-	70	52
Tanzania	249	160	147	100	41	52	38	42	79	57
Uganda	218	185	129	111	44	44	38	49	74	50
D.R. of Congo	286	185	167	119	42	52	42	26x	87	68
Somalia	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na
Djibouti	289	158	186	113	-	49	-	-	-	-
Comoros	248	124	165	85	-	57	-	-	-	-
Seychelles	-	20	-	16	-	72	-	-	-	-
Subregion's Average*	248	139.5	151	87.5	41.8	54.5	46.7	57.7	74.0	55.2
Sub Saharan Africa	256	175	153	106	41	51	53	51	67	48
Least Developed Countries	-	173	-	109	-	52	48	55	59	38

Source: The State of the World's Children - UNICEF 1997
** Excluding countries for which data are not available*
x: refer to only part of the country
Na: not available

Cereal Supply /Demand Balance for the 1997 or 1997/98 Marketing Year for Eastern Africa Subregion: Situation as of Early July 1997 (In Thousand Tons)

Country	Wheat			Rice[1]			Coarse Grains			Total		
	SS	DD	Ba	SS	DD	Ba	SS	DD	Ba	SS	DD	Ba
Somalia	-	-	-	-	-	-	-	-	-	2	174	(172)
Burundi	10	13	(3)	60	60	0	230	247	(17)	300	320	(20)
Comoros	-	4	(4)	10	50	(40)	4	4	0	14	58	(44)
Djibouti	-	69	(69)	-	51	(51)	-	-	-	-	120	(120)
D. R. of Congo	19	149	(130)	313	363	(50)	1196	1256	(60)	1528	1768	(240)
Eritrea	10	156	(146)	-	-	-	122	265	(143)	132	421	(289)
Ethiopia	1974	1974	0	-	-	-	9158	9158	0	11132	11132	0
Kenya	350	709	(359)	39	159	(120)	2726	3447	(721)	3115	4315	(1200)
Madagascar	5	73	(68)	1746	1821	(75)	-	-	-	1931	2074	(143)
Rwanda	6	31	(25)	7	24	(17)	213	232	(19)	226	287	(61)
Seychelles	-	2	(2)	-	5	(5)	-	6	(6)	-	13	(13)
Tanzania	41	111	(70)	352	407	(55)	3092	3182	(90)	3485	3700	(215)
Uganda	9	35	(26)	51	57	(6)	1557	1567	(10)	1617	1659	(42)
Total	2424	3401	(977)	2578	3074	(496)	18300	19386	(1086)	23481	26041	(2559)

Source: Extracted from FAO/GIEWS Africa Report, August, 1997
1: rice in milled terms
DD: demand (i.e. utilization)
SS: domestic supply

External Debt and Debt Ratio's 1995
(Debt Stock US$ Million)

Country	Total External Debt	Debt Outstanding	Debt to Export of Goods and Services (Ratio)	Export of Goods and Services	Total Debt Services
Djibouti	260.1	218.0	122.8	211.8	10.3
Ethiopia	5221.0	4958.0	458.4	1139.0	155.0
Kenya	7381.0	6372.0	248.2	2974.0	765.0
Madagascar	4302.0	3691.0	562.4	765.0	70.0
Somalia	Na	Na	Na	Na	-
Rwanda	1008	949.0	658.8	153.0	20.0
Seychelles	164.4	151.1	56.3	291.9	20.7
Tanzania	7333.0	6129	585.2	1253.0	218.0
Uganda	3564	3054	555.1	642.0	137.0
D.R. of Congo	13137	9621	905.4	1451.0[E]	25.0
Total	44171.6	36,592.1		11282.7	1637.0
Av. Ratio			391.5		

Source: World Debt Tables 1997
E: EIU estimate