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**SRO-EA**

**REPORT ON ECONOMIC AND SOCIAL CONDITIONS OF  
THE EASTERN AFRICA SUBREGION, 2008**

# **Meeting Subregional Challenges in the 21<sup>st</sup> Century**

***Regional Integration Towards the Achievement  
of MDGs***

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# 1. INTRODUCTION

*“The Millennium Development Goals can be met, but not if we continue doing what we are doing” (J.SACHS)*

1. The experience of last decade and half has shown that achieving Millennium Development Goals (MDGs) will be difficult but not impossible. So far, the countries of Asia, Eastern Europe, and Latin America and the Caribbean are on course to fulfill many of the MDGs. In Africa there are considerable variations in the prospects of individual countries. Those that have implemented sound economic policies and improved their systems of governance have seen acceleration in economic growth and poverty reduction and are likely to make significant headway in the future. There are, by contrast, other countries where policy improvements have yet to be secured, largely due to conflicts and poor governance, and where only progress on the MDGs is likely.
2. While recent economic performance in Africa has been strong, with a growth rate of 5.8 percent in 2007; up from 5.5 percent in 2006 and 5.3 percent in 2005, these rates are insufficient for African countries to reach the first Millennium Development Goal of halving poverty by 2015. Indeed, it has been estimated that growth rates of at least 7 percent will be necessary to achieve this goal.
3. Eastern African countries have made progress since 2001, in terms of GDP growth at an average of 5.0 percent per annum. However, this growth has not benefited much of the poor and the Eastern African subregion is unlikely to achieve the objective of halving the level of poverty by 2015. In 2007, still over 50 percent of the people in Eastern Africa continued to survive on less than 1 dollar per day and per person, despite ambitious targets set up for poverty reduction and improvements in health, education, gender equality and environment sustainability. The rural situation is worse with majority of the people living with income ranging from 0.33 to 0.80 US\$ per person per day.
4. Accelerated progress towards meeting the MDGs will require action by Eastern African countries and intensified support from the international community and regional institutions. In this context, regional integration should be considered as one of the key pillars to scale-up successes towards the achievement of MDGs at the subregional level.
5. As a result of the above, the present report analyzes, in Section 2, the recent economic and social developments in the subregion and the key challenges facing Eastern African countries in achieving MDGs. In Section 3 the report examines the possible orienting of regional integration to contribute to the achievement of the MDGs while the special role of regional infrastructures in this regard is highlighted in Section 4. Section 5 outlines the main conclusions and recommendations of the report.

## 2. RECENT ECONOMIC AND SOCIAL DEVELOPMENTS IN EASTERN AFRICA

### 2.1. Macro-economic performance

6. Africa's economic growth performance improved with an annual mean of 0.3 percent per year starting from 2005 up to now. The GDP growth rate increased from 5.3 to 5.5 per cent and 5.8 percent respectively for the years 2005, 2006 and 2007. Growth is expected to keep this increasing trend in 2008, despite numerous constraints and risks.
7. The good and encouraging achievement remains below the developing world average (6.4 percent for 2007) and the 7 percent required by achieve the MDGs by the 2015.

**Table 1: Subregion al growth performance (percent)**

	2005	2006	2007	(2008Est)
Eastern	6.1	6.6	6.8	6.4
Southern	5.6	5.9	6.4	6.4
West	5.4	4.7	4.9	6.2
North	5.2	5.9	5.9	5.9
Central	3.6	3.1	4.2	4.6
Africa	5.3	5.5	5.8	5.9

*Source: UNECA, EIU and WDI*

8. Africa's overall average growth in 2007 was slackened by poor performances registered respectively by Central and West African regions. GDP in Eastern Africa subregion expanded by an estimated 6.8 percent in 2007 spurred on by countries recently emerging from conflict such as Burundi and Democratic Republic of Congo, which experienced very strong growth. According to recent estimates, GDP growth in the subregion is expected to decline slightly in 2008 to around 6.4 percent<sup>1</sup>.
9. In 2007, the leading economies in the subregion were Ethiopia (9.4 percent), Democratic Republic of Congo (7.0 percent), Tanzania (6.9 percent) and Kenya (6.3 percent). The good performance of these countries could be explained by a combination of factors such as sustained commodity demand and high prices; good performances in agricultural sector; high investments in infrastructure; macro-economic reforms and management; reduction of public debt with

<sup>1</sup> This score goes back to August 2007. However, political situation deteriorated following contested electoral results in Kenya. Similarly, crisis is still running in Somalia. Furthermore, the oil prices shock mixed with the slumping American dollar are additional negative factors to influence slowdown of regional and continental performance.

increases in foreign reserves; favourable conditions for savings and investments; and increased FDI.

10. On the low growth end, poor performing economies included Somalia, Eritrea (2.0 percent) and Comoros (1.2 percent). The reasons behind the poor growth performance of these countries vary from one country to another. Somalia lacks data to realistically assess its performance; other countries are undermined by poor institutions and/or face governance problems while others suffer from macro-economic shocks, etc (UNECA, 2007).

**Table 2: Real GDP growth, 2001-2007 (change in annual percent )**

	2001	2002	2003	2004	2005	2006	2007
Burundi	3.2	5.6	-2.3	4.4	0.9	6.3	6.3
DR Congo	-4.1	3.4	6.0	6.9	6.5	7.0	7.0
Djibouti	1.5	2.0	2.5	2.1	4.6	4.2	5.0
Eritrea	5.8	-1.2	5.4	1.0	4.6	4.8	2.0
Ethiopia	7.0	7.5	3.1	12.3	8.7	5.3	9.4
Kenya	1.2	1.4	2.8	4.3	4.7	5.4	6.3
Madagascar	6.0	-12.7	9.8	5.3	4.6	5.7	5.6
Comoros	2.4	2.3	2.1	1.9	2.0	3.0	1.2
Rwanda	6.0	9.4	3.2	3.7	6.0	6.3	6.3
Tanzania	4.6	4.8	5.6	4.0	5.0	4.0	6.9
Uganda	6.4	6.9	4.4	5.6	5.6	6.2	6.0
Eastern Africa	4.4	3.0	4.9	5.2	5.1	6.1	6.8

*Source: ECA and IMF, Regional Economic Outlook: Sub-Saharan Africa, 2007 and ECA*

11. Despite the overall good performance of the Eastern African subregion as a whole, there still remains a number of constraints to growth performance. The region is prone to conflicts which adversely affect the leading and the most human-intensive sector of agriculture and hence, an intensive human capital sector.
12. Unfortunately, the costs associated with conflicts are extremely high (Hoeffler, 2007; Hoeffler & Collier, 2004). For instance, investigations on the four decades of repetitive armed conflicts in Burundi showed that the country incurred high economic costs on growth, trade and education. Obviously, conflicts reduce growth potential and outcomes during troubled periods. It is estimated that conflicts decrease GDP growth by 2.2 percentage points a year (Hoeffler, 2007). The most evident economic cost comes from destruction of infrastructure, physical capital and human capital. Collier (1999) highlights four additional costs, namely financial and human capital which flies out of the country in conflict in search of a more peaceful world; public resources which are shifted from productive sectors to spending on the conflicts as military spending is increased; people becoming pessimistic since their time horizon of living is shortened with increases in opportunism; and the abandonment of vulnerable activities in favor of less vulnerable ones. There are also high social and political costs of conflicts especially on the health system which often deteriorates as infrastructures are

destroyed. The mortality rates increase while poverty and corruption become more entrenched.

**a. Growth and poverty**

13. Despite the relatively high GDP growth for the Eastern African subregion, the level of poverty is still high in the subregion. For example, according to the World Human Development Report, 87.6 percent of the population live on 2 dollars per day in Burundi despite growth rates of more than 6 percent in 2006 and 2007 (UNDP, 2007). In Kenya, 58.3 percent live in identical socio-economic situation. In Madagascar and Tanzania, the percentage of population living under this poverty level is respectively 85.1 percent and 89.9 percent while it reaches 83.7 percent in Rwanda.

**b. Production structure and uneven sectoral contribution to growth**

14. In Sub-Saharan Africa (SSA), several economies depend heavily on the primary sector. In Eastern Africa, many economies (Rwanda, Uganda, Burundi, etc) are based on agriculture. The sector accounts for more than 40 percent in Burundi, Comoros, Ethiopia and Tanzania while the industrial sector contributes only for 17.3 percent (see Table 3 below). In many countries of the subregion, more than 90 percent of the population is dependent on subsistence agriculture. Economic growth depends on coffee and tea exports, which account for 90 percent of foreign exchange earnings. The capacity to pay for imports and debt service, therefore, depends upon weather conditions and international commodity prices, which are both outside the control of the countries.

**Table 3: GDP- Sectoral Contribution**

	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>
Burundi	44.9	20.6	55.7
Comoros	45.2	11.8	43.0
D.R Congo	55.0	11.0	34.0
Djibouti	3.2	14.9	81.9
Ethiopia	48.8	12.9	38.3
Eritrea	21.7	22.6	55.7
Kenya	23.8	16.7	59.5
Madagascar	27.5	15.3	57.2
Rwanda	38.2	20.1	41.7
Seychelles	2.4.0	25.6	72.0
Somalia	65.0	10.0	25.0
Tanzania	42.8	18.4	38.7
Uganda	30.2	24.7	45.2
The subregion	34.5	17.3	48.2

*Source: WDI. Note: The data for Somalia are for the year 2000. Others are of 2007.*

### c. Inflation trends

**Table 4: Inflation Rate, 2002-2007 (annual change in percent )**

	2002	2003	2004	2005	2006	2007
Burundi	3.5	10.7	8.4	13.4	2.5	3.3
DR Congo	25.3	13.0	9.2	21.4	10.0	8.9
Djibouti	0.6	2.0	2.0	3.1	3.0	3.0
Eritrea	16.9	22.7	25.1	12.4	16.5	22.0
Ethiopia	-7.2	15.1	9.6	6.8	12.3	12.2
Kenya	2.7	3.5	3.5	4.0	13.0	12.0
Madagascar	15.8	0.2	13.8	18.4	11.2	9.6
Comoros	3.3	3.7	4.5	3.6	3.8	3.0
Rwanda	2.0	7.4	6.9	9.2	5.5	5.0
Tanzania	4.6	4.5	5.9	4.4	7.5	6.5
Uganda	5.7	5.1	3.5	8.0	6.7	7.0

*Source: Country Documents and IMF, Regional Economic Outlook: Sub-Saharan Africa, 2007.*

15. On average, inflation in Eastern Africa increased in 2007 (see Table 4 above) in three countries and stayed unchanged in two others. Like in 2006, three countries in the subregion registered a two-digit inflation rate. This includes among others Eritrea (22.0 percent), Ethiopia (12.2 percent) and Kenya (12 percent) (EIU, 2007). For the first time in decades, the rate of inflation in Madagascar slowed down to below the usual two-digit levels (9.6 percent), illustrating an improvement in budgetary management and financial market.
16. The causes of inflation are numerous and remain contested. For the region as a whole, inflation can be traced to higher international oil prices and the depreciation of the American currency amid its mortgage crisis. The barrel of oil passed from 23 US\$ in 2002 to 110 US\$ in early 2008.

### d. Trade

17. During the last decade, the Eastern African subregion recorded negative trade balances. The economies of the subregion continue to be more import-dependent than export-oriented and to rely on poor quality as well as limited range of products. This is compounded by low and uncompetitive productivity levels in the export sectors. The leap in world petroleum prices also weighed heavily on the terms of trade of the subregion.
18. However, it should be noted that world demand for basic products has considerably decreased over the last years to the advantage of non-traditional products such as fruits, vegetables, fish and sea food. Trade in commodities widely produced in the subregion such as coffee, cocoa, tea, sugar and textile fibers recorded a significant decline during the last two decades.

### **e. Fiscal balances**

19. In a study covering 42 SSA countries<sup>2</sup>, none of the Eastern African country is ranked in the top ten surplus countries while two, namely Ethiopia and Eritrea figure in the ten worst fiscal deficit countries. In 2007, Ethiopia registered a fiscal deficit of 5.6 percent of GDP while Eritrea has had a two-digit fiscal deficit of greater than 15 percent of GDP for more than a decade reaching an estimated 21.3 percent of GDP in 2007 (EIU, 2007).
20. Like in many African countries, the fiscal balance of some of the Eastern countries are prone to internal shocks like rainfall irregularities, political conflicts as well as external shocks like world price commodities, foreign assistance, etc. Ethiopia and Eritrea fit well this case.

## **2.2. Evolution of Social indicators**

### **a. Education**

21. Eastern African countries have made good progress towards universal primary education. Many countries such as Tanzania, Uganda, Rwanda, Burundi, Comoros and the Seychelles are making outstanding progress and have increased the primary enrolment rate by more 70 percent. However, some other countries such as Democratic Republic of Congo and Somalia have reached a growth rate of only 20 percent.

### **b. Health**

22. The current state of health in several regions of Africa including Eastern African countries is a matter of great concern. The current gap between the UN Millennium Development Goals (MDGs) and the state of health indicators in Eastern Africa warns of an impending public health failure and is evidence of the need for a stronger public health workforce.
23. It needs no stressing that better health has several benefits as it increases the ability of children to learn and enables workers to be more productive. The health-related goals for reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria, and other diseases are justified by their effect on productivity, not to mention their positive impact on basic human welfare.
24. On child mortality, countries made steady progress. However, in the context of achieving the MDGs, more has to be done to further reduce the child and maternal mortality rates with more widespread use of bed nets; increased supply of midwives and affordable antibiotics; improved basic hygiene; and the application of the treatment approach known as DOTS (Directly Observed Therapy Short Course) to save millions of lives.

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<sup>2</sup> In this study on SSA, the four missing Eastern African countries are Comoros, DRC, Djibouti and Somalia.

25. Sub-Saharan Africa is more heavily affected by HIV and AIDS than any other region of the world. An estimated 22.5 million people were living with HIV at the end of 2007 and approximately 1.7 million additional people were infected with HIV during that year. In just the past year, the AIDS epidemic in Africa has claimed the lives of an estimated 1.6 million people. More than eleven million children have been orphaned by AIDS. In East Africa, adult HIV prevalence exceeds 6 percent in Uganda, Kenya and Tanzania.
26. In many cases, the need for macro-economic stability seems to present an additional constraint on national governments to increase domestic spending on health. This is particularly related to additional funding through overseas development assistance and the existence of medium-term expenditure ceilings. For instance, Uganda and Tanzania, which are not unique cases in this respect, were almost unable to access grants from the Global Fund because of the ceilings to health spending.

### **2.3. Challenges for achieving the millennium development goals in Eastern Africa**

#### **a. Growth rates still low to reduce poverty**

27. As outlined in the previous section, the average growth of 6.8 percent for the subregion in 2007 is below the one required to make significant inroads in reducing poverty. Most studies have shown that Africa's average growth rates of at least 7 percent are needed. Eastern African countries need to maintain and deepen the sound macro-economic policy frameworks that many have adopted. Indeed, as Ethiopia, Uganda and Rwanda have shown, it is possible to raise and sustain growth rates to desirable levels when governments are committed to sound policies and when these policies are supported by the international community.
28. From 1990 to 2007, growth rates have varied substantially from one country to another. In 2007, three countries were near or above the 7 percent threshold needed to sustain poverty reduction. These are: Ethiopia (9.4 percent), DRC (7 percent) and Tanzania (6.9 percent). Other three countries are around 6 percent such as Kenya and Rwanda (6.3 percent), and Uganda (6 percent). Unfortunately, economic growth in reforming countries has not yet translated into real development with corresponding increases in employment. The limited job creation that has taken place has mainly been in the informal sector, due to the capital-intensive and enclave nature of the extractive sectors that have been driving this growth in most countries (UNCTAD, 2005; ILO, 2007). Therefore, economic reforms should go beyond economic and financial stability and tackle the very serious issue of job creation and poverty reduction.

### **b. Peace and security still fragile**

29. The significance of political stability on economic performance cannot be overemphasized. Indeed, it has been observed that armed conflicts and political instability have impacted negatively on the economic performance of countries where they occurred. Neighboring countries are also adversely affected. In 2002, in Madagascar, the December 2001 contested presidential elections led to the deterioration of macro-economic aggregates and economic growth declined from 6.7 percent to -11.9 percent between 2001 and 2002. In Kenya, uncertainties surrounding the presidential elections in 2002 and the political turmoil following the presidential elections in 2007 triggered a fall in import and credit demand as well as a decline in development aid flows. The two crises in Kenya have also impacted on economic performance in countries in the subregion in terms of trade flows and international transport costs.

### **c. Limited impact of financial sector reforms and domestic resources mobilization for investment**

30. Financial sector reforms carried out in the subregion in the 1990s have had limited impact on both domestic resource mobilization and sustaining economic growth. In most reforming countries in the subregion, fiscal and monetary policies have led to reducing fiscal deficits, controlling the level of inflation and stabilizing exchange rates. Those countries have also enjoyed significant support from development partners. From 1990 to 2005, the level of domestic savings, as a share of the Gross Domestic Product (GDP) fell from 8.7 percent to 5.5 percent. This level is far below the 25 percent achieved by the African continent over the same period. This situation of internal deficit has led most of the countries in the subregion to resort to external savings in the forms of grants, loans or private contributions to finance domestic investments, which increased the debt burden.

### **d. Poor-performing agriculture**

31. Most economies in the subregion are still reliant on subsistence farming which is particularly vulnerable to unfavorable climatic conditions and fluctuating prices on the world market. This is compounded by poor diversification of production; persistent centres of tensions and conflicts with their negative impact on economic and human development; poor dynamism of the subregion in world trade; reduced external aid; and low domestic savings. Further, economic infrastructures deteriorated over the last two decades due to lack of resources for their maintenance and internal conflicts exacerbated their destruction. As a result, food insecurity has become a major threat to economic development in the subregion and agricultural diversification is hampered.

**e. Deteriorating terms of trade**

32. As noted in Section 2.1 above, during the last decade, the Eastern African subregion continued to record negative trade balances due notably to the quality and quantity of exported goods, the low productivity level in the export sectors and the unfavorable terms of trade. The subregion's economy is more import-dependent than export-oriented. On a positive note, some countries have established vigorous policies towards diversification of their exports, such as Kenya, Madagascar, Uganda which have promoted non-traditional exports such as clothes and manufactured products. Rwanda, by helping farmers connect to buyers of high-quality coffee, boosted its coffee exports to the United States of America. In Kenya exports of cut flowers more than doubled between 2000 and 2005 to rank second among its exports, after tea (World Bank 2007).

**f. The political and economic environment not yet conducive to private sector investment**

33. Although growth rates have been improving steadily in the last five years, reaching 6.8 percent in 2007, the Eastern African subregion still has some way to go before economic conditions are suitable for the private sector to effectively contribute to achieving the MDGs. Admittedly, private sector investment is picking up in some countries like: Ethiopia, Madagascar, Rwanda, Tanzania and Uganda, due to political commitment to the creation of a conducive environment for business. But, as a whole, the subregion has still a long way to go in order to improve the business environment and attract foreign investment. Indeed, many countries in the subregion are still inordinately dependent on public investments and foreign aid.

### **3. ORIENTING REGIONAL INTEGRATION TOWARDS ACHIEVING THE MDGs**

34. There is no doubt that regional integration is a valuable instrument of development and that it can contribute effectively to the achievement of the Millennium Development Goals if appropriately oriented and focused on specific areas of action such as those outlined below, namely:

- i. Mainstreaming regional integration within economic development plans of each country, with a particular emphasis on MDGs;
- ii. Improving policy convergence, monetary and financial integration and creating an enabling economic environment for private sector investments;
- iii. Reforming the financial sector and mobilizing the subregion's domestic resources for poverty reduction;
- iv. Making agriculture more productive in the whole subregion;
- v. Enhancing human development capacities;
- vi. Enhancing the subregion's competitiveness; and
- vii. Ensuring good governance for economic development and achievement of MDGs.

35. The role of the subregion's infrastructures is seen as so critical to both regional integration and the attainment of the MDGs that it is treated separately in Section 4.

#### **3.1. Mainstreaming regional integration within economic development programmes**

36. The formulation of growth and poverty reduction strategies, particularly export-led growth, should incorporate regional approaches. These include the formulation of policy reforms to improve the environment for the private sector, investment and trade, infrastructure, facilities and systems to sharpen competitiveness. Improvements in agricultural productivity as well as improving service delivery through regional approaches are also important.

37. Regional programmes will also have to be incorporated into national poverty reduction strategies by reinforcing support for growth in four main areas:

- Implementation of customs unions with harmonized regional customs facilities and systems, in particular between COMESA and EAC for trade liberalization schemes and customs unions;
- Gap-filling in regional infrastructures, focusing on trade corridors, regional power systems and international communications, taking advantage of international facilities and funding;
- Financial sector development and integration, focusing on broadening access to financial services, introduction of trade-related facilities and mobilization of domestic resources for development;

- Agricultural productivity. Regional approaches to enhance agricultural research and technology development.
38. On service delivery, the main focus will continue to be through national engagement and regional approaches will complement in three main areas:
- Management of water resources at basin level: water supply, irrigation, flood control, environment preservation, etc;
  - Improving outcomes in tertiary education, health care through rationalizing facilities regionally;
  - Combating migratory diseases, malaria, HIV/AIDS, tsetse, etc.

### **3.2. Harmonizing macro-economic policies and convergence**

39. Macro-economic policies are essential for growth, poverty reduction and the attainment of MDGs. Countries will have to undertake structural transformation of their economies in view to increase the level of growth and reach the average of at least 7 percent annual rate required to reduce the level of poverty. Eastern African countries need to diversify their production base and increase their exports of manufactures, while continuing to exploit the comparative advantage they enjoy in primary commodities.
40. More importantly, countries will have to adjust their monetary and fiscal policies to be able to export to their trading partners. For free movement of goods and factors of production to be effective, macro-economic, financial, monetary and fiscal policies need harmonization. Trade is very important for economic growth and poverty reduction as it presently accounts for more than 56 percent of the GDP of the subregion. Therefore, to get full benefits of trade liberalization within and outside the subregion, countries will need to harmonize trade policies.
41. To promote regional trade and investment and create a conducive environment for faster economic growth, Eastern African countries will need to set up mechanisms for a macro-economic framework to bring about regional economic stability, through low inflation rates, low fiscal deficits and stable exchange rates. Within the Common Market for Eastern and Southern Africa (COMESA) and the East Africa Community (EAC), a set of objectives for harmonization and convergence have been adopted although more is needed in terms of implementation and realization of targets.

### **3.3. Reforming the financial sector and mobilizing the subregion's domestic resources for poverty reduction**

42. Many countries in Eastern Africa have carried out financial sector reforms since the 1990s with limited impact on domestic resource mobilization. The traditional concentration of the banking sector on import-export activities to the detriment of productive investment in agriculture and industry has not changed. Moreover, commercial banks are still concentrating their activities on large clients, such as large firms in the private sector, as well as the public sector (UNCTAD

September 2007). A study undertaken by SRO-EA shows that despite important financial sector reforms in Eastern African countries, their economies are not yet fully monetized and domestic savings are not yet mobilized.

43. Financial intermediation, which constitutes the crucial link between savings and investment is not well developed. Banks which constitute the main components of the formal financial sector are performing poorly as they tend to be concentrated in the principal cities, with few branches in rural areas.
44. On domestic savings, three aspects of domestic resources mobilization need to be taken into account. Firstly, the amount of domestic resources should be maximized where possible. Secondly, these resources must be channeled to productive uses. Finally, the base for the mobilization and channeling of resources must be broadened through micro-finance institutions.

#### **i. Increasing Domestic Savings for Investment**

45. Macro-economic reforms should provide for mechanisms to increase domestic savings by increasing tax revenues generated by increase in production and income; control of public expenditures; and better allocation of mobilized resources to productive sectors. The current situation of Eastern African countries is worrisome and does not favor sustainable economic growth and the possible achievement of MDGs. With extremely low levels of domestic savings, countries have no other alternative to fund their investments than to resort to external funding in the forms of grants or loans. Further, countries in conflict or emerging from conflicts are fragile and the rate of domestic savings are most of the time negative, meaning that all investments are funded by external resources. For example, from 1990 to 2005, Burundi, Eritrea and Comoros registered negative saving rates.
46. The public sector has a major role to play to complement the private sector, in particular by funding essential services meant at developing the human capital through education and health, rehabilitating infrastructures which are indispensable for the private sector. Tax revenues should be allocated to basic services needed to support the private sector and not to compete with it.
47. There exists another type of savings which is not channeled through financial institutions. Household's surveys show that many households have assets of around 30 percent of their incomes but they are mainly in the form of durable goods and not in the form of bank savings, which could be used for productive investment (UNECA 2006). This type of savings is kept in forms of livestock, real estate or jewellery. This is partly a reflection of difficulties for rural households to access and have confidence in the financial sector. The informal financial sector accounts for a majority of household financial saving.

#### **ii. Better channeling savings and remittances to productive uses;**

48. Workers' remittances are increasingly being recognized as important sources of finance for development in Africa. Averaging 2.5 percent of Africa's gross national income, remittances represent an important capital inflow, although their

significance varies from country to country. They have been steadily growing and there are good reasons to believe that unrecorded remittances that transit through informal channels are at least as important as recorded flows. Remittances are mainly being used to meet basic consumption needs and schooling. There is also, however, some investment in real estate and, to a lesser degree, in financing small and medium-sized enterprises or small infrastructure projects (UNECA, 2006 and UNCTAD, 2007).

49. For the Eastern African subregion, this form of financial flows has also been increasing over the past years and has constituted a source of income for many households, particularly for those countries in conflict for which banking systems were not operating properly. Countries should identify appropriate mechanisms for better channeling of these important resources by offering, for example, incentives and allocating them to productive activities.
50. The best use of remittances for development was one of the concerns of the African Ministers of Finance, Planning and Economic Development, as expressed in Addis Ababa recognizing the role that the diaspora can play in financing the development of African countries. They committed themselves to use all necessary strategies to mobilize the savings of the diaspora within the framework of public-private partnership (UNECA, 2007).

### **iii. Promoting Microfinance institutions**

51. Microfinance institutions have emerged during the last two decades, following the difficulties in accessing formal banking institutions. They are dedicated to assisting small enterprises, the poor in rural areas and households that have no access to the more institutionalized financial system in mobilizing savings and obtaining access to financial services.
52. This semi-financial sector is made of institutions that, while legally registered, are not regulated as banks. While this semi-formal sector could become an important actor in savings mobilization for households, its coverage is at present too limited to respond effectively to the financial needs of many households in Africa (UNCTAD 2007). It holds great potential in terms of improved savings mobilization in the subregion.

### **3.4. Making agriculture more productive in the whole subregion**

53. Food insecurity and poverty have become the main characteristics of the Eastern African subregion, though in the 60's this subregion was self-sufficient in agricultural production and was able to have enormous surpluses for export. People living in rural areas struggle to survive on less than one dollar a day. Agriculture is the key sector in the subregion, it is by far the dominant economic activity upon which the rural poor depend and it feeds populations, provides employment, constitutes the source of raw materials for industry and generates foreign exchange from exports.

54. Recent estimates indicate that the majority of people in rural areas have income ranging from only US\$0.33 to US\$0.80 a day. The rural poor are not only income-poor; they are deprived of basic necessities. They lack essential capacities, as reflected in low educational enrollment rates, low literacy rates, high infant and maternal mortality, and inadequate access to sanitation and potable water. They have low access to such productive assets as land and credit. And they are likely to be affected most by such exogenous shocks as natural disasters and civil wars and conflicts. Therefore, in Eastern Africa, the most agricultural-dependent subregion of the African continent, the development of rural areas should be at the centre of broad-based growth strategies and increasing agricultural productivity in sustainable ways is an essential first step towards reducing poverty.
55. Some of the problems that cripple the agricultural sector include conflicts and wars; demographic pressure on arable lands; low productivity due to poor adoption of modern farming methods and low utilization of fertilizers; drought; floods; post-harvest and storage losses; and others. During the last decade and half, the production structure in Eastern Africa did not change. It is still dominated by the important role played by agriculture.
56. It is estimated that sustained growth that reduces rural poverty will require a 5 percent annual growth in agricultural value added, by an expansion of area irrigated, as well as better performance of rain fed agriculture. The major elements of a strategy for rural development include the adoption of modern agricultural technologies, the diversification of crop and animal production systems, the efficient management of natural resources, and the improvement of land and labor productivity for farm and non-farm activities. Policies for the development of adequate, affordable and reliable infrastructure services should also be an integral part of the broad-based growth strategy. Investments in all-weather roads, telephone services, rural electrification, and clean water supply and sanitation should enhance access to markets for inputs and outputs, improve the delivery of social services of high quality, facilitate the flow of vital information on markets, attract non-farm business enterprises, and promote the processing and diversification of agricultural products.

### **3.5. Enhancing human development capacities**

57. Policies for human development generate direct benefits and create the basis for faster growth. In the context of a subregional affront on the issue of enhancing human development capacities, three areas are critical namely, education, health and gender equality.
58. The education goal may not be easily attained in a number of countries of the subregion because of socio-economic constraints. These include disparities in access to education resources within a country, fiscal constraints that prevent raising the pay of teachers, limited infrastructure and unattractive living conditions in rural areas. All contribute to the deterioration in pupil-teacher ratios, which undermines the quality and quantity of education.

59. However, despite the constraints, many countries in the Eastern African subregion have made commendable progress towards the achievement of universal education, due partly to political commitment and, in some cases, efficient use of donor support. Uganda, for example, has increased the primary education enrollment from 2.5 million in 1995 to over 8 million in 2006, and the proportion of non-salary spending reaching schools more than doubled from 40 percent to 90 percent. Kenya, Tanzania and Ethiopia have increased substantially their enrollment rates to almost 100 percent, and Rwanda has achieved gender parity in primary schools. The common thread running through the success stories appears to be finding the right combination of sustainable growth, political commitment and the efficient use of domestic and external resources. Prioritizing these three factors and placing human development at the core of policy plans, could enable countries still lagging behind to make significant strides towards achieving the MDGs<sup>3</sup>.
60. On health, progress has been relatively slow especially in terms of achieving the health-related Millennium Development Goals. Even for the child mortality Goal, where countries have made some progress, at the current pace most countries in the subregion will not be able to reduce child mortality by two-thirds. A high proportion of populations suffer from preventable diseases that reduce productivity and increase spending. Yet, as noted in section 2.2, better health has a lot of benefits that countries can ill afford to forego.
61. The poverty and human capital dimensions of the MDGs involve women, both directly and indirectly. The promotion of gender equality is therefore expected to contribute to the achievement of several goals at the same time. Accordingly, a general policy framework is required to reduce the marginalization of women, helping them participate effectively in economic, political, and social life and increasing their involvement in the development of policies that affect their lives.
62. Achieving this requires conscious allocations of public resources in favor of women and of production areas where women are most concentrated. The objective is to restructure and target the allocation of public expenditures to promote women's economic opportunities, ensure equal access to productive resources, and address the basic social, educational, and health needs of women. This will also facilitate more open and transparent budget processes. Other measures must target introducing incentive systems that promote girls' access to schools and the promotion of girl-friendly schools.

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<sup>3</sup> United Nations: Millennium Development Goals: A Compact among Nations to end Human Poverty, p6

### 3.6 Enhancing the subregion's competitiveness and business environment

63. The private sector can contribute to poverty reduction in two major ways. First, it can be the engine of economic growth with strong contributions to employment and higher incomes, especially for those involved in agricultural production and trade. Given the critical role of women in agricultural production and the delivery of social services -both primarily private sector-related activities- support for women can contribute to the achievement of all the MDGs, both directly and indirectly. Secondly, the private sector can contribute to the development of infrastructure and efficient delivery of social services, including education, health, water and energy.
64. To realize the private sector's potential, it is essential to create an enabling environment conducive to increasing investment and promoting both national and domestic entrepreneurs.
65. An assessment made by the World Bank on 178 countries shows that the environment for doing business in Eastern African countries is not yet conducive. The table below shows the ranking of Eastern African countries for 8 selected topics. It reflects major constraints in doing business in Eastern African countries.

**Table 5: Rankings for Doing Business in Eastern African countries, 2008**

	Ease of Doing Business Ranking	Starting a Business	Dealing with Licenses	Employing workers	Registering Property	Getting Credit	Protecting investors	Paying Taxes	Trading across borders
Kenya	72	112	9	66	114	13	83	154	148
Seychelles	90	48	51	97	50	158	51	35	84
Ethiopia	102	106	58	89	147	97	107	29	150
Uganda	118	114	81	11	163	158	122	55	141
Tanzania	130	95	170	151	160	115	83	104	100
Djibouti	146	165	92	130	131	135	173	51	66
Comoros	147	145	56	158	84	158	122	46	119
Madagascar	149	61	139	150	165	176	51	86	126
Rwanda	150	63	124	95	137	158	165	50	166
Eritrea	171	174	178	58	158	158	98	103	159
Burundi	174	124	171	99	122	170	147	109	167
DR Congo	178	146	138	171	141	158	147	149	154

*Source: World Bank, Doing business, 2008.*

66. Given the contributions of a vibrant private sector to economic growth and poverty reduction, a broad-based growth strategy must aim at creating an enabling environment for its emergence. Particular stress should go to creating an attractive investment climate for domestic and foreign capital. This enabling environment should include better macro and sectoral policies, greater institutional capacity, reformed legal and judicial systems, and improved social and physical infrastructures. As part of this effort, a special effort should be made to promote small and medium-size enterprises, which account for more than 60 percent of the workforce in urban areas and 18 percent of industrial output. Because they provide employment for workers with limited formal training and use local inputs generally produced by the poor, their further development is essential for employment generation and poverty reduction.
67. One area where the private sector intervention could really make a difference is boosting the use of information and communication technologies (ICTs). ICTs are crucial for poor countries. They help reduce costs, improve productivity and increase access to domestic and international markets, thus contributing to economic growth and competition in the global economy.

### **3.7 Ensuring good governance for economic development and achievement of MDGs**

68. Countries in the Eastern African subregion have made some progress in improving systems of political and economic governance, although there are still serious setbacks. There has also been progress in creating more effective and transparent systems for the management of public resources as is evident in the improvements in basic macro-economic indicators. But corrupt practices continue to exact heavy economic costs by distorting the operation of free markets, hampering economic development, and impairing the ability of institutions to deliver efficient services to the public.
69. The rating shown in Table 6 reflects progress made by each country<sup>4</sup>, in terms of: voice and accountability, political stability and absence of violence, government effectiveness, rule of law and control of corruption. The overall rating for the subregion in terms of governance and anticorruption is still low. All countries in the subregion still have weak performance, although some countries made progress over the last decade. Countries in conflict or emerging from conflicts and wars such as Somalia, Burundi and DRC have not yet improved their political systems and rule of law.

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<sup>4</sup> Where comparison is possible. If we hold control of corruption among other indicators, the first column lacks data for four countries. Therefore, we can not infer about the progress made the decade after.

70. African countries have voluntarily accepted to participate in the African Peer Review Mechanism (APRM), conducted under the auspices of the New Partnership for Africa's Development (NEPAD). The basic idea of APRM is that countries are assessed via two routes, both based on agreed values, codes and standards laid down in a questionnaire covering the following areas: democracy and political governance, economic governance and management, corporate governance, and socio-economic development. Some countries have already signed up to the APRM process, including Rwanda which has seen completion of the assessment by its peers and which has shown that it has reached gender parity in education in a relatively short period.
71. Other countries have included in their Poverty Reduction Strategy Papers (PRSPs) issues of improving governance and accountability. Burundi has engaged in an ambitious programme to improve economic governance and fiscal management, and to strengthen the implementation capacity for pro-poor programmes.

**Table 6: Governance and anticorruption indicators, Eastern Africa, 1996-2006**

	Voice and accountability		Political Stability and Absence of Violence		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption	
	1996	2006	1996	2006	1996	2006	1996	2006	1996	2006	1996	2006
Burundi	-1.3	-1.0	-2.0	-1.4	-1.0	-1.3	-1.3	-1.2	-0.2	-1.0	-	-1.1
Comoros	-0.2	-0.3	1.0	-0.2	-0.7	-1.7	-0.7	-1.5	-	-0.9	-	-0.6
DRC	-1.3	-1.6	-2.0	-2.3	-1.7	-1.6	-2.2	-1.5	-1.9	-1.7	-2.1	-1.4
Djibouti	-0.9	-1.0	0.2	-0.2	-1.1	-1.0	0.0	-0.9	-1.3	-0.8	-0.9	-0.7
Eritrea	-1.2	-1.8	0.2	-0.9	-0.3	-1.3	-0.2	-1.9	-	-1.0	-	-0.2
Ethiopia	-0.7	-1.1	-0.9	-1.8	-0.6	-0.6	-1.3	-0.8	-0.2	-0.6	-	-0.6
Kenya	-0.6	-0.2	-0.7	-1.1	-0.6	-0.7	-0.4	-0.2	-0.3	-1.0	-1.1	-1.0
Madagascar	0.2	-0.1	-0.1	0.1	-1.0	-0.2	-0.1	-0.3	-0.8	-0.3	-1.1	-0.7
Rwanda	-1.5	-1.1	-1.5	-0.5	-1.2	-0.4	-1.1	-0.6	-0.9	-0.6	0.4	-0.1
Seychelles	0.1	0.1	1.0	1.1	-0.7	-0.1	-1.2	-0.6	-0.2	0.0	-	0.1
Somalia	-2.0	-2.1	-2.4	-2.8	-1.8	-2.2	-3.0	-2.7	-1.8	-2.5	-	-1.8
Tanzania	-0.9	-0.3	-0.2	-0.2	-1.2	-0.3	-0.4	-0.4	-0.8	-0.5	-1.1	-0.4
Uganda	-0.7	-0.5	-1.4	-1.2	-0.4	-0.5	0.1	-0.2	-0.9	0.5	-0.5	0.7

Source: World Bank: Africa Development Indicators 2007

Note: The rating scale for each criterion ranges from -2.5 (weak) to 2.5 (very high performance)

## **4. THE SPECIAL ROLE OF EFFICIENT REGIONAL INFRASTRUCTURES**

### **4.1 Introduction**

72. Improving infrastructures is essential to reducing the transaction costs in producing goods and services. Transportation and energy make up the largest part of indirect costs for businesses, weighing heavily on the competitiveness of firms in most African countries. The focus would be on reducing the high costs associated with the remoteness of landlocked countries to facilitate their trade with neighbours and the rest of the world. Again, there will be a clear need to look beyond country borders and adopt a regional approach to coordinating cross-border infrastructure investment, maintenance, management, and use to lower costs.

73. Spurring innovation will require investment in information technology and skill formation (higher education) to enhance productivity and competitiveness. Information and communication technologies can be the main driver of productivity growth. There is strong empirical evidence showing that investment in information and communication technologies and in higher education boosts competitiveness, making both key parts of the growth agenda.

74. The integration of transport, communications and energy infrastructures are integral components of regional integration (UNECA 2003). Strategies need to be developed to improve connectivity and complete the missing links in transport networks, develop more efficient communications, and exploit the potential of pooling power grids. Mechanisms including public-private partnerships need to be examined to encourage private sector investment in physical infrastructures.

### **4.2 Closing Transport gaps**

75. All countries recognize the importance of infrastructure for economic growth, job creation and poverty reduction. No development is possible without adequate infrastructure to link rural areas where the majority of poor live to other areas. A study undertaken in Rwanda in 2003, for example, showed that over the last two decades, areas with few road networks were also those with few social and community infrastructures. Given the fact that poverty reduction strategies are multidimensional, transport and service infrastructure development should also be considered a priority in the same way as other sectors. At regional level, transport is considered as vital in facilitating regional integration and promoting trade competitiveness. Effective transport and service infrastructures contribute to reduction of transport costs and an increase in the volume of trade, and as a result contribute to economic growth and improvement of living conditions of populations.

76. **Roads:** The major roads in the subregion are found along the transit corridors. All the landlocked countries in the subregion have traditionally more than one road route through a transit country to the sea, and all the capitals of the countries are connected by roads. Most of the inter state roads have suffered immensely from overloading of vehicles, which is the major cause of day to day road surface deterioration requiring rehabilitation from one section to another. Overall, 80 percent of roads in the subregion are only in fair to poor condition. However their conditions remain inadequate to serve both domestic and regional needs. Adequate maintenance is not often assured, and even keeping the existing infrastructure, including links of regional importance, in good shape remains a major challenge. Deferred maintenance has taken its toll on the roads in the subregion and there remains a huge backlog of maintenance. It is estimated that the backlog maintenance for the Northern corridor within Kenya alone was some US \$335.7 million in 2002. These weaknesses are attributed mainly to the deficiencies in the institutional arrangements and financial constraints which characterize road maintenance in the subregion.
77. **Ports:** Port infrastructures are also important. The constraints facing all the ports in the subregion is the present poor state of ports' infrastructure, floating craft and cargo handling equipment. Maintenance deficiencies exist in all branches of engineering; civil, marine, and mechanical/electrical, but it is the poor quality of equipment maintenance that presents the biggest obstacle to the achievement of acceptable levels of operational efficiency. Many factors contribute to the problem, but a root cause is lack of comprehensive set of policies, strategies and procedures for maintenance of assets. This has been compounded by institutional arrangements for management of ports which feature the public sector as the ports' operators and encompasses restrictive government controls and regulations. As a result, all the ports in the subregion, particularly Djibouti, Dar es Salaam and Mombasa, remain under-utilised. Between them, they have an intrinsic capacity of 40 million tons, yet in the year 2006, they handled only 20.2 million tons of cargo, or about 50 percent.
78. **Navigable inland waterways and lakes** are an important means of transport as links to major corridors and, in some instances, the only available means of transport in some countries. Inland water transport infrastructures and facilities in the subregion, such as port terminals, dockyards, quays, cargo sheds, workshops, vessels, navigation aids and handling equipments are very old and inadequate. Investments on new infrastructures and for rehabilitation of existing facilities have been minimal. Lack of adequate resources also means that vessels and ports are not adequately maintained which has contributed to a number of accidents in the past. As a result inland water transport remains a weak link in the subregion's transport systems even though it offers excellent possibilities for integrating the area as a cheap mode of transport. There is also evidence to suggest that there is potential for improvement of agricultural production and other activities around the lakes and rivers. Improved infrastructures and facilities would provide a basis for increased trade in such

produce which would contribute to the achievement of poverty reduction objectives.

**79. Railway infrastructures:** Most railway infrastructures in the subregion, (tracks, bridges, signals and telecommunications) are old, and this has impacted negatively on their operational and safety standards. Track relaying and ballasting is an on-going activity for a number of the railways, as are the rehabilitation of bridges and signal facilities, as well as other emergency measures. Similarly, the availability of rolling stock, particularly traction equipment and wagons, has declined considerably in all the railways of the subregion, particularly as a high proportion of them have reached or are approaching the end of their economic lives. Replacement of locomotives and rolling stock has been limited although rehabilitation has been carried out progressively. All the railways experience cash shortages, and availability is further constrained by lack of spares. Indeed, the capital bases of all the railways consist of a large proportion of assets including tracks, locomotives and wagons, which are not currently utilised for revenue generation, but are still in their books.

#### **4.3 Promoting energy infrastructures**

80. All the PRSPs of the countries in the subregion recognize that the development of energy infrastructures will facilitate all rounded economic growth by creating employment opportunities for the poor, including women, thereby increasing income levels and reducing poverty. Indeed, energy is now considered mainly as an input for the productive and social sectors rather than as a final product and is therefore being treated as a “transversal theme” in national poverty reduction strategies. Other sectors now realize that they need energy services to achieve their own sector objectives.

81. The subregion is generally characterized by abundance of energy reserves in various forms. These include the DRC’s hydroelectricity potential which is estimated at 740,000GWH, equivalent to 66 percent of Central Africa’s potential, 35 percent of the total potential of the African continent and 8 percent of the world’s annual potential. The potential around Inga site is estimated at 44,000MW, and is the biggest hydro energy deposit in the world. Other countries in the subregion, Uganda, Burundi, Rwanda, and Kenya have similar potential, although limited in terms of the quantities which can be economically exploitable.

82. Elsewhere, the eastern and western rift valleys area has large un-assessed geothermal reserves. Oil fields have been noted to exist on the Atlantic side of the DRC. In the southeastern sector of North Katanga in the DRC, there is a coalfield estimated to contain 720 million tons of coal. Large deposits of coal have also been discovered in Tanzania with an estimated capacity of 1200 million tons. These are located at Kiwira, North-west of Lake Nyasa and at Mchuchma/Katewaka, East of the lake. There are positive signs that some parts of eastern Kenya have some coalfields of unknown quantities.

83. The subregion has some proven gas fields in various locations and quantities. There are natural gas reserves estimated at 45 million cubic metres at Songo Songo and at Mnazi Bay (South-east of Mtwara) in Tanzania; natural gas and associated liquid reserves, estimated at 68 billion cubic metres at Calub and Adigrat in south eastern part of Ethiopia. Lake Kivu contains 60 billion cubic metres of methane gas, 50 billion of which is exploitable with annual formation of 250 million cubic meters and constant renewal. Practically, this makes the resource un-depletable. There are indications that other parts of the Western Rift Valley have other reserves as well.
84. All the available energy resources in the subregion are currently dwarfed by traditional biomass consumption, which is undoubtedly under threat of over-use. There is also plenty of unexploited sun and wind energy. Petroleum products are currently imported to the subregion in its entirety. Mombasa, the second largest city in Kenya has the only oil refinery in the subregion with a capacity to process 3 million ton of crude oil annually. It now needs urgent rehabilitation.
85. In practice, the energy sector is still considered a public utility, essentially operated by national corporations. Governments still own electricity production, transmission and distribution facilities. Investments have so far been carried out from national funds, external loans and grants. However, the increasing scarcity of resources and the need for Governments to direct public expenditures to social services such as education and health, has seriously constrained availability of funds for this sector.
86. The overabundance discussed above sharply contrasts with the quantity of harnessed energy for industrial and domestic use. There is, generally, a low level of industrial activity in the subregion despite the abundance of natural resources and energy potential to power the wheels of industry. It is for this reason that the area relies heavily on biomass (over 90 percent for all countries in the subregion, except for Ethiopia and Kenya) and imported petroleum energy products.

#### **4.4. Information and Communications Technology (ICT): A valuable tool for development**

87. Improved communications by proper applications of ICT's offers the developing countries an unprecedented opportunity to reduce poverty at the fastest possible speed. However, the telecommunications sector in the subregion remains characterized by low service penetration and coverage; high levels of unmet demand and waiting lists; poor service quality; and high investment costs and tariffs compared to international average standards. National economies are fragmented and do not offer the volume and scale economies expected by the industry players to operate at low cost. There is a pressing need for more market integration to increase the competitiveness and attractiveness of the economies of the countries of the subregion. Unfortunately, until recently sector reforms were designed on a country-by-country basis, with no coordination at the subregional level. This lack of coordination explains the continuing disparities

that exist between national regulations or sector policies, notwithstanding the recent progress made in many countries.

88. While the ability to exchange information is offering a great potential for radical improvements in all socio economic sectors of human activities, the challenge now is how to address the issue of extending ICT infrastructure/services to un-served or the under-served population, who are mostly the poor people living in rural areas. In this regard most Governments have adopted policies of universal access to make telecommunications services available, at affordable prices, to as many people as possible through common points or end-user facilities such as libraries, schools, health centres, community centres, public call offices and pay phones. This policy also applies to advanced information services such as Internet services and applications such as tele-education, tele-medicine and e-commerce. Emphasis is being placed for member states to bridge the digital divide between rural and urban areas as well as across the countries in order to create an information society.
89. There are clear signs of greater availability of services within the countries of the subregion. Mobile telephony and Internet are spreading beyond the capital cities –a good indication of the potential scale and scope of the development of telecommunications infrastructure development.
90. The rapid advances in technology and the declining cost of acquiring new ICT tools have opened new windows of opportunity for the countries in the subregion to accelerate economic growth and development. In addition to fostering intra-regional trade, the use of ICT could accelerate the subregion's integration into the global economy and help reduce poverty. Therefore, there is need to create a conducive environment in order to attract local, regional and foreign investments into the sector.

## 5. CONCLUSIONS AND RECOMMENDATIONS

### 5.1. Orienting Regional Integration to Achieve MDGs

91. Recent economic performance in Eastern Africa underscores the point that growth is not yet conducive to poverty reduction or sustainable improvements in living standards. Therefore, one of the biggest challenges in this subregion is how to sustain an increase of economic growth over a long period, well distributed over sectors, areas and households and adopt policies which are conducive to poverty reduction.
92. It has been demonstrated that though broad-based economic growth contributes to poverty reduction, the rate at which growth translates into reductions of number of poor depends on many factors, including policy choices and related distribution levels, as well as good governance. Regional integration can play a major role in tackling such issues, including harmonization of macro-economic policies, trade liberalization and negotiation policies, improve economic governance, rehabilitate transport infrastructures and ICT, develop regional tools for capacity building and mobilize international support.
93. *Mainstreaming regional integration within economic development programmes:* The main issue is to ensure that subregional programmes are incorporated into national poverty reduction strategies. RECs with the assistance of SRO-EA should review current economic development programmes and poverty reduction strategies to incorporate a regional integration dimension.
94. *Harmonization of macro-economic policies:* As some RECs have already embarked on addressing this issue, there should be a subregional approach to cover all member countries, as well as harmonizing the process within RECs to avoid overlapping and conflicting approaches.
95. *Trade liberalization and negotiation policies:* RECs should be requested to continue supporting member countries in negotiation processes under EPAs and WTO. Areas of the needed support may be identified.

### 5.2. Making agriculture more productive

96. Eastern Africa is the most agricultural-dependent subregion of the African continent. As such, diversification of the subregion's economy is crucial. At the same time to tackle the issue of poverty, the development of rural areas should be at the centre of broad-based growth strategies. Strategies to make agriculture more productive at the subregional and country levels must be urgently implemented including in particular:

- Allocating to agriculture resources worth at least 10 percent of the budget, in accordance with commitments of Heads of States in the framework of NEPAD. Particular emphasis should be put on research/development, adoption of new technologies and innovations, multiplication and dissemination of inputs and selected seeds;
- Identifying ways and means to complement rain-fed agriculture, by retaining water in rainy periods and storing it in reservoirs to be used later during dry seasons. In addition, in appropriate areas, irrigation could be popularized among farmers. Research in this area should propose the least expensive and most adapted technologies for each geographical configuration;
- Undertaking regional feasibility studies for the manufacture of phosphates, by referring to positive experience in the subregion;
- Promoting regional and international trade for agricultural products, in particular, elimination or reduction of duties on rice and maize in regional trade;
- Strengthening regional cooperation in agricultural research and policy analysis by reinforcing centres of excellence and networks

### **5.3. Developing Human Capacities**

97. *Education:* As set out in the *Education for All Strategy* and subsequent work, countries with the highest rates of primary completion share several characteristics, including: devoting a higher share of national resources to public primary education; having reasonable unit costs; paying teachers a competitive salary commensurate with their professional qualifications; and having higher spending on complementary non-salary inputs, manageable pupil-teacher ratio and low average repetition rates of below 10 percent.
- 1) Education is fundamental to enhancing the quality of human and ensuring social and economic progress. But because of large gender and social difference in access, added to low quality and financing, educational achievements have been limited in most countries in this subregion. Poor and marginalized people should be given a chance to improve in their enrollment access, by a fair government educational programmes and policies targeting spatial allocation of resources among various geographic areas;
  - 2) The issue of quality is of great concern and further emphasis should be put on quality of teachers' training for improvement of the services they render. Lowering number of pupils attending class, as well as availability of schools supplies will yield better results. In addition to this, school retention programmes will help reduce drop out rates;
  - 3) The link between education and programmes should also be seriously looked into. This is a limit of PRSPs that analyze educational needs from the supply side and public financing. The mechanism for an adequate educational policy that strives to achieve pro-poor attainment must keep in mind sequencing and future demand skills. The current pro-poor emphasis on primary education for all has an effect of crowding out investment in

higher levels of education. There has to be a better link between growth and its sources and its effects on skill profiles.

- 4) Importance should be given to the skill requirements demanded by the labour market and how this affects educational level and output. Any pro-poor strategy must emphasize employment as one of the critical areas of exiting poverty. Poor people and women in particular have a higher risk of unemployment, especially in an environment where skills must be upgraded constantly to cope with volatile labour market conditions. There is need to encourage investment in capacity building and strengthening, ensuring proper distribution of educational resources among regions.
  - 5) Another area that should be analyzed is that ICT provides a changing environment for the job market, but also an opportunity as an efficient tool. Distance learning is still in its infancy in most countries, yet holds great promise in terms of access and bridging the rural-urban divide.
98. *Health*: the main question is how much and how fast can Governments increase their health spending without damaging the stability of their economies.
  99. A policy recommendation should be that national policies should focus first on the domestic ways of raising funds, rather than waiting for external and conditional money to come. Within the current context of pro-poor growth strategies, competing health demands and macro-economic restrictions, only by achieving more efficient ways of financing and budget allocations can health care be expanded in a sustainable way.
  100. *Gender equality*: the critical issue in the subregion is that of a general policy framework required to reduce the marginalization of women, helping them participate effectively in economic, political, and social life and increasing their involvement in the development of policies that affect their lives. Policies in this areas should focus on:
    - Urgently establishing, strengthening and implementing a comprehensive regional policy and guidelines on investment in the subregion that give specific provision for the participation of women;
    - Establishing a conducive environment to facilitate business integration in the subregion;
    - Recognizing and strengthening gender responsive economic actions that promote environmental sustainable development and promote the national and regional processing of raw products for value addition, for the purpose of job creation that will benefit women.

#### **5.4. The Special Role of Regional Infrastructures**

101. The integration of transport, communications and energy infrastructures are integral components of regional integration (UNECA 2003). Strategies need to be developed to improve connectivity and complete the missing links in

transport networks, develop more efficient communications, and exploit the potential of pooling power grids. Mechanisms including public-private partnerships need to be examined to encourage private sector investment in physical infrastructures. The focus would be on reducing the high costs associated with the remoteness of landlocked countries to facilitate their trade with neighbours and the rest of the world. Again, there is a clear need to look beyond country borders and adopt a regional approach to coordinating cross-border infrastructure investment, maintenance, management, and use to lower costs.

102. Spurring innovation will require investment in information technology and skill formation (higher education) to enhance productivity and competitiveness. Information and communication technologies can be the main driver of productivity growth. And there is strong empirical evidence showing that investment in information and communication technologies and in higher education boosts competitiveness, making both key parts of the growth agenda. In that context, it is recommended that countries in the subregion set up:

- A coordination mechanism at regional level is essential in determining the real demand for infrastructure, dealing with infrastructure “supply gaps” and promoting the public-private partnerships.
- The relationship between port authorities and governments needs to be changed and the role and participation of the private sector in port development and management, needs to be increased with port users becoming more involved in policy formulation related to the management, operations and development of ports infrastructure.
- The solution to the energy problem lies in joint energy projects with the execution of joint regional projects holding the key to greater economic development and to the much needed regional economic integration.
- While each country in the subregion have specific projects and proposals for the development of ICT infrastructures within their borders, there are a number of regional projects which will enhance connectivity and reduce costs of communications for countries including those in the Great Lakes area. These include (i) The COMESA Telecommunications Company (COMTEL) and (ii) The Eastern Africa Submarine Cable System (EASSy).

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