United Nations
Economic Commission for Africa

MACROECONOMIC AND SOCIAL DEVELOPMENTS IN EASTERN AFRICA 2020

Benchmarking Performance Towards National, Regional and International Goals

ideas for a prosperous Africa

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LIST OF ACRONYMS

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AU	African Union
AUC	African Union Commission
BRI	Belt and Road Initiative
CDF	Congolese Franc
D.R	Congo Democratic Republic of the Congo
EAC	East African Community
EAMU	East African Community Monetary Union
ECA	United Nations Economic Commission for Africa
ETB	Ethiopian Birr
EU	European Union
EVI	Economic Vulnerability Index
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GBV	Gender-based violence
GDI	Gender Development Index
GDP	Gross Domestic Product
GoK	Government of Kenya
GSMA	Global System for Mobile Communications
GTAP	Global Trade Analysis Project
HDI	Human Development Index
ICT	Information and Communication Technology
IDA	International Development Association
IDP	Internationally Displaced People

ILO	International Labour Organization
IMF	International Monetary Fund
KES	Kenyan Shilling
KMF	Comorian Franc
KNBS	Kenya National Bureau of Statistics
LDC	Least Developed Country
MDGs	Millennium Development Goals
NGOs	Non-Governmental Organizations
NISR	National Institute of Statistics of Rwanda
NTBs	Non-Tariff Barriers
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
RWF	Rwandan Franc
SDGs	Sustainable Development Goals
SSP	South Sudanese Pound
TVET	Technical and Vocational Education and Training
UBOS	Uganda Bureau of Statistics
UGX	Ugandan Shilling
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
USA	United States of America
USD	United States Dollar
VAWG	Violence Against Women and Girls
WHO	World Health Organization

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EXECUTIVE SUMMARY

Regional economic growth was 6.1 percent in 2019, and is expected to accelerate to 6.4 percent in 2020.

As the fastest growing region on the African continent, Eastern Africa had an average annual GDP growth rate of 6.6 percent between 2014 and 2018, more than double the continental average. With a 6.1 percent growth rate in 2019, following 6.6 percent in 2018, the high growth rate is set to continue. Improvements in agricultural production and sustained infrastructure investment have maintained growth and will continue to do so; meanwhile, resolution of the political conflict between Eritrea and Ethiopia promises to provide a boost to growth in the Horn of Africa.

Life expectancy has increased in the region by 6.7 years over the past decade.

Socially, too, there have been important gains for the region. Life expectancy – a broad indicator of welfare and living standards – has increased in the region by 6.7 years over the past decade, with some countries registering historically unprecedented gains; for example, Kenya and Rwanda both registered increases in excess of eight years. Although most Eastern African countries are in the low human development category, they continue to make notable progress on the dimensions of education and life expectancy. As a result of this progress, the average annual regional Human Development Index (HDI) grew by 0.86 percent between 2010 and 2017; this growth rate was significantly higher than the global average of 0.6 percent for the same period.

A major regional consensus was achieved at the African Union (AU) Summit held in Kigali in March 2018, with thirteen of the fourteen countries of Eastern Africa signing up to the establishment of an African Continental Free Trade Area (AfCFTA). Following the launch of the operational phrase of the AfCFTA in July 2019, the agreement could boost intra-African trade and accelerate the pace of structural transformation in the region.

Prospects for regional growth have been bolstered by the resolution of the long-standing political conflict between Eritrea and Ethiopia, a remarkable development that promises to provide a substantial boost to growth in the Horn of Africa.

This last point is especially important, because studies have been consistently highlighting the slow pace of structural change in Eastern Africa. Job creation has been much slower than the rate of economic expansion over the past decade, raising the spectre of jobless and exclusionary growth. The present report estimates that Eastern Africa will have to sustain GDP growth of at least 6 percent simply to create enough jobs for the 8.5 million entrants each year into the labour market. Moreover, this report stresses the fact that the so-called 'demographic dividend' – the potential boost to economic growth as dependency ratios fall and a large share of the population moves in the workforce – is far from guaranteed under current demographic trends. The rapid population growth could in fact become a barrier to growth, if the appropriate policies are not in place, especially in terms of sufficient investments in education and health.

Facilitated by strong economic growth, countries in the region have been able to increase their national budget expenditures in recent years. However, a key question is whether those larger budget allocations are sufficiently aligned with countries' developmental priorities. This report carries a preliminary analysis of this question, using the examples of Kenya, Uganda and Rwanda.

The conclusions are informative: all three countries give a priority to investment in infrastructure, necessary to sustain the high rates of economic growth. Education also receives significant attention, but allocations to health tend to lag. This is unfortunate, particularly as the SDG Centre's Index and Dashboard Report (2019) finds that, in terms of meeting the Sustainable Development Goals (SDGs) of Agenda 2030, the steepest challenges for Eastern Africa are SDG 3, 9 and 16 (i.e. good health and wellbeing; industry, innovation and infra-structure; peace, justice and strong institutions) with all countries, except Seychelles, scoring red.

Accentuated by climate change, Eastern Africa still suffers from sharp fluctuations in agricultural production, which still accounts for around one-third of regional GDP.

The report also flags up several additional risks to regional growth and development:

- The first is structural. Large Balance of Payments deficits have been driven by a weak export trade performance combined with a rapacious demand for imports. This continues to constrain growth in the region. In this report, we econometrically estimate that – for a typical Eastern African country– a 10 percent increase in the current account deficit results in a reduction in the GDP per capita growth of between 0.9 to 1.4 percent. If the region is to attain a more sustainable pattern of growth, it will need to improve its trade performance.

Econometric analysis shows that intra-EAC trade would almost double if it were to reach its maximum potential.

- The second risk is also structural in nature. Accentuated by climate change, Eastern Africa still suffers from sharp fluctuations in agricultural production, which still accounts for around one-third of regional GDP. This vulnerability is the result of both an increase in the intensity of weather-related shocks, as well as a long-term lack of investment in the sector. In 2016, for instance, severe weather conditions (both drought and flooding) negatively impacted economic growth in several countries in the region (e.g. Ethiopia, Kenya, Uganda, Rwanda and Somalia).

- Thirdly, ongoing conflicts in parts of the region continue to inhibit growth and development, with a very clear human cost. The number of internally displaced peoples (IDPs) in the sub-region exceeded 11.7 million by the end of 2018, including more than 4.5 million in DRC, 2.6 million in both Ethiopia and Somalia, and close to 1.9 million in South Sudan. While 80 percent of IDPs were displaced due to conflict, drought further exacerbated this displacement. The sub-region also is host to two of the largest refugee crises in the world – South Sudan and Somalia. At year-end, the number of refugees and asylum-seekers within the sub-region exceeded 2.8 million, with the largest caseloads in Uganda (1.2 million), and Ethiopia (903,000).

- Fourthly, there have been signs of rising trading tensions between Partner States of the East African Community (EAC), resulting in declining levels of intra-regional trade. As the report stresses, such disputes are not uncommon within regional blocks; for example, in the past, conflicts of a similar kind have occurred both within North American Free Trade Agreement and the European Union. Nevertheless, to maintain the momentum of the EAC project, it is important that such disputes and Non-Tariff Barriers (NTBs) are resolved expeditiously. Econometric analysis carried out for this report suggests that intra-EAC trade would almost double (a 95 percent increase) if it were to reach its maximum potential, unencumbered by these barriers.

- Finally, downside risks to global growth have increased since the second half of 2018. This is mainly due to the escalating trade tensions between the United States and its trading partners, worries about peace and stability in the Middle East, and volatility in the financial markets of several emerging markets. Brexit has also created additional concerns, although this report establishes that it may also open some marginal new export opportunities for the region towards Europe in the face of the decline of trade between the EU and UK.

So far, Eastern African economies have weathered all this uncertainty well. The depreciation pressure on most local currencies in Eastern Africa remains moderate and inflation has stayed at modest levels since 2018. However, the heightened external risks, coupled with tighter global financial conditions, raises the risk of capital outflows and even exchange rate crises, especially for those countries with low foreign reserves and high debt levels. Apprehension about capital reversals and debt shocks are heightened by the fact that in several countries (among them, Ethiopia, Eritrea, Burundi, D.R. Congo and South Sudan) foreign reserves stood at less than two months of imports at the end of 2018.

During a time of increased trade protectionism, it is crucial for African countries to focus on more resilient and dynamic regional ties.

This last point on the more challenging external environment brings us back to the importance of consolidating regional integration within Eastern Africa. During a time of increased trade protectionism and moderating of global demand, it is crucial for African countries to focus on the regional ties which are more resilient and dynamic. This report stresses the fact that Africa's trading relations with the rest of the world over recent decades – under the guise of multiple 'preferential market access' schemes – have had disappointing results. They have neither led to a notably stronger export performance nor to more diversified economies. In addition, the temporary nature of preferential market access schemes has made it difficult for firms and investors to take a longer-term view and invest in the strategically important export-oriented sectors of the economy. Against this backdrop, the importance of leveraging the unique opportunity presented by the African Continental Free Trade Area (AfCFTA) cannot be overemphasised. This includes the implementation of the Free Movement of People's Protocol. This report documents the economic benefits from greater intra-regional labour mobility, including contributing to addressing the problem of skills shortages.

Finally, this report flags a major transversal issue where progress is still sorely lagging: gender inequality is manifest in almost all spheres, from education, to personal safety, to participation in the waged economy. Equality in education, access to employment and access to finance for females on a par with males is essential for successful development outcomes, not to mention quality of life for all. In most Eastern African countries, legislation to protect all members of society – including men – from gender-based violence already exists; it should be enforced. Over one in four women between the ages of 15-49 have been subjected to physical and/or sexual violence by a current or former intimate partner in the last 12 months. Governments need to step up efforts to tackle all forms of inequality and discrimination in order to reap the large gains in growth, poverty reduction and the realization of sustainable development.

Over one in four women in the region have been subjected to physical and/or sexual violence by a current or former intimate partner in the last 12 months.

SECTION 1

MACROECONOMIC PERFORMANCE

In 2018, there was general improvement in economic conditions in Eastern Africa, despite some ongoing structural and emerging challenges. Regional economic growth continues to outpace global and African averages, but there are significant downside risks. This section discusses the sub-region's rising debt levels, exchange rate pressures, current account imbalances, significant trade deficits, among other issues. However, there is significant opportunity for increased intra-regional trade to help maintain the positive economic momentum.

The Eastern African economy sustained strong growth of 6.1 percent in 2019, and has remained the fastest growing sub-region on the continent since 2013.

1.1. CONTINUED GROWTH MOMENTUM IN EASTERN AFRICA

The world economy continued its steady expansion in 2018 at 3.2 percent, slightly above the previous year, because of the revival of global demand, broadly favourable financial conditions and expansionary fiscal policy in the United States. Risks, however, are mounting, especially escalating trade tensions between major economies and worries about financial vulnerabilities. The world economy was estimated to have expanded at a slower pace of 2.3 percent in 2019 (UNDESA, 2020).

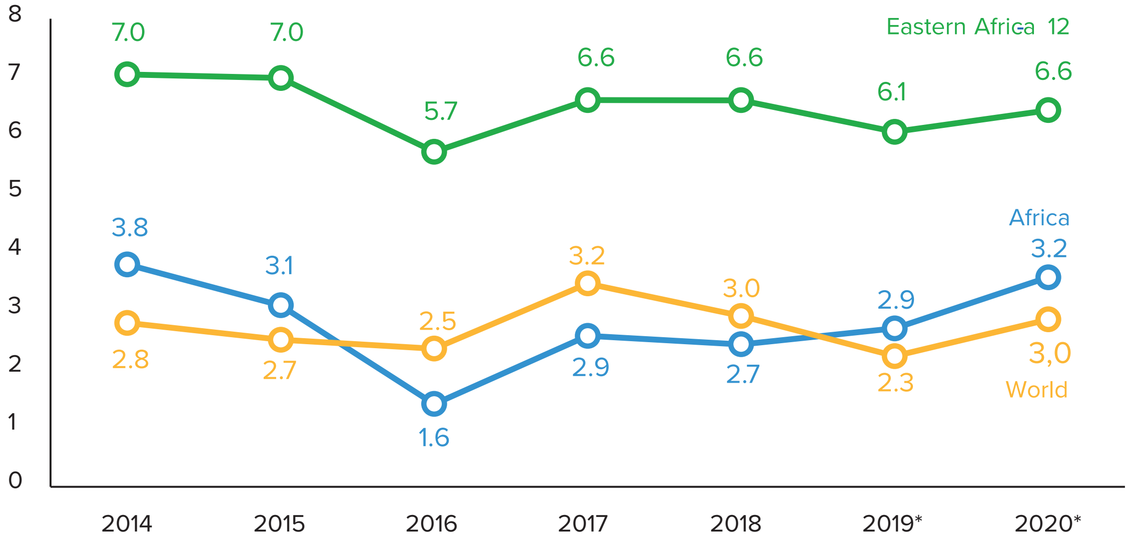
African economic performance, overall, remained solid in 2018, after a strong acceleration of GDP growth from 1.6 percent in 2016 to 2.7 percent in 2017. This was partly thanks to the rise in energy prices and largely reflecting stronger growth in some of the region's largest economies, such as Nigeria and Angola due to their increase in oil revenue. The South African economy also stabilised in the second half of 2018, after falling into technical recession in the first half of the year. Growth in Africa recovered slightly from 2.7 percent in 2018 to 2.9 percent in 2019, and this trend is expected to continue with 3.2 percent growth in 2020 (UNDESA, 2020). Structural reforms to tackle macroeconomic imbalances and improve the business environment are required to raise medium- and long-term growth potential.

In Eastern Africa,[1] the regional economy sustained strong growth of 6.6 percent in 2018, following recovery the previous year from widespread droughts that slowed regional growth in 2016. Indeed, Eastern Africa is the fastest growing region in Africa, with an annual average growth rate of 6.6 percent between 2014 and 2018, much higher than the African average of 2.9 percent. Prospects for regional growth have been bolstered by the resolution of the long-standing political conflict between Eritrea and Ethiopia (Box 1). ECA estimates suggest that robust growth was sustained in 2019 at 6.1 percent (Figure 1). At the same time, downside risks are increasing, including extreme rains and flooding in several countries, high numbers of internally displaced people, and the ongoing Ebola crisis in D. R. Congo.

Regarding the economic performance of individual countries in the region, Ethiopia, Rwanda and Tanzania registered the highest growth rates between 2014 and 2018. Backed by an increase in agricultural production and continued infrastructure investment, most countries were expected to maintain growth momentum in 2019 (Table 1). The most recent statistics suggested a mixed performance in the first half of 2019. For example, the Rwandan economy expanded by 8.4 percent and 12.2 percent in the first and second quarters of 2019, underpinned by vibrant industrial activity as a result of the Made in Rwanda programme (NISR, 2019a). Yet economic growth moderated in Kenya to 5.6 percent in the first half of 2019, largely due to slowdown in agricultural activities following delay in the onset of long rains (KNBS, 2019a). The instability of agricultural output and its significant impact on economic growth highlights the persistent vulnerability of the Eastern African countries to weather-related shocks (Box 2).

1. For the United Nations Economic Commission for Africa (ECA), Eastern Africa is a region comprising of 14 countries: Burundi, Comoros, D.R. Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia, South Sudan, Tanzania and Uganda.

Figure 1: Real GDP growth in Eastern Africa, Africa and the World, 2014-2020
Annual change, in percent



Sources: National sources, UNDESA (2019) and ECA calculations.
Notes: (*) UNDESA forecast provided at end-2019. Data for Eastern Africa is the weighted average (based on current prices GDP figures) of the 12 countries (excluding Somalia and South Sudan).

Table 1: Real GDP growth, 2014-2019
Annual change, in percent

	2014	2015	2016	2017	2018	2019*	AVERAGE GROWTH RATE (2014-2018)
Ethiopia	10.3	10.4	8.0	10.9	7.7	7.3	9.5
Rwanda	6.2	8.9	6.0	6.1	8.5	8.4	7.1
Tanzania	6.7	6.2	6.9	6.8	7.0	6.3	6.7
Djibouti	7.0	7.7	6.9	5.1	5.6	6.4	6.5
D. R. Congo	9.5	6.9	2.4	3.7	5.8	5.1	5.7
Kenya	5.4	5.7	5.9	4.9	6.3	5.7	5.6
Uganda	4.5	5.7	2.6	5.1	6.1	6.2	4.8
Seychelles	4.5	4.9	4.5	4.3	4.1	3.4	4.5
Madagascar	3.3	3.1	4.2	4.3	5.0	5.2	4.0
Eritrea	2.9	2.6	1.9	5.0	4.1	4.8	3.3
Burundi	4.2	-0.4	3.2	3.6	3.8	1.8	2.9
Comoros	2.1	1.0	3.3	3.8	3.8	2.4	2.8
EASTERN AFRICA-12	**7.1**	**7.0**	**5.7**	**6.6**	**6.6**	**6.1**	**6.6**

Sources: National sources, UNDESA (2019) and ECA calculations.
Note: (*) Estimate. Data for Ethiopia refer to fiscal years (July/June) and data for 2014 represent fiscal year 2013/14.

Box 1: The Economic Implications of the Rapprochement Between Eritrea and Ethiopia

In June 2018 Ethiopian Prime Minister Abiy Ahmed took the historic decision to recognise the demarcation of the Ethiopian border with Eritrea, reopening the peace process between the two countries, and culminating in his visit to the Eritrean capital, Asmara, in July 2018.[2] Subsequent events moved quickly, revealing that what binds Eritrea and Ethiopia together is stronger than what has divided them: deep social, historical and economic ties between these 'Habesha' peoples.

The potential gains from the rapprochement are enormous. Their economies are very different – Ethiopia's nominal GDP is around USD 81 billion next to Eritrea's USD 6 billion – and so too are their populations – there are some 100 million Ethiopians, compared to about 5 million people in Eritrea. Interestingly though, the two economies display an important degree of economic complementary, particularly in transport infrastructure.

Eritrea has suffered significant economic hardship and isolation amid the dispute with Ethiopia, but the north of Ethiopia and south Eritrea now stand to benefit from greater investment and trade. Eritrea is now an important exporter of minerals and has a large, active and well-educated diaspora. Ethiopia has been growing very rapidly over the last decade and a half, despite persistent low-capita incomes, and has made big strides in the development of its industrial potential. It also has major energy resources (e.g. the Grand Renaissance Dam). The rapprochement could lead to major economic gains from the two countries' complementarities.

Ethiopia's access to Eritrea's Massawa and Assab ports will be a major boon for a landlocked nation focused on developing an export-oriented manufacturing sector. Access is also important for Eritrea as a transit point for Ethiopian trade; Eritrean ports stand to receive major investment to compete with neighbouring Djibouti. Both countries have demonstrated keen interest in initiating trade links through the ports and improved road networks, as well as opening telephone lines.

Air transport has become crucial for Ethiopian manufacturing, and many products are now shipped by air (e.g. textiles and horticultural products). For Eritrea, greater connectivity by air will also be a boon. President Ahmed's July 2018 flight to Asmara was the first Ethiopian Airways flight to the Eritrean capital in many decades. Ethiopian Airlines is now to buy a 20 percent stake in Eritrean Airlines and regular flights from Addis Ababa to Asmara by both airlines have resumed, facilitating further mutually-beneficial economic ties.

ECA's Ethiopia STEPs country profile (2018a) highlights Ethiopia's poor integration into the regional economy: intra-regional trade within the Intergovernmental Authority on Development (IGAD) is very low and it could benefit from further regional integration, not only with Eritrea, but also with Kenya. The prospect of Eritrea in IGAD should accelerate this process. Large investments to improve Eritrea's infrastructure may initially come from the Gulf States and China, both of which retained good relations with Eritrea. There is also a need to improve the investment climate, economic openness and development-finance systems. Meanwhile, to enjoy maximum benefit from the economic opening with Ethiopia, structural economic reforms will be needed in Eritrea. Trade and tourism will be the most immediate beneficiaries of open borders with Ethiopia.

Ethiopia and Somalia have supported the lifting of UN sanctions on Eritrea, providing a major economic boost, while Ethiopia has offered to arbitrate between Djibouti and Asmara.

2. Following the reopening of two land border crossings between Ethiopia and Eritrea in September 2018, another crossing (between Humera in Ethiopia and Oum Hajer in Eritrea) was reopened in January 2019.

Box 2: How Vulnerable Are the Eastern African Countries?

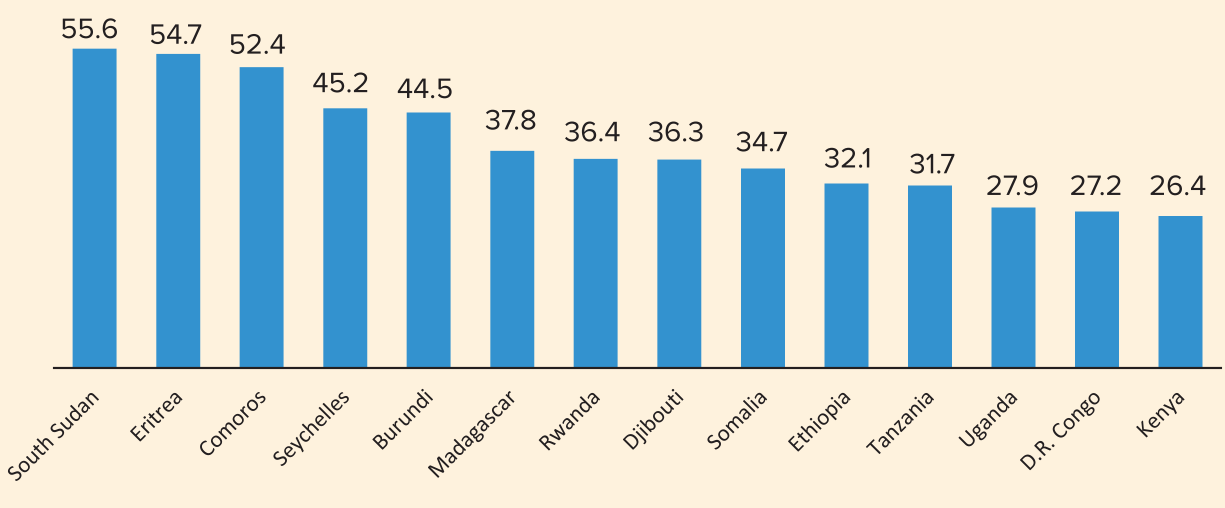
Economic vulnerability to exogenous shocks and related instabilities are among the major structural impediments to sustained growth and poverty reduction in developing countries. The economic vulnerability of a country can be defined as the risk of its development being hindered by natural or external shocks. It can be viewed as a result of the size and frequency of exogenous shocks, exposure to shocks and the capacity to react to them.

To quantify and compare the degree of economic vulnerability across countries, the UN's Committee for Development Policy established the Economic Vulnerability Index (EVI), which is used as an additional criterion to classify Least Developed Country, alongside GDP per capita and human capital index score (Guillaumont, 2009). While the capacity to react to a shock relies partially on transitory factors such as the overall state of the economy, the EVI highlights long-term structural vulnerabilities too (Guillaumont, 2010).

The EVI is a composition of eight indicators, with five variables measuring the exposure of shocks, including: (i) population size; (ii) remoteness (i.e. the minimum average distance for a country to reach half of the global market); (iii) merchandise export concentration; (iv) the share of agriculture, forestry, fisheries in GDP; and (v) the share of population in low-elevation coastal zones. The shocks are captured by three indicators: (vi) instability of exports of goods and services; (vii) victims of natural disasters; and (viii) instability of agricultural production (UNDESA, 2018). In the EVI, a higher score (from 0-100) indicates a higher level of vulnerability, and LDC classification begins at 36.

In 2018, eight countries in Eastern Africa had an EVI score higher than the inclusion threshold for LDCs, while six (Somalia, Ethiopia, Tanzania, Uganda, D.R. Congo and Kenya) scored below (Figure 2). The most vulnerable countries exhibit varied economic and social characteristics – some are small island states, others landlocked; what unites them is the fact that they generally depend on a few exports products and may suffer from instability in export earnings as a result. Moreover, most of these countries are extremely vulnerable to natural disasters, with large fluctuations in agricultural production and a high reliance on the agriculture sector (e.g. Burundi and Rwanda).

Figure 2: Economic Vulnerability Index (EVI) of Eastern African countries, 2018



Source: UNDESA, 2018.

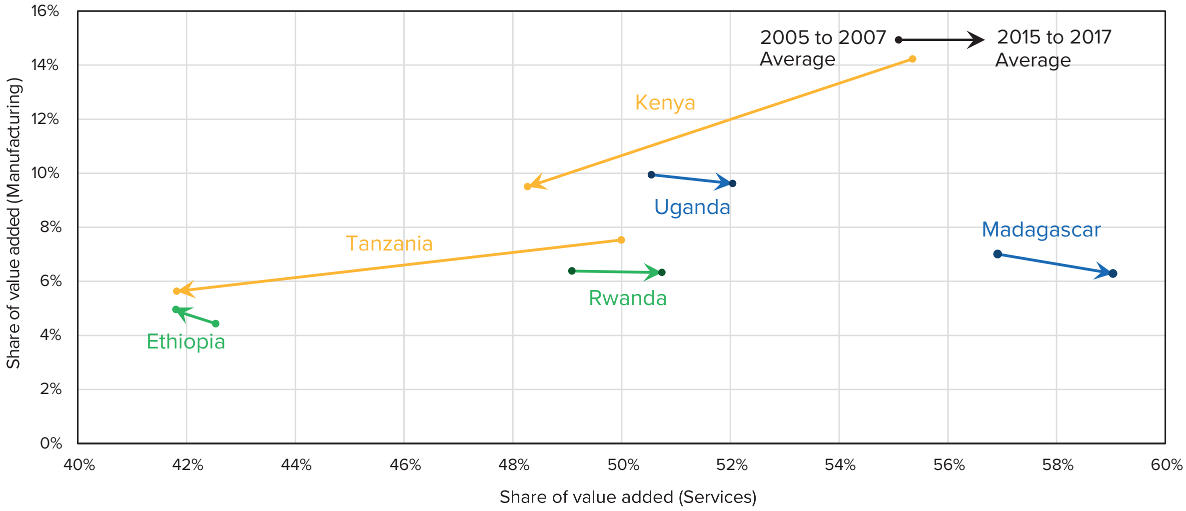
Among the key drivers of economic growth in Eastern Africa, the agriculture sector retains a prominent role, despite sharp fluctuations due to adverse weather conditions. The mining and manufacturing sectors played an important role in supporting the economy in several countries, including Ethiopia, Rwanda and Tanzania, and the services sector has sustained robust growth across the region. However, structural transformation has been slow and the share of the manufacturing sector in value added is still below 10 percent for most countries in the region. Indeed, apart from D.R. Congo, Ethiopia and Rwanda, the major economies in Eastern Africa registered a decline in the share of manufacturing value added over the past decade. Kenya and Tanzania also saw a decrease in the share of value added in the services sector (Figure 3). This raises the question of sustainability and inclusiveness of economic growth in the region.

With the annual labour force growth estimated at 3.2 percent between 2015 and 2030, countries in the region would have to sustain GDP growth rates of at least 6 percent per year in order to absorb the rapidly growing labour force.

Another key aspect of inclusive growth is job creation. Figure 4 reveals that between 2006 and 2016, the creation of employment was far below the rate of expansion of the economy for many African countries. This implies very low employment growth and elasticities,[3] which can give rise to jobless growth and slow poverty reduction. In the context of rapidly growing populations, there is possibility for this to result in social unrest. In Eastern Africa, the mismatch between employment growth and economic growth has been particularly notable in Ethiopia, which has a relatively low employment elasticity of around 0.4. This means that employment grows by only 0.4 percent, for every 1 percent of economic growth (Figure 4). With the annual labour force growth estimated to be around 3.2 percent between 2015 and 2030, 8.5 million jobs are required every year for the new entrants of working age population in the region (Table 2). Assuming the employment elasticity remains at the 2011-2016 average (i.e. 0.53), countries in the region would have to sustain GDP growth rates of at least 6 percent per year in order to absorb the rapidly growing labour force.

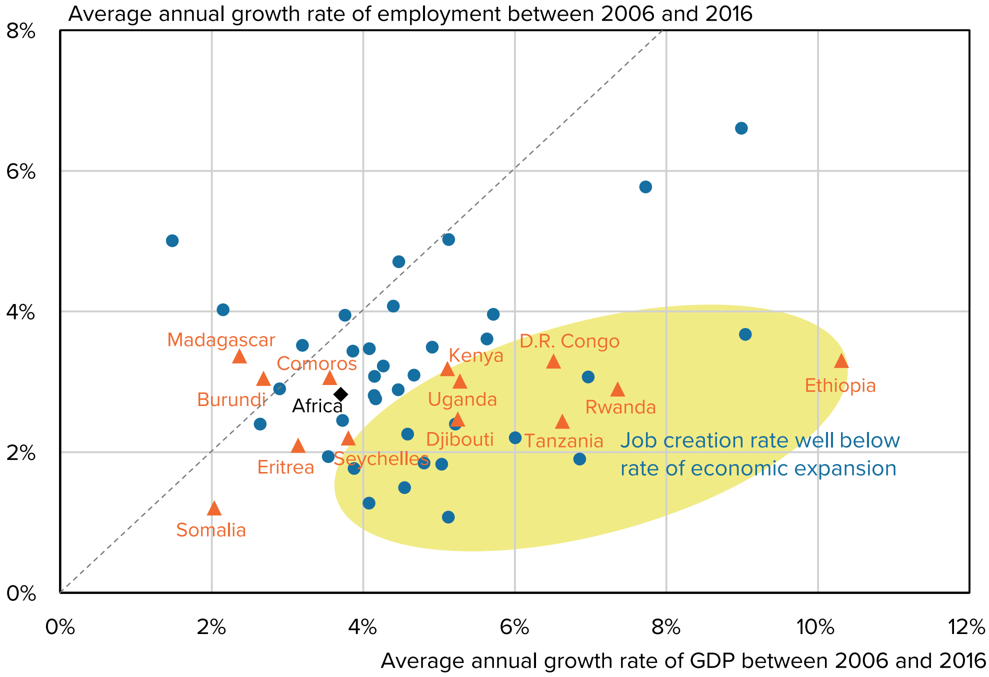
3. These low employment growth figures refer to estimates by the International Labour Organization (ILO), which may be different from national statistics. For example, ILO's estimate of Kenya's total employment was around 16.6 million in 2016, compared to 17.9 million based on 2015/16 Kenya Integrated Household Budget Survey (KNBS, 2018).

Figure 3: Share of value added of the manufacturing and services sectors, 2005-2007 and 2015- 2017 average
Percent of GDP



Source: UNdata (2019).

Figure 4: Employment and GDP growth in selected African countries
Percent



Sources: UNdata (2019) and ILO (2019).
Note: Countries in the region are marked in triangle and other African countries are represented by circle.

Table 2: Working Age Population, 2015 and 2030

	Working age population (millions)		Average annual growth between 2015 and 2030 (percent)	Average annual increase between 2015 and 2030 (millions)
	2015	2030		
Burundi	5.3	8.7	0.2	3.4
Comoros	0.4	0.6	0.0	2.7
D.R. Congo	38.6	64.9	1.8	3.5
Djibouti	0.6	0.8	0.0	1.9
Eritrea	1.8	2.5	0.0	2.2
Ethiopia	54.8	86.8	2.1	3.1
Kenya	27.0	41.8	1.0	3.0
Madagascar	13.5	20.9	0.5	3.0
Rwanda	6.4	9.7	0.2	2.8
Seychelles	0.7	0.7	0.0	0.0
Somalia	6.9	11.2	0.3	3.3
South Sudan	5.8	8.0	0.1	2.2
Tanzania	27.2	44.5	1.2	3.3
Uganda	19.2	33.9	1.0	3.9
Total	***208.2***	***335.0***	***8.5***	***3.2***

Source: UNDESA (2019).

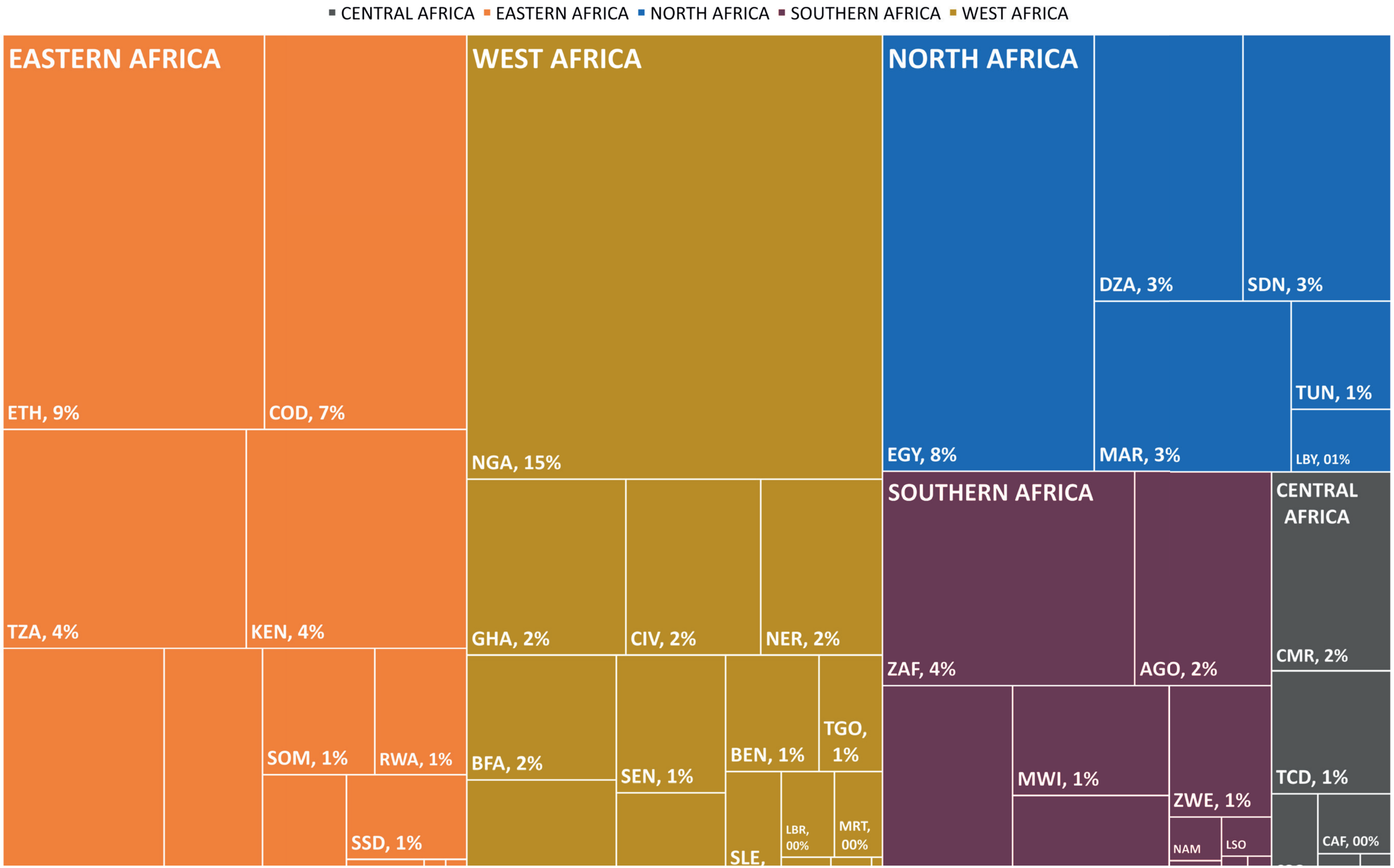
The labour force-to-production mismatch is more apparent when viewed at the continental level. Although a third of Africa's population resides in Eastern Africa (Figure 5), the sub-region produced only 16 percent of total GDP (Figure 6). Although Ethiopia and Kenya's economies have an outsized impact in Eastern Africa, as they account for a half of its production, they contribute relatively small shares of the African economy (4 percent each). On the other end of the spectrum, island-economies of Comoros and the Seychelles contributed less than 1 percent to the total East African economy.

Despite the low share of continental GDP and low prevailing per capita incomes, East Africa is the most dynamic region on the continent. Structural change is necessary for that dynamism to effectively extend into the creation of more productive jobs. In some countries in the region, there has been a gradual shift of jobs from low-productivity sectors (e.g. agriculture) towards higher-productivity sectors over the past decade; however, the process was slow and mainly towards low-productivity segments of the services sector, rather than into higher-productivity manufacturing (ECA, 2018a).

There is a pressing need for more progress on domestic revenue mobilization... a comprehensive assessment of potential revenue sources and review of tax policy are essential to raise revenues.

Figure 5: Africa population share by sub-region, 2019

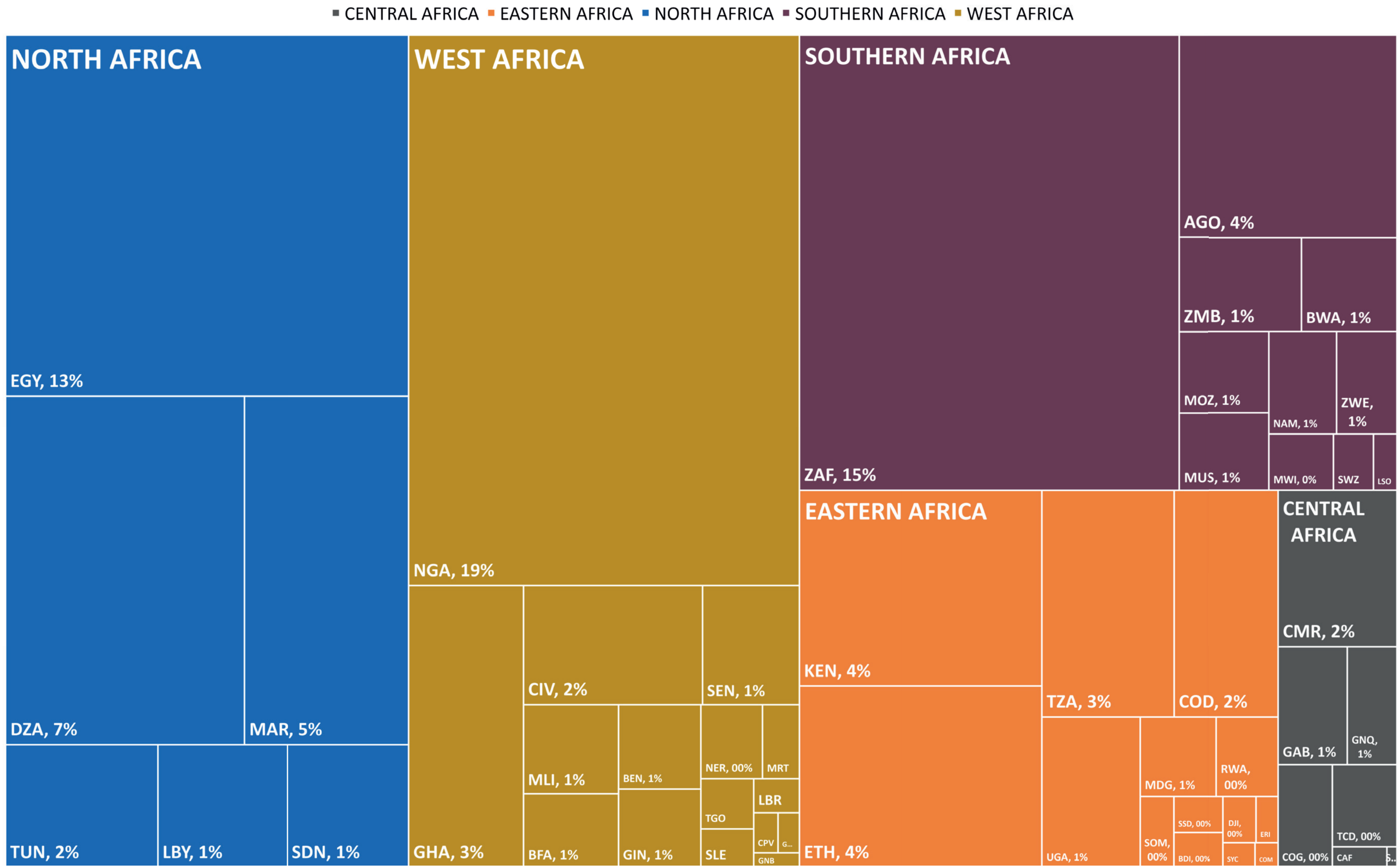
Percent share of 1.3 billion people



Source: ECA extrapolation from IMF data (2019).

Figure 6: Africa GDP share by sub-region, 2019

Percent share of USD 2.6 trillion



Source: ECA extrapolation from IMF data (2019).

1.2. DEBT VULNERABILITIES PERSIST DESPITE NARROWING FISCAL DEFICITS

Fiscal performance was mixed in the region in 2018. For a few countries, it improved (e.g. Djibouti). This was partly due to the completion of major infrastructural projects (Figure 7). Fiscal consolidation measures in other countries helped reduce budget deficits, yet there are potentially negative impacts if fiscal consolidation is based on cutting public investment, having a worse effect on output than cutting public consumption or raising revenues (Arizala et al., 2017). For instance, Kenya's cutting of the development budget and increasing borrowing to reduce deficits has been cautioned against by the World Bank, because the result could be to stifle growth in the near future (Alushula, 2018).

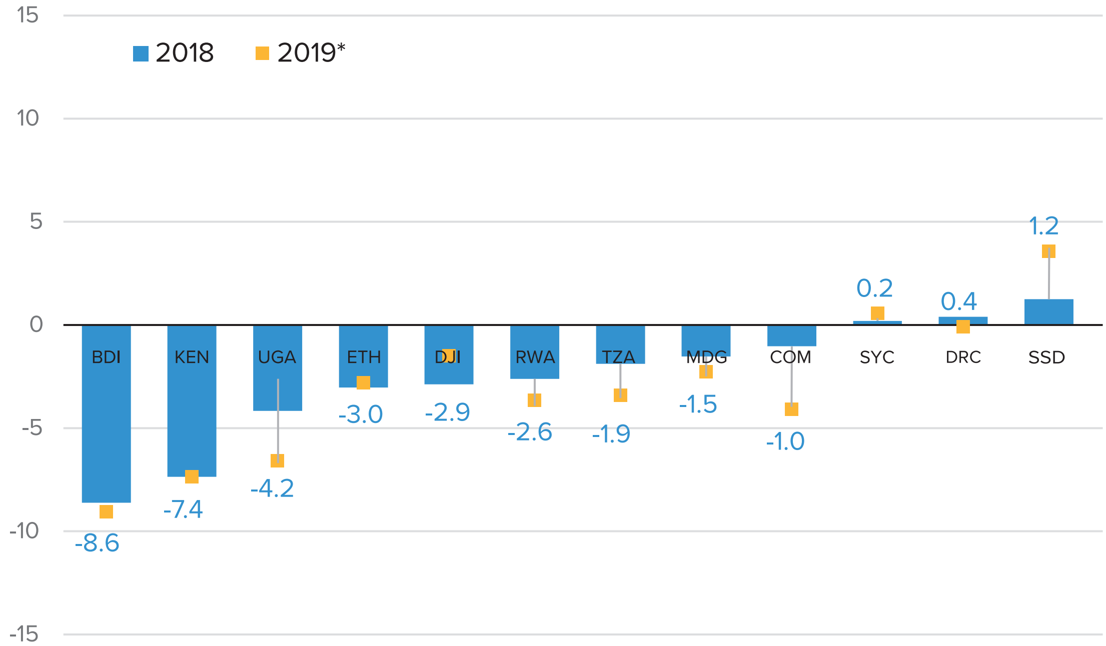
The shift in the composition of the debt portfolio from traditional, concessional sources of financing towards emerging bilateral lenders and market-based sources exposes the region to new sources of risk.

There is a pressing need for progress on domestic revenue mobilisation. Low tax rates, narrow tax bases, and broad exemptions undermine the revenue-raising potential of some governments (IMF 2019d). According to ECA (2019), African governments could increase their revenues by 12 to 20 percent of GDP annually by implementing fiscal reforms in six key areas: (i) adopting the right fiscal policy stance; (ii) reviewing and updating tax policy; (iii) expanding and deepening the tax base; (iv) improving tax administration; (v) tackling tax avoidance; (vi) enhancing non-tax revenue collection; and improving natural-resource governance to combat tax evasion. While countries have been improving the management of tax collection and administration, especially with the help of digital systems, structural factors (government ineffectiveness, corruption and income inequality) also need to be tackled to enhance the functioning of tax system (Fenochietto and Pessino, 2010 and 2013). In addition, with the rapidly changing structure of many economies in the region, a comprehensive review of potential revenue sources and existing tax policies are required to raise revenues without jeopardising economic development.

Despite narrowing fiscal deficits and strong economic growth, several countries continued to record an increase in their debt-to-GDP ratios in 2017 and 2018 (Burundi, Ethiopia, Kenya, Rwanda and Uganda). In the region, there are five countries with debt-to-GDP ratios exceeding 50 percent in 2018, compared to only two in 2013; this raises concerns over the sustainability and overhang problems.

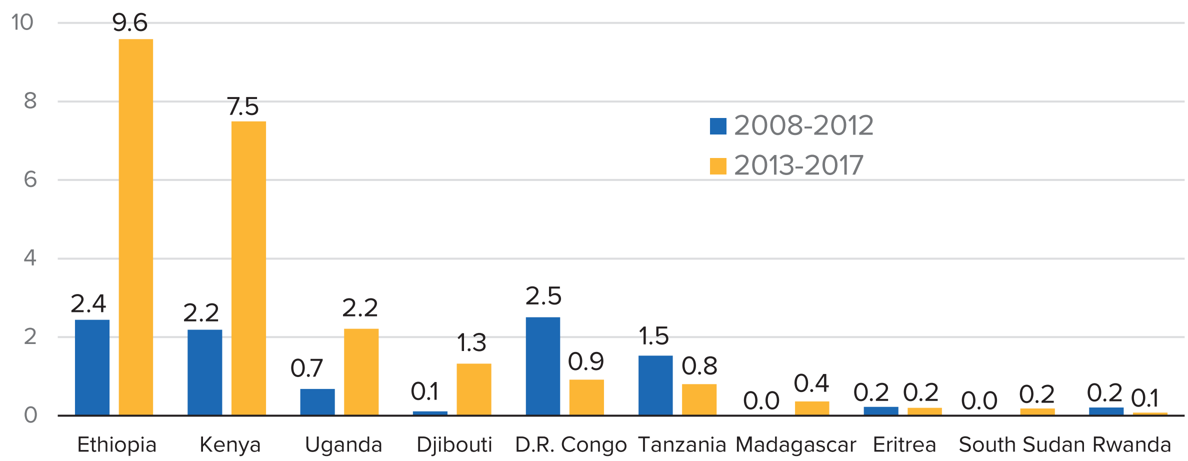
Countries will need to exercise great care in their investment strategies and the management of their debt levels if they are to in prevent another debt crisis in the region.

Figure 7: Fiscal balances, 2018 and 2019
General government net lending/borrowing, percent of GDP



Source: IMF (2019a).
Note: (*) Estimate as at October 2019 WEO Update.

Figure 8: Loans to vthe region from China, 2008-2017
USD billion



Source: Atkins et al. (2017).

The IMF's debt-sustainability assessment indicates that among the countries with a debt-to-GDP ratio exceeding 50 percent, Burundi and Ethiopia were rated as high risk (IMF 2019c), While Eritrea and South Sudan are in debt distress (IMF 2019d). Since the debt structure is key in determining debt sustainability (Pienkowski, 2017; Hurley et al., 2018), the shift in the composition of the debt portfolio from traditional, concessional sources of financing towards emerging bilateral lenders and market-based sources exposes the region to new sources of risk.

On the composition of bilateral lenders, most countries have shifted from Paris Club creditors to others, with China as the major regional bilateral lender. China accounted for about 72 percent of Kenya's loans in 2018, compared to just 15 percent in 2011 (GoK, 2018). Meanwhile, the total amount of Chinese loans to Djibouti was almost 77 percent of its GDP in 2018 (Eom et al., 2018). Loans from China to the region have more than doubled, from USD 10.0 billion in 2008-2012 to approximately USD 23.2 billion in 2013-2017 (Atkins et al., 2017). The sharp increase in debt was mainly used to finance infrastructure projects in the transport sector, which received about 41 percent of the total; transport was then followed by power at 24 percent and communication at 13 percent, respectively. Moreover, the debt is concentrated in a few countries, notably Ethiopia and Kenya (Figure 8). Box 3 discusses the economic impact of the China Belt and Road Initiative on the region.

There are concerns that the short maturity of the Chinese-held debt exposes countries to liquidity risks, since the returns from infrastructure projects tend to be realised over the long haul. Although China provides interest-free loans and concessional loans through its Ministry of Commerce, the China Export-Import (Exim) Bank and the China Development Bank (CDB), some loans are offered at commercial rates.

This increases the debt-servicing burden (Brautigam and Jyhjong, 2016 and CARI, 2018). The loans are not tied to transparency or key governance reforms in the recipient countries, which can also present challenges. The seizure of the Sri Lankan port of Hambanota by Chinese investors because of the failure to service a loan to Sri Lanka raised concerns about China's 'debt-trap diplomacy' (Moore, 2018), especially since the region's loans from China are collateralised with long-term strategic assets such as ports.

However, China usually offers debt restructuring. An example is the restructuring of the USD 4 billion loan to Ethiopia for the Addis Ababa-Djibouti railway. China has also cancelled the debt of several countries. One example is the writing-off of a small package of Comorian government debt worth KMF 630 million (USD 1.4 million) in 2017 (EIU, 2017 and Hurley, 2018).

Several countries in Eastern Africa have issued Eurobonds over the last decade,[4] including Kenya in the first quarters of 2018 and 2019.[5] The US dollar has been the currency of choice for the bond issues, which, naturally, exposes issuers to exchange-rate risks because the appreciation of the USD against local currencies increases the cost of repaying debt. For example, Rwanda is scheduled to repay USD 400 million on its Eurobond in 2023. The short maturity and high interest rates further pose significant repayment risks. Eurobonds are also more difficult to restructure than bank loans because of the larger number of creditors involved who need to be co-ordinated in the event of default (UNCTAD, 2016). With these factors in mind, countries will need to exercise great care in their investment strategies and the management of their debt levels if they are to in prevent another debt crisis in the region.

Countries in the region enduring insecurity or political instability have tended to suffer from higher levels of inflation.

1.3. MODERATING INFLATION AND EXCHANGE RATE PRESSURES

Lower food prices contributed to easing inflation across most of the region in 2018, following recovery from widespread drought (Table 3). Some countries, however, especially those enduring insecurity or political instability, still suffered from inflation. The rate in D.R. Congo is estimated to have been 23 percent in 2018, following the sharp depreciation of the Congolese franc (CDF) in 2017 (Central Bank of the D.R. Congo, 2019). The latest statistics indicate that inflation remains moderate in most countries. In Kenya, the annual inflation was estimated at 5.2 percent in 2019 (KNBS, 2019b), while Uganda's inflation rate was 2.9 percent (UBOS, 2019).

4. Record low interest rates in the advanced economies compared to the high yields of Eurobonds increased investor appetite for them (Presbitero et al., 2015 and Bloomberg, 2018b).

5. Kenya issued its second USD 2 billion sovereign bond to pay off its maturing debts and fund development plans on 28 February 2018. The bond was issued in two equal tranches of 10 years at a coupon of 7.25 percent and 30 years at a coupon of 8.25 percent. A second Eurobond (USD 2.1 billion) was issued and subscribed with similar interest rates on 15 May 2019.

Box 3: Modelling the Economic Impact of the China's Belt and Road Initiative on East Africa

The World Bank's analyses of infrastructure reveal that Eastern African countries perform poorly in this domain. The "Silk Road Economic Belt" and a "21st Century Maritime Silk Road" are together known as the Belt and Road Initiative (BRI). Launched by the Chinese government, BRI represents an opportunity for countries in the region to improve the quality and supply of infrastructure.

A study by Mukwaya, Mold and Si Tou (2019) evaluated the effect of the BRI strategy on trade and welfare in Eastern Africa. BRI routes will run through countries in Asia, Europe and Africa. In Eastern Africa, they include Djibouti, Ethiopia, Kenya, Rwanda, Uganda and Tanzania. One of the BRI projects, the standard-gauge railway, is already under construction. It will connect the ports of Mombasa and Dar-es-Salaam to Kenya, Uganda, Tanzania and Rwanda; this should reduce transport costs, with implications for trade, but also for welfare. The study uses the Global Trade Analysis Project (GTAP) computable general equilibrium (CGE) model and the latest GTAP 10 database, based on 2014 data.

The study confirms that the BRI initiative could have a positive impact on the region. The improvements brought to the transportation network will reduce the cost of trade and could increase the GDP of countries in Eastern Africa. Kenya could enjoy the highest gains (0.36 percent), followed by Ethiopia (0.32 percent) and Tanzania (0.22 percent). The BRI could also contribute to an increase in regional welfare by around USD 360 million. In addition, the value of total exports, mainly to other African countries from Eastern African countries, could increase by USD 83 million. The boosting of intra-African trade is aligned with the objectives of the African Continental Free Trade Area (AfCFTA).

The distribution of benefits arising from BRI is not equal, however, and some countries stand to benefit more than others. Indeed, the larger countries, Ethiopia, Kenya and Tanzania would gain substantially more from the BRI initiatives, especially in conjunction with other regional infrastructure initiatives. It is, therefore in these countries' interests to ensure their success.

The simulations suggest that the BRI would provide more of an impetus to intra-African exports than it would to exports with the rest of the world. In this sense, although it was not the original purpose of the BRI, it seems that it would contribute to regional attempts to intensify intra-African trade, as reflected in regional support for the AfCFTA.

The BRI could also help resolve the region's trade deficits; however, it will not necessarily incite a supply-side response without complementary policies to boost productivity in the manufacturing sectors of Eastern African countries. Without such policies, the enhanced infrastructures could result in facilitating the importation of cheap goods from outside the region, including from China. Indeed, one of the stated motivations for China in launching the BRI is to open markets for its goods, although the Chinese authorities also recognise that the Middle Kingdom's own market will be accessible to exports from other countries, including those of Eastern Africa.

Table 3: Inflation, 2014-2019

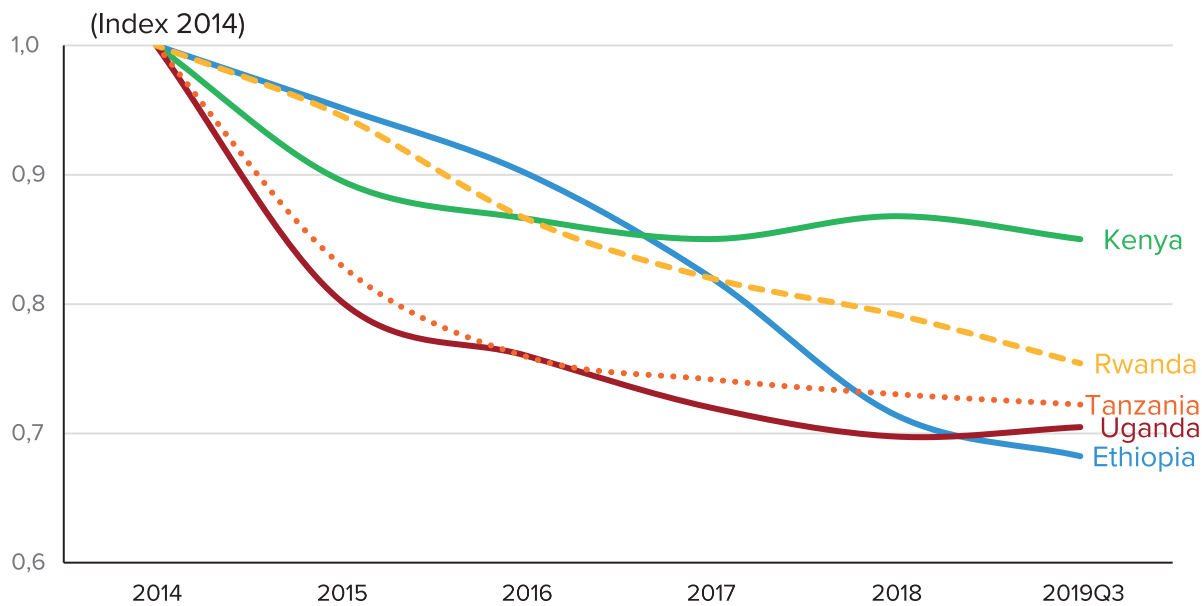
Annual change, in percent

	2014	2015	2016	2017	2018	2019*	AVERAGE, 2014-2019
D.R. Congo	1.3	1.4	5.9	35.9	23.0	14.9	13.7
Ethiopia	8.1	7.7	9.7	7.4	14.6	9.4	10.3
Eritrea	15.2	9	11.5	7.5	6.0	11.5	9.8
Madagascar	6.1	6.1	6.7	8.6	8.6	5.2	6.9
Kenya	6.9	6.6	6.3	8.0	4.7	6.2	6.5
Tanzania	6.1	5.6	5.2	5.3	3.5	3.4	4.9
Burundi	4.4	5.5	5.6	16.0	-2.7	-1.9	4.5
Uganda	3.1	5.4	5.5	5.6	2.6	2.9	4.2
Rwanda	1.8	2.5	5.7	4.8	1.4	2.1	3.1
Seychelles	1.4	4.0	-1.2	3.3	4.4	2.1	2.3
Djibouti	3.0	2.7	2.4	0.6	0.1	1.4	1.7
Comoros	1.5	1.3	1.8	0.1	1.7	2.9	1.6
Eastern Africa**	***5.5***	***5.6***	***6.8***	***10.4***	***9.2***	***7.6***	***7.5***

Sources: National sources,
UNDESA (2020). Note: (*) Estimates. (**) Weighted average.

Figure 9: Nominal exchange rate, 2014-2019

Local currency versus US dollar



Source: IMF (2019e).

Despite the US currency's relative strength, depreciation pressure on most regional currencies against the USD moderated in 2018 – and the KES even appreciated against it by around 2 percent (year-on-year). Amid concerns over the rising debt level, the Ethiopian birr (ETB) had yet to stabilise after the 15 percent devaluation in October 2017 (Figure 9). South Sudan faced heavy inflationary and exchange-rate pressures, with inflation estimated at some 200 percent, and a sharp depreciation of the South Sudanese pound (SSP) against the USD of about 60 percent in 2017 (IMF, 2018d). The indications are that the UGX remained relatively strong in up to the third quarter of 2019, appreciating against the USD.

Central banks generally sustained an accommodative monetary policy in 2018.

The region's central banks generally sustained an accommodative monetary policy in 2018. For example, the Central Bank of Kenya lowered the Central Bank Rate from 10 to 9.5 percent in March 2018, and then from 9.5 to 9 percent in July 2018, with the aim of supporting the financing of the economy. The rate was retained at 9 percent in the May 2019 meeting of the CBK's Monetary Policy Committee (CBK, 2019). Nonetheless, growth in credit to the private sector remains sluggish despite the gradual pick up in the second quarter of 2018. This could be partly attributed to the fact that credit risk could not be factored into the pricing of loans, owing to the interest-rate cap that had been in place since September 2016. The caps were intended to reduce the repayment burden on borrowers and improve financial inclusion, but the banks shifted their lending to the public sector and large corporate clients, in preference to the perceived-to-be-riskier micro-, small- and medium-enterprise borrowers (CBK, 2018; Safavian and Zia, 2018). It remains an open question whether this outcome was a result of the application of the interest-rate cap or a consequence of action by the banking sector to undermine the Central Bank's policy.

The divergent monetary policies in EAC Partner States raises the question of the EAC's readiness for the East African Monetary Union.

While the Bank of Tanzania and National Bank of Rwanda also maintained accommodative monetary policies in 2018, Uganda was the first major regional economy to increase interest rates in 2018 to counter inflationary pressures from a weaker currency and rising oil prices. Different economic structures and macroeconomic adjustments in response to shocks produce different monetary policy responses by central banks. However, the divergent monetary policies in EAC Partner States raises the question of the EAC's readiness for the East African Monetary Union (Box 4).

Box 4: The East African Monetary Union: Ready or Not?

EAC Partner States are in the process of implementing the 2013 Protocol on the Establishment of the East African Community Monetary Union (EAMU), which is intended to lead to a common currency by 2024. The stated objective of the EAMU is to promote and maintain monetary and financial stability in order to facilitate economic integration for the sustainable growth and development of the community. Inherent to a monetary union is a single monetary and exchange-rate policy throughout the single currency area.

A monetary union could: help achieve an efficient single market (Kenen and Meade, 2008); increase trade integration and harmonise business cycles (Frankel and Rose, 1998); and create more solidarity among African countries (Masson and Pattillo, 2004). On the other hand, a common currency has its costs, mainly due to the inability of monetary authorities of the individual countries to use country-specific monetary and exchange-rate policy as an instrument of macroeconomic adjustment in response to external shocks.

The benefits and costs arising from the establishment of monetary union ultimately depend on the structural characteristics of the economies concerned. It is, therefore, critical to examine how economies are converging before forming a monetary union. Specifically, the assessment includes: a headline inflation ceiling, a fiscal deficit ceiling, a gross public debt ceiling and a sufficient level of foreign reserves. Empirical analysis by ECA (2018b) shows that there is only partial convergence among the key macroeconomic variables, suggesting that EAC Partner States need to align their monetary policies better and allow for a period of monetary policy co-ordination prior to forming a monetary union. For instance, fiscal convergence is an area where EAC countries face considerable challenges, particularly given the significant need for investment and development spending. Also, most EAC Partner States have low levels of foreign reserves and are vulnerable to external shocks. Moreover, despite their broader structural similarities, ECA's analysis indicates that EAC economies remain susceptible to asymmetric (country-specific) shocks.

It is also important that the EAC continues to direct efforts towards designing and putting in place adequate mechanisms that can help Partner States adjust to future shocks, once the common currency is adopted. This includes the usual measures to mitigate the costs of common monetary policies, such as greater labour and capital mobility, price and wage flexibility, as well as various risk-sharing mechanisms (e.g. compensatory fiscal policy). This will require that EAC Partner States agree to explicit and binding convergence commitments as prerequisites to the establishment of the EAMU.

To achieve these goals, there is a need for the establishment of an institution (or a strong mechanism) for enforcing and ensuring compliance by all countries. To ensure good preparation on the establishment of EAMU, it is advisable for the EAC Partner States to fast track the establishment of the East African Monetary Institute, which was initially planned to start operating in 2015. In addition, firm commitment, discipline among members and reduction of the risk of bad policies are the results of a more rule-based framework. These measures should be agreed among member countries of the EAMU before the introduction of the single currency, to reduce risks and signal early commitment to macroeconomic stability.[6]

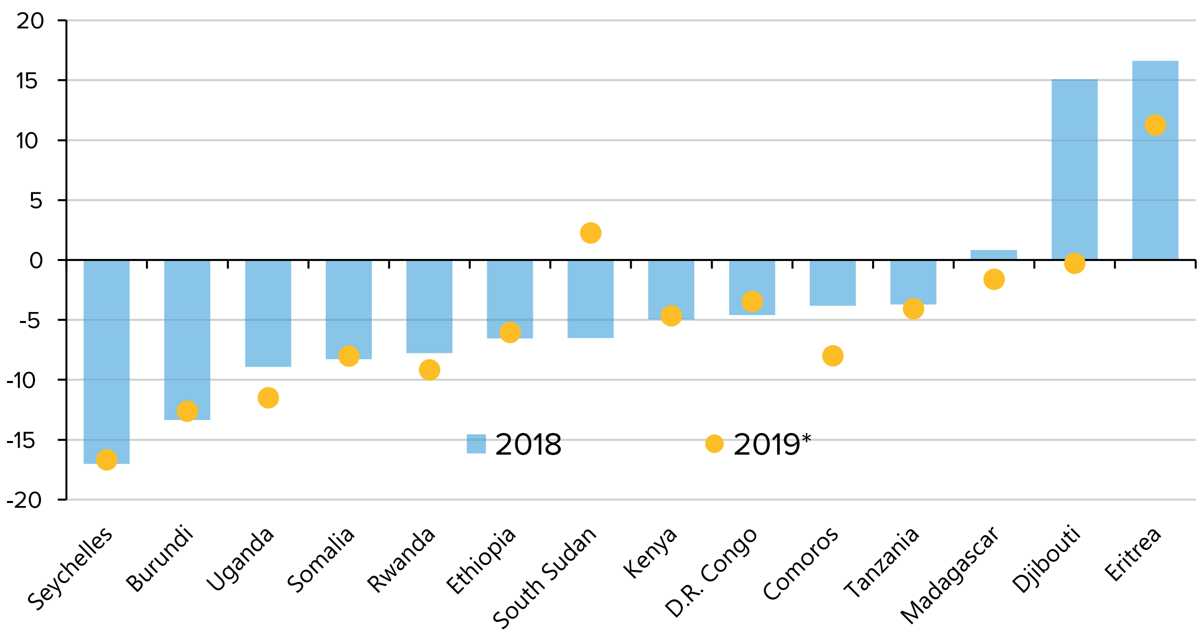
6. The European experience with the Greek crisis of 2011 shows that mistakes can be extremely costly and macroeconomically destabilising.

1.4. CURRENT ACCOUNT DEFICITS ARE CONSTRAINING GROWTH

Current account deficits widened in 2018, partly due to stronger import growth in some countries as well as higher oil prices (Figure 10). Several countries increased their exports (Kenya, Rwanda and Uganda) but trade data pointed to a different situation elsewhere and possible reversals in 2019. For example, Rwandan exports suffered a 28.7 percent year-on-year decline in the first quarter of 2019, mainly due to a significant drop in exports of manufactured goods, as well as crude and inedible materials (NISR, 2019b). Regional export growth would have to outpace import growth significantly and over a sustained period to make a difference to the trade deficit, given the much lower value of exports (an average of some 40 percent of the value of imports). In fact, the scale of these structural current-account deficits has been limiting the pace of economic growth and creating a balance-of-payment constraint (Box 5).

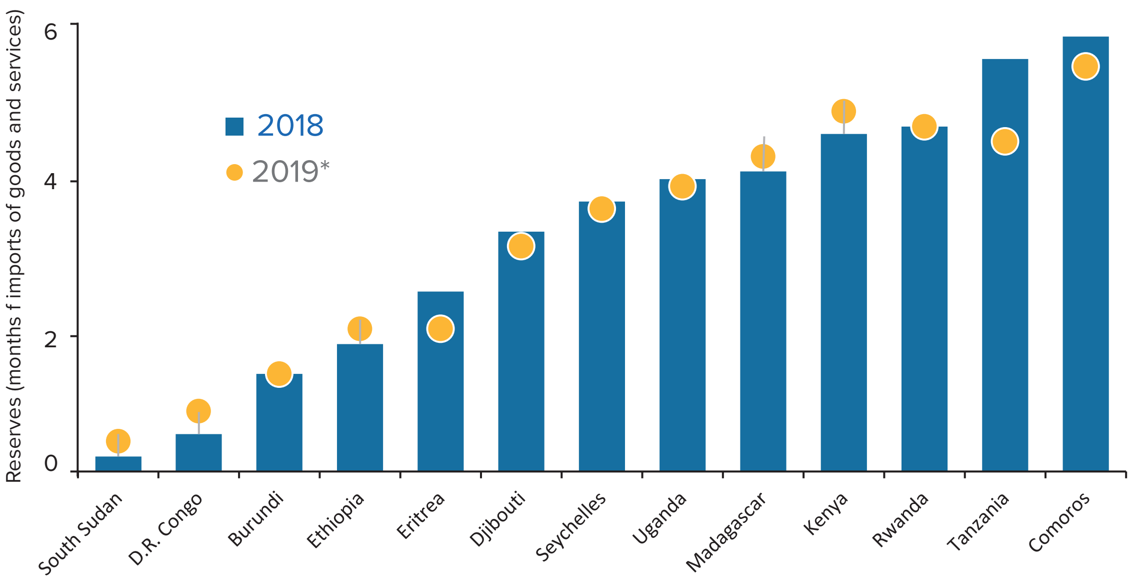
Although current account balances have deteriorated, reserve buffers have generally not been increased. Most countries in the region had reserves of the equivalent of around four months of imports in 2018; however, Ethiopia, Eritrea, Burundi, D.R. Congo and South Sudan were rather vulnerable to external shocks given the low level of reserve buffers (Figure 11). This warrants attention as the mounting risks in the global financial system may put countries under pressure of capital outflows.

Figure 10: Current account balance, 2018 and 2019
Percent of GDP



Source: IMF (2019a).
Note: (*) Estimate as at October 2019 WEO Update.

Figure 11: Official foreign exchange reserves, 2018 and 2019
Import cover (months of imports of goods and services)



Sources: IMF (2019a).
Note: (*) Estimate as at October 2019 WEO Update.

1.5. EXPANDING OPPORTUNITIES FOR REGIONAL TRADE

Globally, the growth in the volume of merchandise trade slowed from 4.6 percent in 2017 to 3 percent in 2018 as trade tensions heightened and the global economy weakened (WTO, 2019b). In the commercial services sector, global trade increased by 7.7 percent, down from 8.4 percent in 2017. This growth was driven by Information and Communications Technology exports, which expanded by 15 percent. In contrast to the sluggish trends in global trade, the value of intra-African trade increased by over 17 percent, boosted by industrial products and manufactured goods (Afreximbank, 2019). Total merchandise exports for Eastern Africa expanded by 5 percent to USD 31 billion, while merchandise imports increased by almost 3 percent to USD 66 billion. The most robust export growth was seen in Somalia (31 percent), Eritrea (22 percent) and Djibouti (18 percent), albeit from low bases (UNCTADStat, 2019). The largest exporters, D.R. Congo and Kenya also expanded their merchandise exports by 11 percent and 5 percent, respectively. In the case of D.R Congo, export value growth was supported by both higher copper and cobalt prices and increased mining activity (World Bank, 2019a).

In 2018, the East Africa Community (EAC) recorded a 5.6 percent increase in merchandise exports within the regional block (EAC, 2019). Intraregional exports from all Partner States grew except for South Sudan. The growth in intra-regional trade was partly driven by the increase in agricultural exports, a decrease in non-tariff barriers, and increased trade in manufactured products.

In 2018, Uganda came close to replacing Kenya as the leading intra-regional trading partner in the EAC.

Box 5: Financing Growth in the Context of Balance of Payment Constraints

Since the late-1980s, there has been much literature and research delving into the macro-determinants of economic growth, as economists attempt to understand and explain differences in the rates of growth and per capita incomes across countries (e.g. Barro, 1991; Barro and Sala-i-Martin, 1995; and Easterly et al.,1997).[7] Much of this work has been carried out within the framework of endogenous growth theory. Based on data from the period 1990-2015, Mold and Naliaka (forthcoming) construct an econometric model to help explain growth in Eastern Africa, borrowing from existing literature, but specifically focusing on the way in which growth has been financed.

There are several reasons for this approach. First, despite still low average per capita incomes Eastern Africa has been performing strongly since the early 2000s – far above the global and African averages, and not far short of the most dynamic economies of East and South-Eastern Asia (e.g. China and Vietnam). This makes it a good case study of the determinants of sustained economic growth in a low-income setting. Secondly, in an important contribution to the literature, Prasad et al. (2007) find that the more a developing country finances its investment through its domestic savings, the faster it grows. Conversely, the more a country relies on external financing, the more slowly it grows. While enjoying a strong overall growth trajectory, Eastern Africa has generally struggled to mobilise sufficient resources from domestic sources and has been forced to rely quite heavily on foreign inflows to finance growth. Consequently, most countries in the region continue to sustain large current-account deficits, indicative of low domestic savings. The way this impacts on growth has implications for the sustainability of the growth process in Eastern Africa.

The model used here builds on earlier work by Bosworth and Collins (2003) and Prasad et al. (2007). The pooled regressions include observations for 11 countries in the region over the period 1990-2015. The empirical specification of the random effects estimator[8] is shown below:

$$y_{it} = B_0 + B_1 ca_{it} + B_2 X'_{it} + (c_i + u_{it}), \qquad t = 1,2, \ldots T; i = 1,2 \ldots N$$

Where is the annual rate of growth of GDP per capita, is the current account balance as a percentage of GDP, is a vector of control variables that comprises initial per capita income, initial life expectancy, openness, fiscal balance, inflation, ODA, population growth, a dummy variable for the year 2002[9], savings and investment[10].

7. For summaries and discussion of this earlier work, see Agenor (2004) for an orthodox review, and Thirlwall (2011) for a more heterodox approach.

8. The GMM estimator is not considered as it is likely to give biased estimates since our data has small N and large T. GMM was originally designed to cope with panels with little depth, but a large cross section.

9. This variable is meant to capture the sharp improvement in the performance of Eastern African countries since the beginning of the 2000s, related to improvements in the external environment (better financing possibilities – increased ODA, FDI and remittances, and higher commodity prices) (Romily, Prizzon and Rogerson, 2013).

10. To minimize the risks of multicollinearity and bidirectional causality, savings and investment variables are not included in the same regression.

The results confirm several interesting characteristics of growth in the region (Table 4):

Table 4: Random effects regressions of the determinants of growth in Eastern Africa

DEPENDENT VARIABLE: ANNUAL RATE OF GROWTH OF GDP PER CAPITA							ESTIMATION PERIOD: 1990-2015		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Current account balance/GDP	-0.14***	-0.06	-0.14***	-0.04	-0.10*	-0.01	-0.09*	-0.00	-0.08
	(0.05)	(0.06)	(0.05)	(0.059)	(0.06)	(0.06)	(0.06)	(0.05)	(0.05)
Log per capita income (1990)	1.35**	1.13**	1.23***	1.11**	1.28***	1.43**	1.51***	1.49**	1.56***
	(0.59)	(0.53)	(0.34)	(0.52)	(0.37)	(0.67)	(0.50)	(0.68)	(0.55)
Life expectancy (1990)	-0.17***	-0.15***	-0.16***	-0.24***	-0.25***	-0.25***	-0.25***	-0.24***	-0.24***
	(0.05)	(0.04)	(0.03)	(0.07)	(0.06)	(0.06)	(0.05)	(0.06)	(0.06)
Openness	-0.01	-0.01	-0.01	0.00	-0.00	0.00	-0.00	0.00	-0.00
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Fiscal balance / GDP	0.26*	0.25*	0.22*	0.21*	0.20*	0.19*	0.19*	0.15	0.15
	(0.15)	(0.14)	(0.12)	(0.12)	(0.11)	(0.10)	(0.01)	(0.10)	(0.10)
Inflation	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
INVESTMENTS/GDP		0.13*		0.11		0.12		0.11	
		(0.07)		(0.08)		(0.07)		(0.07)	
Savings/GDP			0.15**		0.12*		0.12		0.10
			(0.07)		(0.07)		(0.07)		(0.07)
ODA as a share of GNI				-0.13	-0.14*	-0.13*	-0.13	-0.12	-0.12
				(0.09)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Population growth						0.42	0.33	0.42	0.34
						(0.34)	(0.31)	(0.29)	(0.27)
Dummy 2002								1.28	1.188
								(0.94)	(0.881)
Constant	2.45	0.67	0.64	7.24	6.99	4.37	4.88	2.96	3.551
	(3.15)	(2.72)	(2.39)	(5.17)	(4.95)	(6.33)	(6.10)	(6.84)	(6.568)
R-squared	0.11	0.15	0.16	0.19	0.20	0.20	0.20	0.21	0.211
Wald chi-squared	1335.91	1780.64	1363.77	4749.6	8873.49	8995.82	49693.34	90096.73	191245.83
No. of observations	267	267	267	257	257	257	257	257	257
No. of cross-sections	11	11	11	11	11	11	11	11	11

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05 and * p<0.1.

a) The first row of the table (1) contains coefficients of the impact of current account deficits on GDP per capita growth. The coefficients are negative and statistically significant at the 1 percent level, implying that a 10 percent increase in the current account deficit results to a 0.9 to 1.4 percent reduction in the GDP per capita growth, ceteris paribus. This mirrors findings by Prasad et al (2007) whereby current-account deficits are associated with negative growth in developing countries. It also confirms Rodrik's (2009) assertion that when it comes to capital flows, 'more is not necessarily better';

b) The coefficients of initial income per capita are highly significant and positive. This suggests that the poorer countries in the region are growing more slowly than the richer countries, hence there is no evidence of conditional β convergence. With reference to the Keynesian economists especially McCombie and Thirwall (2004), Hussain (2006) and Thirlwall (2011), the constraints on growth of countries in the region partly points to issues in their underlying trade structure vis a vis that of the fast-growing economies such as Asian tigers. As a result, the countries are probably running against what Thirlwall (1979) referred to as the 'balance of payment constraint';

c) All the coefficients of initial life expectancy are statistically significant and negatively correlated to GDP per capita growth. This finding does not necessarily deny the importance of investing in human capital for development outcomes, as evidenced in empirical studies by Bloom and Sachs (1998), Gallup et al. (1998), Bloom et al. (1999) and Lorentzen et al (2008). Rather, it indicates that, although improvements in life expectancy may lead to growth in aggregate incomes, they may also trigger faster population growth leading to a negative causal effect of life expectancy on growth of GDP per capita[11] (Acemoglu and Johnson, 2007);

d) The fiscal balance has a significant positive influence on GDP per capita growth. On the other hand, the coefficient of inflation (a proxy for macroeconomic uncertainty) is consistently significant and negatively correlated with GDP per capita growth;

e) In common with many earlier studies (Levine and Renelt, 1992; Ghura and Hadjimichael, 1996; Easterly, Loayza and Montiel 1997, and Hoeffler ,2002), the investment coefficient is significant and positively correlated to the GDP per capita. Similarly, the savings rate has a positive impact on the GDP per capita growth. A 10 percent increase in the savings-to-GDP rate raises the GDP per capita growth by around 1.2 - 1.5 percent. This is in line with predictions from theories of endogenous growth pioneered by Romer (1986) and Lucas (1988), that higher saving and investment rates can permanently raise growth rates;

f) The results suggest that ODA has a negative impact on GDP per capita growth. The empirical results on the aid-growth nexus have been at best, mixed. Clemens et al. (2011) and Askarov and Doucouliagos (2015) attribute this to econometric challenges in estimation. Brautigam and Knack (2004) and Mallik (2008) find a similar negative impact of aid on growth. Aid may even curtail growth by, inter alia, lowering competitiveness through Dutch disease problems (Rajan and Subramanian, 2005) and limiting the capacity to absorb foreign currency.

11. For instance, lower mortality may increase income per capita by increasing the productivity of available resources (most notably human capital). On the other hand, lower mortality may lead to an increase in population size. In the presence of fixed factors production, a larger population tends to reduce income per capita (Cervellati and Sunde, 2009).

This contrasts sharply with the 4.7 percent decline in EAC exports overall. Among the six countries, intra-EAC exports grew the fastest for Burundi (44.3 percent) and Uganda (11.4 percent). In 2018, Uganda came close to replacing Kenya as the leading intra-regional trading partner. While Kenya's exports to EAC partner countries increased marginally (0.1 percent), imports grew more robustly at 14.7 percent. This was mainly due to increased imports from Uganda (milk, beans, and raw materials) and Tanzania (paper and ceramics).

Overall, just under a third of sub-regional exports were traded within Africa, a ratio that has risen from the early 2000s.[12] Conversely, the share of African-sourced imports into the sub-region has declined from 20 percent in the early 2000s to 16 percent in 2018, reflecting increasing diversification towards Asian trade partners (EAC, 2019).

In the services sector, sub-regional service exports expanded by 5 percent, while service imports contracted by 2 percent. From 2005 to 2018, service exports increased over 200 percent, most notably in Rwanda (813 percent) and Ethiopia (385 percent). As of 2018, six Eastern African countries recorded positive services trade balances, ranging from USD 14 million in Madagascar to USD 1.7 billion in Tanzania. This is in sharp contrast to the merchandise trade sector, where only D.R. Congo enjoys a surplus in trade (UNCTAD, 2019 and ECA, 2019).

Despite these positive trends, large trade imbalances continued to place pressure on the overall external positions of Eastern African economies. The sub-region is still vulnerable to conditions in the global energy and commodity markets. Generally, commodities-dependent exporters faced lower prices in 2018, due to depressed global demand and ample supply of agricultural goods. The uptick in global oil prices in late 2018 also hurt the current accounts of net-energy importers. The burgeoning oil extraction and processing market in some Eastern African countries suggests that rising energy prices may have a different impact on the intra-regional trade balances in the medium-to-long term. Notwithstanding delays in initiating oil production, Kenya's inaugural crude oil shipments in mid-2019 is encouraging. Uganda's progress has been delayed, in part due to stalled negotiations between the government and external partners (Wilson, 2019).

Countries in the region have been diversifying their trade away from traditional markets (e.g. Europe) towards new trading partners, especially Asian countries, over the past decade (ECA, 2018c). While the share of exports to the new trading partners is still low, the increase in importance of imports from these sources is striking. As an example, the unbalanced growth of trade between the Eastern Africa and China and India resulted in trade deficits of around USD 18 billion in 2018. These partners have accounted for about a half of the region's overall trade deficit (Figure 13) since 2013.

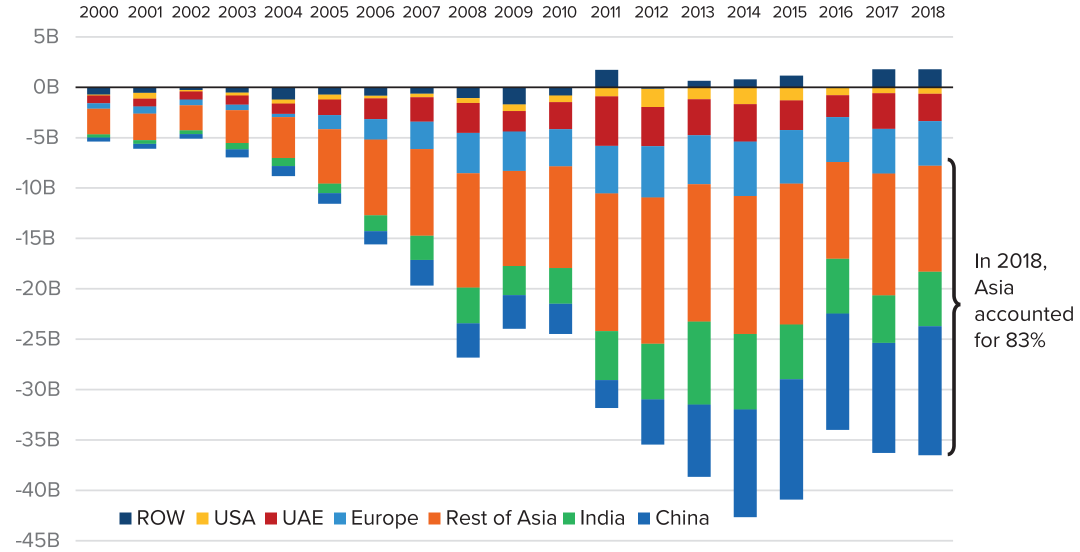
Manufactured goods, machinery, and equipment account for most merchandise imports from Chinese suppliers (Figure 14). Those categories also account for a large share of imports from India, along with chemicals, crude materials, and fuel. The rapid growth of Eastern African economies is likely to fuel demand for more manufactured products which, in the medium term,

12. From 2000 to 2005, Eastern Africa's average share of exports going to Africa was 23%. This ranged from as high as 53% in Djibouti to 4% in Comoros. In 2018, the sub-regional average was 31%, driven by the Africa-bound exports of Ethiopia (23%) and Kenya (33%).

Figure 12: Goods and Services exports, imports and trade balance, 2014-2018
USD millions

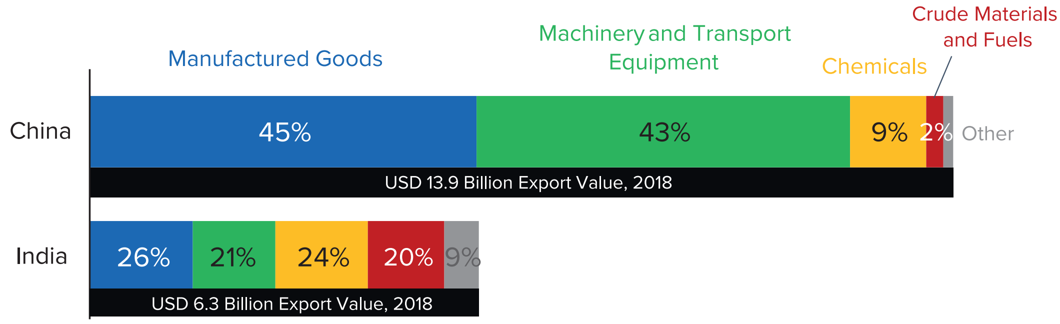
Source: UNCTAD (2019).

Figure 13: Merchandise trade balance between Eastern Africa and other regions, 2000-2018



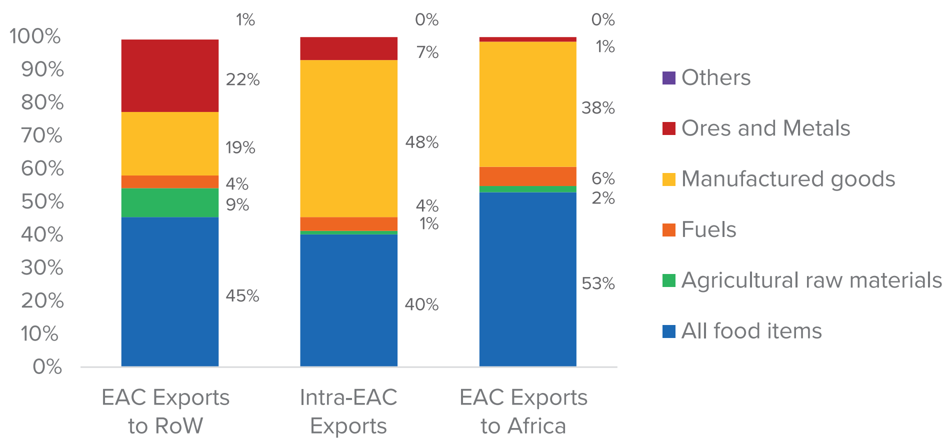
USD billions Source: UNCTADStat (2019).
Note: Excludes South Sudan.

Figure 14: Composition of merchandise imports from China and India to Eastern Africa, 2018



Source: UNCTADStat (2019).

Figure 15: Composition of EAC exports, 2018



Source: UNCTADStat (2019).

will be largely met by these key Asian trade partners, unless initiatives like the AfCFTA manage to raise productivity capacities and achieve a degree of recapturing the domestic and regional markets.

With few exceptions, most countries in Eastern Africa are net-importers of manufactured goods. However, this has the potential to change in the long term if foreign direct investment (FDI) continues to flow to emerging manufacturing destinations in the sub-region. The manufacturing sector in Ethiopia, Kenya, and Uganda was among the leading beneficiary sectors for USD 6 billion of FDI into those countries in 2018 (UNCTAD, 2019a). In early 2019, South Korea's Hyundai opened a car assembly plant in Ethiopia, with intention to trade some of its 10,000-a-year production within the region.

Intra-regional trade consumes a disproportionate share of manufactured goods exports in Eastern Africa. The composition of EAC's exports to the world remains heavily concentrated in primary commodities. However, manufactured goods account for over a third of intra-African exports and almost half of EAC exports, which bodes well for the development of regional value chains and industrialisation (ECA, 2018c). The kinds of manufactured goods trade across the EAC include items such as cement, petroleum, textiles, sugar, confectionery, beer, salt, fats and oils, steel and steel products, paper, plastics and pharmaceuticals (EAC, 2019:23).

Trade disputes and reciprocal barriers against each other's goods continue to recur and could undermine intra-African trade.

Resource-based manufactures have accounted for a major share of total manufactured exports to African markets (Figure 16). The share of resource-based manufactures declined sharply in 2016, but had recovered by 2018, while the shares of low- to high-technology manufactures fluctuated over the same period. However, local manufacturers face stiff competition from global competitors, especially from China. In 2018, over a third of manufactured goods imports were sourced from China. A study by Jeanneney and Hua (2015) indicates that dependence on these imports has had an adverse effect on African industrialisation[13]. Against this backdrop, countries in the region that shift to production of sophisticated and high-technology manufactures stand to accrue better benefits from intra-African trade. This is premised on the fact that high-quality products with more sophisticated technological content are more difficult to produce or imitate and are, therefore, subject to less squeeze on the price and profit margins (Kaplinsky, 2006). Some multinationals involved in the production of medium- and high-technology manufactures are establishing themselves in the region. An example is the launch of the Volkswagen car assembling plant in Rwanda's Kigali Special Economic Zone (MININFRA, 2018) (Box 6).

13. For instance, Eveready East Africa was Kenya's main battery producer, but the company had to shut down its dry cell plant because of increased competition from cheap imports. Sameer Africa also closed its Yana tyres manufacturing factory in Nairobi citing increased competition from cheaper imports, dealing yet another blow to Kenya's ambition to industrialise (Daily Nation, 2016).

Box 6: Steps Towards an East-African Automotive Industry

The evolution of the East African automotive sector mirrors the history of East Africa's industrialisation. In the 1960s to 1970s, there was a significant presence of assembly plants in East Africa, primarily in Kenya. What explains the fact that today the East African Community has become a dumping ground for used vehicles, with an automotive trade deficit of 2,8 Billion USD (Black et al. 2017). Do the reasons for the early demise of East Africa's automotive industry still hold?

The de-industrialisation witnessed in the African automotive sector had one major cause, which is about to be addressed with the African Continental Free Trade Area (AfCFTA): fragmented markets. Companies in the sector were consequently unable to reap the advantages of scale economies, which were critical in determining the efficiency and profitability of operations. In fact, the automotive industry in Africa was not able to survive in the 1970s despite import substitution rules. What hit the nail in the coffin, however, was the influx of imported used cars following the structural adjustment policies of the early 1990s. Consequently, even for a country like Kenya assembling cars, 80 percent of the car fleet is now made up of second-hand cars (Auto parts East Africa, 2019).

Around 329 000 light vehicles are sold currently in the East African Community each year of which only 23 percent are new cars. In the largest market of the region, Kenya, only 48 percent of new vehicles sold were assembled domestically with the remainder being imported. Imports, of both used and new vehicles, made up over 90 percent of new vehicle registrations in 2018 according to the Kenya National Bureau of Statistics (KNBS, 2019). The import of used cars has a double effect on air quality: old cars have higher emissions, but they also don't create an incentive to use better quality fuel. This results in high levels of air pollution. Indeed, according to the World Health Organization, the mortality rate due to air pollution in the EAC is between 21 and 48 deaths/100 000 inhabitants (EAC, 2018). Fortunately, the EAC has decided to import fuel with lower sulphuric content in January 2015 and is currently adopting higher vehicle standards. This has the potential to reduce current pollution levels by 90 percent according to the United Nations Environment Programme (UNEP, 2016).

The current fleet size in the EAC is about 2,2 Million cars, whereas the motorization rate is just 15 cars/ 1000 inhabitants against an average of 42 in Africa and 182 in the world (Black et al. 2017). Thus, there is enormous room for growth especially because the EAC has been the fastest growing region in Africa for the last decades. If things are left by themselves, to meet the growing demand, there will be more imports of used cars with adverse macro-economic implications. The foreign exchange needed to maintain the transport sector afloat will not be used to promote local industries that could in turn generate hard currencies through exports.

The AfCFTA offers a unique window of opportunity to create a large enough market for the automotive industry. Therefore, the African Association of Automotive Manufacturers has started to implement a bold Pan African Auto Pact with 3 milestones that can be achieved in the next decade.

Just like AfCFTA, the Pan-African Automotive Value Chain will take time to materialise. However, there are concrete milestones that can follow the implementation phases of the AfCFTA. This would start by a hub-and-spoke strategy per African region and ultimately end in a fully integrated continental value chain, once the AfCFTA is fully operational. In concrete terms, this is what the Pan-African Auto pact suggests:

- Original Equipment Manufacturers (OEM) such as Volkswagen Group South Africa are investing in countries ready to adopt an Automotive Policy. This allows for a renewal of the existing car fleet though Semi Knocked Down (SKD) kit assembly.
- There is going to be shift towards Complete Knock Down (CKD) assembly once local suppliers have been identified and volumes of new cars sales have gone up.
- There will be a regional automotive value chains supported by a regional automotive policy that ensures a win-win scenario for all countries in the region (hub-and-spoke model). The regional value chain is the precondition for a fully-fledged manufacturing plant. Ideally, there would be a specialization of vehicle type per African region.
- The AfCFTA would allow a tax-free exchange of Made in Africa cars and spare parts among regions.

With enough political will, these steps can be reached within a generation. Africa may reach even benefit from a last mover advantage, as the whole world is now learning how to manufacture the cars of the future. For example, Volkswagen is launching the first e-cars ride hailing service in Africa at the end of October 2019 in Rwanda.

The automotive industry has also drawn lessons from the past. For example, a frequent argument against tariff protection of local automotive industry is trade diversion, and the fear that locally produced cars can be more expensive for the customer. Today, digital solutions enable customers at the lower end of the pyramid to drive new cars without owning them. In Rwanda, Volkswagen has pioneered a Made in Rwanda mobility solution which allows people to use new cars on a pay-as-you- go basis. Furthermore, the results thus far registered in Kenya show that new cars sales of locally assembled cars have grown by 15.9 percent for Kenya between 2017 and 2018 (KNBS, 2019). The different models assembled in Kenya and Rwanda (SUV, hatchback, Saloon, Pick-Up) allow to test the African market in a view of a specialized manufacturing plant. Strategic partnerships will also be important in addressing skills gap and consumer financing, for example Volkswagen is working with the German Cooperation Agency GIZ to train automotive professionals in Rwanda. Local banks are also realizing the reduction of risks that comes with locally assembled cars whose residual value can be preserved through professional after-sale services.

No country has ever transformed economically without a vibrant manufacturing sector. The automotive industry alone contributes 6.9 percent of South Africa's GDP, a country that does not import a single used car. This is the result of consistent policy making over the decades. There is no reason why East Africa cannot achieve rapid industrialization starting with sectors that are vital for individual productivity such as transport.

Africa's cities can become production cities and not just consumption cities of transport products. For that to happen a clear political direction is needed: discouraging importation of old used cars, adopting fuel standards allowing new vehicles to operate in a market, enabling a regional automotive car market from assembly towards manufacturing. This should be done in connection with improving logistics infrastructure to bring the costs of local manufacturing down.

Source: Serge Kamuhinda, Volkswagen Rwanda

Focusing on intra-regional trade dynamics is crucial, especially given the escalating trade tensions between major economies that threaten to undermine global growth and the rules-based multilateral trading system. Although the region may benefit marginally from trade diversion in the short term, countries that are more integrated into the global market and the commodity exporters would be affected by the negative effects of trade conflicts on global demand (IMF, 2018c and d)[14]

Nonetheless, trade disputes and reciprocal barriers against each other's goods continue to recur and could undermine intra-African trade. For instance, manufacturers of confectionery in Kenya[15], oil and fats in Uganda[16] and a wheat and juice producer from Tanzania have noted that tariff and non-tariff barriers have blocked them from accessing the regional markets (Asiimwe, 2018).

To increase their negotiating power, it is highly preferable that African countries negotiate collectively with external trading partners.

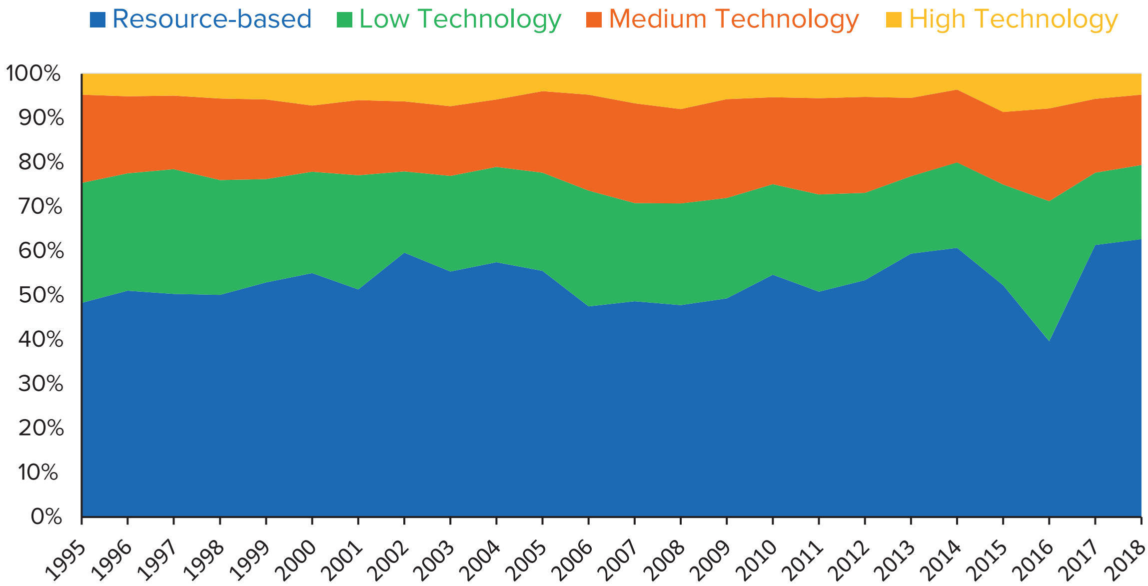
Another recent development in trading relations has been the temporary suspension of duty-free treatment for all AGOA-eligible goods in the apparel sector from Rwanda in July 2018, due to a disagreement over Kigali's policy to reduce imports of second-hand clothing. The benefits of AGOA for East African countries have been marginal; still, such a shift in Africa-US trade and investment relationships could have significant consequences – with the exception of Kenya (Figure 17) – particularly for efforts to deepen the African continental-integration process. Free trade agreements with the US are usually demanding (requiring, for example, the removal of public-procurement restrictions on non-nationals, financial services liberalisation and intellectual property protection). The prime consideration, however, is how the proposal might affect the implementation of the AfCFTA. Specifically, there is concern about how any bilateral agreements with the United States might impact on implementing rules of origin, and how the provisions of any agreements with the United States might impinge on policies to promote intra-African trade in goods and services. African countries have learned that it is highly preferable that Africa negotiates collectively with external trading partners to rebalance uneven negotiating power. This will also contribute to improving continental policy coherence.

14. Trade conflicts could have negative impact on China GDP growth. As hard primary commodities (ores and minerals) account for around 42% of Eastern African exports to Asia and 75% of these exports are destined for China, the moderating of China growth has significant implication on the region.

15. In 2017, Kenya faced a sugar crisis that prompted imports of sugar at a zero tariff. According to the EAC regulations, this rate should have been 100% because sugar is a sensitive product that needs protection from dumping. Thus, customs officials in Tanzania have blocked Kenyan confectionery products unless a 25% import duty is paid as they were allegedly manufactured using sugar that was imported at zero rate (Asiimwe, 2018).). On a positive note, Tanzania and Kenya have recently agreed to start trading natural gas, which should help relieve the trade tensions (Anyanzwa, 2019).

16. Uganda's cooking oils and fats cannot enter the Tanzanian market because of alleged failure to meet the EAC Rules of Origin (Asiimwe, 2018).

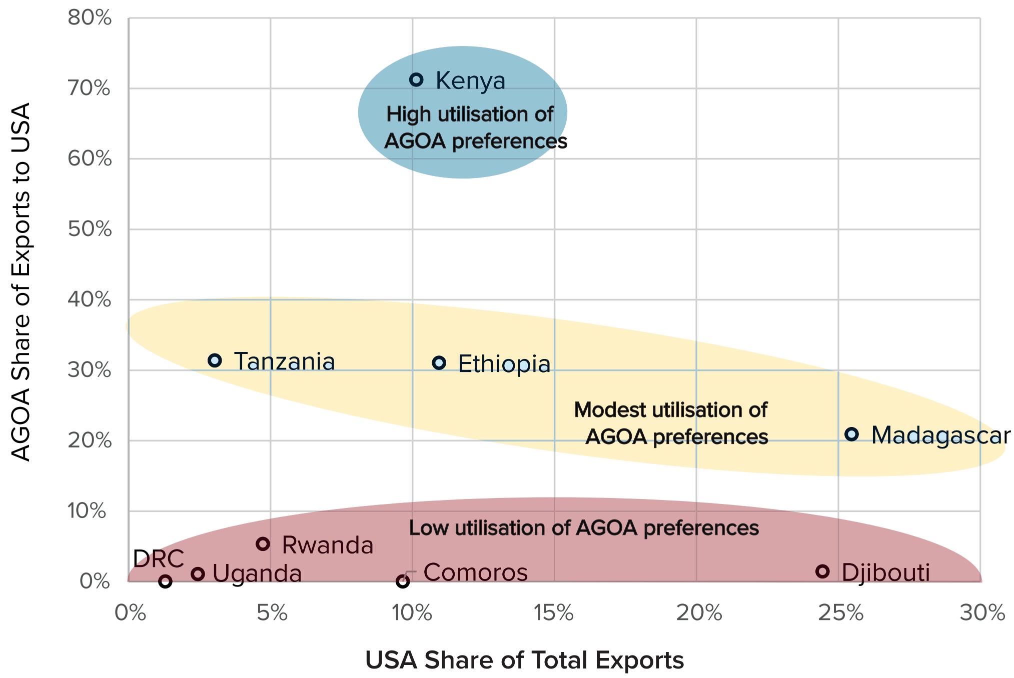
Figure 16: Composition of Eastern Africa's manufactured exports to Africa, 1995-2018



Source: UNCTADStat (2019).
Note: Based on Lall's classification (Lall, 2000), resource-based manufactures consist of agriculture-based and other products; low-technology manufactures comprise textile, garments and footwear and other products; medium-technology manufactures comprise processed goods, engineering and automotive products; and high-technology manufactures comprise electronic and electrical and other technology-dependent products such as pharmaceuticals.
Source: Serge Kamuhinda, Volkswagen Rwanda

Figure 17: Utilization of AGOA preferences and dependence on trade with USA, 2016- 2018 average

Share of exports sent to USA vs AGOA share of exports to USA



Sources: UNCTADStat (2019) and AGOA.info (2019).

One way of re-energising intra-regional trade in the sub-region is through the rapid implementation of the African Continental Free Trade Area (AfCFTA). A major regional consensus was achieved at the African Union (AU) Summit held in Kigali in March 2018, with thirteen of the fourteen countries of Eastern Africa signing up to the agreement. Following the launch of its operational phrase in July 2019, the agreement could boost intra-African trade and accelerate the pace of structural transformation in the region. A forthcoming report by ECA and TradeMark East Africa (2020) evaluates the economic impact of the AfCFTA specifically on countries in Eastern Africa. The report uses both the Global Trade Analysis Project (GTAP) computable general equilibrium (CGE) model and a partial equilibrium model to simulate the effects of the establishment of the AfCFTA.

The AfCFTA could boost Eastern Africa trade by between USD737 million and USD 1.1 billion.

The report estimates that the lower cost for goods and services due to the AfCFTA will result in welfare gains of USD 1.8 billion and create more than 2 million new jobs in the region. Major job opportunities are likely to emerge in sectors where there is a high share of female labour participation, thereby contributing to the economic empowerment of women in the region.

The report also shows that the AfCFTA could boost Eastern African trade by between USD737 million and USD1.1 billion. For some Eastern Africa economies, the AfCFTA is anticipated to lift exports as much as 30 – 40 percent (Table 5).

Table 5: Anticipated increase in exports after AfCFTA reforms

COUNTRIES	ABSOLUTE AMOUNT (USD '000)	PERCENT CHANGE FROM BASE YEAR
Uganda	198,546	21
Kenya	188,227	10
Tanzania	171,780	17
Madagascar	93,186	47
Rwanda	56,010	22
Ethiopia	10,718	10
D.R. Congo	9,843	1
Seychelles	3,963	7
Somalia	2,988	31
Djibouti	716	5
South Sudan	401	8
Eritrea	55	1
Burundi	39	0.4
Comoros	28	1
EASTERN AFRICA	736,501	13

Source: ECA and TMEA (2020).
Note: ECA estimates from calculations based on WITS/SMART partial equilibrium model.

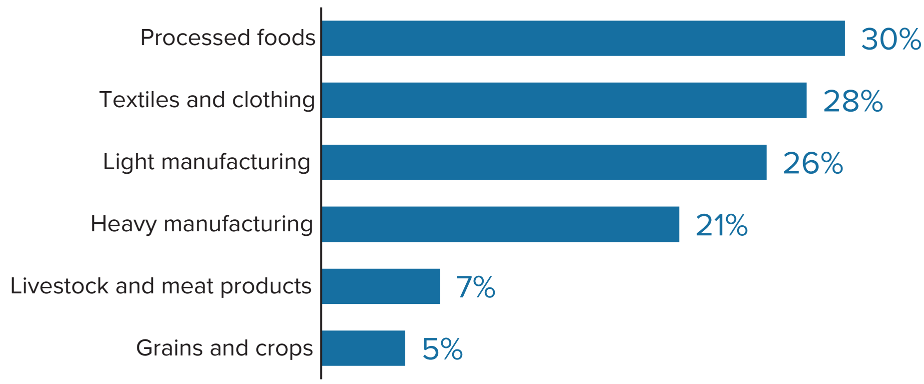
Particularly encouraging is the fact that the sectors benefiting most from the AfCFTA are manufacturing ones, such as light and heavy manufacturing, and processed foods (Figure 18). The manufacturing sector will also benefit from increased intra-regional investment, and in this way, the AfCFTA will accelerate the industrialization of the region. Over time, the AfCFTA will help to boost Eastern African firms' competitiveness and efficiency, thus building stronger industries that can compete better on both continental and global stages.

These gains are likely to be rather conservative, and do not include the substantial benefits from liberalizing services trade, from competition and scale economy effects. The AfCFTA promises to create new opportunities in high value-added services trade, helping countries achieve their goals of economic diversification and structural transformation. Eastern African citizens will be the primary beneficiaries with:

- 1. ***Better quality and less expensive goods and services***, through increased market competition when industries liberalize import prices reduce, and competition laws come into effect;
- 2. ***A widened job market***, through implementation of the Free Movement Protocol which will open new employment opportunities across the region; and
- 3. ***More growth opportunities for small and medium-sized businesses***, as regional value chains develop, and firms are able to take advantage of larger economies of scale.

The report also highlights the issues at stake, identifying areas where governments and the private sector will need to focus their energies as the region moves forward with implementation. Raising awareness among the general public about the potential impact and benefits springing from the AfCFTA is highlighted as a key area for action.

Figure 18: Change in East African exports to Africa by sector



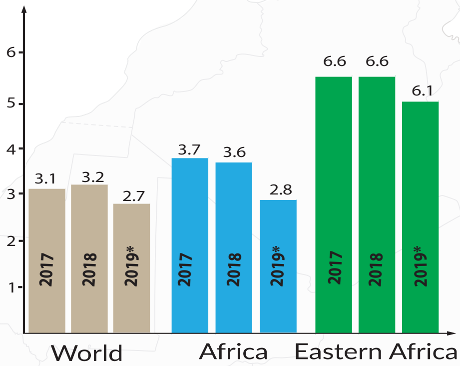
Source: ECA and TMEA (2020).
Note: ECA estimates from calculations using a CGE model based on GTAP data.

MACROECONOMIC PERFORMANCE

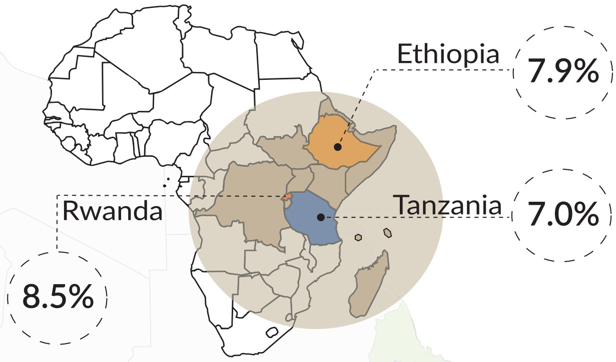
Fast growth, but vulnerabilities persist

Regional economy grows faster than overall Africa or global averages

Annual GDP growth (%)



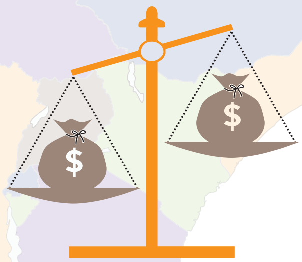
Fastest growing regional economies in 2018



Eastern Africa is exposed to vulnerabilities

Extreme Weather Events

Rising Debt Levels



High Trade Imbalances

But there is significant opportunity for the AfCFTA to help sustain regional growth

Welfare gains of USD 1.8 billion

A US$ 1.1 billion boost to intra-regional trade

More than 2 million jobs created

Accelerated industrialisation

Box 7: The Impact of Brexit on Eastern Africa

On the 23rd June 2016, the British electorate delivered a largely unanticipated vote to leave the European Union, a move known colloquially as "Brexit". Speculation has continued ever since about the impact of Brexit on the UK economy, on Europe and on the rest of the world. Africa has not been immune to these concerns (e.g. Luke and McLeod, 2016; Sow and Sy, 2016). The United Kingdom and the EU continue to maintain important investment and trading links with African countries and are major donors. Some of the initial evaluations of the effect on Africa were quite alarmist. For instance, Tan (2016) declared that "African economies may be severely affected by Britain's exit."

Most of the subsequent academic literature discussing the implications of Brexit for Africa has focused on the terms of post-Brexit trading arrangements with both the United Kingdom and the European Union (see, inter alia, ODI, 2016; Mendez-Parra et al., 2016; Holmes et al., 2016). Mold (2018) takes a different approach by providing one of the first quantitative assessments of the potential impact of Brexit on trading relations with the African continent. Using GTAP, a Computable General Equilibrium model based on 2014 data, Mold simulates the impact of a "hard Brexit" (i.e. the return to "Most-Favoured-Nation" tariffs on EU-UK trade), focusing particularly on the prospects for the EAC. For the EAC, a hard Brexit would entail an increase in exports to the UK of USD 115 million, with a small decrease of USD 17 million towards the EU-27, leaving a total increase of exports to Europe of USD 98 million. The rest of Africa would see increases of exports of nearly USD 1.5 billion to both the UK and the EU-27 post-Brexit. Summary results of the simulation are shown in Table 6.

Table 6: Simulation of the impact of Brexit on Africa, 2014

COUNTRIES	WELFARE (USD MILLIONS)	TERMS OF TRADE (USD MILLIONS)	TERMS OF TRADE (PERCENT CHANGE)	GDP (PERCENT CHANGE)	VALUE OF EXPORTS (PERCENT CHANGE)	VALUE OF IMPORTS (PERCENT CHANGE)
EAC	156	36.4	0.19	0.36	0.08	0.37
Rest of Africa	1558	899	0.14	0.21	0.15	0.33
UK	-21995	-12767	-1.86	-2.43	-4.65	-7.75
EU-27	-6838	-2276	-0.03	-0.16	-0.51	-0.63
China	3144	2331	0.08	0.18	-0.01	0.26
US	4759	2906	0.17	0.25	-0.16	0.42
Middle East	1464	1581	0.11	0.16	0.13	0.26
Rest of East Asia	2135	1913	0.05	0.17	0.04	0.2
Oceania	810	562	0.17	0.29	0.08	0.43
Rest of South Asia	872	531	0.14	0.24	0.02	0.28
Rest of North America	657	379	0.05	0.19	0.02	0.23
Latin America	1549	1023	0.13	0.25	0.06	0.38
Rest of World	2760	2757	0.21	0.18	0.14	0.33

Source: Mold (2018).

It should, however, be noted that Brexit promises to do nothing to improve the continental trade balance. Exports from both the United Kingdom and the EU-27 to the African continent would increase by USD 3.8 billion, more than double the expansion of African trade towards Europe. However, this expansion of trade opportunities is mainly in resource-intensive sectors that are not considered priorities for the development agendas of most African countries; for the EAC, grain and crops, meat and livestock would experience the largest increases in exports, and there would be small declines in textiles and apparel, light and heavy manufacturing.

In any case, Mold stresses that the indirect consequences, through Brexit's impact on the global economy, or a potential reduction in UK development co-operation, are likely to be equally important over the longer run. Finally, one overlooked consequence of Brexit for Africa is that it could undermine confidence in 'deep' regional integration processes like the EAC. To mitigate these risks, Mold recommends the implementation of the recently signed AfCFTA, to give a new impetus to regional integration on the continent and forestall any potential opposition based on the British "model".

1.6. EVOLVING EXTERNAL FINANCIAL FLOWS

Total external financial flows to Eastern Africa are estimated at USD 36.6 billion in 2018, little changed from 2017. While official development assistance (ODA) remained the most important component of external finance for most countries in the region, although at stagnant levels, private external flows including remittances and FDI continued to provide the basis for growth in external finance (Table 7).

Remittances provide a more stable financial flow, and they can have a countercyclical impact... helping to sustain domestic consumption and investment against economic headwinds.

Eastern African countries have traditionally been major ODA recipients, with Ethiopia, Tanzania, Kenya, D.R. Congo, South Sudan, Uganda and Somalia ranking among the top 10 recipients in Africa, which represents one-third of total ODA to Africa in 2017. Burundi, Somalia and South Sudan are especially dependent on ODA, which accounts for some 80 percent of the total external financial flows. A breakdown of sectoral allocations reveals that most of the ODA receipts are used for social and economic development, as well as humanitarian assistance (OECD, 2019b). Given its relative volatility and the difficulty of extracting commitments from members of the OECD Development Assistance Committee, African countries have actively been exploring new sources of finance to reduce aid dependency.

One of the growing sources of finance is remittances, which tripled from USD 2.3 billion in 2008 to USD 7.1 billion in 2018. Seychelles and Comoros stand out in remittances per capita at USD 250 and USD 170 in 2018, respectively. There are certain advantages to remittances: they provide a more stable financial flow, and they can have a countercyclical impact (since migrants tend to send home more money when difficult situations arise in their country of origin); this helps sustain domestic consumption and investment against economic headwinds. They are also usually well targeted to the needs of their recipients and can have a positive effect on poverty reduction (Kapur, 2004 and Ratha, 2007). The high cost of transferring remittances to Africa (at 9 percent in the second quarter (Q2) of 2018), which has been a major constraint is being offset to some extent by the use of mobile money, which provides a cheaper method, costing only 4.4 percent in Q2 2018 (World Bank, 2018a). Mobile money also represents an opportunity to boost financial inclusion and facilitate the flow and allocation of capital (Box 8).

FDI flows to Africa will strengthen with the implementation of the AfCFTA. East Africa is well placed to benefit from further increases in FDI.

Countries in Eastern Africa have been undertaking various initiatives to leverage remittances for development. For instance, Ethiopia issued Africa's first diaspora bond through the Ethiopian Electric Power Corporation in 2008, and a second diaspora Grand Renaissance Dam Bond in 2011. To foster relationships with the diaspora, the Diaspora Engagement Affairs General Directorate was established in 2002. Similarly, Rwanda has maintained close contacts with its diaspora members. The Rwanda Day Initiative and the Annual National Dialogue both provide an important platform for the interaction between the diaspora and government officials on the national development plans.

Another important source of external finance for Eastern Africa is FDI, which increased by more than 60 percent in the last decade – from USD 6.5 billion in 2008 to USD 10.5 billion in 2018. Despite the remarkable decline in global FDI flows, FDI flows to Eastern Africa remained stable in 2018, albeit with large regional variations. The four major FDI recipients were: D.R. Congo, Tanzania, Kenya and Uganda.They had declines in FDI in the early 2010s, while there was a marked increase in FDI to Ethiopia and Rwanda (Figure 20). This trend reflects the shift from investments in the extractive industries of resource-rich countries to more diversified investments in countries with improved political and business environments. As an example, between January 2016 to July 2018, most announced greenfield projects in Ethiopia were related to the textiles sector, whereas there were several large investment projects in Rwanda in the chemicals, real estate, and hotels and tourism industries (fDi Markets, 2018).

Table 7: Selected external financial flows to Eastern Africa, 2014-2018
USD billions

	2014	2015	2016	2017	2018
Official Development Assistance	18.5	17.8	18.0	19.8	19.0*
Remittances	6.0	7.0	6.5	6.6	7.1
Foreign Direct Investment	8.6	8.6	8.8	10.0	10.5
TOTAL	33.1	33.4	33.3	36.5	36.6

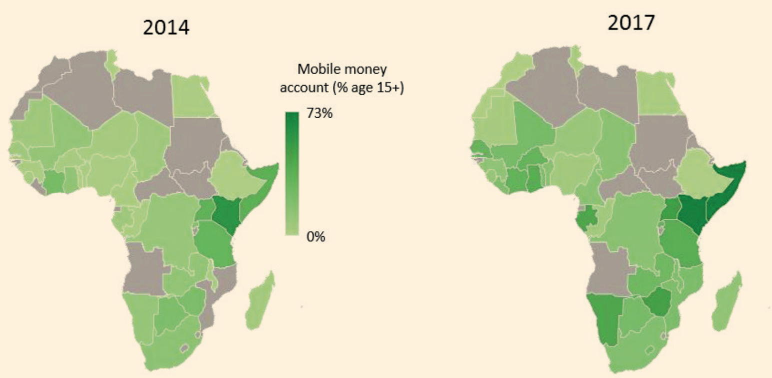
Sources: OECD (2019a and b), UNCTAD (2019) and World Bank (2018a).
Note: (*) The preliminary data show that net bilateral aid flows to Africa fell by 4 percent in 2018 compared to 2017. It is assumed that ODA to Eastern Africa registered the same decline in 2018.

Box 8: Enhancing Financial Inclusion via Mobile Money

Financial inclusion is a key lever to achieve inclusive and sustainable development. It facilitates trade, businesses operation and expansion, as well as risk management. Yet around 31 percent of adults (or 1.7 billion people) in the world did not have an account at a financial institution or through a mobile money provider in 2017, with women, the poor and people with low educational attainment accounting for a disproportionate share of the unbanked. In sub-Saharan Africa, some 57 percent of adults remained unbanked. In Eastern Africa, the corresponding share ranged from 18 percent in Kenya to 93 percent in Burundi. More than 80 percent of the unbanked cited having too little money to use an account, largely due to high minimum balance requirements, while a third said that financial institutions are too far away and the services are too expensive (Demirgüç-Kunt et al., 2018).

Mobile money is a transforming technology that connects the unbanked to the use of financial services via a mobile device.[17] After the 2007 launch of the M-PESA payment system in Kenya, mobile money accounts have been spreading rapidly from the epicentre of mobile innovation in Eastern Africa to the continent, making it the leading region with more than 20 percent of adults having a mobile money account (Figure 19). Two thirds of unbanked adults had a mobile phone in 2017, so mobile money represents an unprecedented opportunity to boost financial inclusion and shrink the gaps in account ownership between richer and poorer, men and women, and, especially, in developing countries.[18] By offering financial services to excluded groups, mobile money could contribute to the Sustainable Development Goals (SDGs), through helping to reduce poverty and empower women with employment opportunities.[19]

Figure 19: Share of adults with a mobile money account, 2014 and 2017
Percent of adults 15+ years



Sources: Global Findex Database (2018).; 2017 estimate for Somalia from Altai Consulting

Among various financial services – including payment transfers, foreign exchange, savings, loans and insurance – mobile money has been used mainly for peer-to-peer (P2P) transfers and remittances in Africa.[20] Digitising government and businesses payments (for example, wages, tax collection, social transfers and humanitarian assistance) could help increase account ownership

17. In 2017, there were 690 million registered Mobile Money accounts worldwide, processing a billion dollars a day (GSMA, 2017).
18. It is estimated that half the population of Sub-Saharan Africa will be subscribed to a mobile service by 2023 (GSMA, 2018).
19. A study estimated that access to M-PESA increased per capita consumption levels and lifted 194,000 households out of poverty, with more pronounced impacts for female-headed households (Suri and Jack, 2016).
20. Apart from the direct benefit of the reduction in transaction costs, the improved risk sharing helps smooth consumption in case of an unexpected drop in income (Jack and Suri, 2014).

while, at the same time, reduce corruption and transaction costs.[21] In addition, digitising payments for agricultural sales could enable farmers to build credit history, allowing them to have better access to credit and insurance. An example is AliFinance of the Alibaba Group in China, which overturned traditional banking models by providing loans to millions of vendors on Alibaba's online shopping platforms based on an internal credit rating system that analyses clients' online activity.

The extension of the use of mobile money from payment to other financial services holds enormous potential to enhance financial inclusion. For example, Musoni in Kenya is a collaboration between mobile money and microfinance institutions that enables better credit assessment, as well as efficient delivery and repayment of loans (Vizcarra et al., 2017). M-Pawa, a mobile credit and savings product in Tanzania, is another example, with more than one million customers in just five months after launching. In fact, mobile money also facilitates P2P lending without the use of a formal financial institution as an intermediary, which could help address the issue of difficult access and the high cost of credit in Africa if proper regulations are put in place.

Insurance – in particular, agricultural insurance – is inadequate in Africa. Despite the vulnerability to weather-related shocks, most farmers do not have protection against loss of yield. Companies, such as MicroEnsure, ACRE Africa and WorldCover, have been leveraging the advances in mobile money to provide insurance products to customers. Mobile money is not only a more convenient and effective platform for the provision of services (i.e. paying for premiums and settling claims), it also facilitates data analysis for the design and pricing of new products.

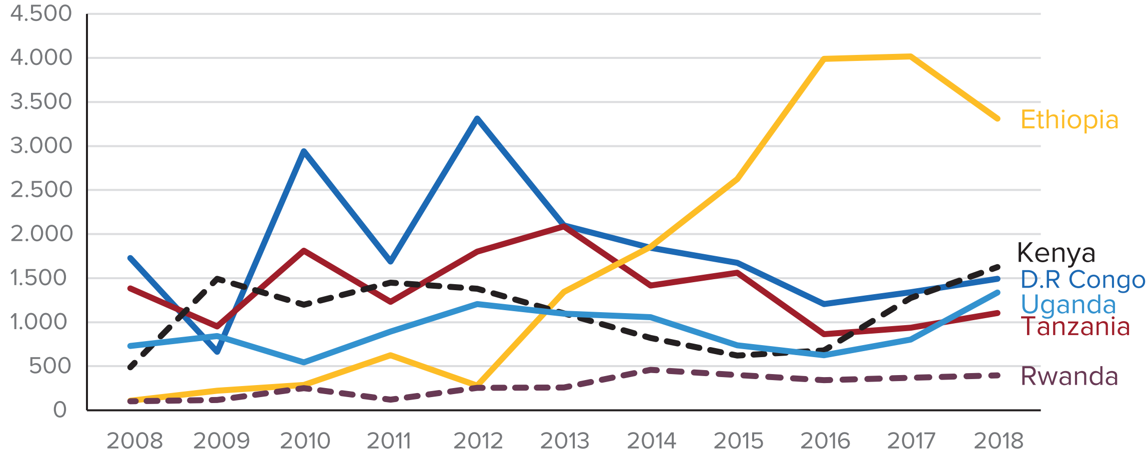
Mobile money also offers new financial instruments to address savings requirements and it enables the channelling of domestic savings into productive investment. In Africa, the large informal sector holds sizeable financial resources that do not pass through formal financial channels and are simply saved in cash at home or in form of livestock, jewellery, or real estate. Mobile money, through easy access and small transactions, could help households manage and even increase their savings.[22] The innovative products built on mobile money demonstrate the tremendous potential benefits. For instance, as the world's top money market fund with around a quarter of a trillion dollars in assets under management in 2017, Alibaba's Yu'eBao enables small investors to enjoy higher return via pooling individual savers together to bargain with banks.[23]

In sum, although the region has been among one of the pioneers of mobile money, the full potential is far from being reached in Eastern Africa. While the coverage of mobile money is expanding rapidly, the vast amount of transaction data could fuel financial innovation, thereby offering better services to the users and facilitating the flows and allocation of capital.[24] Moreover, with the expected increase in smartphone adoption from 30 percent in 2017 to over 66 percent in 2025 (GSMA, 2018), mobile money in Africa will no longer be bound to mobile network operators and more diversified digital financial services could be supported by third-party payment service providers via smartphone apps.

21. Compared to manual cash payment, the leakage of pension payments decreased by 47 percent (or 2.8 percentage points) when the payments were made through biometric smart cards in India (Muralidharan et al., 2016). In addition, findings from a randomised experiment of a cash-transfer programme in Niger show that the per-transfer costs of the mobile transfer programme were approximately 20 percent lower than per-transfer cost of the manual cash distribution, despite the higher initial costs of the purchase of mobile phones (Aker et al., 2016).
22. It was found that the availability and usage of mobile phones to provide financial services promotes the likelihood and amount of saving at the household level in Africa (Ouma et al., 2017 and GSMA, 2015).
23. For example, a small investor with USD 1 may get an annual deposit rate at 1 percent. If 100,000 of them pool the money, they may get an annual deposit rate at above 3 percent.
24. The regulatory environment is key to the development of mobile money, especially the supervision of shadow banking, data security, personal privacy and anti-money-laundering issues.

Figure 20: Foreign direct investment flow to selected Eastern African countries, 2008-2018

USD millions



Source: UNCTAD (2019).

Like with regional trading patterns, there has been a shift in the source of FDI into the region away from high-income economies (e.g. EU and the US) and towards developing economies (e.g. China and India). Chinese investment on the continent has increased rapidly to become the single largest contributor of FDI to capital and jobs in 2016 (EY, 2017). The surge in China's FDI flows to Eastern Africa has been particularly notable, from under USD 100 million in 2007 to around USD 1.4 billion in 2017, accounting for around one seventh of the total FDI inflows in 2017 (MOFCOM, 2018). The co-operation plans from the latest Forum on China-Africa Cooperation (FOCAC) in September 2018 include China's pledge of USD 60 billion in financing projects in Africa in the form of assistance, investment and loans; these plans pave the way for closer partnership between China and Africa, especially under the Belt and Road Initiative (FOCAC, 2018).

FDI flows to Africa are expected to be stronger given the advances in inter-regional co-operation, particularly with the implementation of the AfCFTA. East Africa is well placed to benefit from further increases in FDI. Deeper integration of product and consumption markets, as well as reductions in the price of goods and services, will stimulate both market-seeking FDI and efficiency-seeking FDI for value chains (UNCTAD, 2019b).

SECTION 2

SOCIAL DEVELOPMENTS

This section looks at the social developments in Eastern Africa, starting with the update of the Human Development Index (HDI). Other social issues covered include progress on the Sustainable Development Goals (SDGs), improvements in life expectancy and poverty reduction, hunger and malnutrition, literacy rates and the challenge of skills mismatches, the contribution of migrants to the regional economies, the refugee crisis, the costs of gender-based violence and mental health challenges.

2.1. OVERVIEW OF HUMAN DEVELOPMENT

The latest Human Development Index (HDI) statistics show that Eastern Africa has registered poor performance in 2018, with a 0.517 average (Table 8). The region trails behind the rest of Sub-Saharan Africa at 0.541 and the world average at 0.731 (UNDP, 2019).

To supplement the analysis from the perspectives of inequality and disparities by gender, the Inequality-adjusted HDI (IHDI) and the Gender Development Index (GDI) provide a more comprehensive picture of a country's human development. The GDI measures differences between male and female achievements in three basic dimensions of human development: health, education and equitable command over

Table 8: Human Development Index and its components, 2013 and 2018

HDI RANK 2019	COUNTRY	HDI INDEX		LIFE EXPECTANCY AT BIRTH (YEARS)		EXPECTED YEARS OF SCHOOLING (YEARS)		MEAN YEARS OF SCHOOLING (YEARS)		GROSS NATIONAL INCOME PER CAPITA (2011 PPP$)	
		2013	2018	2013	2018	2013	2018	2013	2018	2013	2018
62	Seychelles	0.779	0.801	73.1	73.3	14.4	15.5	9.5	9.7	22,225	25,077
147	Kenya	0.566	0.579	63.4	66.3	10.8	11.1	6.3	6.6	2,614	3,052
156	Comoros	0.499	0.538	62.9	64.1	11.2	11.2	4.7	4.9	2,534	2,426
157	Rwanda	0.503	0.536	66.4	68.7	11.3	11.2	3.8	4.4	1,564	1,959
159	Tanzania	0.507	0.528	61.4	65	8.2	8	5.6	6	2,410	2,805
159	Uganda	0.496	0.528	59.9	63	11.1	11.2	5.4	6.1	1,658	1,752
162	Madagascar	0.509	0.521	64.7	66.7	10.4	10.4	6.1	6.1	1,320	1,404
171	Djibouti	0.463	0.495	62.2	66.6	6.3	6.5	4	4	2,823	3,601
173	Ethiopia	0.438	0.47	64	66.2	8.5	8.7	2.5	2.8	1,316	1,782
179	D. R. Congo	0.426	0.459	58.4	60.4	9.6	9.7	6	6.8	669	800
182	Eritrea	0.425	0.434	63.7	65.9	5.2	5	3.9	3.9	1,613	1,708
185	Burundi	0.414	0.423	59.1	61.2	11.4	11.3	2.8	3.1	761	660
186	South Sudan	0.392	0.413	56.2	57.6	5.6	5	4.8	4.8	2,372	1,455
Eastern Africa Average		0.494	0.517	61.8	62.4	9.4	9	4.8	5.6	1574	1985

Source: UNDP (2019).
Note: Regional averages are weighted by population, except for the indices which are straight averages.

economic measures (UNDP, 2016:27).[25] The GDI reveals that on average, women in Eastern Africa lag behind men in developmental outcomes by an average of 10 percent across the different indicators. When inequality is accounted for, the IHDI is significantly lower (on average 30 percent) than the HDI value in the region, largely due to the high inequality in health and education. The losses in ranking due to inequality in income and education are particularly elevated in the cases of Comoros, Djibouti and South Sudan.

The GDI measures the ratio of female HDI to male HDI. Compared to other regions with low levels of human development, Eastern Africa emerges with a much better gender parity HDI score. The Gender Inequality Index (GII), meanwhile, presents a composite measure of gender inequality using the three dimensions of reproductive health, empowerment and labour market participation. The majority share of seats in parliament held by women and the high female labour force participation rate afford Rwanda a remarkable performance in the GII. Countries in the region generally have a much higher ranking in GII compared to HDI (Table 9).[26] Addressing women's representation in all spheres of public leadership can help Eastern Africa to reach SDG 5 of the United Nations' Agenda 2030.

For decades, raising the level of women's representation in leadership positions has been touted as one way to address gender inequality in society; this strategy is one of the critical areas agreed upon during the 1995 Beijing Conference

25. Health is measured by female and male life expectancy at birth; education is measured by female and male expected years of schooling for children, and female and male mean years of schooling for adults ages 25 and older; and equitable command over resources is measured by female and male estimated earned income.

26. In terms of political influence, for instance, there are currently only three countries in Africa with more than 50 percent of Cabinet members who are women – and they are all in Eastern Africa, namely, Ethiopia, Rwanda and Seychelles.

Table 9: Inequality and gender aspects of human development, 2017

COUNTRY	HDI, 2017		INEQUALITY-ADJUSTED HDI, 2017		GENDER DEVELOPMENT INDEX, 2017	GENDER INEQUALITY INDEX, 2017	
	Rank	Value	Value	Loss (%)	Value	Value	Rank
Seychelles	62	0.797					
Kenya	142	0.590	0.434	26.4	0.931	0.549	137
Tanzania	154	0.538	0.404	24.8	0.928	0.537	130
Rwanda	158	0.524	0.367	30.0	0.941	0.381	85
Madagascar	161	0.519	0.385	25.9	0.962		
Uganda	162	0.516	0.370	28.3	0.865	0.523	126
Comoros	165	0.503	0.275	45.3	0.876		
Djibouti	172	0.476	0.306	35.8			
Ethiopia	173	0.463	0.331	28.4	0.846	0.502	121
D.R. Congo	176	0.457	0.319	30.4	0.852	0.652	152
Eritrea	179	0.440					
Burundi	185	0.417	0.278	33.3	1.002	0.471	114
South Sudan	187	0.388	0.247	36.3	0.826		

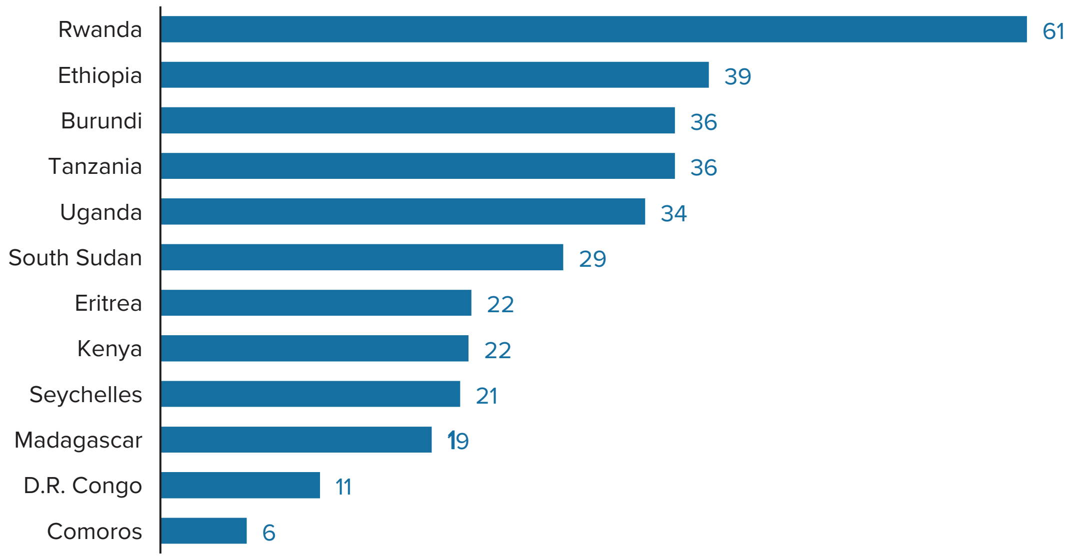
Source: UNDP (2018).

on Women. Increasingly, national parliamentary landscapes have changed to produce more female representation. Globally, the Inter-Parliamentary Union (IPU) reports an increase in the proportion of female national parliamentarians: from 11.3 percent in 1995 to 24.3 percent in 2019 (IPU, 2019). Rwanda continues to be the trailblazer in terms of number of women parliamentarians within the region, on the Continent and in the world, with 61.3 percent of the seats in the lower house occupied by women (Figure 21).

Seychelles and Ethiopia have reached gender parity at cabinet level

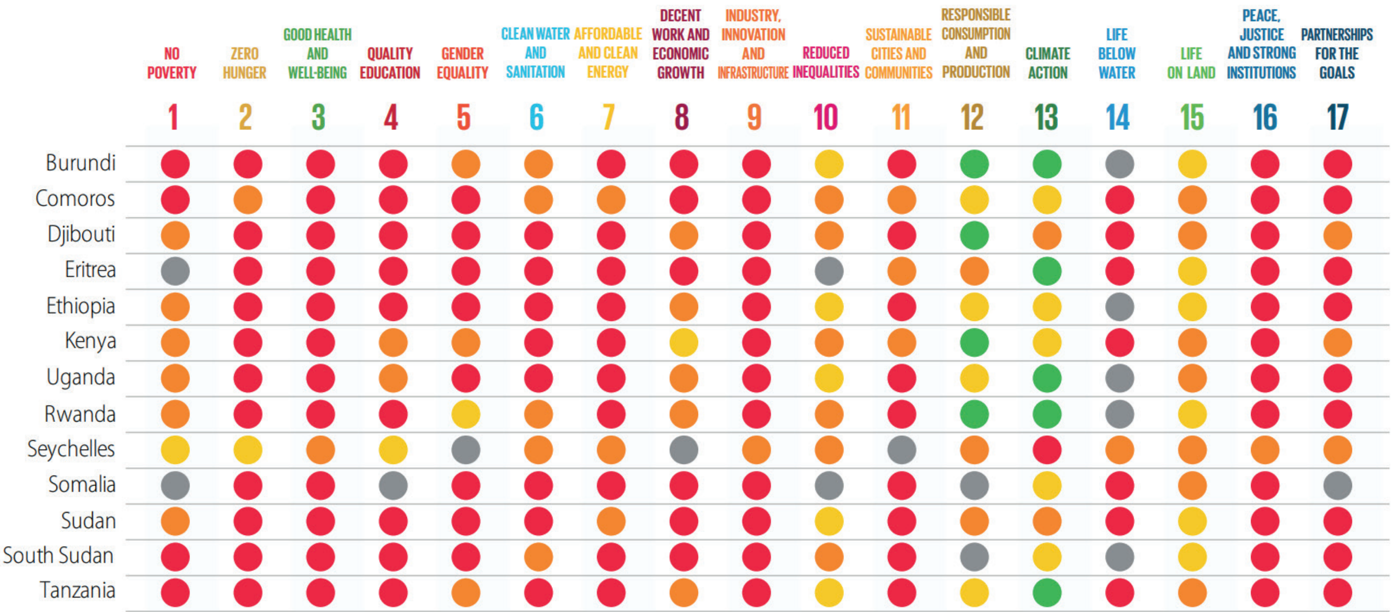
Other countries in the region are moving towards more equitable gender representation; Ethiopia and Seychelles, for example, have reached gender parity at cabinet level. Simply counting the numbers, however, can lead to an over-optimistic conclusion. In fact, the increase in female representation is accompanied by a trend to confine women minsters to “soft” portfolios such as Social Affairs; Family, Children, Youth, Elderly, Disabled; Environment, Natural Resources, Energy; Employment, Labour, Vocational Training; and Trade and Industry. Seychelles is the only country whose Central Bank Governor is a woman (Caroline Abel).

Figure 21: Proportion of seats held by women in national parliaments, 2019
Percent



Source: IPU (2019).

Figure 22: SDG dashboard for Eastern Africa



Source: SDG Centre for Africa and SDSN (2019).
Note: Green denotes SDG achievement, red highlights major challenges, while yellow and orange indicate that significant challenges remain. Grey refers to the lack of data for assessment.

2.2. PROGRESS ON THE SUSTAINABLE DEVELOPMENT GOALS

As the constituent parts of the UN's Agenda 2030, the Sustainable Development Goals (SDGs) cover a universal agenda of sustainable development combining economic development, social inclusion and environmental sustainability. The SDG Centre's Index and Dashboard Report (2019) provides a clear visualization on the achievements and challenges of individual countries, highlighting the areas that require focused actions (Figure 22). For Eastern Africa, all countries are lagging on SDG progress (except Seychelles): all countries register weak performance in SDG 2 (zero hunger), SDG 3 (good health and wellbeing), SDG 4 (quality education), SDG 7 (affordable and clean energy), SDG 9 (infrastructure) and SDG 16 (peace, justice and strong institutions). Eastern Africa suffers a worrying level of undernourishment, with 133 million people experiencing food insecurity in 2018 (30.8 per cent of the population; and the highest share in the world) (FAO et al. 2019).[27] This represents a significant increase since 2015: 14 million additional undernourished people. Given that population trends and dynamics have significant effects on the prospects for poverty reduction and sustainable development, Box 10 provides an assessment on the demographic dividend in the region.

Financing the SDGs requires a shift towards public-private partnerships. While development cooperation and partnership are essential, it is also imperative to strengthen governance for SDG financing. Governments must develop strategies to meet SDGs within the framework of limited resources and competing national demands. There are essentially three ways to close the financing gap: increased domestic revenues, increased ODA and higher levels of Private Development Assistance to governments (SDSN, 2018: 1). NGOs and civil society could also provide greater technical assistance, especially at the grass-roots level, to ensure that the selected policies do not exacerbate the existing rural/urban and gender divides.

All Eastern African countries are lagging on SDG progress (except Seychelles).

UNCTAD (2014) estimated the SDG financing gap globally at USD 2.5 trillion per annum. Sadly, the UN Deputy Secretary General (DSG) laments that the same figure is being cited in 2019, suggesting that little progress has been made in filling the financing gap (United Nations, 2019). For Africa, this gap is estimated to be between USD 500 billion and USD 1.2 trillion per annum in 2019 until 2030 (SDGCA, 2019). This means that half the global financing burden is on Africa and therefore calls for innovative financing models – now more than ever. Such models must respond to current needs without shifting repayment to future generations. Health, especially under five mortality rates and food insecurity, are among the sectors which require deeper qualitative intervention while ensuring sustainability.

27. A recent survey shows that East Africa has the highest number of acutely food insecure people (28.6 million) in the world in 2018 (Food Security Information Network, 2019).

Governments are being encouraged by multiple international organisations, including UN entities, to increase their domestic revenue collection. This is sound advice, especially in the countries with very low existing tax-to-GDP ratios. However, with such low prevailing levels of per capita income, government spending per capita will inevitably be low; there is therefore a limit to what regional governments can achieve without external support. Excluding the Seychelles, East African governments each year spend an average of USD50 on education for each child and USD10 on health for each citizen (Table 10). These are drastically lower than spending in other economies. Box 9 analyses the national budget allocations of Kenya, Rwanda and Uganda to see the extent to which they are aligning with the development priorities set out by Agenda 2030.

Table 10: Estimates of government education and health spending, latest available year
US dollars

	PUBLIC EDUCATION SPENDING PER CHILD*	PUBLIC HEALTH SPENDING PER CAPITA	GDP PER CAPITA
D.R. Congo	12	2	477
South Sudan	16		753
Burundi	25	5	286
Uganda	30	7	687
Rwanda	48	17	773
Ethiopia	55	7	731
Comoros	63 +	14	1,444
Kenya	152	24	1,639
Seychelles	2,176	562	16,111
NB:			
South Africa	827	229	6,368
Chile	3,003	685	15,881
OECD Average	9,500	3,743	41,794
United States	13,661	8,138	40,312

Source: ECA analysis on World Bank, UNDESA, and UNCTAD data.
Notes: Education estimates are for 2017, except for Ethiopia (2015), Comoros (2015), Seychelles (2016), and United Kingdom (2016). All Health estimates are for 2016 and GDP per capita estimates are for 2018. (*) Child defined as population under 20 years.

Box 9: Do Budget Allocations Align with Development Priorities?

Facilitated by strong economic growth, countries in the region have been able to increase their national budget expenditures in recent years. However, a key question is whether those larger budget allocations are aligned with countries' developmental priorities. The choices are often very difficult ones for governments to make, given the still low per capita incomes and, hence, limited financial resources. The situation has been made more difficult by a series of continent-wide commitments to reach sectoral spending targets. For instance, the Maputo Declaration of 2003 placed a target of spending on agriculture of at least 10 percent of national budgets (AU, 2003). Similar commitments have been made in other areas such as education, health, research and development, etc.[28] Individually, each target makes a lot of sense; however, collectively, and in a context of limited resources, they make the job of regional finance ministers much more difficult.

This box analyses the cases of three Eastern African countries: Kenya, Rwanda and Uganda.[29] The lack of adequate infrastructure is a common challenge to all three. Therefore, infrastructure development accounts for a significant share of budget spending in all of them. However, allocations to other key priority areas (education and health) varies significantly between the countries. The time horizons vary widely between each of these countries; Uganda reaches very far forwards with its Vision 2040; Kenya is less ambitious, with Vision 2030; and Rwanda is more modest still, with Vision 2020. The Vision statement for each country sets out its priority development goals; whether the budgetary strategies have been adopted or not will help them move towards those goals is the main subject of this Box.

Kenya

Vision 2030 aims to transform Kenya into an industrialised, middle-income country by 2030 (GoK, 2007)[30]. The economic, social and political pillars of Vision 2030 mainly focus on infrastructure development, human-resource development and governance reforms. Recent fiscal policy has been highly expansionary. Total budget expenditure amounted to KSH 2.3 trillion (USD 22.7 billion) in 2017/18, rising to KSH 2.6 trillion (USD 25.4 billion) in 2018/19 and KSH 2.8 trillion (USD 27.4 billion) in 2019/20.[31] Kenyan public spending accounts for around one-seventh of the East African Community's GDP. The choices of budget allocation, therefore, have regional repercussions. Notably, the 2010 constitution led to introduction of county governments that are sustained through allocation of shareable revenues and conditional allocations by the central government. The share of transfers to county governments was largely stable at approximately 30 percent of total sectoral expenditure[32] in 2017/18 and 2018/19 but declined to 24 percent in 2019/20 (Figure 23).

28. For instance, the target spending on health is 15 percent of the national budget (AU, 2003).

29. Burundi and Tanzania are not included in the analysis due to challenges in getting their comprehensive

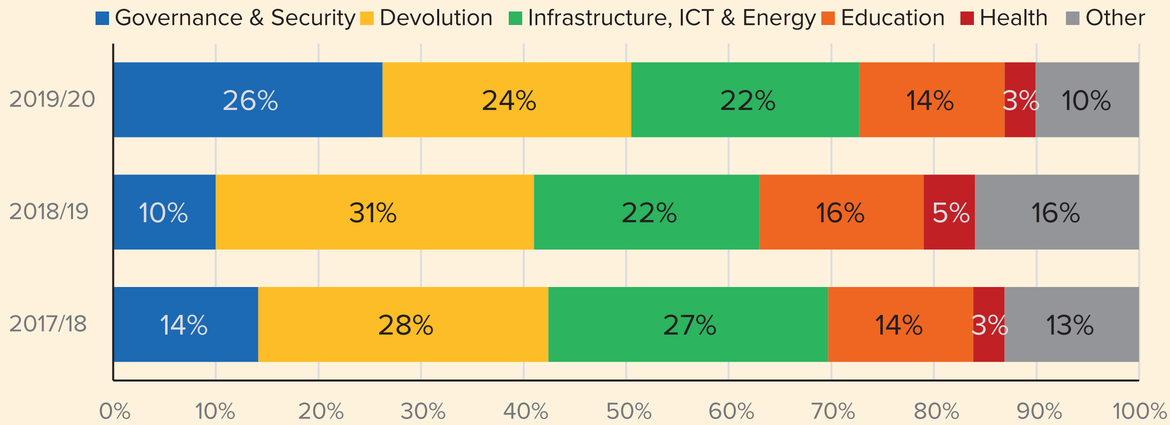
30. Vision 2030 is to be implemented in successive five-year medium-term plans. The first covered 2008-2012. budget statements.

31. Challenges in revenue collection and elevated expenditure pressures caused expenditure

32. "Sectoral expenditure" refers to budget allocations to the main sectors specified in the budget and may not match total budget expenditure. projections for 2018/19 to be revised downwards in September 2018.

Figure 23: Kenya's sectoral allocations, 2017-2019

Percent of total government spending



Source: The National Treasury and Planning (2017, 2018 and 2019).

Vision 2030 identifies infrastructure investment as a high priority area, since efficient, accessible and reliable infrastructure is a chief driver for sustained economic growth, development and poverty reduction (GoK, 2007). The sector was allocated 27 percent of total sectoral expenditure in 2017/18, but the share fell to 22 percent in 2018/19 and 2019/20. The transport sector[33] represented the largest share of infrastructure expenditure in the three financial years, accounting for more than 70 percent of the total infrastructure spend. Another key area is electrification, which accounted for around 8 percent of the total infrastructure expenditure in 2017/18, but which increased to 14 percent in 2018/19 and 20 percent in 2019/20.

Another the key aspect of Vision 2030 is to provide quality education for the development and improved well-being of all Kenya's citizens to meet the requirements of a rapidly industrialising economy (GoK, 2007). Allocation to education was around 14 percent of the total sectoral expenditure in 2017/18, 16 percent in 2018/19 and 14 percent in 2019/20. To improve transition from primary to secondary education and expand enrolment in public and private universities, a large proportion of the education budget was for the free day-secondary education initiative[34] and for universities.

Another stated objective is to provide efficient and high-quality health care.[35] The 2010 Kenyan constitution partly devolves health care to the county governments. It has received some 3 to 5 percent of the budget in the past three financial years, with the free maternal health-care programme and the main referral hospitals getting the largest share.

Security and good governance are enablers for the achievement of the development goals, according to the UN 2030 Agenda for Sustainable Development and Sustainable Development Goal 16 (UN, 2016). Allocations under this area declined from 13 percent in 2017/18 to 8 percent

33. Approximately 30 percent of Kenya's road network requires rehabilitation or reconstruction and the country's airports, ports and rail are reportedly operating beyond capacity (PSC, 2018).

34. Under this initiative, the government pays the school fees for student's attending public day secondary schools.

35. The Kenyan government intends to roll out universal health coverage to all households by 2022, so as to guarantee access to quality and affordable health care (The National Treasury and Planning, 2018).

in 2018/19 but increased to 26 percent in 2019/20. The higher expenditure in 2019/20 was attributable to allocations to security agencies, which accounted for some 80 percent of the total security and good governance expenditure. Parliament, followed by the judiciary, received the highest allocation under "good governance" in all three financial years.

The large allocation to "security and good governance" is slightly puzzling in the context of a development objective to industrialise and become a middle-income country since most of the funds are for security agencies, rather than the operation of the organs of state. This may be related to the fact that Kenya provides forces to combat terrorism and prevent cross-border insurgencies in Somalia. The emphasis on tertiary and secondary education is entirely reasonable for an industrialising country and seems to be perfectly aligned with the objectives of Vision 2030. A healthy population, however, is also important for an industrialising society, so the relatively small percentage of expenditure destined for the health sub-sector may be insufficient.

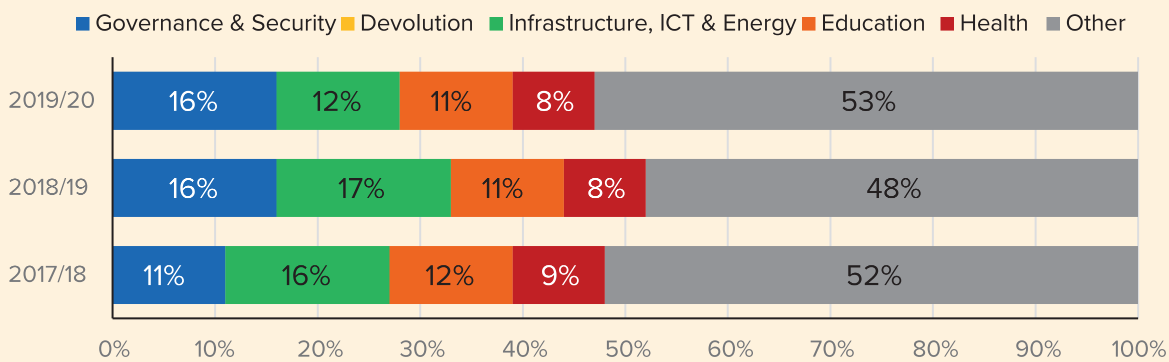
Rwanda

Rwanda's sectoral budget is allocated according to its Vision 2020, which is an ambitious plan to raise the Rwandan people out of poverty and transform the country into a middle-income economy by 2020 (MINECOFIN, 2012). Its objectives include: creating a world-class physical infrastructure; building skilled human capital; and fostering good governance. The total budget expenditure amounted to RWF 2.1 trillion (USD 2.47 billion) in 2017/18, RWF 2.4 trillion (USD 2.8 billion) in 2017/18 and RWF 2.9 trillion (USD 3.34 billion) in 2019/20.

Vision 2020 identifies infrastructure as being key to lowering the costs of doing business, which is essential if domestic and foreign investments are to be attracted. Some 16 percent of the total sectoral spending was allocated to infrastructure projects in 2017/18 and 2018/19. The share decreased to 12 percent in 2019/20 (Figure 24). In the three financial years, approximately 60 percent of the infrastructure expenditure was allocated to the transport sector, whereas energy received about 40 percent.

Figure 24: Rwanda's sectoral allocations, 2017-2019

Percent of total government spending



Source: MINECOFIN (2017 and 2018).

Education received approximately 12 percent of funding the three financial years, mainly for the construction and rehabilitation of classrooms, as well as the promotion of science technology engineering and mathematics (STEM) through the provision of new laboratories. Health care was allocated 9 percent of the total expenditure in 2017/18 and about 8 percent in both 2018/19 and 2019/20. This was particularly directed towards the construction of hospitals and health centres. Accountable governance, under the heading of "governance and security" is aimed at strengthening public accountability, ownership and quality service delivery. Its share of the budget increased from around 11 percent in 2017/18 to around 15 percent in both 2018/19 and 2019/20.[36]

The achievement of Rwanda's Vision 2020 will require more than an improvement in infrastructure and a boost to security and good governance; it will need a trained workforce motivated by a belief in future prosperity. The emphasis on education and health is important in promoting awareness, skills acquisition and a measure of faith in the state through the provision of basic medical services.

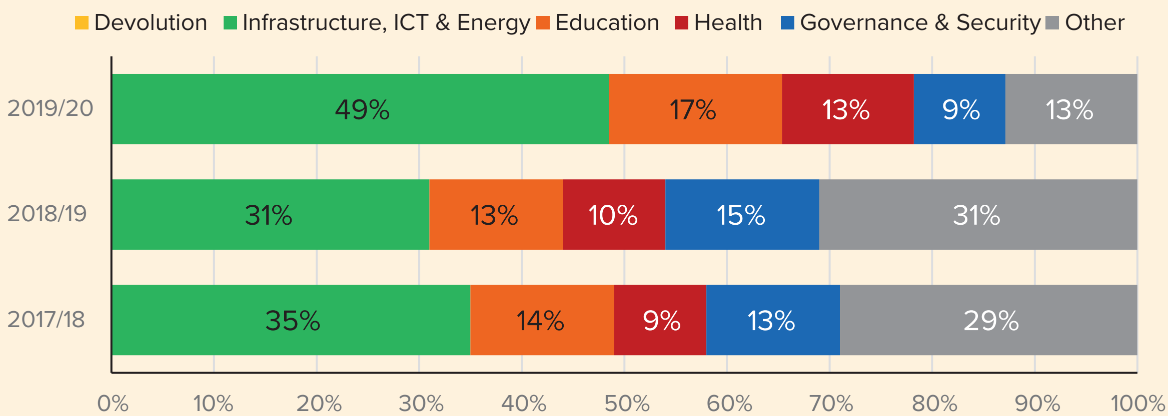
Uganda

Uganda's Vision 2040[37] outlines the development paths and strategies necessary to move the country from a predominantly low-income to a competitive, middle-income country (NPA, 2007). Government spending focuses on bottlenecks such as infrastructure and human capital development that constrain socio-economic development. The total budget expenditure amounted to UGX 29 trillion (USD 7.7 billion) in 2017/18, UGX 32.7 trillion (USD 8.7 billion) in 2018/19 and UGX 40.5 trillion (USD 10.87 billion) in 2019/20.

The government aims to increase competitiveness by improving the stock and quality of strategic infrastructure (NPA, 2015) and this heading absorbed approximately a third of the total in 2018/19 and 2017/18 and is increasing to almost half in 2019/2020 (Figure 25). In line with Vision 2040's insistence on investment in transport infrastructure to spur economic growth, some 65 percent of the infrastructure budget in all three financial years was earmarked for road rehabilitation and construction (MoF, 2017 and 2018). Uganda aims to exploit renewable energy sources to increase its power generation capacity from 825 MW in 2012 to 2,500 MW by 2020. Hence, the energy sector was allocated about a third of the infrastructure expenditure in the three financial years. The ICT sector is supposed to improve national productivity by making business and government enterprises more efficient through extension of the National Backbone Infrastructure Project, the construction of ICT incubation hubs and centres and the creation of ICT parks. However, ICT was allocated merely 2 percent of total infrastructure spending.

Figure 25: Uganda's sectoral allocations, 2017-2019

Percent of total government spending



Source: MoFPED (2017, 2018 and 2019).

36. Among the categories defined as 'others', "public finance management", which is instrumental in developing and promoting Rwanda's service-led and knowledge-based economy, received the largest allocations.

37. Vision 2040 is to be achieved through a series of five-year National Development Plans.

The Ugandan government has been persistently criticised over inefficiencies in the delivery of social services despite the policy of developing a relevant, skilled and healthy workforce – as part of the human-capital development strategy (NPA, 2007 and 2015). Education received approximately 14 percent of the total sectoral allocations in 2017/18, 13 percent in 2018/19 and 17 percent in 2019/20. While the country is still far from the goal of universal health care (NPA, 2015), budgeted expenditure was some 9 percent in 2017/18, 10 percent in 2018/19 and 13 percent in 2019/20. Most of this was for the construction and rehabilitation of hospitals and health centres. Inefficiencies, such as drug shortages and absenteeism of health workers, which were mentioned in the 2017 budget speech (Ministry of Finance of Uganda, 2017), still must be addressed in order to improve the health-care system.

Vision 2040 recognises that sustainable development cannot be achieved without adequate security and governance, and the sector received 13 percent of the total allocations in 2017/18, 15 percent in 2018/19, falling to 9 percent in 2019/20. Approximately a third of the total security and governance allocations in 2019/20 is destined to enhance the capacity of Uganda People's Defence Force through equipment and training (Ministry of Finance of Uganda, 2019).

Uganda stands out as having the highest proportion of its budget directed towards infrastructure development, but it is otherwise relatively balanced in the key development sectors of health, education and security. The emphasis on infrastructure reflects the relative size of this challenge, compared to that of Kenya and Rwanda, and the central role that infrastructure is expected to play in catching up to the economies of neighbouring countries. Uganda is also remarkable for the length of its development horizon, which also reflects the size of the developmental challenges the country faces. It is for this reason that Vision 2040 is intentionally going to be implemented in five-year stages, each one based on past achievements and current capacities. If the pattern of expenditures remains constant over time with, certainly, a relative reduction in security to the benefit of health and education, Uganda's budgetary priorities would seem to mirror the country's development objectives.

Conclusions

The comparison of these three country's budgetary choices is crucial to understanding the challenges that policymakers face in distributing scarce resources efficiently and in line with the overriding objectives of social and economic development. All of them face problems of weak and/or inefficient infrastructure and this must be resolved to take them into the 21st century and beyond. At the same time, the rapid pace of economic growth in these three economies does not, by itself, provide the necessary economic resources without also relying on foreign investment, support of the donor community and the domestic private sector. The question to be posed, then, is: are these budgetary policies enough to achieve national, regional and global developmental objectives?

2.3. IMPROVEMENT IN LIFE EXPECTANCY

Life expectancy at birth, a measure of the average number of years that a new born is expected to live, if current mortality rates remain unchanged, is often considered to be the broadest measure of living standards. It has been increasing in Eastern Africa at a pace which, by historic standards, is almost unprecedented (Figure 26). This is underpinned by increased immunization and improved access to healthcare. The World Health Organization (WHO, 2018) notes that healthy life expectancy[38] in Africa rose from 50.9 years in 2012 to 53.8 years in 2015, representing the largest improvement of all continents. In Eastern Africa, life expectancy improved from 58.1 in 2008 to 64.8 in 2018. People in countries with high GDP per capita live longer lives, on average, but there are also large differences in life expectancy in all countries depending on their income distribution and levels of social funding. Strong public health care systems are clearly a major factor in determining life expectancy (Deaton, 2004 and Rosling, 2015).

Within the development literature, studies demonstrate the relationship between health, income, and life expectancy. Chetty et al. (2016) found, for example, that the richest Americans gained about five years of longevity between 2000 and 2014, while life expectancy for the poor remained unchanged. The top 1 percent of male earners lived 15 years longer than men at the bottom 1 percent. Cadunus-Romo (2018: 812) stresses the link between poverty and life expectancy; he argues that, for monitoring the achievement of SDGs, it is important "to draw attention to the proportion of a population spending considerable periods of life under a defined poverty line."

Poor people in general cannot afford expensive health treatments and remain vulnerable to health threats. Robust health systems can respond to health needs, thus affording citizens opportunities to live longer. Indeed, the life expectancy gap demonstrated by Chetty et al. (2016) mirrors other inequality gaps.

Life expectancy has been increasing in Eastern Africa at a pace which is almost unprecedented.

Figure 27 shows the life expectancy of individual countries, disaggregated into female and male and ranked by their HDI score. There is some considerable intra-regional variation, with some countries underperforming for different reasons, owing to other components of the HDI. One particularly striking case is South Sudan, which is currently the only country in the world where female life expectancy is lower than it is for males.[39]

38. Adjusted for years spent without disability.

39. Biological differences explain partially why females have a longer life expectancy than men, but the difference is also the product of behavioural and environmental factors (Ortiz-Ospina and Beltekian, 2008).

Figure 26: Improvement in life expectancy, 2008-2018

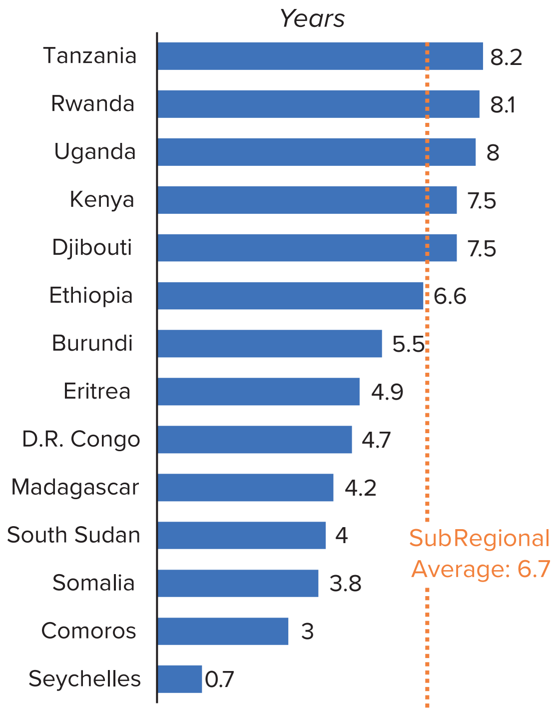
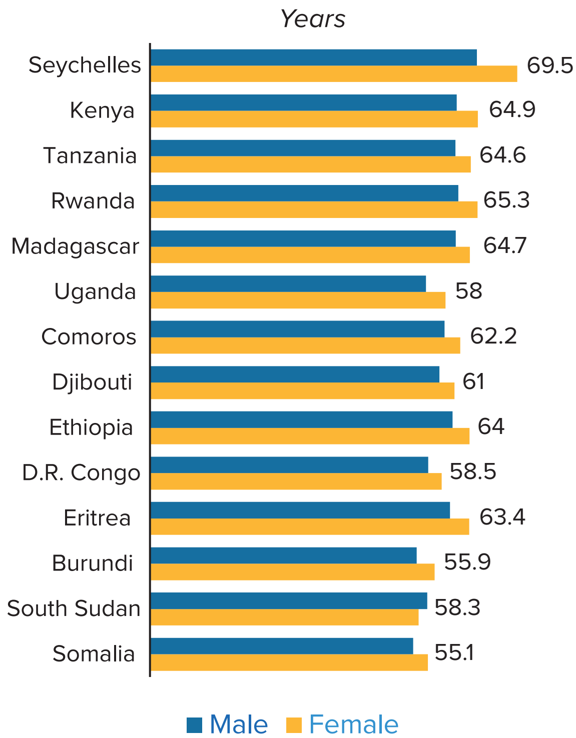


Figure 27: Life expectancy at birth, 2017



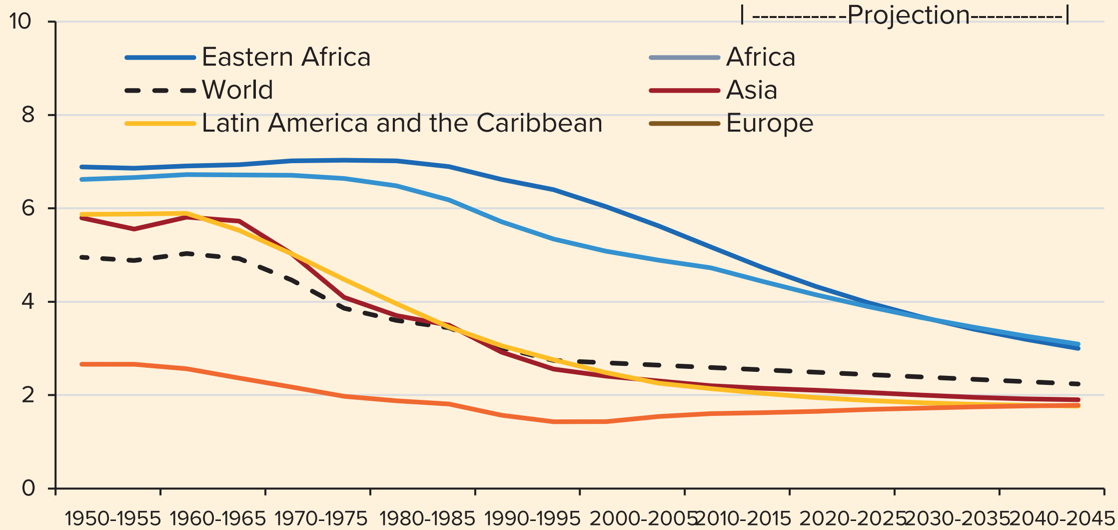
Source: UNDP (2018) and UNDP (2019).

Box 10: Wishful thinking? – The Demographic Dividend in Eastern Africa

Africa's population grew at an annual average of 2.5 per cent between 1995 and 2015, more than twice the world average. Africa has a young population with median age below 20 years in 2015 (similar for most Eastern African countries, except Djibouti and Seychelles), following years of high fertility and significant decline in child mortality. This is compared to the world average of around 30 years. It is estimated that Africa will continue to the biggest contributor to global population growth in the decades ahead: from 2015 to 2050, Africa's population will account for 1.3 billion of the projected 2.4 billion increase in global population. The continent's working age population (i.e. those aged between 15 and 64) will more than double from 0.7 billion to 1.6 billion over the same period, representing around 70 per cent of the global increase (UNDESA, 2017). In contrast to the ageing population in most advanced economies, the rapid increase in workforce presents an opportunity for accelerated economic growth for Africa. One important caveat is the slowing population growth rates in some countries. For example, Kenya's population growth rate slowed from 2.9 percent in 2009 to 2.2 percent in 2019 (KNBS 2019c).

The economic growth potential due to the shift in a population age structure (i.e. the growing share of the working age population) is often referred to as the 'demographic dividend'. Research suggests that the demographic dividend could account for 11 to 15 per cent of African GDP growth by 2030 and reduce poverty by 40 to 60 million people (Ahmed et al., 2014). While the declines in mortality and fertility jointly drive demographic transition, Africa is at an early stage of the transition given the high fertility rate, partly due to early onset of childbearing and marriage, low socio-economic status of women, poor access to contraception and lack of family planning (ECA, 2012; AFIDEP, 2018). With the total fertility of around five live births per woman, the current situation in Africa and Eastern Africa is largely similar to that of Asia and Latin America in 1970s. It will take about fifty years for Africa to halve the fertility rate to reach the world average in 2019, suggesting a slow and gradual demographic transition (Figure 28).

Figure 28: Total fertility by region, 1950-2050
Live births per woman

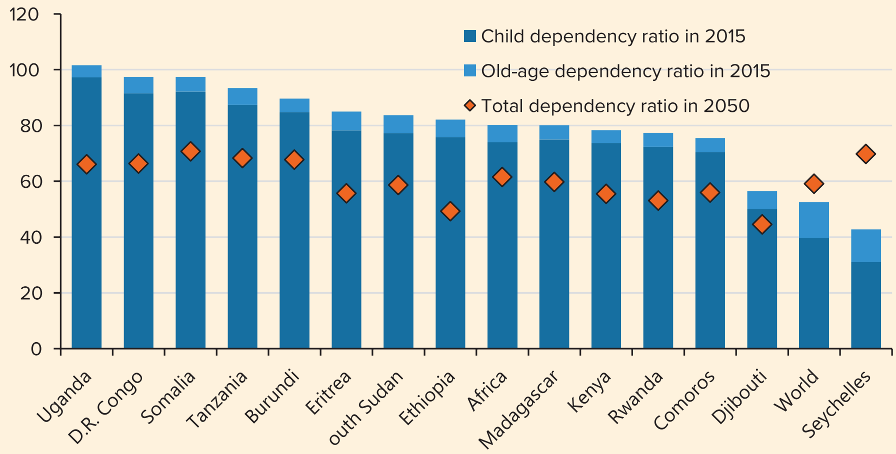


Source: UNDESA (2017).
Note: Data for Eastern Africa is the weighted average (based on the number of women aged between 15 and 49) of the 14 countries.

The concept of a demographic dividend rests on the opportunities that present themselves when the workforce outnumbers the population dependent on it, thereby freeing up resources for economic development. In the region, the average child dependency ratio was around 80 (i.e. four children per five working age population) in 2015. Uganda had the highest ratio and lowest was Seychelles, whereas the average old-age dependency ratio was around 6, indicating a small demographic dividend given the large young dependent population.[40] While the total dependency ratio of most countries in the region is expected to decline gradually to around 60 by 2050, Seychelles has already completed demographic transition and is going to face the challenges of ageing population (Figure 29). Indeed, there is significant heterogeneity across African countries in terms of when they start the transition and where they reach the lowest dependency ratio. On average, Africa has just embarked on the transition and it will take 60 years to reach the lowest level of dependency ratio at around 55 in 2075. Compared to Asia and Latin America, which both completed demographic transition in around 40 years, Africa will have a much longer and steadier window of opportunity to harness the dividend (UNDESA, 2017).

Figure 29: Dependency ratio, 2015 and 2050

Ratio of children (0-14 years) and older persons (65+ years) to the working-age population (15-64 years)



Source: UNDESA (2017).

Yet the so-called dividend is not guaranteed and can only be realized in the right economic and social conditions with the right policies. In fact, without appropriate policies in place, the dividend could become a barrier to growth (e.g. high unemployment), especially with the advancement of robotic technology which makes the traditional manufacturing-job-creation story less likely. In order to turn the young population into agents of sustainable development, investments in education and health are crucial (Drummond et al., 2014). Research also suggests that good quality of governmental institutions, flexible labour market and sufficient employment opportunities are the key factors required to be in place to capitalize on the demographic dividend (Mason, 2001; Bloom et al., 2003 and 2007). With a large young dependent population, Africa stands at a crossroads of dividend vs. burden, where only substantial investments in education and health combined with effective implementation of supporting policies could lead to the road of prosperity. The much longer and gradual demographic transition in Africa demands a stronger and sustained commitment to seize the opportunity.

40. The child dependency ratio refers to the ratio of population aged between 0 to 14 per 100 population aged between 15 and 64, whereas the old-age dependency ratio is defined as the ratio of population aged 65 and above per 100 population aged between 15 and 64.

2.4. MIXED PERFORMANCE IN THE ASPIRATION TO END EXTREME POVERTY

Governments need to explore new investment options and strategies to tackle extreme poverty.

There have been various recent studies which track the pace of poverty reduction (Fosu, 2015; Page and Shimeles, 2015; Khan et al, 2019). In East Africa, the performance has been indisputably mixed. The studies generally use one of three international poverty lines (i.e. USD 1.25, USD 1.90 and USD 2.50 standards) to measure poverty headcount. Using these metrics, according to an analysis by Fosu (2015), Ethiopia ranked as the best performer in the region over the period from mid-1990s to 2010, followed by Uganda, at the US$1.25 level; while Uganda was the best performer at the US$2.50 standard. By contrast, Kenya, Burundi, Madagascar displayed the most sluggish performance by both metrics (Fosu, 2015). For their part, Page and Shimeles (2015) link poverty performance to sectoral shifts in employment creation. They decompose changes in poverty into within-sector and structural change components. In Rwanda, for instance, rising employment in industry and services offset increasing poverty headcounts in agriculture; in Tanzania and Uganda, by contrast, growth-reducing structural change (i.e. the expansion of the traditional sectors of mining and agriculture) worked to slow the pace of poverty reduction. Nonetheless, the overwhelming source of reduced poverty in each country remained the within-sector income growth within agriculture. Pointedly, the elasticity of poverty with respect to the overall rate of per capita income growth was persistently low (Page and Shimeles, 2015).

A more recent study by Khan et al. (2019), using the US$ 1.90 poverty level, highlights the disparities among African countries in the progress made in eradicating poverty according to two categories, namely, extractive and smallholder economies. Smallholder economies are defined as those where small-scale farmers have a degree of economic and political participation. Conversely, in extractive economies, large-scale farms and foreign-owned mines dominate, facilitating the development of an elite politics characterized by capital-intensive production technologies and 'urban bias'.[41] In the Eastern African region, only D.R. Congo, Kenya and Madagascar are classified by Khan et al. as extractive production economies.[42] The initial headcount poverty (the earliest observation for each country) was lower on average in smallholder (49.2 percent compared to 65.3 percent) (Table 11). Similarly, the most recent observation for each country's poverty was on average much lower in smallholder (35.6 percent compared to 63.7 percent). Both groups reduced poverty on average, but the performance was better in smallholder economies.

41. The theory of 'Urban bias' (Lipton, 1977) alleges that urban areas benefit disproportionately from government policies compared to rural areas where the bulk of the poor reside. Urban bias has been hotly debated amongst development economists, e.g. Byres (1979), Karshenas (1996), Jones and Corbridge (2010).

42. For more details about the classification, see Khan, et al. (2019).

Table 11: Poverty and growth in Eastern African countries

CLASSIFICATION	PERIOD	#	GROWTH	US$1.90 POVERTY HEADCOUNT		
			(percent p.a.)	Initial	Current	percent Δ p.a.
Burundi	1992 – 2013	4	1.1	81.1	71.8	-0.6
Comoros	2004 – 2013	2	3.1	13.5	17.9	3.2
D.R. Congo e	2004 – 2012	2	6.1	94.1	76.6	-2.5
Djibouti	2002 – 2017	4	7.9	20.6	17.1	-1.2
Ethiopia	1995 – 2015	5	8	71.1	30.8	-4.1
Kenya e	1992 – 2016	5	3.8	31.5	36.8	0.7
Madagascar e	1993 – 2012	7	2.8	70.3	77.6	0.5
Rwanda	2000 – 2016	5	7.9	77.2	55.5	-2
Seychelles	1999 – 2013	3	2.7	0.6	1.1	4.4
Tanzania	1991 – 2011	4	4.9	72.1	49.1	-1.9
Uganda	1989 – 2016	9	6.6	57.7	41.7	-1.2
South Sudan	2009	1		42.7		
Mean			5.0	53.6	43.3	-0.4

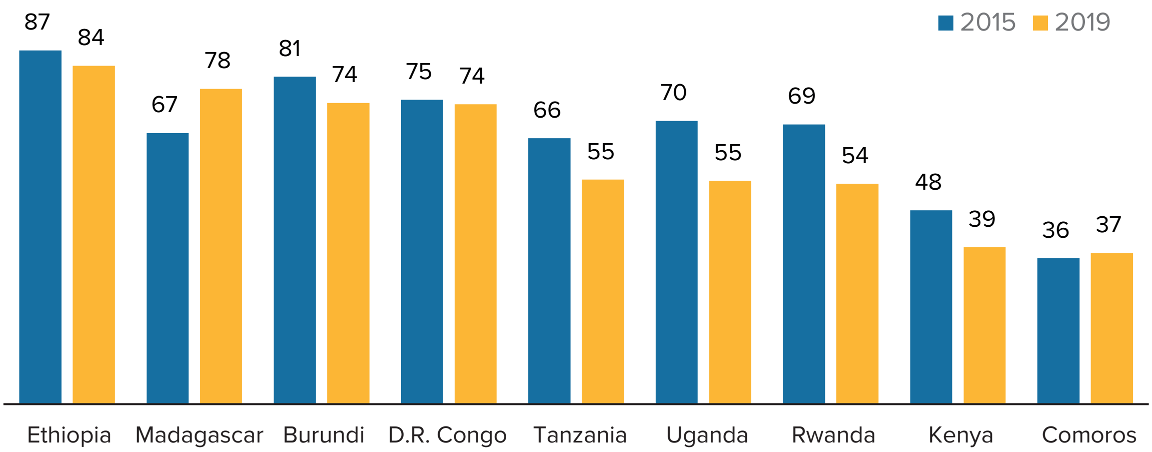
Source: PovcalNet (2019) and authors' calculations using data from WDI (2019)
Note: "e" indicates the countries classified by Khan et al. (2019) as extractive production economies, others are classified as smallholder production economies. Data unavailable for Eritrea and Somalia.

Measuring poverty reduction using each country's national poverty line presents a more optimistic picture of poverty reduction in Eastern Africa. In the case of Rwanda, for example, headcount poverty rates in 2000 and 2016 were reported at 58.9 percent and 36.7 percent, respectively (NISR, 2018). Using this metric, with an annual average percentage fall in poverty of 3 percent, Rwanda would be the second-best performer in poverty reduction in the region after Ethiopia (3.2 percent) (NPC, 2017). Even in countries such as Kenya and Comoros, national data show a decrease in poverty headcount per annum, as opposed to the increase recorded by the international measures. In fact, in Kenya, the poverty headcount has fallen at a rate of 2.5 percent per annum between 2005 and 2015 (Mwangi, 2018), while Comoros reduced poverty at a rate of 2.7 percent per annum between 2004 and 2014 (INSEED, 2018).

What is clear from the data is that, while all countries aspire to end extreme poverty by 2030, the trend in Eastern Africa reveals that countries are far from realizing that goal. In most of the countries in the region more than half of the population is still multidimensionally poor[43] as was the case in 2015 (Figure 30). Given that this goal derives from the MDGs era, governments need to explore new strategies to tackle extreme poverty. As it is a multifaceted condition entailing economic, social, and political components, the approach should also include multifaceted approaches involving public policies interventions that contribute to modify the social, cultural and economic conditions that engendered poverty in the first place. Those relate to gender equality and women empowerment, democratic governance and better prevention of crises, among others.

43. Multidimensional poverty looks beyond income to identify how people experience poverty across three key dimensions: health, education and standard of living. People who experience deprivation in at least one third of the 10 weighted indicators included in the index fall into the category of multidimensionally poor (SDG, 2019).

Figure 30: National multidimensional poverty rate, 2015 and 2019
Percent of population



Source: UNDP and OPHI (2019) and Alkire et al. (2015).

As extreme poverty is more prevalent in rural areas were most individuals rely on farming activity for their livelihoods, raising productivity levels in agriculture is key (Stamoulis, 2017). Governments in the region should therefore strive to prioritize plans to improve the productivity of the agricultural sector.

2.5. TACKLING HUNGER, AN ONGOING DEVELOPMENT CHALLENGE

Food insecurity, defined by FAO as "a situation that exists when people lack secure access to sufficient amounts of safe and nutritious food for normal growth and development and an active and healthy life", is a result of poverty and affects health outcomes. While the situation over the last decade has somewhat improved overall for Eastern Africa, severe food insecurity has registered an increase from 25.7 to 27.5 of the regional population between 2004 and 2018. FAO et al. (2019) highlight 3 countries where undernourishment of the total population has worsened over the last decade. These are Kenya (at 29.4 percent, up from 28.2 percent), Madagascar (at 44.4 percent up from 35 percent) and Uganda (at 41 percent up from 24.1 percent). These countries have been affected, to a differing degree, by drought and extreme weather conditions. This further shifts the goalpost toward zero hunger by 2030. Overall, the region is one of the most food insecure on the continent.

The prevalence of undernourishment, defined by FAO as the share of a population whose dietary energy consumption is less than a pre-determined threshold[44], is highest in Eastern Africa compared to the rest of the world. (Table 12).

44. This threshold is country specific and is measured in terms of the number of kilocalories required to conduct sedentary or light activities. The undernourished are also referred to as suffering from food deprivation.

Table 12: Prevalence of undernourishment, 2005-2018
Percent

REGION	2005	2010	2015	2018
World	15	12	11	11
Africa	21	19	18	20
Eastern Africa	34	31	30	31
Middle Africa	32	28	25	27
Sub-Saharan Africa	24	22	21	23
Western Africa	12	10	11	15
Southern Africa	7	7	8	8

Source: FAO et al. (2019)

FAO et al. (2019) point to an increase in the number of undernourished persons in the region. The report further points out that global hunger has been on the rise for the past three years.

Undernourishment is prevalent in Eastern Africa, standing at almost 3x the global rate.

An AUC (2014) report found that child undernutrition cost Uganda and Ethiopia 899 million and 4.7 billion dollars per year, comprising 5.6 and 16.5 percent of GDP respectively. These costs were health, education and productivity-related.

A study of food consumption in selected private primary schools in Nairobi, Kenya by Malla et al. (2015) found that while 40 percent of respondents ate food three times a day, 50 percent were eating anytime of the day. Respondents attributed this to availability of money, peer pressure, boredom, and influence by media. What these respondents ate were mainly "cereal (33.4 percent), chips/ sausage for lunch (51.7 percent) and chips for dinner (33.4 percent)." This demonstrates that even in Eastern Africa which still must confront considerable challenges of undernourishment, malnutrition is a challenge for both the poor and the rich.

2.6. EFFECTS OF MALNUTRITION

Child nutrition is particularly important because of its long-term effects on a child's development[45]. Stunting, or low height for age, is caused by long-term insufficient nutrient intake and frequent infections. Wasting, or low weight for height, is a strong predictor of mortality among children under five. It is usually the result of acute significant food shortage and/or disease. Wasting weakens children immunity which results in the need for urgent care to survive. While malnutrition can manifest in multiple ways, it can also be prevented by getting adequate maternal nutrition before and during pregnancy and optimal breastfeeding to children. UNICEF et al. (2019) estimates that we are far from a world without malnutrition as there is insufficient progress to reach the World Health

45. A study by Grantham-McGregor et al. (2007) shows that stunting and poverty are closely associated with poor cognitive and educational performance in children.

Assembly target set for 2025 and SDG target set for 2030.

Available data (Table 13) shows mixed performance by countries on wasting (low weight for height) in children under five. While Comoros at and 10 percent does not perform well regarding this indicator, Rwanda and Uganda fare much better at 2.2 percent and 3.5 percent respectively. On stunting however, Burundi and Madagascar which have 58.8 percent and 45.2 percent of their children under 5 stunted, could do better to address the issue. With more focus on nutrition and child health, countries would realize more progress and better health outcomes, impacting other development indicators.

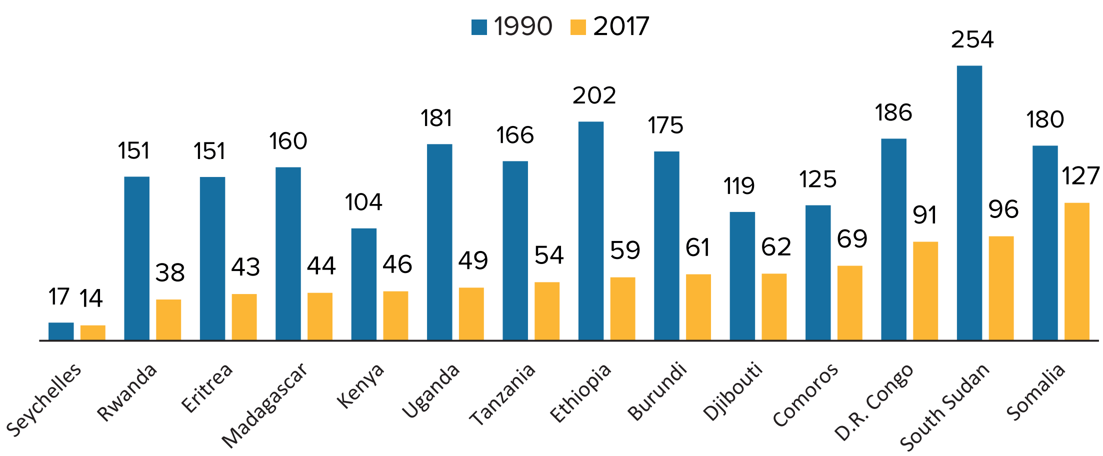
Under-5 mortality rate for Eastern African countries, though much improved from the 1990s, still begs for serious attention and concerted action (Figure 31). With Rwanda and Seychelles registering good performance below the world average and the rest of the countries performing worse than the global average, countries upscale implementation of national strategies to curb the decline. Only Seychelles has reached the global 2030 target.

Table 13: Children Wasting and Stunting

COUNTRY	YEAR	<5 YEARS WASTED (PERCENT, WEIGHT-FOR-HEIGHT)	<5 YEARS STUNTED (PERCENT, HEIGHT-FOR-AGE)
Burundi	2016-2017	5	56
Comoros	2012	11	30
D.R Congo	2013-2014	8	43
Ethiopia	2016	7	37
Kenya	2014	4	26
Rwanda	2014-2015	2	38
Uganda	2016	3	29
Tanzania	2015-2016	4	34

Source: DHS.
Note: No recent data for countries not included in the table.

Figure 31: Under-5 mortality rate, 1990 and 2017
Per 1,000 live births



Source: SDGCA (2019) and UNDP (2019).

2.7. BUILDING A LITERATE WORKFORCE

The definition of literacy has evolved over time to reflect evolved skill sets – from the ability to read and write, to wider definition of "the ability to identify, understand, interpret, create, communicate and compute, using printed and written materials associated with various contexts. Literacy involves a continuum of learning in enabling individuals to achieve his or her goals, develop his or her knowledge and potential, and participate fully in community and wider society" (UNESCO, 2018). Higher levels of education facilitate the rapid adoption of new technologies. A skilled workforce, that is innovative and equipped with problem-solving capacities, is thus critical for Africa's transformation and progress on sustainable development.

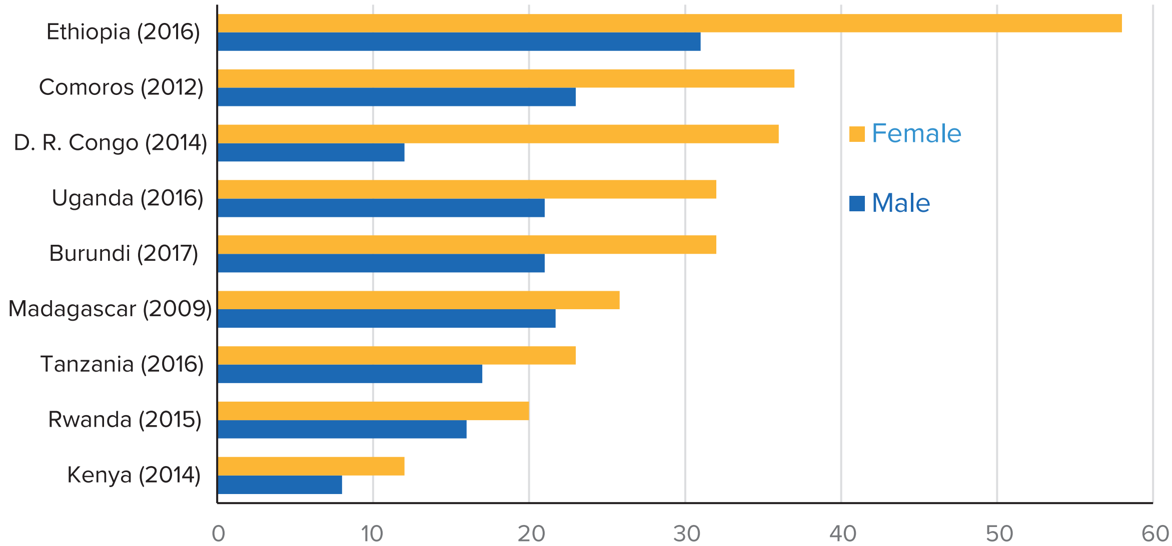
Findings from the Demographic and Health Surveys (DHS) point to deficiencies that need to be addressed to ensure that quality education is accessible for all, and women compete on equal footing with men (Figure 32). Universal primary education during the MDGs period focused more on quantity rather than quality. It would seem there is a gap between policy and desired outcomes. Ethiopia and Kenya – the two largest economies in the region – are faced with high illiteracy rates among women. This goal cannot be achieved if situations such as the South Sudan case continues where 61 percent of boys and 75 percent of girls are estimated to drop out of higher secondary school (UNICEF, 2019). It is incumbent upon governments to monitor and address girls' dropout rates in primary and secondary schools. It is important to go beyond the numbers to seeking to understand and address the story behind the numbers. Empowering girls should go beyond educational enrolment to ensuring completion as well tackling inequality entrenching gender roles and social norms.

Ethiopia and Kenya – the two largest economies in the region – are faced with high illiteracy rates among women.

Attainment of the SDGs relies on education and targeted investments to alleviate the problem. The challenge is not new, and community involvement is required. The Uwezo initiative is such an example which aims to improve literacy and numeracy levels among 5-16 years old children in Kenya, Tanzania and Uganda. It encourages changes in educational policy and practice. It goes beyond access and focuses on content and shares findings broadly. Because the assessment is a yearly exercise, it allows stakeholders to track progress over time.

Average allocations of 15% of the national budget to education reflect significant commitment to improving educational outcomes.

Figure 32: National Illiteracy rates, latest year available
Percentage of population aged 15-49



Source: Demographic Household Surveys.

2.8. ADDRESSING SKILLS MISMATCHES

Eastern Africa's labour market suffers from a serious skills gap between the demands of the labour market and the skills acquired (or not) by university and college graduates. Some university and tertiary graduates in the region lack basic employable skills in technical and other work-related fields, despite significant investment in skills development and budgetary allocations supposed to improve the education sector (World Bank, 2018b)

World Bank figures show that public expenditure on education in the region accounts for close to 15 percent of total public expenditure. This is in line with recent budget statements that showed that Kenya, Uganda and Rwanda spent 14 percent, 17 percent and 11 percent of their budgets on education, respectively. This reflects an important degree of commitment to the educational sector. But given low per capita incomes and hence low absolute levels of public spending, countries cannot afford to produce graduates with skills that do not correspond to labour market needs.

Uganda and Tanzania recorded the highest level of skills mismatch with 63 and 61 percent of graduates in the two countries, respectively, lacking requisite skills for the job market (IUCEA, 2014). Burundi is third at 55 percent followed by Rwanda fourth at 52 percent and Kenya fifth at 51 percent of graduates who were considered ill-prepared for the job market. Other studies (Ngure, 2013; Ponge, 2013; Anindo et al., 2016) have also noted the scale of the mismatch of skills between higher institutions of learning and training and the needs of industry.

Eastern African governments should augment efforts to close the skills gaps by investing in training better aligned with job market needs.

The 2018 Skills Mismatch Survey by the Kenya Federation of Employers (KFE) acknowledges the challenge and is an attempt at a deeper understanding of the issue. KFE found increased uptake of master's degree courses, although the job market is looking for first-degree graduates. This highlights the mismatch and contributes to rising rates of youth unemployment. (Balwanz, 2012; World Bank, 2018b) argue that the widening mismatch between the output of higher institutions of learning and the skills needed in the labour market threatens to derail long-term economic prospects for both individual countries and the Eastern Africa region, overall.

This calls for increased attention to skills development in order to align it with market demands. KFE (2018) urges a refocusing on delivery of technical and vocational training that responds to labour market demand, as well as entrepreneurship and business training programmes specifically designed to improve the key economic sectors of agriculture and manufacturing. In addition, the Federation recommends aligning teaching and research activities in higher education institutions with labour market needs.

National and regional attempts to reduce skill mismatch and promote youth entrepreneurship do exist, among them, Karibu 2jiariri in Kenya. KCB Bank provides mentoring and internships to young people, providing them with the skills needed by the market (KCB Group 2015). Similar services are offered by the same bank in Rwanda. TVET responses to private sector needs will continue to be key to addressing the challenge of unemployment, especially among the youth.

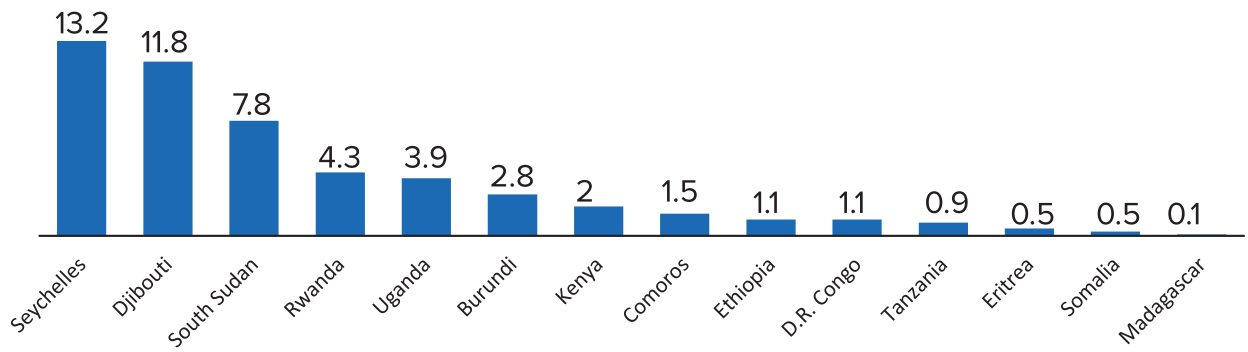
2.9. MIGRANTS' CONTRIBUTION TO EAST AFRICAN ECONOMIES

Economic migrants are on the rise (Porter and Russell, 2018), and African migration is largely intra-regional (UNCTAD, 2018, Aggad, 2018). The entry into force of the AfCFTA and the associated protocol on the Free Movement of Labour implies that the issue can no longer be brushed aside—a framework for labour mobility needs to be defined and the AU Migration Policy framework updated. UNCTAD (2018, p. xxiii) views migration and trade as two sides of the same coin and argue that intra-Africa migration fosters economic growth by boosting trade and productivity as new demand for food products and services from refugees in the host countries grow.

Greater labour mobility should be prioritized within the AfCFTA.

Figure 33 demonstrates the international migrant stock for countries in the region. In relative terms, the largest share of migrants is in the smallest Eastern African countries. For Djibouti, this is largely driven by military presence and the services sector while for Seychelles, fisheries, construction, tourism and education are the drivers. But in absolute terms, the largest immigrant populations are in Ethiopia, Uganda and Kenya.

Figure 33: Eastern Africa migrant stock, 2019
Percent of population



Source: UNDESA, 2019

Contrary to popular impressions, it would be wrong to gainsay the considerable economic contribution that the migrant population can provide. OECD/ILO (2018:16) found that in the case of Rwanda, "given the sectoral distribution of workers and their level of education, immigrant workers are estimated to have contributed between 10 percent and 12.7 percent of gross domestic product in 2012, compared to a share in employment of 4.7 percent". Aggad (2018) strongly advocates for the shift in narrative about the exodus out of the continent to one about people moving to other countries within the continent. An opinion poll carried out by Afrobarometer revealed that 64 percent of Africans do not wish to emigrate (Appiah-Nyamekye and Selormey, 2018). Of those who have considered leaving their countries, 37 percent would like to relocate to another country in their immediate region or to other parts of Africa (10 percent). Only 20 percent would consider Europe as a destination should they emigrate. Others opt for North America and Asia. African countries thus need to respond to migration in ways that would be more beneficial for the immigrants and citizens.

It is estimated that migrants in Rwanda contributed between 10 and 13 percent to GDP in 2012.

The Afrobarometer survey respondents during 2016 and 2017 were asked if they have considered living in another country. Of the Kenyans and Ugandans surveyed, 65 percent and 64 percent respectively indicated that they had never had such a consideration. Only 13 percent and 11 percent respectively indicated that they had given the issue a lot of consideration.

Economic challenges are the main push factors driving citizens to emigrate.

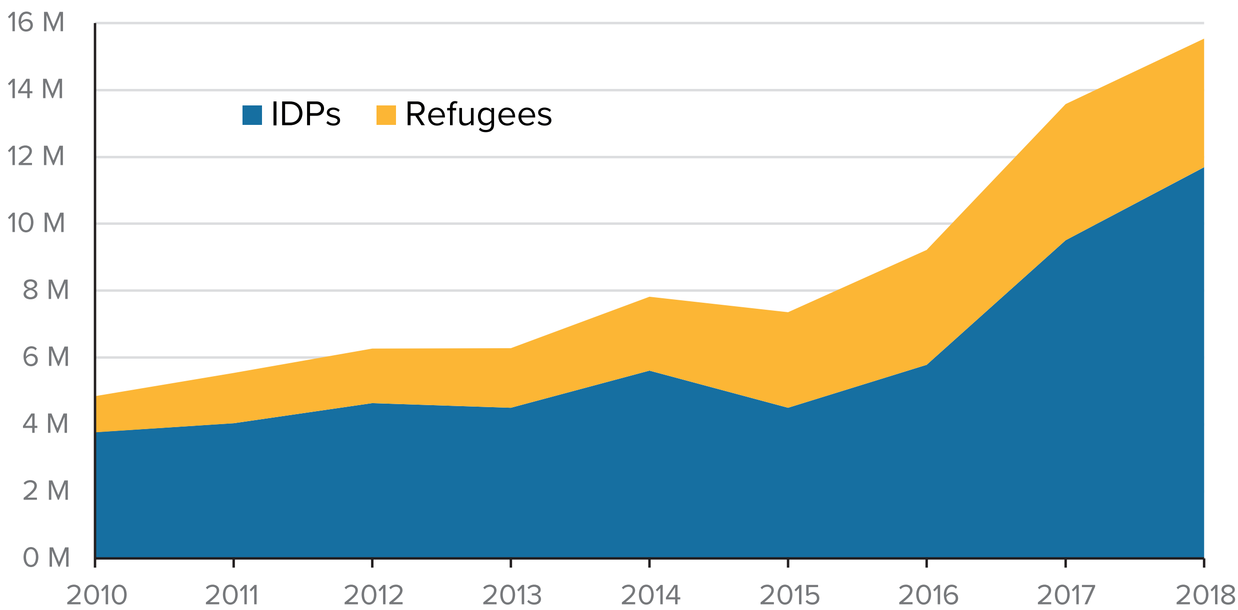
Reasons for wanting to emigrate are mostly economic—finding work (43 percent), escaping economic hardship (33 percent) and seeking better business prospects (7 percent). It is thus important that citizens can compete for available economic opportunities. This demonstrates that despite what gets reported, citizens are not necessarily desperate to leave their countries, they want improved living conditions and economic opportunities where they live.

2.10. AN ON-GOING CRISIS OF REFUGEES AND INTERNALLY-DISPLACED PERSONS

In 2018, the global refugee crisis continued to escalate as millions of people were forced to flee their homes to escape war, conflict, persecution, and environmental challenges. There were little signs that the crisis was in remission in 2019. The number of forcibly displaced persons around the world rose drastically, from 43 million in 2009 to 70 million in 2018. Eastern Africa is particularly badly affected by this phenomenon, where the numbers of displaced persons more than tripled between 2010 and 2018 (Figure 34). UNHCR estimates that 15.5 million persons in Eastern Africa were forced to relocate in 2018. These disruptions continue to act as a brake on growth and development, with a very clear human cost.

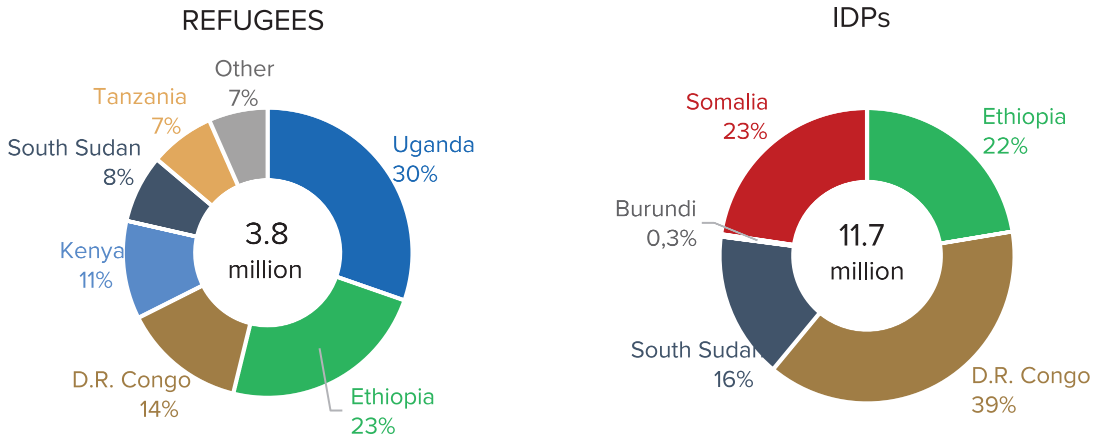
The number of displaced persons has more than tripled in the last decade, as citizens flee from conflict, persecution and environmental challenges.

Figure 34: Refugees and Internally Displaced Persons in Eastern Africa, 2010-2018



Source: UNHCR (2019).

Figure 35: Distribution of Refugees and IDPs by Country of Asylum or Residence, 2018



Source: UNHCR (2019).

Globally, 80 percent of refugees seek asylum in countries neighbouring their own country of origin, which has led to an uneven distribution of the burden of hosting these large numbers. In Eastern Africa, two countries – Uganda and Ethiopia – hosted more than half of the 3.8 million refugees in the sub-region (Figure 35). In fact, Uganda also hosted the third largest number of refugees worldwide[46] (1.2 million) and the largest number of unaccompanied and separated child refugees (41,200) (UNHCR 2019). Most refugees in Eastern Africa originated from Somalia (26 percent), South Sudan (25 percent) and Democratic Republic of the Congo (15 percent).

These refugee source-countries also accounted for many internally-displaced people (IDPs). Across Eastern Africa, over 75 percent of displaced persons (11.7 million) found refuge in their home countries. Of these, 62 percent were from either the Democratic Republic of the Congo or Somalia. The Democratic Republic of the Congo is particularly complex as it serves as both a major source country, as well as, a host of asylum seekers from elsewhere in the sub-region.

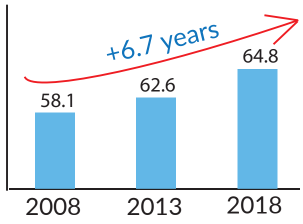
Worsening environmental conditions increasingly contribute to the rising displacement figures in Eastern Africa. In Ethiopia, for example, it is estimated that approximately 20 percent of IDPs were displaced for climate-related reasons, and in Somalia, 1.4 million IDPs were displaced by the 2016-2017 drought. These extreme weather conditions continued in 2019 – from a severe drought earlier in the year, to heavy rains in the later months. By early November 2019, floods had forced almost a million people from their homes across the Democratic Republic of Congo, Djibouti, Kenya, Somalia, South Sudan. Many families remain vulnerable to secondary effects of physical dislocation, such as food insecurity and poor health and sanitary conditions.

46. According to UNHCR, the top three refugee hosting countries in 2018 were: Turkey (3.8 million), Pakistan (1.4 million), and Uganda (1.2 million). (UNHCR 2019)

SOCIAL PERFORMANCE

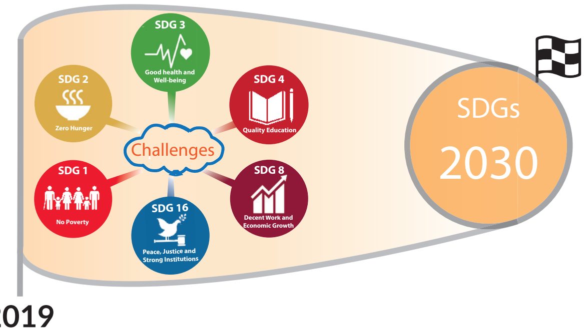
Notable progress in some areas, but major challenges in others

East Africans are living longer

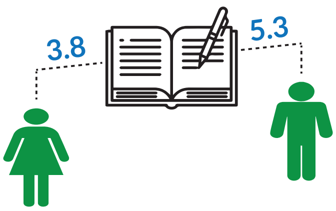


Life expectancy at birth recorded an average increase of 6.7 years over the decade

But some SDGs are off-target



Mean years of schooling

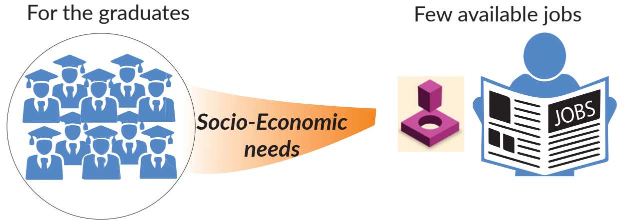


Efforts needed to improve literacy– *especially among females*

Skills mismatch is a reality

For the graduates

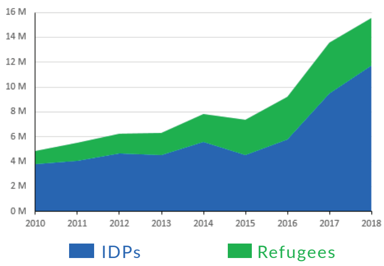
Few available jobs



The region needs to ensure that skills correspond to socio-economic needs

Refugee crisis in the region

15.5 million displaced people in 2018



The tripling of the number of forcibly displaced persons in Eastern Africa since 2010 calls for increased funding and new solutions to protect and empower.

Financing the SDGs

Three essential ways to close the financing gap in Eastern Africa:

Higher domestic revenues

Increased private investment

More innovative development finance

Extreme weather volatility has exposed the region to more frequent droughts, immediately followed by severe flooding that have destroyed economic activities, sources of livelihood, homes and human lives (OXFAM, 2019). Severe flooding in November and December 2019 impacted practically the whole region, ranging from Djibouti, Democratic Republic of Congo, Kenya, South Sudan, Tanzania and Uganda a, with a significant loss of human life as homesteads were swept away. Incidents like this have exacerbated other social problems like displacement, food insecurity, disease outbreaks (cholera cases in DRC and Uganda) which retard social cohesion and economic development for the region (FEWS NET, 2019, UN News, 2019, United Nations Resident Coordinator, Djibouti, 2019).

2.11. THE COSTS OF GENDER-BASED VIOLENCE

Gender-based violence (GBV) is defined in the Maputo Protocol as ‘all acts perpetrated against women which cause or could cause them physical, sexual, psychological, and economic harm, including the threat to take such acts; or to undertake the imposition of arbitrary restrictions on or deprivation of fundamental freedoms in private or public life in peace time and during situations of armed conflicts or of war’ (Art. 1). The term Violence Against Women (VAW) is often used interchangeably with the term GBV. However, GBV underscores that violence directed at and experienced by women and girls is a manifestation of gender inequalities and power relations. Therefore, it is more closely linked to women’s subordinate position within families, communities and states. The term GBV emphasises that women and girls experience such violence because of their sex and in the context of these unequal gender relations (AU, 2003). GBV continues to blight a lot of communities across the region. In East Africa, Green, Wilke and Cooper (2019) characterize it as widespread, with “almost half of married women experiencing physical abuse” (p.i) (Table 14).

Table 14: Prevalence of physical and sexual violence within the last year
Percent of ever-partnered women and girls (15-49)

COUNTRY	YEAR	PROPORTION OF WOMEN ABUSED
Burundi	2016-2017	29.0
Comoros	2012	4.9
D.R. Congo	2014	36.8
Ethiopia	2016	19.8
Kenya	2014	25.5
Rwanda	2015	20.7
Uganda	2016	29.9
Tanzania	2016	29.6
Weighted Average		***27.4***

Source: WHO 2019a, World Bank 2019b.
Note: Average weighted with current female population.

Table 15: Percentage of women who have experienced physical violence by marital status

COUNTRIES	NEVER MARRIED		MARRIED OR LIVING TOGETHER		DIVORCED/SEPARATED/ WIDOWED	
	OFTEN	SOMETIMES	OFTEN	SOMETIMES	OFTEN	SOMETIMES
Burundi (2016-17)	0.5	4.2	4.1	15.4	3.9	8.7
Comoros (2012)	2.7	2.3	2.4	3.5	4.3	4.3
D.R. Congo (2013-14)	3.6	10.0	12.9	18.4	18.1	16.9
Ethiopia (2016)	0.3	3.2	4.1	14.0	5.3	14.8
Kenya (2014)	0.6	11.0	5.9	17.6	10.9	13.5
Rwanda (2014-15)	0.9	4.5	3.5	14.9	7.9	10.1
Tanzania (2015-16)	0.8	5.2	5.9	21.0	13.8	15.2
Uganda (2016)	2.4	14.1	4.7	19.3	6.6	15.7

Source: Demographic Household Surveys.

Some Eastern African countries have passed laws to tackle GBV. Uganda has several pieces of legislation to address GBV. Rwanda goes a step further with a law that not just punishes but tries to prevent GBV in all its forms. Similarly, there is recognition of the need to tackle GBV to achieve development aspirations. As a region, East Africa continues to develop strategies to tackle GBV.

Countries like Uganda should be commended for instituting measures to ensure speedy prosecution of cases of violence against women and girls.

Because more women than men are affected, the following analysis focuses on violence against women and girls (VAWG), even while acknowledging that men and boys do suffer GBV. VAWG is a form of women's human rights violation that is perpetuated by cultural acceptance and tolerance and fuelled by cultural norms and practices that relegate women to lower classes. It comes at a high social and economic cost, ranging from money spent in response to VAWG incidences to the pain and suffering due to family members providing support to victims. In 2016, UN Women estimated the global cost of violence against women to be USD 1.5 trillion, equivalent to approximately 2 percent of the global GDP. In Uganda about 9 percent of violence against women resulted in survivors' loss of half-a-month's salary (UNWomen 2016).

The prevalence of occasional physical assault ("sometimes") varies between 3.5 per cent in Comoros to 21.0 per cent in Tanzania (Table 15). The figures are even more alarming when accounting for frequent and occasional assaults altogether. Evidence shows that about a third of married women are either frequently or occasionally assaulted by their partners in D.R. Congo, compared to about a fifth in Kenya and Burundi. Women who have never married or are divorced or separated or widowed also face situations of physical violence, the percentage of these women going through some form of physical violence being highest in D.R. Congo, Uganda and Tanzania, with half of women aged between 15-49 having experienced physical violence. In South Sudan, up to 33 per cent of women reported experiencing non-partner sexual violence (including rape, attempted rape or any other unwanted sexual acts) during their lifetime.

At the micro-level, VAWG affects women and their children, their education and overall psychosocial well-being and can result in loss of income, absenteeism and premature death. From the macro perspective, VAWG affects human capital development and productivity, resulting in the negative impact on economic growth. For girls, missing school implies slow or no human capital development, which affects them in their current and future states. All women are susceptible, whether single, married, divorced or widowed.

Studies have looked at costs of GBV at both the macro and micro-levels. In Kenya, it is estimated that the economic burden of gender-based violence is approximately Kenya Shillings 46 billion per year (NGEC, 2016). Prevention is clearly better than cure. Care International (2018) notes that implementing the Uganda Domestic Violence Act of 2010 for both prevention and response cost just USD 8 million over three years, while the cost of addressing the violence after it occurred exceeded an estimated USD 30.7 million in a single year.

VAWG is not strictly confined to homes. Studies have documented occurrence of VAW outside the home. Flone Initiative's (2018) study on VAWG in public road transport found that victims were blamed for their clothing in 25 per cent of cases. In relation to trade, women traders have frequently expressed VAW experiences, especially at border posts.

Countries tackling the VAWG scourge deserve commendation. As a response to rising GBV challenges, Uganda in November 2018 innovated and started special court session to tackle GBV crimes (Republic of Uganda, 2019). Delay and lack of handling of the cases – sometimes as long as six years-- was largely seen as contributing to a culture of impunity. The special sessions aimed to hear and conclude cases within a month, following specific training of court staff on how to sensitively handle traumatized survivors. To achieve this, the country set up 13 courts for the first phase to hear only cases related to crimes against women, which were reportedly making up to 60 percent of all cases in the high court.

2.12. MENTAL HEALTH CHALLENGES

Mental health is defined as a state of well-being in which every individual realizes his or her own potential, can cope with the normal stresses of life, can work productively and fruitfully, and is able to contribute to his or her community (WHO, 2019). Mental illness, which can strike anyone, is a phenomenon that is not well understood in the region, owing largely to traditional beliefs surrounding it. While data on government expenditures on facilities for mental health is scanty, the conspicuous absence of laws and policies is of concern and should be addressed. Table 16 shows the extent of the challenge.

While literature suggests that suicide occurs mostly in families of low socioeconomic status due to having to endure high levels of stress related to finance, social relations, employment and health conditions, among others, it is not limited to this group as the wealthier members of society also suffer. Lund (2016) underscores the inseparable link of mental health and social and economic development. He further argues that the relationship between poverty and mental illness can easily turn into a vicious cycle. This is echoed by Hostetter (2018) who argues that "mental health condition often decreases a person's productivity and income, which decreases their ability to get the help they need."

Governments need to strengthen strategies to address mental health issues.

Table 16: Mental health in the region

COUNTRY	STAND-ALONE LAW FOR MENTAL HEALTH	STAND-ALONE POLICY OR PLAN FOR MENTAL HEALTH	PUBLICATION YEAR OF THE POLICY OR PLAN (LATEST REVISION)
Burundi	No	Yes	2015
Comoros	Yes	No	
DR Congo		Yes	***No date***
Eritrea	No	Yes	2017
Kenya	Yes	Yes	2015
Madagascar	Yes	Yes	2008
Rwanda	No	Yes	2012
Seychelles	Yes	No	
Uganda	Yes	Yes	2014
Tanzania	Yes	Yes	2016

Source: WHO (2019a)
Note: No data for Djibouti, Somalia and South Sudan.

Mental health is often exacerbated in traumatic situations and environments, for example, in displaced and post conflict communities. Of the unprecedented displacements that occurred in 2017 (UNHCR, 2018), roughly a fifth emanated from the East and Horn region. While displacement is high and in Eastern Africa is largely post-conflict, Hostetter (2018) observes that mental health policy in East Africa is outdated and lacks the resources to be effective and that this has a widespread effect on perpetuating poverty and limiting soci-oeconomic development. Mental health is not given the same priority as other health issues. Fortunately, contrary to the MDGs, the SDGs monitors mental health indicators. For instance, between 2000 and 2016, most Eastern African countries registered a decline in suicide rates, with a regional reduction from 12.5 percent in 2000 to 10.4 percent in 2016 (WHO 2019a) (Table 17).

By neglecting mental health, it will be difficult to attain many of the Sustainable Development Goals related to poverty, HIV, malaria, gender empowerment and education. WHO (2016) notes that "every $1 invested in scaling up treatment for depression and anxiety leads to a return of $4 in better health and ability to work." By investing in mental health – the cognitive, affective and behavioural capacity for dealing with adversity – we can promote resilience on the African continent. Mental health is both a means to social and economic development, and a worthy goal; therefore, investment in mental health makes economic sense.

Neglecting mental health is detrimental to sustained social and economic development.

Table 17: Age-standardized suicide rates, 2000, 2010 and 2016
Per 100,000 population

COUNTRY	2000	2010	2016
Burundi	12.9	14.9	15
Comoros	8.8	11	11.1
D. R. Congo	10.9	9.5	9.7
Djibouti	8.6	7.2	8.5
Eritrea	18.9	15	13.8
Ethiopia	13.7	12	11.4
Kenya	8.2	5.7	5.6
Madagascar	8.5	7.7	6.9
Rwanda	24.6	12.5	11
Seychelles	9.4	9	8.3
Somalia	8.2	7.6	8.3
South Sudan	8	6.7	6.1
Tanzania	11.8	9.3	9.6
Uganda	22.8	21.8	20
Eastern Africa	***12.5***	***10.7***	***10.4***
Finland	20.4	18.9	15.9
USA	11.3	13.2	15.3

Source: WHO database, 2019a

SECTION 3
CONCLUSIONS

This report has highlighted the resilience of the regional economy. Eastern African sustained strong growth of 6.6 percent in 2018, remaining the fastest growing region of Africa. The slowing global economy, however, has affected Eastern Africa and growth is estimated to have declined somewhat in 2019, but only by 0.5 percentage points, reflecting the relative robustness of the regional economy. The region should continue to work towards improving well-being as performance in SDGs related to hunger, health, education, clean energy and peace is weak.

Countries in the region would have to sustain GDP growth rates of at least 6% per year in order to absorb the rapidly growing labour force.

Part of the explanation behind the strong regional performance has been higher investment rates, particularly in infrastructure. However, this positive trend is accompanied by rising debt levels and persistent current account deficits. The shift in the composition of debt portfolio from traditional concessional sources of finance towards emerging bilateral lenders and market-based sources has facilitated the increase in investment rates but, at the same time, has exposed the region to new sources of risk. While debt remains manageable for most countries in the region, increased public debt has led to higher debt service payments, particularly for the two largest economies in the region (Ethiopia and Kenya). How countries invest and manage their debt over the medium term will be key to preventing the rise of another debt crisis.

Meanwhile, structural transformation in the region has been taking place only slowly, raising the question of sustainability and inclusiveness of economic growth. Faster job creation in manufacturing and modern services is fundamental to accelerating structural transformation. Demographic changes are intensifying pressures on the labour market. With estimated annual labour force growth at around 3.2 percent, creating decent employment opportunities for new entrants into the labour market represents a major challenge. According to our estimates, countries in the region would have to sustain GDP growth rates of at least 6 percent per year in order to absorb the rapidly growing labour force.

The AfCFTA could create at least 2 million new jobs in the region, many in manufacturing sectors with higher shares of female labour participation.

Against this backdrop, the implementation of the AfCFTA is a priority. At a time of escalating trade tensions between major economies and uncertainty over the future of the global trading system, greater intra-regional trade will act as a cushion to the diminished opportunities for growth through global markets. It will also create more jobs in the manufacturing and high value-added service sectors, accelerating the reallocation of labour towards more productive sectors. A forthcoming report by ECA's Eastern Africa office, produced in conjunction with Trademark East Africa, finds that the AfCFTA could create at least 2 million new jobs and boost East African trade by between USD 737 million and USD 1.1 billion (ECA 2020). Many of those new jobs will emerge in manufacturing sectors, accelerating the industrialization of the region. The AfCFTA will also contribute to the economic empowerment of women because many of the new jobs will be created in sectors with higher shares of female labour participation. Additionally, the report shows that consumers in Eastern Africa will gain from the lower cost of goods and services, with the implementation of the AfCFTA, resulting in welfare gains of at least USD 1.8 billion (ECA 2020).

Regional life expectancy has improved by 6.7 years from 2008 to 2018.

In the social sphere, there is some cause for celebration regarding longer term improvements in selected social indicators. This is reflected in increasing life expectancy at birth, falling maternal and infant mortality rates and gradual improvements in general living conditions. Such improvements must be consolidated by continuing to raise basic literacy levels for both women and men and shifting attention to quality education over quantity.

The region suffers from a skills mismatch that must be addressed. Literate and skilled workforces are a necessity and, while technology can bridge information gaps, it can also contribute to the gap as many still do not have access to digital services. Immigration of skilled workers through the lowering of barriers to the movement of people can help alleviate the problem but that is only part of the solution. Basic literacy for all provides the base for the development of a skills-relevant workforce, but secondary and post-secondary education provides the superstructure. Governments should, therefore, invest in high-quality skills-oriented education and TVET programmes beyond primary school for both girls and boys. In the same way, rapidly emerging health issues- such as better nutritional standards and mental health – must be recognized as requiring urgent policy responses.

Regardless of the progress, the severity of poverty in the region cannot be ignored. Whereas performance in poverty reduction varies across countries, a general downward trend has been observed in national poverty headcounts. Nonetheless, the efforts made by Eastern African governments to reduce poverty have fallen short of the targets. Poverty leads, among other things, to stunted growth and poor health, with very high costs for the economy and negative impacts on GDP. Policy makers should consider these negative economic effects when assessing the cost of poverty-reduction measures. There is an economic and social, as well as a moral imperative to tackle extreme poverty in the region.

Policies addressing inequality and discrimination are needed to reduce poverty and realize sustainable development.

Finally, this report shows that in Eastern Africa there remains a significant and important level of gender inequality in almost all spheres, from education, to personal safety, to participation in the waged economy. Inequality in literacy levels, for examples, disadvantages women and girls from the outset. Yet there is no reason why these disparities should continue. One area where immediate action is imperative is ending endemic violence against women and girls. This can be achieved by addressing the societal attitudes that allow it to continue. In most Eastern African countries, legislation to protect all members of society – including men – from gender-based violence already exists; but must to be enforced. Governments need to step up efforts to tackle all forms of inequality and discrimination in order to reap the large gains in growth, poverty reduction and the realization of sustainable development.

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