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THE IMPACTS OF THE GLOBAL FINANCIAL CRISIS ON REMITTANCES IN EASTERN AFRICA

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DRAFT REPORT

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LIST OF ABBREVIATIONS

BCB	Commercial Bank of Bujumbura
BOP	Balance of Payment
BOT	Bank of Tanzania
BOU	Bank of Uganda
BRB	The Bank of the Republic of Burundi
CBK	Central Bank of Kenya
EAC	The East African Community
FDI	Foreign Direct Investment
IFS:	International Financial Systems
IMF	International Monetary Fund
IOM	International Office of Migration
IPO	Initial Public Offer
MDG	Millennium Development Goal
MFPED	Ministry of Finance Planning and Economic Development
NEA	National Employment Agency
ODA	Official Development Assistance
PSD	Private Sector Development Strategy
RDMF	Rwanda Diaspora Mutual fund
SME	Small and Medium Enterprises
UIA	Uganda Investment Authority
UNECA	United Nations Economic Commission For Africa
USD:	United States Dollar (often used as a universal Unit of accounting for standardization)

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KEY TERMINOLOGIES AS USED IN THE REPORT

DIASPORA: Citizens of a particular country who have migrated and live in another host country. Such persons consider themselves as bona fide citizens of the country of origin irrespective of their legal and resident status in the host country

REMITTANCES: Amounts of money sent by individuals in the Diaspora. This funds exclude cooperate profits repatriated from host countries. In some cases remittances in kind like clothing and electronic items are considered as part of remittances

INFORMAL MONEY TRANSFER AGENTS: These are conduits that are used by remitters whose transaction are difficult to be captured by the central banks for unspecified reasons either of legality or simply an individual brining in hard currency into the country

FORMAL MONEY TRANSFER AGENTS: These are agents that are legally registered by the government and are authorised to handle foreign exchange transactions. They are also expected to collect and submit tabulated data on source of funds transacted

INVESTMENT: These are medium and long term commitments that are meant to offer returns to the investor. In this context housing, enterprises and purchase of stocks and bonds is considered an investment by the Diaspora

DOMESTIC CONSUMPTION: This is the bundle of expenditures that the recipients apply to remittances that they receive from the Diaspora. It includes food, clothing, health and education and other consumables.

EXECUTIVE SUMMARY

The view that the relatively low economies of the sub-Saharan Africa may not be affected by the global economic and financial crisis due to their minimal integration to the world giants of the financial markets is no longer valid as the impact of the crisis has affected heavily the continent. Until the onset of the largely financial crisis, the African continent had been experiencing what is now come to be known as the commodity boom with growing demand and rising prices of agricultural products. That demand has since fallen to low levels and faced reduced prices in the global market due to reduced consumptions. Tourist numbers have not been as high as projected as residents of the developed world try to cope with the crumbling economies. Economic growth in Africa slowed to 5.1 percent in 2008, down from 6.0 percent in 2007 and it is expected to decelerate further in 2009 (UNECA, 2009). In Eastern Africa, economic growth slowed down from 6.3 percent in 2007 to 5.3 percent in 2008, mainly as impact of the global crisis.

It is believed that the global financial crisis will likely and substantially set back progress towards poverty reduction and the achievement of the Millennium Development Goals. It is predicted that Official Development Assistance (ODA) to Africa and the realization of standing commitments may have been put at risk in the near future. Even assistance for non-traditional donors, including remittances from African in the Diaspora may therefore likely become even more critical.

Remittances from migrant workers have increased considerably in recent years and now constitute the second largest external capital inflows to developing countries. It is estimated that migrants sent some $300 billion in 2008 back home to developing countries, a figure much larger than the total ODA flows for the same year. For several small economies, remittances account for more than 20 percent of GDP. Estimates suggest that remittances in Sub-Saharan Africa represent about 5 percent of GDP or 27 percent of export receipts (UNCTAD 2008).

The findings of this study reveals not only the resilient nature of remittances but also the increasingly prominent role its playing in boosting the foreign exchange earnings of their respective countries. Burundi, which has smallest economy amongst the East African Countries, has an external budget support of about 52% mainly from donor contributions. For the years 2008 and 2009, its total recorded remittances were about 4 million dollars, a figure that is significant given its resilient nature against other foreign exchange earnings.

Tanzania's case scenario is slightly different as official current transfers amounted to USD 811.8 million in 2008 compared with USD 443.9 million recorded in the year ending October 2009. But the recorded remittance inflows amounted to only $18 million. But this is a country that, on its own admission, has done little in understanding and collecting enough data on remittances from its Diaspora. This may mean a gross underestimation of the amount of remittances recorded by the Bank of Tanzania.

In Uganda the overall Balance of Payment position in 2008/09 experienced a downturn from a surplus of 4.8% of GDP to a negative of 0.3% (*source: MFPED: Background to the Budget 2009/10)*; this despite the fact that, under severe global economic and financial crisis, its exports actually increased (8.2%) as well as donor grants and loans over the previous year. The amount of remittances also fell from a high of $547 million in 2007/08 to $414 million in the period 2008/09 according to the Bank of Uganda. And yet remittances still exceeded all other sources of inflows in the current account. Uganda is the second largest recipient of remittances in East Africa behind Kenya.

In Kenya, the Central Bank indicates remittances into the country to be at $527, 142 million as at 2008 and $504,596 as at October 2009. This means that it is likely to surpass that of the previous year once figures for the last two months are due. However the World Bank estimates a slightly lower inflow compared to 2008 although their figures for both years are way beyond the $1 billion mark

Curiously, the Bank of Rwanda has higher figures for remittances ($ 139,89 million in 2008 and 137,89 as at October 2009) than those of the World Bank ($51 million in 2008 and $53 estimated for 2009) unlike the Kenyan scenario. Nonetheless both institutions predict increases in remittance flows into the country.

All the governments in the region, recognizing the critical role that remittances play to the economic development of their respective countries, have initiated strategies at tapping into this vital resource;

all at varying degrees of success and commitment. Rwanda has been the most proactive in engaging its Diaspora whereas Tanzania and Burundi needs to do a lot more. The East African Community is as yet to role out a programme to tap into the remittances from the Diaspora from the partner states.

Some of the recommendations of the study include:

- Data collection methods need to be tightened and innovative approaches adopted to help estimate the value of remittances sent through informal money transfer channels.
- More deeper studies/surveys need to be initiated and targeted at particular areas of concern that have been flagged by this study
- An enabling environment should be cultured by the government aimed at mobilizing more remittance but as important, directing the same into more sustainable applications particularly in investments
- The private sector should develop targeted products for the Diaspora aimed at meeting their needs and promoting investments

BACKGROUND:

Introduction:

At the beginning of the global financial crisis, most observers believed that the immediate impact of the crisis on African economies was likely to be small. This was largely due to the low degree of integration of these economies into international financial markets, which they believed may provide some kind of cushion for the continent. This view is no longer valid as the impact of the crisis has affected heavily the continent. It is believed that the global financial crisis will likely substantially setback progress towards poverty reduction and the achievement of the Millennium Development Goals.

Macroeconomic effects of the crisis, in particular through trade and capital flows, have had negative impact on African economies. Economic growth in Africa slowed to 5.1 percent in 2008, down from 6.0 percent in 2007 and it is expected to decelerate further in 2009 (UNECA, 2009). In Eastern Africa, economic growth slowed down from 6.3 percent in 2007 to 5.3 percent in 2008, mainly as impact of the global crisis. On the financial level, the global financial crisis has resulted into financial difficulties that put a strain on industrial economies, key to Africa's development assistance. It is predicted that Official Development Assistance (ODA) to Africa and the realization of standing commitments may have been put at risk in the near future. Even assistance for non-traditional donors, including remittances from African in the Diaspora may therefore likely become even more critical.

After several years of strong growth, remittance flows to developing countries began to slow down in the third quarter of 2008. This slowdown is expected to deepen further in 2009 in response to the global financial crisis, although the exact magnitude of the growth moderation (or outright decline in some cases) is hard to predict given the uncertainties about global growth, commodity prices, and exchange rates. In nominal dollar terms, officially recorded remittance flows to developing countries are estimated to reach $283 billion in 2008, up 6.7 percent from $265 billion in 2007; but in real terms, remittances are expected to fall from 2 percent of GDP in 2007 to 1.8 percent in 2008. This decline, however, is smaller than that of private or official capital flows, implying that remittances are expected to remain more resilient relative to many other categories of resource flows to developing countries. In 2009, remittances are expected to fall by 0.9 percent (or at the worst case, no more than 6 percent). (*Migration and Development ,2008)*

Importance of remittances for developing countries

Remittances from migrant workers have increased considerably in recent years and now constitute the second largest external capital inflows to developing countries. It is estimated that migrants sent some 300 billion in 2008 back home to developing countries, a figure much larger than the total ODA flows for the same year. Remittances have been an important source of valuable hard currency that is used to finance current account deficits and debt payment, but also a means for supporting consumption demands of poor households. For several small economies, remittances account for more than 20 percent of GDP. In the face of the severe global financial crisis, however, these flows are expected to fall in coming years.

Estimates suggest that remittances in Sub-Saharan Africa represent about 5 percent of GDP or 27 percent of export receipts (UNCTAD 2008). However, in some individual countries, remittances make up more than a third of GDP. Additionally, remittances are more stable resources inflow than either ODA or FDI. They have no associated conditionality and they reach their beneficiaries directly thereby reducing poverty, notably by allowing recipient households to pay for their school fees or health services, which boosts aggregate demand and production.

Recent data shows that, for the first time in almost a decade, the flow of global remittances to developing countries has significantly slowed in the face of the financial crisis and ensuing economic downturn (Yuefen Li, 2009). The impact on the recipient countries will be felt more acutely in 2009.

The importance of remittances varies considerably across the African continent. Remittances have steadily increased in past years. African Diasporas send back home some $15 billion per annum, amounting to the equivalent amount of FDI. In Uganda, for example, remittances represent 40% of export earnings (op.cit. 2009). Eastern Africa as a whole has also benefited from significant Diaspora remittances from overseas. As a flow it appears to be less volatile. However, it is bound to be seriously affected if there is a drastic worsening in the labour market of the migrants' recipient countries.

New data indicate global remittances will fall to $317 billion in 2009, down from a higher-than-originally-predicted $338 billion in 2008. The expected 6.1 percent drop is smaller than the World Bank's July prediction of 7.3 percent. Even so, remittances will likely stay more resilient than other forms of income and become even more important as a source of development financing in many developing countries. Remittances flows to **Sub-Saharan Africa** did better than forecasted, with flows to Nigeria, Kenya and Uganda showing higher growth or smaller declines than expected. (*World bank 2009)*

THE CURRENT GLOBAL ECONOMIC AND FINANCIAL CRISIS

GENERAL OVERVIEW:

- What began as a collapse of the US sub-prime mortgage market quickly spread through the financial system, eroding the value of the capital, undermining the creditworthiness of major financial institutions and triggering the massive de-leverage. Efforts to restore capital adequacy and uncertainness about the underlying value of the assets held in the form of sub-prime backed securities resulted in capital hoarding, causing liquidity to dry up, and ultimately compromising the ability of the borrower to finance transactions in both the real and financial sectors. This in return reduced demand and employment, undermining consumer and business confidence and triggering a further contraction in demand (World Bank 2009). The effects rapidly spread to all the other global financial markets and economies and very soon the pandemic was complete mostly affecting Europe, Asia in addition to the USA.

It was expected that these financial crisis was only going to affect only the economies with interlinked financial markets and economies but it has now been realized that even economies that were seeming as far away as Africa have borne the brunt of these effects. The effects have spread through other channels For example over reliance on exports of commodity whose prices have declined sharply along the global demand; Foreign direct Investment have fallen because of scarce financing; some donors, in response to their own domestic fiscal pressures, may find themselves under pressure to scale back concessional assistance on which LIC rely for balance of payments and budget support(et, al 2009).

Several reasons have been advanced as to why the global crisis happened in such as scale to the extent that non had been experienced for over 80 years. UNCTAD the international community for not policing the global economy and given it credible global rules of operations, especially in regard to financial relations and macroeconomic polices. (UNCTAD 2009) . In truth a lot of blame has been placed on the extraordinary accumulation of resources that funded excessive consumption in the world's richest economies; expansionary monetary policies promoting low interest rates (that lead to housing market bubble that eventually burst) and allowance of financial innovation in the form of security mortgages, expanded leverage and poorly regulated derivative instruments (IDS 2008)

IMPACT TO AFRICAN ECONOMIES:

Though not having registered initial shocks of the meltdown on the financial markets, al the African economies have been affected by the global meltdown to various degrees in different sectors. The oil producing countries have been affected by the relative low prices and demand for fuel to the developed countries whereas others have faced falling commodity demand and prices of their agricultural and mineral products. Other effects of the crisis include:

- Export growth for commodities has slowed down. Global Industrial production declined by 20% in the fourth quarter of 2008 as high income and developing country activity plunged by 23 and 15 respectively (World Bank 2009). Furthermore, in many countries, commodities generated a large share of the government revenue. There are indications from the Central Banks that commodity based revenues have already started to decline in many of the developing countries Export growth rate will decline by 7% while import growth rate will decline by 4.7% resulting in deterioration of the commercial balance (ADB 2009).
- However, the growing role and weight of large scale financial investors on commodities futures market (through hedging on prices) have affected commodity prices ad their volatility.

Speculative bubbles have emerged for some commodities during the boom and have burst after the sub-prime shock (UNCTAD 2009)

- Foreign Direct Investment has dropped. Net private activity in developing countries between August and November 2008 was about 40% lower than the same period in 2007 reflecting the impact of the Global economic crisis on the availability of financing (et.al 2009). The drying up of liquidity in international financial markets has hit the private sector as well as governments. For example attempts to raise long-term finance through issuance of sovereign bond issue has failed (South Africa) been cancelled (Ghana) or delayed (Kenya Nigeria, Tanzania, and Uganda) causing delays in implementation of planned public infrastructure programmes (Committee of African Finance Ministers and Central Bank Governors 2009)

- Exchange rates negatively impacting the economy with sudden withdrawal of foreign capital. Companies and governments with foreign currency denominated debts may contract and even collapse as a result. Sovereign debt issuance by high income countries is set to increase crowding out developing countries issuers (private and public) (IDS 2008).

- Interest rates have been negatively impacting the developing countries: As foreign investors withdraw, risk premiums and interest rates have risen for developing countries on global capital markets.

- Remittances: Decline in remittances from workers in recession affected rich countries. The situation is particularly problematic for those countries for which remittance inflows are large relative to GDP. For a number of countries, decline in remittances have been compounded by unfavourable exchange rates movement.
- Foreign Aid: Many countries expect that aid from rich countries will decline as governments reassess their fiscal priorities during the downturn. Private foundations are already scaling down their budget allocations.
- Low foreign Reserves: It is expected that the foreign exchange reserves would learn too low and compromise the ability of the developing countries to make imports even for basic commodities

The sum impact of all effects is a slow down in the economic development of the African countries. The table below shows how the economies of the East African Countries is expected to perform in the coming period

Table 1: Real GDP Growth (%): data before and after the crisis:

	Real GDP Growth				GDP change
	Before Crisis		After Crisis		After Crisis
	2008(e)	2009(p)	2008 (e)	2009(p)	2008-09
Burundi	5.8	5.6	3.2	2.9	-0.3
Kenya	4.0	6.5	2.6	5.0	2.4
Rwanda	4.0	5.6	8.5	6.6	-1.9
Tanzania	6.5	6.7	6.8	6.1	-0.7
Uganda	6.2	6.3	7.0	5.6	-1.3

Source: AEO 2009 PROJECTIONS; World Economic Outlook database. October 2008 and FAO)

Africa will move from a budgetary surplus of 1.8% of GDP IN 2008 to budgetary deficit of -5% in 2009 (ADB 2009). The current account surplus will move from 2.9% of GDP in 2008 to -4% of GDP in 2009 and Africa Growth rate will slow to 3.2 % in 2009 down from 5.75% in 2008.

This slow down in economic growth is bound to impact negatively on the ability of the countries in the sub-Saharan Africa curb the spread of poverty in their respective countries. World Bank estimates that of the 116 developing countries, 94 have experienced deceleration of growth of which

43 experience high levels of poverty. It further states that as many as 46 million people may drop to absolute poverty by 2009(World Bank 2009)

AFRICA RESPONSE TO THE CRISIS:

Most of the Africa countries have initiated several policies some of them counter cyclical and requiring even further financial commitments from the developed countries as ironical as it may sound. The larger argument for this is that Africa must be seen as benefiting/ or part of the global response to the economic downturn. The challenge facing developing countries is how, with fewer resources, to pursue policies that can protect or expand critical expenditures, including on social safety nets, human development and critical infrastructure. The following are some of the measures that have been undertaken:

1. Special monitoring units have been established to provide data and possible responses to the crisis. This is particularly important as the length and severity of the crisis as yet to be determined
2. Providing fiscal stimulus packages similar to the ones initiated in the developed countries to spur economic growth especially in the rural areas. This would also create employment in the respective countries
3. Revising budget expenditures so the key sectors can be addressed especially those that will cushion against extreme poverty but also those that would spur economic growth.
4. strengthening the regulation of the banking sector and financial markets (In Tanzania, profit repatriation has been regulated to minimize contagion, as ban subsidiaries cannot automatically transfer funds to compensate for losses in their parent bank)
5. Expansionary monetary policies to stimulate the money market by cutting interest rates thus encouraging consumption and encouraging borrowing.
6. Foreign exchange controls to protect the exchange rates.

Faced with the growing uncertainty on the effects of the global economic and financial crisis especially in the critical areas of donor financing and Foreign direct investments, and accompanied by falling export commodity prices, the East Africa countries are increasing looking up at the prospects of greater dependence on remittance. This is particularly so because of its proven ability to hold out to the crisis and the reliability of its disbursement.

However, even with remittances, there are several issues that would need to be understood so that proper planning and policies can be undertaken in order to further develop the resource. This study seek to send some light, on the impact of the global economic and financial crisis to remittances from the Diaspora in East Africa

METHODOLOGY:

SCOPE:

The study objective was primarily to establish the possible impact of the global economic and financial crisis to remittances in East Africa. Secondary focus of the study was on amounts sent, how it was sent and application of funds received. The study was expected to also explore any initiatives being undertaken by the various governments and the East African community to further mobilise remittances. Consequently the study team researched on the broad issue of remittances in all of the countries of the East African region and researched on all areas related to remittances as defined above.

APPROACH:

Considering the limited time allocation, the study undertook to apply two research methods:

- Secondary data review through desk research. This involved a review of all the documents related to remittances, globally, Sub-Saharan Africa and each of the countries of the East African Region. Publications and statements of national budgets/accounts were scrutinized and analysis done to determine the level and use of remittances.

Internet searches were conducted to explore sites that had information on remittances from the Diaspora and notes made on relevant information. The information thus received formed the basis for the preparation of the next phase of data collection

- Primary data collection from Key informants in the field. The consultant visited relevant institutions both in the governments and private organisation to obtain information on their engagement with the Diaspora and particularly on remittances. Key institutions visited in almost all the countries included the central banks, Ministries of Foreign Affairs, Ministries of finance and economic Planning, and those of labour. Other non-governmental institutions visited included IOM, Housing Co operations, stock exchange markets, commercial banks and Investment Authorities. Various departments within the East African Community were also visited at the secretariat in Arusha
- Data obtained was compiled and analysed and a draft report was to be presented to a committee of experts for feedback before developing the final report

ASSUMPTIONS AND LIMITATIONS:

Several assumptions were made during the conduct of the study including:

- ★ That the respective governments would view the study as of great benefit to their economies and thus be responsive to the demands of the study.
- ★ The key informants would be available and be willing to share data related to the study
- ★ That the limited time allocated will sufficiently cover all the parameters of the study
- ★ That UNECA will facilitate access to documents and arrange meetings with the Key informants

The limitations to the study were identified as:

- Given the time limitation the sampling methodology was not scientific but only targeted at key informants
- Time allocated did not allow for interviews with remittance recipients and the senders. This meant that information related to household expenditures supported by remittances could only be obtained from secondary sources.

HELPING FORCES AND CHALLENGES:

The following were the helping forces that supported the ease of conducting the study:

- Facilitation by the UNECA office especially the letter of introduction
- The goodwill accorded to the consultant by some of the institutions of the governments and private institutions.
- The availability of vital documents provided by the UNECA office

The challenges faced by the consultant during the study but overcame included:

- The bureaucracy in getting authority to access information or grant interviews was unnecessarily high in some countries
- The time allocated to the study in each country was very limiting
- The fact that the study was done in around the festive period meant some key informants had not resumed their stations from the holidays

BURUNDI:

MACROECONOMIC PERSPECTIVE:

Operating with an annual budget of about 826,141,240,165 FBUs for 2009(Cabinet Du President Dec 08), Burundi's economy is lower than that of the other four partner states of the East African community. Yet it is not the least in terms of registering annual economic growth. It registered an economic growth of 4.3 % (*Bank du Burundi, 2009)* in 2008 as compared to Kenya which recorded 1.7% over the same period (*Kenya National Bureau of Statistics, 2009)* as can be seen below:

Table 2: GDP Economic growth

	2004	2005	2006	2007	2008
BURUNDI	**4.8**	**0.9**	**5.2**	**3.2**	**4.3**
KENYA	**5.1**	**5.8**	**6.4**	**7.0**	**1.7**

Source: Bank du

Burundi and Kenya National bureau of Statistics

The country's economy is mainly driven by agricultural production which has grown from 200million in 2004 to 533 million Burundian francs in 2008 and constituting about 33% of total GDP of the country (*Ministry of Planning and Reconstruction 2009*)

The budget estimates for 2009 as presented and approved by parliament projected an expenditure of fbu 826,141,240,165 against an expected income of fbu 710,179, 057 073, thus anticipating a deficit of 115,962,183,092 to be financed by Central bank borrowing in the domestic market through issuance of bonds.

Furthermore, 52 % of the Burundian budget in 2009 is financed by external resources mainly commitments by bilateral and multilateral agencies according to statistics obtained from the Bank du Burundi

Burundi has poor infrastructure characterized by poor road networks and lagging behind in ITC. The country is also land locked and relies heavily on both the Mombassa and Dar-es-salaam ports in Kenya and Tanzania respectfully for exporting and importing of goods

However the country has immense potential for growth especially in agriculture and minerals. It also has lakes from which it can develop its fishery industry.

Politically, the country has experienced challenging period going back to 1991 but has now made great strides towards stabilisation with integration processes taking place and formal systems of governance being established.

With the opening of the East African Community through the ratification of the various protocols (recent one being the common customs union effective January 2010), it is expected that Burundi will experience renewed and sustained growth because, as has been seen in other regional blocks, the smaller economies tend to experience relative greater rate of economic growth than the other countries as a result of economic integration.

Burundi is experiencing a deteriorating Balance of Payment situation.

The current account indicates that a downward trend from about negative 33 million USD in 2004 to negative 173.23 million USD in 2008. The foreign exchange reserves have also gone down as well over the period.

With the above background, it is clear that the Burundian Government should be very keen on developing sustainable strategies for the mobilisation of remittances from the Burundian community in the Diaspora.

IMPACT OF THE GLOBAL ECONOMIC AND FINANCIAL CRISIS:

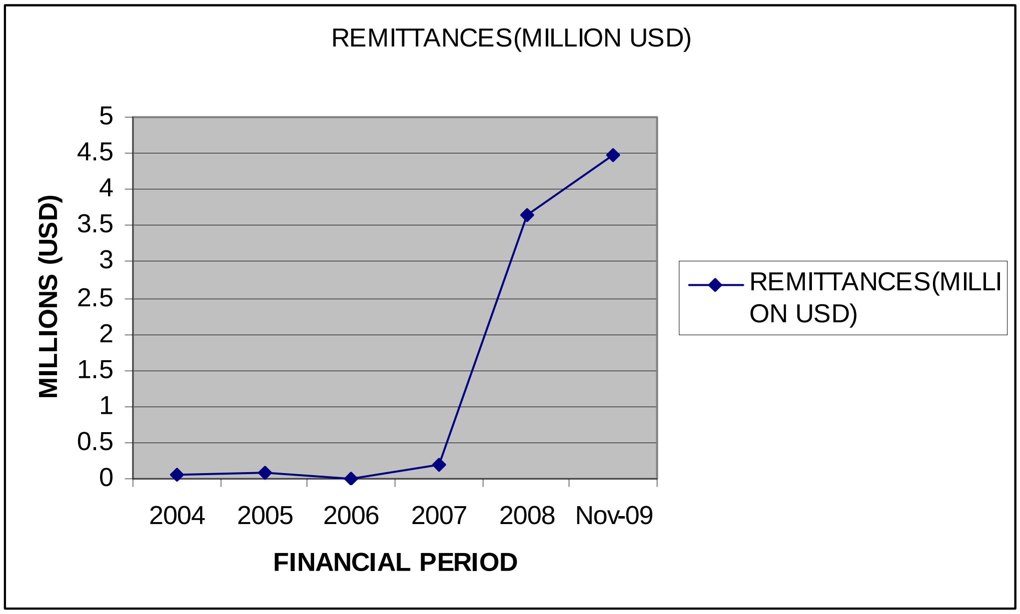
In the absence of a financial market in the country, Burundi experienced minimal impact of the primary effects of global financial and economic crises. The country has also not experienced any withdrawal or delay of donor funding commitments so far and this means that its social and economic programmes have not as yet been affected. The Bank du Burundi is however monitoring the rate of disbursement by the donor community to see if there might be any undue delays.

REMITTANCES:

AMOUNTS:

According to the latest statistics from Bank du Burundi, the country has been experiencing a steady rise on remittances from the Diaspora. The figures shows that the country registered remittance inflows of only $41,000 in 2004 but had increased dramatically to about %4.5 million by November 2009 The graph below illustrates this situation:

Figure 1: Graph showing remittance flow in Burundi



Source: Bank of Burundi

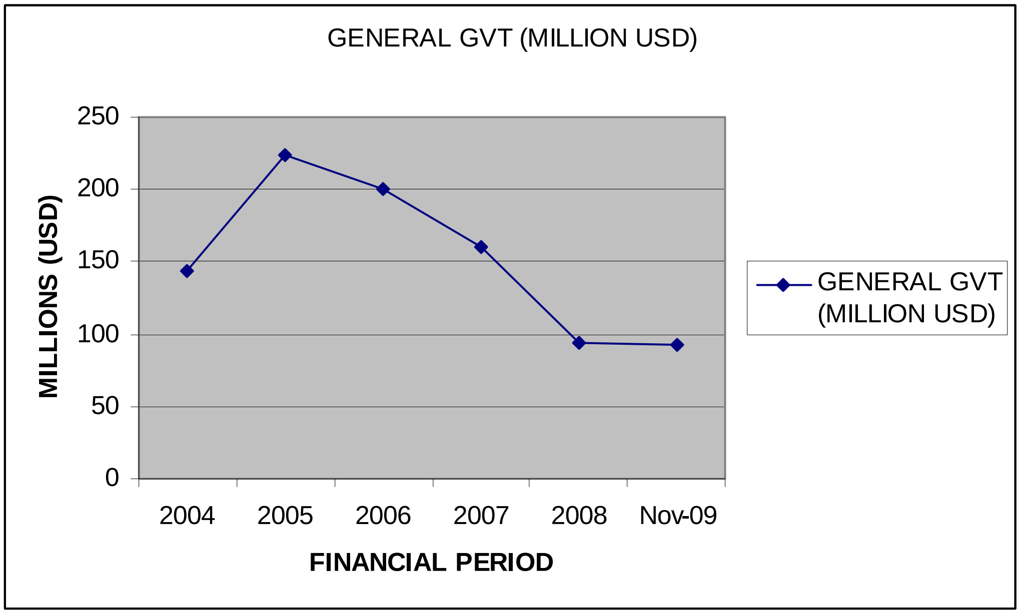
As can be seen from the graph below, there has been a steady growth in the level of remittances over the period under review apart from a dip in 2006.

The reasons given for the dip from $0.07156 million in 2005 to $0.01147 million in 2006 was probably because of the elections that were being held in 2005. Like the Foreign Direct investors, the people in the Diaspora held back in 2006 to watch and see how well the government settled after the elections. It can bee seen that once the confidence of stability of the nation was restored, they resumed remittances and infact over the last two years, the amounts have increased considerably underlining the existing potential.

SIGNIFICANCE

Indeed as can been seen from this graph, the remittances have not been affected by the primary effects of the Global Economic and Financial crisis. It may seem that in the coming period, the remittances may play an even bigger role in the country's balance of payment situation if the above figures are viewed against other foreign exchange earnings. The so called general government credit for the same period has been decreasing as can be seen by the graph below:

Figure 2: Burundi General Government Inflows over five years



Source: Bank of Burundi

The above situation send a clear indication of the crucial role that remittances could play in economic development and especially stabilising the foreign exchange reserves and improving the position of the balance of payment. The above figures clearly indicate that as of 2008, remittances in Burundi were contributing about 5% of the total foreign exchange inflows into the country. That in itself is significant considering that the country is heavily reliant on Official Development Assistance (ODA) for its budget support.

UTILIZATION:

There are virtually no statistics to show how the remittances transferred into the country is used because there does not exist any instruments that can track the utilization once the recipient has received the money from the money transfer agents.

However, after having held various discussions with institutions that could possible direct this resources into investment options, it was found out that the Diaspora from this country are keen in investing in the country and indeed have been seeking investment options. In the absence of financial market into where the Diaspora could buy capital stocks in companies and a limited money market, the construction industry was found to be viable options by people from the Diaspora.

It is difficult to determine how much of the money goes into construction out of the money that is received by individual beneficiaries in the country, however one bank has taken the initiative to reach out to the people in the Diaspora and motivate them into making investment in the property market. This is the Fin Bank (Access Bank has bought major shareholding into the bank).

An interview with Erick Irakoze, the Diaspora VIP Desk Officer (Fin bank has established a special desk to deal with financial issues for people in the Diaspora) reveals that they have special interest on these members of the Burundian community and are keen in facilitating their money transfer and investments.

The Bank has opened a special bank product in the form of a bank account where it requires no minimum balance and only requires an authorization letter from the person to allow a relative to access funds in the account. In that way the person can be able to send the money into the account and determine how much of the same the relative can access. According to Erick, the product has become so popular that they have teamed up with an international money transfer agent, CONSTA who charges little less than the others in the competition.

On investments, the bank has started a project where members of the community from the Diaspora can purchase plots from the bank which later loan them some money to develop the same in the next phase. The bank bought prime land next to Lake Tanganyika and subdivided into plots which they are offering to persons in the Diaspora. The project is so much of a success that 80% of the plots were taken up within four months by people from the Diaspora.

The company has also been sending delegations to known Diaspora locations in Europe to make presentations for people in the Diaspora and sell the country as stable and with investment opportunities. The recent such visit was in March 2009 where the commercial director, Mr. Willy Cimba made presentations in various cities in Europe

The company also markets its products to the Diaspora through its website and reaching out to them when they visit home over the Christmas period.

Unfortunately other institutions have not been as lucky because the biggest bank in Burundi, Commercial Bank of Bujumbura (BCB) had a similar initiative that was scuttled by lack of cooperation in the development of the needed infrastructure to support the project by the local authorities whereas the National Housing Company has not focused on people from the Diaspora.

From the foregoing, it may seem that a huge amount of the remittances from the Diaspora goes into household consumption specifically in education, health, food and clothing. This contributes greatly into the economic development of the country considering the significance of those sectors to which the money goes into as exemplified by the 2009 budget estimates figures shown in the table below:

TANZANIA:

MACRO-ECONOMIC PERSPECTIVE:

On average Tanzania has been experiencing an impressive and sustained economic growth reaching a high of 7.4 GDP growth in 2008 *(Bank of Tanzania 2009).* The progression is presented in the table bellow:

Table 3: Tanzania's GDP growth

YEAR	2005	2006	2007	2008	2009[1]
GDP GROWTH (at market price)	7.4	6.7	7.1	7.4	5-6

Source: Bank Of Tanzania

The economy is mainly driven, and has achieved good results, as a result of good performance in the services, agriculture and industry and construction sectors.

A comparative study of Tanzania's GDP rate of growth to the rest of the East African countries shows a stable and consistent economic growth:

[1] Projections by Bank of Tanzania as contained in the march 2009 economic quarter bulletin

Table 4: Tanzania's rate of growth compared with other East African countries

State	2004	2005	2006	2007	2008	Average
Burundi	4.8	0.9	5.2	3.2	4.3	3.68
Tanzania	7.8	7.4	6.7	7.1	7.4	7.2
Uganda, 2002=100	5.8	10.0	7.0	8.1	9.2	8.02
Kenya	4.9	5.7	6.1	7.0	1.7	5.08
Rwanda 2006=100	5.3	7.2	6.5	7.9	11.2	7.6

Source: EAC: Facts and figures 2009

However there are indications that due to the global economic and financial crisis, the economy is bound to slow down as projected in the year 2009. This means that some key sectors of the economy may be affected particularly the agriculture sector which is not only a major foreign exchange earner but also the single largest employer. The net effect is an increase in the levels of poverty by the most vulnerable members of the community.

GLOBAL ECONOMIC AND FINANCIAL IMPACT ON TANZANIA

During the year ending October 2009, the overall Balance of Payments recorded a surplus of USD 692.8 million up from a deficit of USD 191.1 million reported during the previous year. This performance is largely attributed to the narrowing of the current account deficit from USD 3,074.0 million in the year ending October 2008 to USD 2,000.4 million, following an increase in export of goods and services, surge in official current transfers and inflows of balance of payment support. (*Bank Of Tanzania 2009)*. This is a remarkable achievement given that the overall global capital flows to the developing countries decreased significantly from a net flow of 352.5 billion USD in 2007 to about 356.4 in 2008 (*world bank: 2010)* as a result of the global economic and financial crisis. This seems to suggest that there was minimal global economic and financial impact on the economy of the country using the Balance of Payment position as an indicator. Official current transfers amounted to USD 811.8 million compared with USD 443.9 million recorded in the year ending October 2008.

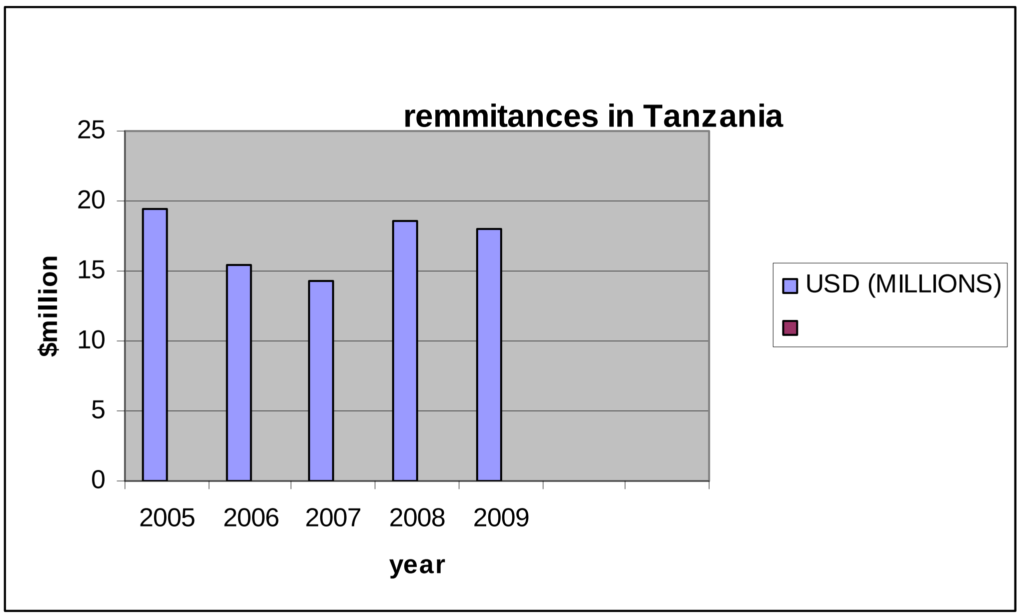
However the GDP is set to slow down from a high of 7.4 percent in 2008 and is estimated to fall to about 5-6 % while the average inflation accelerating to about 13.1 in quarter ending march 2009 as compared to 8.9 in the corresponding period in 2008 (source*: BOT, 2009),* all as a result of the global economic and financial crisis.

REMITTANCES:

AMOUNTS:

Tanzania has been registering modest amounts of remittances into the country compared to other East African countries particularly Kenya and Uganda The following graph illustrates the growth path of the remittances in the country.

Figure 3: Remittance flows in Tanzania for the past five years



[2]

These figures vary with those provided by the World Bank and in some instances like in the year 2006, the difference is as much as 100% though modest in some years. This underlines one of the biggest challenges expressed by respondents to the study on methodologies and definitions of remittances and Diaspora. The table bellow illustrates this difference:

Table 5 Tanzania's Remittance flows from two data sources

Remittances*(US$ million)*							
	2000	2001	2002	2003	2004	2005	2006*[3]

[2] *Source: Bank of Tanzania and World Bank Projections for 2009*

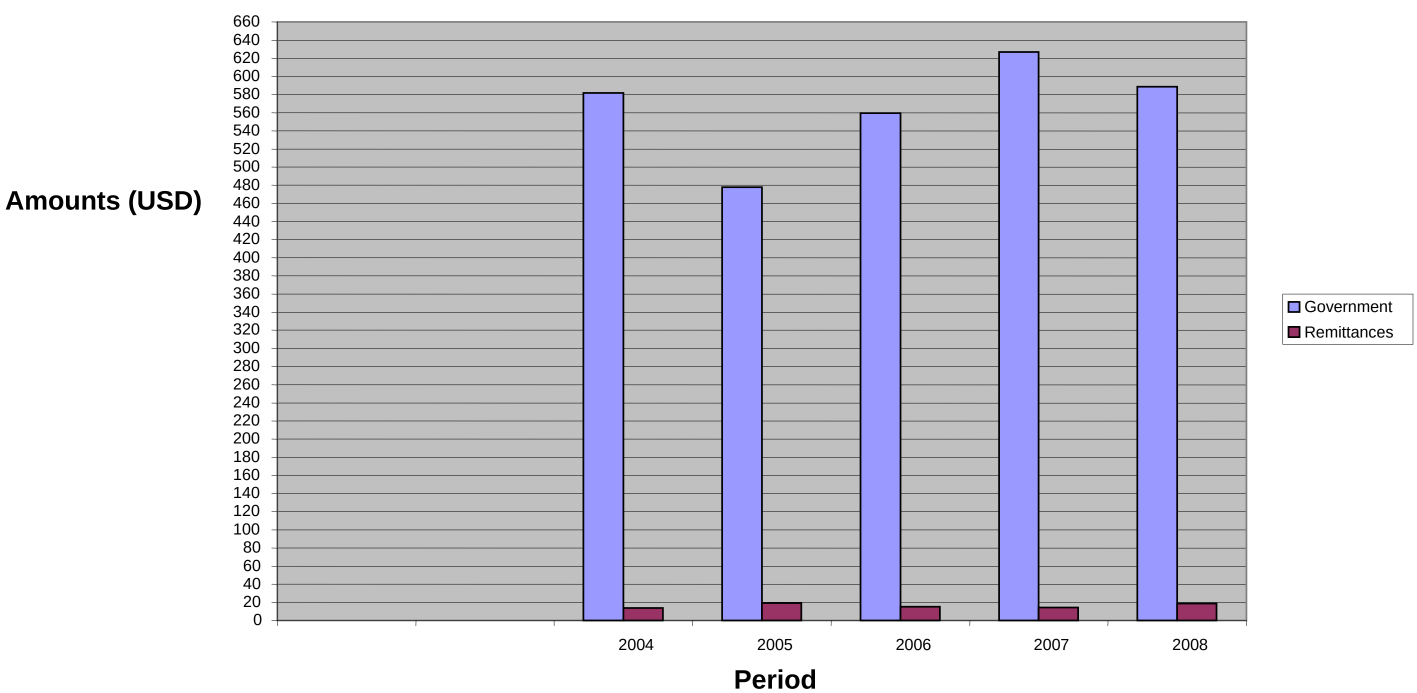
(Development prospects group)	8	15	12	9	11	16	16
Bank of Tanzania	16.49	15.25	12	13.25	13.8	19.4	15.4

Sources: Development Prospects Group/Bank of Tanzania.

SIGNIFICANCE:

As has been stated earlier, the significance of the role that remittances play at the macro level is difficult to ascertain due to the factors related to unavailability of reliable data. But the little information available from the Bank of Tanzania indicates that remittance plays a peripheral role in the BOP, contributing on average 2.96 % of the total credit transfers over the last five years starting year 2004 as can be seen in the figure below;

Figure 4: Comparison of total current transfer credit and remittances



[3] Representing 0.1% of GDP in 2006. This table reports officially recorded remittances. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be larger.

Source: Bank of Tanzania

However it is imperative to emphasis two observations from this study in relation to the authenticity of the data as captured by BOT:

- The mechanism for collection of data on remittances is not well defined even from the formal money transfer agents and
- Only data received from the formal money transfer agents is available whereas as would be seen below, over 60% of total money transfers is thought to have come through informal money agents for which it is currently impossible to determine amounts.

UTILIZATION:

Unavailability of secondary data notwithstanding, interviews with selected recipients and some former senders who have since returned home indicates that remittances play a crucial role in the economic development of the country especially in areas of health, education, clothing and support to food. This is a critical intervention towards reducing the ravages of poverty. It will also help the country in meeting its vision 2025 and the millennium development goals.

In the absence of any strategic intervention towards redirecting remittances towards investments, it is difficult to ascertain what percentage if any goes towards that sector. This is because any such commitment would be handled by friends and relatives who are not required to disclose the source of funds when making investment applications and neither are they required to state purpose of the funds as they receive. Needless to say, it is suspected that some money has been applied in the mining industry to prospect for minerals and others have been used in the construction industry. The size of the financial and money markets limits the participation of the people from the Diaspora to invest in the sector.

GOVERNMENT INTERVENTION:

Tanzania has not made significant research and effort on the whole issue of the remittances from the Diaspora and its effect on the economy. Even the balance of payment statement treats remittances (apart from outward flows) as other income[4]. Like other countries, the country expressed its frustration at its inability to collect information on amounts of remittances. The biggest challenge is to get the money transfer agent to separate the amount of remittances from the Diaspora and the fact that a lot more comes through what is now known to be informal channels. However the country has over the recent past started to take note of the possible economic contribution that remittances

[4] BOT: economic bulletin: 1st quarter 2009: Table 4.1

impact on the economy and has established a Diaspora desk at the Ministry of Foreign Affairs in order to mobilize finances and skills from Tanzania in the Diaspora. This has become the focal point from where all the stakeholders are strategizing on moves to help the people in the Diaspora participate in the economic development of the country. Already the Diaspora desk has held a high level stakeholders meeting involving the relevant departments in the government, the World Bank, Bank of Tanzania and International Office of Migration (IOM) plus leading commercial banks to lay out strategies on issues related to the People in the Diaspora. The issues and challenges of remittances took centre stage during the meeting because of the now recognized emerging role that people in the Diaspora can contribute to the economic development not only through remittances but skilled labour inputs for development.

Interviews with the Director of employment at the ministry of Labour, employment and youth development also gave an insight into the growing interest that the government is placing on issues of the Diaspora and their possible contribution to the creation of employment in the country through formulating a bill that would lead into the establishment of a policy that will help harness the potential of the Diaspora to facilitate in the economic development of the country. The new policy would replace the previous National Employment Promotion act of 1999 that has a casual mention of the importance of remittances to the national economy. In any case it was not fully implemented beyond the establishment of the National Employment Agency (NEA) and thus the formulation of the National Employment Policy of 2008. The later makes various references to Tanzanians in the Diaspora[5] (in policy statements stating that the government will collaborate with global counterparts to facilitate the placement of Tanzanians in jobs and return of experts in the Diaspora; Indigenous Tanzanians being enabled and capacitated into playing a more active role in promotion of investments in the country, and most importantly a section on the “facilitating and coordinating employment of Tanzanians abroad and the return of skilled Tanzanians to fill skills gaps”) But even these fail the critical test on the extent of support towards facilitating remittances on the basis of the three critical points of

- Facilitating reduced cost of money transfer
- Establishing a more reliable and speedy network
- Influencing increased ratios on remittances for investment rather than consumption.

The government recognizes the serious challenges regarding planning in the absence of enough information on amounts and use of remittances from the Diaspora. And it is for this reason that the

[5] National employment policy 2008: chaps 3.3; 3.10;3.20

National of Bureau of Statistics in conjunction with the Bank of Tanzania decided to include a set of questionnaires related to remittances in the next household survey (2010-2011) and the annual National Panel Survey for households.

There are also plans to debate in parliament the issues of dual citizenship that is often mentioned by the Diaspora as an impediment to participation in economic development.

OTHER STKEHOLDERS:

The study findings indicate very little in terms of other stakeholder interventions apart from a few:

IOM: The institution, established in 1951 (www.iom.int) has a broad mandate of issues related to migration. They anchor their interventions on four key pillars:

- Facilitating migration
- Regulating Migration
- Forced Migration
- Migration and development

The IOM office in Tanzania (since 2005), has undertaken a number of projects in the country including working with the Ministries of Foreign Affairs and Home affairs in brining the issues of the Diaspora to the fore and established a regional Immigration training centre in Moshi. Perhaps in recognizing the role that migrants can play in the economic development of the country particularly in regards to remittances the office under the Migration and Development pillar, has just concluded a study on cross border remittances between Uganda and Tanzania. The study[6] sort to understand and document the nature, value and management of remittances between the two countries. Special focus was placed on level of utilization of the postal services as a cost effective and reliable way of money transfer. Some of the relevant highlights of the study include:

- Some regulations limit the amount that a person can transfer per day with non-banking agents with Tanzania limiting the amount to 200 to Uganda's 10,000 USD. This increases the cost of transactions in instances where somebody wanted to send amounts above the set limits
- No legislation on the increasingly popular mobile (phone) money transfer between the two countries to allow for cross border operations
- Lack of a strong institutional arrangement to systematically collect and report on remittances data making it difficult to asses actual amounts

[6] IOM-UPU-PAPU PILOT PROJECT (supporting an affordable electronic remittance transfer system between Tanzania and Uganda)

- The level of uptake of postal services for money transfers is very low despite an investment on the International Financial Systems (IFS) that is supposed to offer greater reach (especially to disadvantaged rural communities) at a comparatively lower cost
- That amongst those using formal transfer facilities, Western Union, and Money gram to a lesser extent, continue to dominate the money transfer market. The study however indicates that upto 60% of those interviewed used informal remittances agents.
- That the main criteria for persons wishing to send money are:
  - Relative safety of funds
  - Cost Effectiveness and
  - Reliability

These findings are consistent with other sources that were reached during the conduct of this study. The IOM study appears to be the first ever study that attempts to make a comprehensive field research in Tanzania on remittances and would provide useful insight to anybody wishing to further understand the issues in Tanzania and Uganda

CRDB: This is one of the top two banks in Tanzania. In recognition of the potential of immense business potential of remittances from the Diaspora, CRDB opened a special account, the Tanzanite Account, in order to address the special banking needs of these customers. In an attempt to ease the cost of transfers and achieve safety, reliability and speed in sending money, the company got into an operational arrangement with a number of commercial banks in the UK and the US where most of the Tanzanians in the developed world are resident. However, after operating for a brief period, the agreements were repudiated in unclear circumstances and are no longer available. A random check on some branches of the bank in Dar-es-Salaam and Arusha by the consultant revealed that all of them had run out of brochures to explain the benefits of the Tanzanite account and opening procedures.

However the bank is still keen on monitoring the remittances from the Diaspora with a view to designing new products and has been participating in various meetings discussing the same.

UGANDA

MACRO ECONOMIC PERSPECTIVE

Uganda has experienced robust economic growth over the last five years as can be seen from the table below:

Table 6: Uganda's GDP Growth over the last five years

FINANCIAL YEAR	2004/05	2005/06	2006/07	2007/08	2008/09
%GDP growth	6.3	10.8	8.4	9.0	7.0

Source: Ministry of finance Planning and Economic Development: background to the budget (2009/10)

The best performing year was 2005/2006 when the figures reached the magical double figures. Over the last period, the greatest driver has been agriculture although the service industry which includes transport and communication and recorded a 20% growth during the 2008/2009 period and the financial services that also grew at 21%[7] has been performing quite well

Uganda's performance was better than in most of the other countries in the region and continues to show great improvements under a volatile global economic and financial crisis that is being attributed to the slower rate of growth in the last year of review. It is also worth noting that the country is currently experiencing an unusually (but justified) high excitement of economic success with the discovery of commercial oil deposits in parts of the country.

Total consumption expenditure has been increasing steadily over last 2-3 years according to figures obtained from the Bank Of Uganda (BOU). During the period of 2008/2009, the expenditure figures were 90.5% of GDP. This piece of statistic is crucial as it reflects the high and rising cost of living and given the fact that this study reveals that a lot of remittances amounts are used for consumption at household level.

[7] MFPED: Background Paper 09/10

In fact the Uganda Bureau of Statistics indicates that whereas for a long time, Uganda was able to keep its rate of inflation at around 5%, this was not possible in 2008/09 as it hit double figures (around 22%). The MFPED attributes the sharp increase to the demand for foodstuff produced in Uganda by neighboring countries thus pushing up the domestic prices of consumer items.

The country's main strategic sectors are listed as:

- Transporter infrastructure
- Energy Development
- Agricultural production and value addition
- Education
- Health

Again this is significant because of the significant amount of money that is said to go into education and health from remittances from the Diaspora.

The overall Balance of Payment position in 2008/09 experienced a downturn from a surplus of 4.8% of GDP to a negative of 0.3% (*MFPED: 2009)*; this despite the fact that, under severe global economic and financial crisis, its exports actually increased (8.2%) as well as donor grants and loans over the previous year but that did not compensate for the huge increase in imports.

IMPACT OF GLOBAL ECONOMIC AND FINANCIAL CRISIS ON UGANDA'S ECONOMY:

The economy of Uganda has experienced mixed reaction to the global economic crisis but on the balance of things it has done better than others in the world and has been able to withstand the initial primary effects. The findings of this study indicate that:

- Exports grew in the period 2008/09 whereas other countries posted negative effects
- Imports grew within the same period underlying the confidence that both the public and private sector places on the economy
- Although inflows on the current transfers experienced a negative change over the previous period (by negative 6.6) (mainly due to a drop in workers remittances), grant disbursements, budget support, project aid and HIPC assistance all experienced growth rates of between 25-30% over the previous period (*Bank Of Uganda, 2009)*
- In 2007, Uganda's debt stock was 1,610 but the figure rose to 2,249 million dollars. (*World Bank, 2007).* This was attributed to the impact of the global economic and financial crisis slowing down its ability to make disbursement commitments.

REMITTANCES:

AMOUNTS:

The importance that remittances continue to play in the economies of the developing countries can best be described by the following table:

Table 7: Net Capital Inflows to Developing Regions, 2005–08*(\$ billions)*				
	2005	**2006**	**2007**	**2008**
Net private and official inflows	**500**	**659**	**1,222**	**781**
o/w Workers remittances	*193.0*	*229.0*	*281.8*	*326.7*
by region:				
East Asia and Pacific	184	194	292	179
Europe and Central Asia	155	280	486	313
Latin America and the Caribbean	84	69	231	173
Middle East and North Africa	16	12	26	19
South Asia	28	61	134	63
Sub-Saharan Africa	**33**	**42**	**53**	**34**

Source: World Bank; global Dev Finance 2010

Whereas the net capital inflows dropped in 2008 to 781 billion USD from a high of 1,222 billion USD in 2007, the amount of workers remittances increased over the same period from about 282 to 326 billion. This indicates the resilient nature of the remittances against other traditional inflows. Whereas there was an immediate negative impact on the net capital inflows following the global financial crisis with the Lehman Brothers as first casualties, workers remittances continued to rise in the year 2008 and represented close to 50% of total flows.

In Uganda, the trend has been the same as in the rest of the countries. Uganda is considered by the World Bank as one of the top ten remittance recipients in the sub-Sahara African region only behind Kenya in the East African region.

Depending on the source of information, Uganda's remittances in 2008 has been quoted varyingly from five hundred to one billion USD.

The following table shows the trend of remittance into Uganda's economy over the last year

Table 8: Remittance Flows for Uganda over the last five years

PERIOD	2005	2006	2007	2008	2009(estimate)
AMOUNTS (Million USD)	322	411	452	489	514

Source: World Bank: remittances data Nov 09

As can be seen from above, the amount of remittances in Uganda has been increasing and is expected to usurp that of 2008 by a margin of 25 million USD. This is significant given the fact that this is the period in which the ripples of the global economic and financial crisis were expected to compromise the ability of the people in the Diaspora to send in money to the countries of origin. However it is difficult to say whether or not the remittances would indeed be affected as the Bank of Uganda has indicated a fall from $547 million in 2007/08 to $414 million in the period 2008/09.

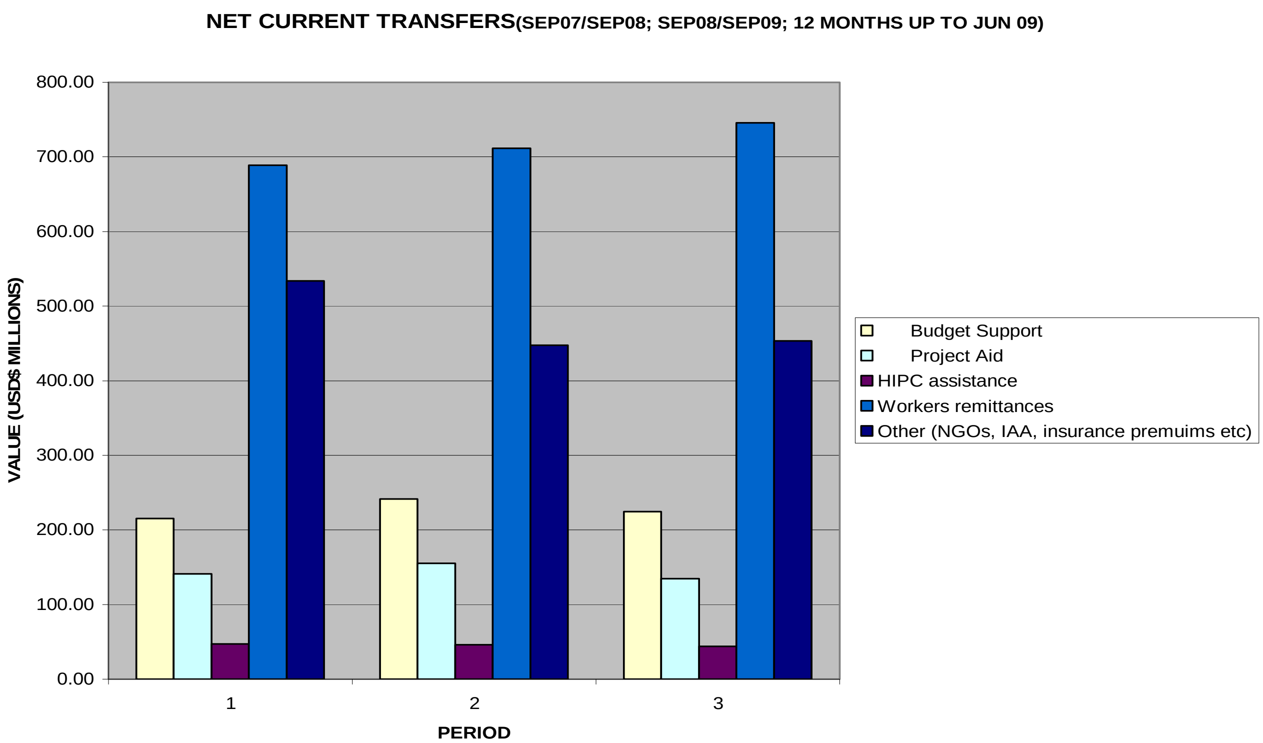
The discrepancy may be explained by the fact that there is a cross-period accounting where Bank of Uganda reports using financial periods that sits into two calendar years. Infact the MFPED reports a figure of 746 million USDs for the period ending Jun 2009.

In any case the discrepancies only go a long way towards vindicating the challenges faced by governments in obtaining accurate data on remittances.

SIGNIFICANCE:

The significance of the remittances to the Uganda economy can best be expressed by the table bellow:

Figure 4: Uganda's contributions to the net current transfers over 3 year Period



Source: MFPED.

In the period under review, the amount of remittances as expressed in the net current inflows of the BOP clearly shows that remittance far outstrips any other inflows and only a combination of "others" came close. This greatly helped the country to retain their strategic foreign reserves at the same level as before the global economic and financial crisis and which otherwise would have been used to meet rising imports.

The inflows have also been significant in ensuring that the country's debt obligations are honoured in time.

At the micro economic levels, discussions indicate that most of the money received as remittance has been used for support in education, health and consumption. This means that the amounts will mitigate against poverty, improve the health status of the recipients and increase employment opportunities through education. An undetermined amount of money is also been used for investments especially in construction of houses and thus contributing to the infrastructure development of the country.

Remittance is thus significant in the sense that the income obtained cuts across all the key sectors as identifies in the background to the budget (2009/10).

UTILIZATION:

As has been sated with other countries, it is difficult to determine what the money is used for as much as it is not easy to even state the exact amounts remitted into the country. It is then left to deduce and speculate what the money from the Diaspora is utilised for. In Uganda, the trend of remittances gives an indication on what the money can be used for. According to interviews with government officials in the various ministries and statistics received from the Bank of Uganda, there are pick periods within the year when money is received from the Diaspora. This coincides to periods of festivities and is usually around December and early January and during the school opening periods. This trend safely leads the study to believe that the amounts are used for consumption and for paying education. Needless to say, quite a good number of Ugandans living abroad make their annual pilgrimage to the country in December/January and one can only imagine the amount of money that they bring into the country without passing through the formal systems that the government has established to capture data on remittances

The other observation that the study made was in the amounts of money sent to the recipients; usually around 200 USD[8]. This means that it can only be enough for consumption purposes and the occasional hospital visit.

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[8] ***Remittance transfers, its marketplace and financial intermediation in Uganda: preliminary findings, lessons and recommendations***
Manuel Orozco
October 18, 2008
Report commissioned by the Inter American Development Bank in cooperation with the African Development Bank.

This lead to the conclusion that most of the money from the Diaspora is used for education, health, and consumption. The IOM household study on remittances conducted in 2009 and widely quoted elsewhere in this report vindicates this assumption but it is also safe to state that a good amount of the money is also used for house construction purposes and a little to help relatives set up small businesses.

This would be significant information especially for the World bank which is proposing to establish an African Diaspora Engagement and Facilitation Fund or Diaspora Remittances Investment Fund modelled along successful initiatives in Latin America where remittances are leveraged by the bank if utilised for investment purposes *(Geoffrey Irungu 2007)*

A study commissioned by the IOM Uganda *(review on remittances by Ugandans in the Diaspora)* indicates that a substantial amount of the remittances is used for consumption and only a little is used to invest in the construction industry.

GOVERNMENT INTERVENTION:

The government of Uganda is very keen on Diaspora issues and particularly as it relates to remittances. It is one of the few countries in East Africa to appreciate the immense contribution that remittances play on the development of the country and has thus established several initiatives. At the time of conducting this study, the Bank of Uganda was in the process of finalising a report on issues of remittances from the Diaspora. The bank was also about to launch a World Bank led remittance survey. The two studies combined with the one conducted by IOM that was also about to be released would surely go a long way in helping in the understanding of the various issues associated with remittances including amounts, costs, utilization, and medium of transfers. The IOM study is particularly unique given that it would be the first time that a cross border remittance study is being undertaken within East Africa given that according to information available to the ministry of Foreign Affairs, there are more Ugandans living in Tanzania than in any other part of the world.

The government has also been proactive in engaging the people in the Diaspora while visiting the country when they come for holidays or when abroad. Some of the initiatives that the government has undertaken include:

- Opening a Diaspora desk in the Ministries of foreign Affairs and Labour and Gender
- Organising conferences here in Uganda and Abroad for discussions on issues affecting them or hindering their participation in economic, social and political activities of the country
- Using the Uganda Investment Authority (UIA) to steer the promotion of investments by the Diaspora. This has been done through the Authority getting together potential service

providers and organising exhibitions where they can showcase what to offer to the Diaspora. One such conference was held in the country as the study was on going

- Critically looking at issues of policy including dual citizenship and tax haven for possible enactment into an act of parliament
- Encouraging, supporting and working with associations formed by persons in the Diaspora. Currently the government is working in close collaboration with the Uganda America Association. This associations are important as they hold crucial information necessary for planning including determining the number of persons abroad and mobilising resources

OTHER STAKEHOLDERS:

IOM: As has been discussed earlier, IOM has taken a keen interest on issues of remittances as evidenced by the various studies that they have undertaken. An interview with key staff revealed that they consider the issues of remittances as falling squarely within their mandate under Migration and Development component and are thus obligated to make meaningful interventions. The current concern of the institution is the cost of remittances. The recent study is trying to understand reasons why the remitters do not make use of cheaper forms of remitting money like the postal services that are supported by a comprehensive International Financial System (IFS).

UIA: Uganda Investment Authority is deserves special mention because of the critical strategy that it occupies in promoting investment for the people in the Diaspora as a more viable and sustainable way of using amounts set aside for remittances as opposed to mere consumption.

UIA has organized a number of investment promotion conferences in Uganda and abroad for the Diaspora; bringing together a diverse array of private sector players with products that they can package and market to the former. Other interventions that the Authority is involved in include:

- Exposing to the Diaspora the existing opportunities in the country
- Collecting data on their associations and locations
- Facilitate the identification of and transfer thereafter of required skills into the country
- Policy advocacy at national level
- Offering advisory services on identification and Implementation of investment opportunities
- Researching into factors affecting investments by the Diaspora
- Share concepts with the Diaspora and other stakeholders
- Assist in resource mobilisation for the Diaspora

- Confidence building amongst people in the Diaspora and showing them that Uganda is stable and cares

Other interested institutions include the World Bank, National Housing Construction Company and the Uganda Securities Exchange

KENYA:

MACRO ECONOMIC PERSPECTIVE:

Kenya is seen as having the greatest economy of the five East African countries accounting for about 50% of the region's Gross domestic Product.

However, over the recent past, the country's economic growth has slowed down due to a combination of events some of them external (the global economic and financial crisis) and some self induced (the post election violence of 2008). For that reason, the Global Economic Outlook of the IMF projects the economy to grow at a rate of 2.5-4 %; pretty much lower than those of some of the partner members in the East African community particularly Tanzania and Uganda.

Table 9: The Economic Growth rate of Kenya as compared to other economies in the sub-Saharan Region

Country	2007	2008	2009b	2010b
Botswana	4.4	2.9	-10.4	14.3
Ghana	6.1	7.2	4.5	4.7
Kenya	**7.0**	**2.0**	**3.0**	**4.0**
Nigeria	6.4	5.3	2.9	2.6
S. Africa	5.1	3.1	-0.3	1.9
Tanzania	7.1	7.5	5.0	5.7
Uganda	8.6	9.5	6.2	5.5
Africa	6.2	5.2	3.9	3.9

Source: World Bank Economic Prospects

The projections presented below show how Kenya has fared as a result of the global economic and financial in relation to others in the region. However, these projections are subject to an unusual degree of uncertainty given the methodology employed and data available.

With this in mind, five variables are considered below: GDP growth, inflation, the overall fiscal balance (excluding grants), the current account **balance** (excluding grants), and foreign exchange reserves. The table also seeks to show the changes before and after the global economic and financial crisis. Of course, not all the changes over this period should be attributed to global developments, but most can be. The picture that emerges is as follows:

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Table 10: Regional Economic Indicators: **Differences between the average of years 2004 to 2008 and the projections for 2009**:

COUNTRY	GDP	CPI	Overall fiscal balance excluding grants	Current account balance excluding grants	reserves
	(% change)			*(Percent of GDP)*	
KENYA	**-2-6**	**0.1**	**-3.4**	**-5.1**	**-0.2**
RWANDA	-2.5	0.6	-2.4	-4.8	-0.8
TANZANIA	-2.4	4.0	-2.6	-2.6	-1.5
UGANDA	-1.3	7.5	0.1	-2.0	-3.1
BURUNDI	-0.6	1.5	-4.2	7.5	1.2

Source: IMF, African Department database

A report by the Governor of Central Bank, on "Global economic Crisis: Future Preparedness" dated 30th July 2009 avers that:

Initial Phase of Economic Crisis

- Through weakening of local currencies, declining reserves and stock exchanges
- Depreciation as a result of
    - Declining commodity prices and general deterioration of terms of trade
    - Non-resident outflows from equity and bond markets ("Flight to safety"). In addition the US dollar perceived by investors as a safe haven. (The distorted US dollar relative price)
    - The market-determined or flexible exchange rate acted as an automatic stabilizer during this crisis in most African economies
- Weakening of Stock Exchanges as a result of
    - Outflow of non-residents' funds

- Unfavorable investor sentiments: concerns about global recession and negative impact on domestic economies

- Drawdown of foreign exchange reserves
    - The law defines 4 months of import cover
    - Kenya went to as low as 2.7 months of import cover

Generally the Global financial and economic crisis did not have a significant impact on financial institutions. This is supported by the following indicators of financial sector soundness:

- ✓ Capital adequacy: All the 45 banks meet the criteria for minimum core capital requirements (capital adequacy 18.1% June 09 vs required 12%).
- ✓ Adequate liquidity to meet the payment needs of the financial system. (Liquidity ratio average 42.4% vs required 20%).
- ✓ Appropriate balance between loans and deposits ratio (75%: Kshs712B against Kshs953B - June 2009).
- ✓ The interbank cash market continues to be liquid and stable, the rates are coming down consistent with monetary policy projections
- ✓ Lending to private sector increased by 19.2% during the year to June 2009
- ✓ The ratio of gross non-performing loans to gross loans at 9.4% in June 2009 has declined from a high of 10.60% in December 2007
- ✓ Return on capital was on average Kshs25 for Kshs 100 invested
- ✓ Return on shareholders' funds 25.3%

Overall the global financial and economic crisis has presented three challenges:

- ❖ Financial Sector Contraction – due to confidence–risk averseness
    - Less resources mobilised yet banks are awash with liquidity
    - But we can ring-fence domestic confidence and solve the resource constraints
- ❖ 2. Real Sector Economic Decline: Poses Significant Risks

- But also Slow Adjustment
- Production processes must be supported through public investment - Protect wage goods

❖ 3. Public Sector Resource Constraints:

- Buffeted by several shocks
- Flexibility of adjustment - ODA/BoP support has come via ESF

Kenya has a population estimated at nearly forty million people (the official results of the National Population Census of 2009 are yet to be released). While the country has a huge population of its citizenry living and working in Western Europe, North America and Asia, the reasons have generally been due to the urge for the individuals to pursue better income earning opportunities. It is estimated that 1.8 million Kenyan nationals live and work abroad.

The country main economic sector is agriculture but there are other emerging sectors especially in communication and ICT which is taunted to be the next economic growth frontier according to the director of research at the Central Bank of Kenya. (CBK)

Table 11: Real GDP growth for Kenya and projection of 2010

PERIOD	1997-2002	2003	2004	2005	2006	2007	2008	2009	2010
% GDP growth	1.9	2.8	4.6	5.9	6.4	7.1	1.7	2.5	4.0
Overall fiscal balance (including grants) % of GDP	-1.3 -	1.7	0.1	1.8	2.5	3.0	4.4	5.7	5.5
Overall fiscal balance (excluding grants) % of GDP	-2.2	-3.6	-1.3	-3.0	-3.6	-4.1	-5.7	-6.9	-7.0
Domestic Savings (% of GDP)	6.0	6.2	6.6	7.4	8.3	6.7	4.5	5.8	7.7
Total investment (% of GDP)	13.4	13.1	14.4	16.4	19.0	18.9	17.7	18.8	19.6
Export of Goods and Services (% of GDP)	22.3	23.7	26.9	28.4	25.9	26.1	27.8	22.8	22

Sources: IMF, African Department database, September 22, 2009; and World Economic Outlook (WEO) database, September 17, 2009.

REMITTANCES:

AMOUNTS:

As with the other countries under review, it is very difficult to ascertain the actual amounts that is sent by the people in the Diaspora because of lack of challenges of obtain data from the field. It is now generally agreed that remittances through official channels are much higher than through the official ones from which the government obtains its information. Perhaps in an attempt to mitigate against lack of this data, some institutions, particularly the World Bank and the IMF have made provisions and spiked up their data accordingly. For example according to the World Bank, Kenya received $1,692 million in 2008 and is set to register a lower figure of $1,572 million in 2009. However, the Central Bank recorded an inflow of $611, 24 million in 2008 and had recorded $504,59 million by October 2009 as can be seen from the table below.

The remittances by Kenyans in the Diaspora are both through formal and informal channels. According to Central Bank of Kenya's Research Department report released in October 2009, inflow of remittances every month are based on information collected from all commercial banks in Kenya and other permitted international remittances service providers.

The average remittances for each year have been oscillating around USD 50 million. During the first ten months of 2009 cumulative remittances inflows were 4.3 percent lower than the cumulative remittances flows received during the same period in 2008.

Table 12: Monthly Remittance Flows for the past six years In Kenya

Year	2004	2005	2006	2007	2008	2009
January	25,154	28,564	31,506	40,930	53,925	39,535
February	27,676	26,056	30,283	39,533	50,382	53,353
March	29,944	31,219	36,354	48,562	59,344	55,361
April	27,773	29,216	35,369	38,251	67,872	48,117
May	26,931	32,358	42,427	41,163	48,538	49,180
June	30,047	34,360	35,667	48,643	49,490	46,347
July	33,187	29,133	41,065	53,350	44,137	50,372
August	28,894	31,759	30,587	58,803	43,388	55,947
September	28,894	31,616	28,841	60,575	48,953	53,347
October	25,223	33,037	29,633	46,848	61,113	53037
November	25,473	34,282	31,403	55,564	43,970	
December	29,130	40,557	34,459	41,421	40,129	
Annual Total	**338,326**	**382,153**	**407,593**	**573,643**	**611,241**	**504596**
Aver Cum by October	**283723**	**307318**	**341731**	**476659**	**527142**	**504596**

Source: CBK

This comes as newly available data from the World Bank showed that officially recorded remittance flows to Sub-Saharan countries had remained resilient or declined marginally even as the rest of the developing world recorded massive reductions.

Based on monthly and quarterly data released by central banks and in line with the World Bank's global economic outlook, the institution estimates that remittance flows to developing countries will fall to $317 billion in 2009.

Still, the World Bank notes that remittances to Sub-Saharan Africa are weathering economic adversities in the face of worsening unemployment outlooks and as harsher immigration policies take root in developed countries than in other countries in the developing world.

“Flows to Sub-Saharan Africa are doing better than forecasted, with Nigeria, Kenya and Uganda showing higher growth or smaller declines than expected,” said Dilip Ratha, an economist with the World Bank in the bank’s latest migration and development brief. (*World bank, 2010)*

In Kenya, remittance flows in September 2009 declined 4.6 per cent from $ 55.9 million in August, 2009 to $ 53.3 million.

The Central Bank of Kenya (CBK) survey shows a general upward trend in remittance flows between June and August 2009, and a decline in September, 2009.

According to researchers at the CBK, the decline is reflected in inward remittances from the rest of the world which decreased from $ 17.2 million in August, 2009 to $10.2 million in September, 2009.

In contrast, flows from North America and Europe increased from $ 25.4 million and $13.4 million in August 2009 to $28.3 million and $14.9 million respectively.

UTILISATION:

In April 2008, Kenya launched the Diaspora Bond to help it direct the increasing amount of remittances to development projects and act as a source of cheaper credit to the Government. Concern abounded that a significant amount of remittances sent by the Diaspora was used for direct consumption without getting into long term investment and savings, diminishing the money’s impact on the development of the country.

Remittances inflows were higher in 2008 mainly as the Diaspora responded to cushion their relatives against adverse effects of the multiple shocks including the aftermath of the post election violence and drought. In addition, the surge also reflected increased equities investments by the Diaspora who took advantage of the Safaricom IPO and the Cooperative Bank IPO showing as peaks inflows in April and October 2008 respectively. This implies that, remittance inflows were mainly used for consumption and only a little for investment.

As in other countries, consumption at household level using remittances included education, food, clothing and health. But as can be seen from the participation of the people in the Diaspora in the

IPO's investment options have expanded to include the financial and capital market as it is fairly well developed in Kenya compared to other areas.

SIGNIFICANCE:

Remittances to Kenya are a key source of foreign exchange for East Africa's biggest economy. Total remittances in 2008 were $611.2 million, making the receipts the third largest source of hard currency after horticultural and tea exports. It has now been established that the remittances are less a less volatile source of foreign exchange than all the others including grants and FDI. This makes it very significant to economic planners especially to cushion the government against depleting its strategic foreign exchange reserves which at one time had fallen to only a provision of 2.5 months (*Central bank of Kenya 2009).*

Although the country seems to have done considerably better in managing it's inflation as can be seen from the table above compared to other countries, it is inevitable that this was going to be a major concern for the government in view of the after effects of the global economic crisis where the dollar, after the initial fall has risen sharply to push the prices of imports (fuel included) to new heights. This means that remittances are going to be even more significant in cushioning the households against the effects of inflation as most of it is used to purchase foodstuffs.

The government of Kenya places great importance to education as can be seen in the various budget presentations. Infact, education accounts on average to about 40% of the national budget. Universal Education is about the only Millennium Development Goal (MDG) that Kenya is close to achieving. Remittances into the country play a significant role in the promotion of education and thus assist the government in meeting its objectives

Health and the provision of quality health services continue to be a major concern for the government and the fact that a substantial amount of the remittances goes into this sector goes a long way in helping the government meet its objectives. This is especially important given the ravages of HIV and AIDS on the economically active members of the community.

GOVERNMENT INTERVENTIONS:

The Kenyan government seems conscious of the huge potential and significance that remittances from the Diaspora play for the economic development of the country. This is evidenced by the various initiatives that it has undertaken to attract even greater remittances from the Diaspora and also redirect the same to sustainable utilisation. As early as 2006/07, a government delegation led by the then Minister for finance held several conferences in Europe and the Untied Kingdom with persons in the Diaspora engaging them on issues of remittances *(Maureen Kimani 07).* The objectives of the meeting was to mobilise Kenyans in the Diaspora to invest back at home, show the various investment opportunities available in the country, understand the challenges faced by Kenyans when they want to invest back at home and share strategies on increased investment commitments. The outcome of a series of so many other such meetings in Kenya and abroad has been:

- Establishment of a department in the ministry of foreign affairs to deal with lobbying for international jobs for Kenyans and other Diaspora issues
- Investment Promotion Authority opening a Diaspora Investment Advice Desk
- Launch of the Diaspora Bond *(*Steve Mbogo, 2008) to help direct the increasing amount of remittances to development projects and act as a source of cheaper credit to the Government.
- Designing enabling environment through policies to make the transfer of remittances more cost effective and the adoption of dual citizenship
- Integration of members of Diaspora communities in the labour market
- Promote regularization of legal status , credentialing, training, language acquisition to build capacity of Diaspora community
- Develop national programmes providing investment guarantees to the Diaspora

Other Stakeholders:

The private sector in Kenya takes keen interest in the affairs of the Diaspora and especially as it relates to investment. Service providers have been accompanying government officials on the conferences stated above and making marketing presentations of their products. They come from those sectors of the economy where there are opportunities for Diaspora investments. They have been able to package Diaspora targeted products that seem to attract their attention because of the benefits it seeks to offer. The Nairobi Stock Exchange has been showing how vibrant the stock market is and how one can get solid returns from their investment; the National Housing Cooperation has been making presentations on the construction industry; Equity Bank has been offering banking solutions through facilitating opening of accounts and depositing of money in collaboration with financial institutions in the host countries. Even the Uchumi supermarkets have made available a system where people in the Diaspora can purchase vouchers and send them to their relatives instead of sending cash that could be diverted to other uses.

The World Bank has been very keen on issues of remittances in Kenya as it considers this as a vital link to accelerated economic development offering a new dimension in the distribution of income. To this end, the Bank has initiated a number of studies in trying to obtain enough data that would allow them develop investment programmes tailored around the success of similar ones being implemented in Latin America. For example, they commissioned a study in 2007 entitled "International Migration, Remittances and the Brain Drain, co-edited by Caglar Ozden and Maurice Schiff" that confirmed that remittances reduced the number of people under absolute poverty in Kenya. The intended objective is to leverage incomes from the Diaspora for the purposes of investment.

RWANDA:

MACRO ECONOMIC PERSECTIVE:

Rwanda is a country with an estimated population of about 10 Million people. The country is one of the fastest growing economies in Africa. And yet it has one of the smallest economies amongst the other EAC partner states. The figures shown in the comparative table below gives this indication for the year 2006/07.

Table 13: Rwanda GDP Growth (2007) as compared to those of the other East African Countries

	RWANDA	KENYA	TANZANIA	UGANDA	BURUNDI
GDP($BILLION)	2.2	18.78	13.1	8.7	0.8
Real GDP growth	6.5	6.1	6.2	6.2	5.1
Official Remittances $millions)	103,03	573,	014,	547	000,2
As a % of GDP	0.05	0.03	0.001	0.06	0.00025

Source: Regional Economic Outlook-sub-Saharan Africa, IMF (2007); EAC Data base; author's calculation

The table above shows clearly that in that year alone, GDP growth was at 6.5% representing the fastest economic growth over the rest of the country.

This trend has continued to grow over the consequent periods and the country now enjoys stable economic performance largely due to prudent economic and fiscal management programmes.

The country is reliant on agriculture[9] for its economic performance with tourism and the service sector (communication and ICT) rapidly increasing the pace of development.

[9] value add contribution of 915 million USD IN 2005 as reported by the finance ministry to the East African Community

As a result of the events of the Rwandan Genocide and its accompanying historical perspective, there are many Rwandans living in the Diaspora, compared to the total population of the country. But while it is true that historical facts have contributed to the huge number of Rwandans in Diaspora, it is important to note that a significant number of those Rwandans are also out there pursuing education and business

REMITTANCES:

AMOUNTS:

The Rwandan remittance amounts are not devoid of the disparities that affect other countries in East Africa related to definitions, methodologies, and data collection. The table below shows the amounts of remittances as recorded by two credible sources

Remittances in Rwanda

Table 14: Rwanda Remittance flows for the past five years

	2005	**2006**	**2007**	**2008**	**2009**
National Bank of Rwanda ($million)	42,85	63,87	103,03	139,89	137,97[10]
World Bank($million)	21,	21,	51,	51,	53,

Source: Bank of Rwanda and the World bank

Despite the differences its pretty clear that remittances are on the increase in Rwanda and projections clearly show that the global economic and financial crisis will have no negative effect on the amounts of remittances into the country. This is clear testimony of the resilient nature of remittances and can be relied upon more than any other current inflows in any developing country.

UTILISATION:

Most of the money sent by the Diaspora is used for consumption. This includes food, education, clothing and health. As the money is sent directly to the beneficiaries, it is not possible to determine how much exactly goes into each activity in the consumption bundle. But aware that there is a construction boom in Rwanda, it is also safe to conclude that a significant amount of the remittances

[10] Note that the 09 figures are for the first ten months. December is usually a high remittance period. Note also that the bank of Rwanda has made estimates for informal transfers for the five years whose basis is not clear. The million dollar campaign which raised nearly $ 2 million has not as yet been included in this figure

is also going into housing either for owner occupation or for commercial purposes. The Small and Medium enterprise (SME) sector is also experiencing an upwards swing and it’s likely that is also receiving its fair share of the remittances. But without any existing statistics, it is impossible to state how much of that goes into which sector.

The government has also taken initiatives to harness the potential of the remittances and has set up community based initiatives to be supported by the Diaspora as would be explained elsewhere.

SIGNIFICANCE:

The Government of Rwanda development roadmap, Vision 2020, identifies six ‘pillars’ on growth expectations namely: the reconstruction of the nation; an efficient State that unites and mobilizes the people; human resource development; the development of basic infrastructure; the development of entrepreneurship and the private sector; and the modernization of agriculture and animal husbandry. As can be seen from this, uniting and mobilising the people is central to achieving their vision. These people include those in the Diaspora who are sending remittances to drive the vision.

The economic planners in Rwanda have quickly realized how important remittances can be important to the economic development of the country. Remittances are viewed as key foreign exchange earner in the country especially because of its stable nature as evidenced in the resilient reaction arising from the global economic and financial crisis.

At the macro level, the study reveals that in 2007 and 2008 the country budget expenditure on health to its GDP was 1% and about 6% on education. Considering that it is assumed that a significant amount of the remittances goes into this sector, this then would be a demonstration of what an important contribution that this money can make to lives of the people to whom the money is sent.

GOVERNMENT INTERVENTION:

The efforts to tap into the potential contributions of Rwandans in Diaspora started in the year 2001, slightly earlier than most of her counterparts in East Africa. This is evidenced by the holding of the Rwandan Diaspora Global Convention in Kigali, Rwanda, on 26th to 3rd December 2001. The Rwanda Diaspora Global Network (RDGN) has grown since then to become a formal and structured body that closely works with the Government of Rwanda to participate in various national development engagements.

The RDGN has the following objectives:

a) Promote solidarity and better communication among Rwandans living in the Diaspora;

b) Establish a strong worldwide, broad-based, well organized network, so as to achieve better results in rebuilding Rwanda,
c) Maintain and promote the Rwandan culture and values associated with it throughout the network;
d) Promote friendship and cooperation in the fields of culture, science, technology and scientific research, unity and reconciliation and socio-economic cooperation among members of the Rwandan Diaspora, between the said members and communities/countries where they live, and between them/their countries of residence and their motherland Rwanda.
e) Provide a forum to the Rwandan Diaspora members, the Republic of Rwanda, as well as various other interested parties-national and international, for the exchange of views and experiences, the promotion of cooperation and coordination of efforts on Diaspora-related issues.
f) Work closely with the Government of the Republic of Rwanda, the Rwandan public and private sectors, international organizations-governmental and non-governmental bodies, in order, inter alia, to facilitate the coordination of the RDGN and the running of its socio-economic projects.

As a show of its commitment to work with the government, Members of the Rwandan Diaspora have announced plans to help in the construction of 504 houses in Bugesera district as a contribution to a government campaign to eliminate grass-thatched houses in the country (*New Times December 2009)*

From the foregoing, it is evident that the Government of Rwanda recognizes the important role Rwandan citizens in the Diaspora can play in the development of their motherland. The Diaspora can play a critical role in the economic development of the country through investing in the country, encouraging others to invest in Rwanda, tourism promotion and simply by projecting a positive image of the country. The role of the Diaspora in national unity and reconciliation cannot be over-emphasized.

The Government reaffirmed its commitment to support and facilitate the efforts and initiatives of the Rwandan Diaspora by scaling the desk in charge of Rwanda Diaspora into a full-fledged administratively and financially semi-autonomous special unit, in charge of the Rwandan Diaspora through its Cabinet Decision of the 28 February 2007. The unit is hosted by the Ministry of Foreign Affairs and is headed by a Director General.

OTHER INITIATIVES:

Rwandan Diaspora Mutual Fund: RDMF is an investment opportunity for Rwandans in the Diaspora and to invest in a mutual fund backed by Bank of Kigali and National Bank of Rwanda. The fund is to open for investment and was to officially launch in September of 2009. This is a pool of funds to be created by Rwandans abroad to empower and mobilize themselves to invest in their home country through remittances as a way of contributing to national development. The fund also has support from the Capital Markets Advisory Council which is ready to provide all the necessary support required during the establishment and investment of the fund. After its establishment, the Mutual Fund will be invested in Treasury Bonds, guaranteed by BNR and at a later stage the interest gained from the bonds will be invested in higher risk products such as corporate bonds and stocks though it is also expected that the fund will be invested abroad in the long run, to earn more interest which will then be repatriated back to Rwanda.

As a goodwill measure, Banque de Kigali has allowed zero money transfer costs on remittance transfers as an incentive towards the creation of the Fund.The Bank of Kigali, has loans, small business benefits, and other banking opportunities like transferring money in a Bank of Kigali Diaspora account and the ability to use debit/credit card with visa logos in Rwanda

Diaspora Banking Service The Diaspora Banking Service at the Commercial Bank of Rwanda is designed for Rwandans living abroad and offers banking solutions as a unique facility to give sustainable support for the client's desired financial activities in and outside Rwanda. The Diaspora Banking Service offers services that range from opening of accounts via Internet, profitably saving of money, supporting family to planning for any future investment in Rwanda.

. Diaspora Mortgage facility Owning a home has never been this easy for Rwandese living abroad. Commercial Bank of Rwanda (BCR) offers a Diaspora Mortgage facility to help members of the Diaspora to build, own or renovate a home[11]

THE EAST AFRICAN COMMUNITY:

***MACRO ECONOMIC PERSPECTIVE*:**

[11] Source: Rwanda Development Group

The East African community is the regional intergovernmental organisation of the Republics of Burundi, Kenya, Rwanda, Uganda and the United Republic of Tanzania.

Those five countries have agreed to the adopt of a progressive integration process involving the implementation of a series of protocols that would eventually lead to full political integration. The progress of the integration treaty is right on schedule with the signing of, and implementation of the Customs Union from January and the opening of the Common Market in July 1st 2010. The main bodies of the East African Community are:

- Summit of the Head of State and or government
- Council of Ministers
- Co-ordination committees
- Sectoral Committees
- East African Court Of Justice
- East African Legislative Assembly
- The secretariat

Other Autonomous Institutions under the East African Community include the East African Development Bank, Lake Victoria Fisheries organisation, Inter-Universities Council for East Africa, East African Civil Aviation and the East African School of Librarianship. Other Community institution include Lake Victoria Basin Commission, East African Science and Technology Commission, East African Health Research Commission, East African Kiswahili Commission, and the East African Community Civil Aviation Safety Security and Oversight Agency (*East African Community website)*

According to the official publications available at the East African Community and interviews with key informants at the secretariat, the five countries jointly own the following statistics:

1. Cover an area of 1.85 million square kilometres
2. Has a population of around 130 million people
3. Combined Gross domestic Product of 72 billion USD

The EAC presents a formidable regional economic block with a lot of potential for investments. The EAC has a long history that dates back to the 1950’s and has gone through a lot of phases of formation and disintegration. The current initiative was started in earnest by the heads of States of Kenya, United Republic of Tanzania and Uganda in 1999. It has since grown to include Rwanda and Burundi.

The country is set to adopt a common currency by the year 2012 and already the protocol preparations are at an advanced stage. Thereafter, the EAC will form a political Confederation.

THE EAC AND REMITTANCES FROM THE DIASPORA:

The EAC considers the Diaspora as critical in the economic, social and political integration of the region. The view of the EAC is that there exists an abundance of skills and capital amongst the East African Diaspora that is as yet unexploited. This potential could play a huge role as a driver of the economies of the five countries if encouraged to grow. Infact, the secretariat is intending to commission its own study on remittances in the near future in order to offer the East African dimension. This is because of the interest that has been generated globally on issues of remittances as a viable and more stable source of external resource that can be used for development

Interviews held with key personnel at the secretariat revealed that there are issues of special focus at the secretariat in regard to the Diaspora:

1. **SECURITY**: The EAC recognises that people will only invest their resources in areas where they feel confident that security is assured. Indeed many of the people in the Diaspora are usually hesitant to make investment back at home because of the perceived fear of losing their investments for lack of protection. That is why the security of the region is a central issue at the EAC. This has been highlighted by the speech made by the honourable chairperson of the Council of Ministers when presenting the 2009/10 budget proposals to the legislative assembly of the East African community (article 54 and 55 of the speech).
2. **DIASPORA POLICY**: The EAC consider it critical that there be a policy document to deal with issues related to the Diaspora at the regional level. Such a policy would also consider issues that would require joint interventions and action by the partner states. It should not be lost by an observer that some citizens of a particular partner state are actually living in another partner state. As has been stated earlier, most of Uganda's population in the Diaspora is actually living in Tanzania. The policy would also incorporate and harmonise laws to standardise foreign exchange flows from one country to the other.
3. **JOINT MARKETING STRATEGY:** As with other strategies to attract Foreign Direct Investments (FDI), the EAC is looking into conducting joint marketing strategies specifically targeted at the people in the Diaspora. Apart from being cost effective, it has now been agreed that selling an East African Regional block is more attractive than at partner level.

The other advantage is to remove any pessimism for stability that certain members of the Diaspora may have on their country of origin as they now have an expanded choice.

4. **PEACE AND STABILITY:** The EAC realizes that peace and stability for all of the countries is critical for the development of the region. The EAC also recognises that all the partner states are enjoined for mutual benefit to make sure that the region is politically stable and peaceful. From the Diaspora perspective this is crucial because according to the EAC that's the only way that they can feel confident to invest in the region and again that would also prevent the influx of refugees in neighbouring countries. If regional peace and stability is assured, then it is possible that the region can attract more than the nearly two billion USD[12] worth of remittances and even more critically, redirect more of it to investments rather than direct consumption.

[12] The World Bank remittances report published in Nov 2009 estimates the figure to reach $ 2,157 million in 2009

5. **DUAL CITIZENSHIP:** Whereas there will be free movement and ownership of the factors of production thus ensuring that persons in the Diaspora can be employed or invest in any part of the East African Region, the EAC considers it critical that the issues of Dual citizenship should be addressed jointly to avoid undue discrimination to some citizens of the partners states over others over investing in all of the region.

Overall the EAC is very much committed to issues of remittances as a viable source of investment to steer the development of the region. The Private Sector Development Strategy (PSD) of the EAC produced in June 2006 and set to be reviewed in 2010 states clear objectives that fit well with the need to mobilise remittances and redirect a substantial amount of it to investments and targeted development. Some of the highlights include:

- Increase space of private sector in development of the region
- Focus on removing regional level constraints and tap economies of a larger regional market
- Promote a strategy that is people centred and private sector driven

EAC hoped to achieve these objectives by adopting the following strategies:

1. Removing impediments to investment and trade in the region
2. Promoting investment in people, skills and ideas
3. Improving the efficiency with which resources are deployed in the region.

All this sits in well with the plans that the partner states, and indeed other development partners like the World Bank, are putting in place in relation to mobilising and directing remittances from the Diaspora. In the end, the initial challenge lies with the collection of data and harmonisation of standards for the whole region in order to allow for coordinated planning and implementation of Diaspora Strategy for the East African Region

CONCLUSIONS AND RECOMMENDATIONS:

CONCLUSIONS

This study has held extensive interviews and poured into informative documents to shed light on what may me be the impact of the global economic and financial crisis to remittances from the East African Diaspora. It has attempted to establish the trend over the past five years on amounts sent into the countries of origin. How the money is used once it arrives in East Africa has been the focus of the study although very little light was shed in that direction other than for the fact that a lot of it is used for consumption. The study has been very keen in investigating how the respective governments view remittances as a contributory factor to its economic development and whether that appreciation is translated into strategies aimed at mobilising more remittances and re-directing it into more sustainable applications.

The findings of the study reveal that remittances into the five East African countries could very easily have reached the 2 billion mark in 2009; depending on the source of the data (Central banks or the World Bank).

The findings also reveals the resilient nature of remittances in the face of the global economic crisis where only Kenya and Uganda reportedly experienced slight drops to the remittances while others like Rwanda and Burundi reported growth in amounts. The World Bank report that in 2008 $2,255 million were remitted into the five countries and that figure is expected to drop to a mere $2,161 in 2009, a difference of only $94 million or about -4.2%. The global economic and financial crisis was not the only one factor to influence the numbers that were reported by the respective countries. For example, Kenya had pick remittances in 2008 immediately after the post election violence with relatives in the Diaspora sending money to help their relatives who were affected and required urgent support. A few of them also sent in money to participate in the IPO issue of Safaricom and Cooperative bank companies whereas in Rwanda, the one Dollar campaign alone raised over $2 million (about 50% of what Burundians sent in the whole of 2008).

The findings also revealed that figures could change depending on what estimates were factored into the known figures collected from formal channels of money transfers. This is a situation that is not unique to the East African region because Nigeria at one time adjusted their figures upward by a massive $500,000, with the World Bank suspicious that other non remittance capital inflows may have been included.

The issues of data collection or methods thereof turns out to be the single most critical issue that needs to be tackled. All the five countries admitted to experiencing challenges to determining the amounts of money that flows into the country as remittances. In some countries like Uganda, attempts have been made to encourage the Diaspora to use formal money transfer channels but even then the data thus obtained is not very accurate. For example, the consultant exchanged foreign currency at three instances and in all transactions, incorrect sources of money were recorded. It is a huge challenge given that the informal channels are viewed to score highly on all the three criteria considered important when choosing a money transfer channel i.e. cost effectiveness, safe and fast and reliable.

The findings also confirm that a lot of the remittances are used for consumption purposes and little goes to investments. The percentages may differ from one country to the other. This conclusion was based on a look at the amounts of money sent and the pick periods for remittances within the year. However the findings reveal that some governments have taken initiatives to try and redirect the remittances to investments and community development. Rwanda is particularly well ahead on this matter with the establishment of the Mutual Fund. To this extent, the study reveals that the World Bank is keen on establishing a programme that leverages remittances sent for investment purposes. They have run a similar programme in Latin America that they consider to have been successful and can be replicated here in Africa.

The findings have established that in all the countries of East Africa, remittances were the single most outstanding current inflow item in their balance of payment. Its significance a source of resilient and stable foreign exchange earner can not be underestimated. The findings also reveal that there is potential for increasing the amount of remittances given the right incentives especially for investments.

Some of the concerns of the Diaspora include:

- Assurances on Political stability
- Assurances on security for their investments
- Dual citizenship
- Cost of remittances
- Viable investment options

The findings reveal that with the opening of the East African Common Market, the people in the Diaspora would have an option to expand their investment options and that partner states can be able to make joint investment conferences to people in the Diaspora.

RECOMMENDATIONS

As informed by these findings and conclusion thereof this study makes the following recommendations:

- ☑ Data collection methods on amounts and purposes should be strengthened. No planning on remittances would work if the data available is incomplete. It would be difficult to develop strategies for mobilising and directing the resource if there are such huge grey areas on what is being remitted and what it is used for. The current calculating remittances as residue of other current account inflows as applied by most of the countries does not give the right data as it leaves a huge amount coming through informal channels. It is a huge challenge but one which must be confronted.
- ☑ To this extent there should be more extensive studies that are target specific to understand deeply those grey areas on remittances. UNECA should undertake a household survey and interview beneficiaries and senders of remittances to understand what the money is actually used for and how much of it goes into other uses other than consumption
- ☑ Governments should provide the enabling environment to promote the mobilisation of increased resources from the Diaspora.

  Such policies should give assurances to the Diaspora that their investments would be protected and most importantly it is valued as a driver of economic development.

  The governments should explore areas of possible tax incentives (maybe tax holidays). Such incentives have been known to be given to FDIs and there should be no reason for them not to be considered for the Diaspora who are after all brining in much more than the latter. Other policy issues relates to dual citizenship for their Diaspora should be addressed urgently. It should be pointed out that if not enacted, those people in the Diaspora might be denied the chance to participate and make advantage of the emerging opportunities in the region

- ☑ Governments should continuously engage the Diaspora in an attempt to build confidence and give them assurance that the government considers them pretty much a part of their nations. This will give them the confidence that they are dealing with a government that value their contribution to nation building. To this extent, and has already been done by a number of countries, elevated offices should be established, preferably in the ministries of Foreign Affairs to coordinate the affairs of the Diaspora
- ☑ The private sector should be encouraged to research into the investment needs of the Diaspora and develop products that would meet their expectations. It should be remembered that Investments are driven by the private sectors and thus they should take the initiative to interest the Diaspora with their products. Investor conferences, even the ones that are being organised by the East African Community should have special area/products to cater for the Diaspora. The findings of this study clearly show that the Diaspora has keen interest in SMEs, housing and the stock market as investment options. Companies in these sectors should position themselves and develop products to meet the demands of this clientele.
- ☑ A specific study on money transfer should be initiated to understand the reasons senders prefer one form of remittances to another. The IOM has made a similar study but it is limited to transfers between Uganda and Tanzania though this would be a good starting point towards covering a bigger area especially remittances coming from America and Europe that form the bulk of amounts into the region. The study should cover critical areas of cost, efficiency, reach, confidentiality, reliability and speed amongst others.

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