

East Africa Quarterly Bulletin

VOLUME 3, ISSUE 1

FIRST QUARTER 2014



President Uhuru Kenyatta launches the one-million acre Galana-Kalulu irrigation project on 8th January 2014 as part of the Government's plan for enhanced distribution of resources across the country.

- **BURUNDI**
- **COMOROS**
- **DJIBOUTI**
- **ERITREA**
- **ETHIOPIA**
- **KENYA**
- **RWANDA**
- **SEYCHELLES**
- **SOMALIA**
- **SUDAN**
- **TANZANIA**
- **UGANDA**

Special Theme: Inclusive Growth in Kenya – Potential Dividends from Devolution

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The *East Africa Quarterly Bulletin* is produced by country economists and country program officers of the African Development Bank Group's (AfDB) East Africa Regional Resource Center (EARC), Nairobi, Kenya. The publication covers thirteen countries including Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan¹, Sudan, Tanzania, and Uganda. The Bulletin is part of the AfDB's monitoring of socio-economic developments across the continent and provides summary information on the previous quarter's major developments across the sub-region for which quarterly data are available on a timely basis.

Each Bulletin also contains a dedicated section on a special theme. This issue looks at inclusive growth in Kenya and examines the potential dividends from its devolution process.

Starting with this issue of the Bulletin, we shall report on results achieved from the Bank's operations on a semi-annual basis to ensure a more substantive presentation and discussion of the AfDB's contribution to improving the livelihoods of the people in the Eastern African region.

The Bulletins are based on information gathered through consultations, review of country documents, and other relevant sources. Contributors to this issue include Bernis Byamukama, John Baffoe, Prosper Charle, Edward Sennoga, Josef Loening, Susan Mpande, Vera Oling, Joel Tokindang, Walter Odero, Alexis Rwabizambuga Tilahun Temesgen, Orison Amu, Lawson Zankli Laté, Halima Hashi, Sebastian Okeke, Daniel Lekoetje, Brice Mikponhoue, Chidozie Emenuga, Admit Zerihun, Eva Ruganzu, Magidu Nyende, Kouassi Donatien, Vergnes Audrey, Alassane Diabate, Richard Walker, Dejene Demissie, Ahmed Dualeh, Suwareh Darbo, Yousif Eltahir and Kenneth Onyango.

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¹ This Bulletin issue does not include South Sudan due to the unavailability of data.

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1 | REGIONAL OVERVIEW

Economic Performance. Available data show that real GDP growth in Eastern Africa countries has been strong during Q4 2013 and Q1 2014, driven by diverse factors. In **Burundi**, the economic recovery continued with a GDP growth rate of 5.0% in Q1 2014 up from 4.5% in Q4 of 2013, driven by good performance in the agriculture and construction sectors and implementation of major infrastructure projects. In **Eritrea**, economic performance remains low due to lower than programmed production in the mining sector, low remittance inflows and low agriculture performance. Real GDP growth is projected to increase to 1.9% in 2014 which is higher than the 1.1% recorded in 2013. In **Kenya**, real GDP increased by 3.9% during Q4 2013 and was mainly supported by financial intermediation, transport and communication, trade, and mining.

In **Rwanda**, real GDP growth slowed from 7.3% in 2012 to 4.6% in 2013 in part due to the aid related delays in implementing the Government's strategic investment program and poor performance in agriculture. In **Seychelles**, GDP growth for Q4 2013 at 4.1% exceeded the 1.6% average real GDP growth for 2013. Agriculture and fisheries, accommodation and food services were the main contributors to growth in Q4 2013. **Sudan** is slowly recovering from the secession of South Sudan, as evidenced by the increase in real GDP growth from 1.4% in 2012 to 3.6% in 2013 following the resumption of payments of transit fees, gold exports and revitalization of the agricultural sector. In **Tanzania**, economic performance remains strong with real GDP growth at 7% in 2013 on the back of strong performance in industry, agriculture and services. In **Uganda**, real GDP is estimated to have increased by 2.3% in Q4 2013 up from 1% in the previous quarter owing to improved performance in industry and services sectors.

The economic outlook in 2014 for the **Eastern Africa** region remains positive in spite of several downside risks, including peace and security in the Great Lakes region, Somalia and South Sudan. Real GDP growth is projected to be driven by improved performance of the agriculture, services and industrial sectors, as well as the sustained investments in infrastructure. However, external vulnerabilities remain particularly due to the projected reduction in international commodity prices which is expected to exert pressure on the external account balances.

Monetary and Fiscal Policy. The monetary policy stance in the region during the quarter under review continued to focus on macroeconomic stability, supporting economic growth and maintaining low and stable inflation. In **Burundi**, the central bank reduced the policy rate from 11.8% in Q4 2013 to 8.8% in Q1 2014 to support credit expansion. Credit to the economy remained stable during the two quarters. Fiscal policy sustained focus on the Government's consolidation objectives particularly increasing domestic revenue mobilization. In **Eritrea**, monetary policy was geared towards financing the budget deficit with fiscal policy focusing on creating fiscal space to finance key infrastructure projects. In **Ethiopia**, monetary policy continued to focus on limiting money supply growth to control inflationary pressures. As a result, inflation has remained in single digits since March 2013. Fiscal policy was complementary to monetary policy and focused on reducing Government borrowing from the central bank while ensuring increased domestic revenue mobilization.

In **Kenya**, the central bank retained the central bank rate at 8.5% in Q1 2014 to control rising inflationary pressures. As a result, headline inflation decreased from 7.15% in Q4 2013 to 6.78% in Q1 2014. In **Rwanda**, the central bank maintained an accommodative monetary policy stance by keeping its key policy rate at 7% to support growth in credit to the private sector while maintaining price stability. Consequently, outstanding credit to the private sector increased from 17.6% of GDP in December 2013 to 18.3% in March 2014 and inflation remains below the central bank's 5% medium term target. Fiscal consolidation remains the key medium term fiscal policy objective. In **Seychelles**, the central bank unveiled a 5 year strategic plan to promote price stability and ensure gross international reserves of at least 4.5 months of imports. Fiscal policy continued to focus on expenditure rationalization to reduce the budget deficit. Monetary policy remained tight in **Sudan and Tanzania** in line with the respective central banks' objective of reducing inflation. Fiscal policy aimed to ensure increased public revenue mobilization.

External Sector. Performance in the external sector was mixed and marked by increased trade and current account deficits. Due to the reduction in international coffee and other commodity prices, the external sector in several countries in the region was affected significantly. In **Burundi**, imports decreased by 4% to USD 190m in Q1 2014 compared to the previous quarter due to a reduction in fuel and food imports. Export earnings also decreased due to a 50% reduction in coffee production. In

Eritrea, the current account deficit is projected to increase from an estimated 2.7% of GDP in 2013 to 3.1% of GDP in 2014 due to low gold and copper production and rising imports of capital goods for the mining sector. In **Ethiopia**, the export sector was highly impacted by the decline in global coffee prices, while imports increased during the quarter under review, contributing to an increase in the trade deficit. In **Kenya**, the reduction in production and price of tea led to a decrease in exports while reduced imports of machinery and equipment contributed to lower imports. In **Rwanda**, the trade deficit decreased by 7.4% to USD 433.7m between Q4 2013 and Q1 2014 due to a reduction in both exports and imports following a decrease in prices and lower production for principal exports and a reduction in consumer and capital imports respectively. In **Sudan**, export and imports decreased in Q1 2014 compared to the previous quarter. However, imports exceeded exports, resulting in a trade deficit of USD 100m. In **Tanzania**, the current account deficit remained at 14% of GDP in February 2014, the same level recorded in Q4 2013. Tourism and gold were dominant export earners, accounting for over 42% of export earnings while oil accounted for the largest share of imports at 38%. In **Uganda**, imports grew by 1.9% to USD 996.6m between January and February 2014 compared to the same period in 2013; driven by increased imports of fuel and machinery equipment, as well as private sector and Government imports for infrastructure investment. Export earnings also increased to USD 525.5m between January and February 2014 compared to USD 518m during the same period in 2013.

Regional Developments

East African countries to roll out cross-border payment system through AfDB support. The East African Community (EAC) during Q1 of 2014 launched a common payment system platform that will allow traders in the region to make and receive payments in real time and in local currencies – a significant step closer to a single financial market. The EAC Payment and Settlement Systems Integration Project is financed by the African Development Bank and aims to support the integration of payment and settlement systems in the EAC region. The project will enable the processing and settlement of payment obligations in a timely manner, enhance accountability, and minimize errors by putting in place a well-functioning and integrated Real Time Gross Settlement system in the region. This will facilitate the development of innovative financial products while enabling better risk management thereby benefitting exporters and importers in the region through a faster, safe and secure transfer of funds. The system will also support the development of central securities depositories and core banking platforms in EAC partner states. The central bank governors of Kenya, Uganda, Rwanda, Tanzania and Burundi participated in the project's launch.

Democratic Republic of Congo (DRC), Ethiopia and Uganda to join COMESA free trade area. DRC, Ethiopia and Uganda have pledged to join the COMESA Free Trade Area (FTA) by December 2014, raising hopes of improved regional integration and trade performance between member countries. The three countries are currently members of COMESA, but are yet to ratify a special FTA arrangement where countries agree to eliminate tariffs, quotas and preferences on goods originating from the FTA. Heads of State of the COMESA countries issued a communiqué at the close of an annual summit in Kinshasa indicating that the three countries have committed "... to deposit their accession instruments to the COMESA FTA with the secretariat not later than December 2014".

Kenya, Rwanda and Uganda officially launch single tourist visa. The Presidents of the three countries officially launched the introduction of the single tourist visa when they met for the *4th Northern Corridor Integration Projects Summit*. Tourists visiting the three EAC partner states can now travel across these countries using a single tourist visa. The single tourist visa is expected to boost regional integration and ease the movement of tourists across the region. Tourists can apply for the visa at any of the immigration offices in Uganda, Kenya and Rwanda or online.

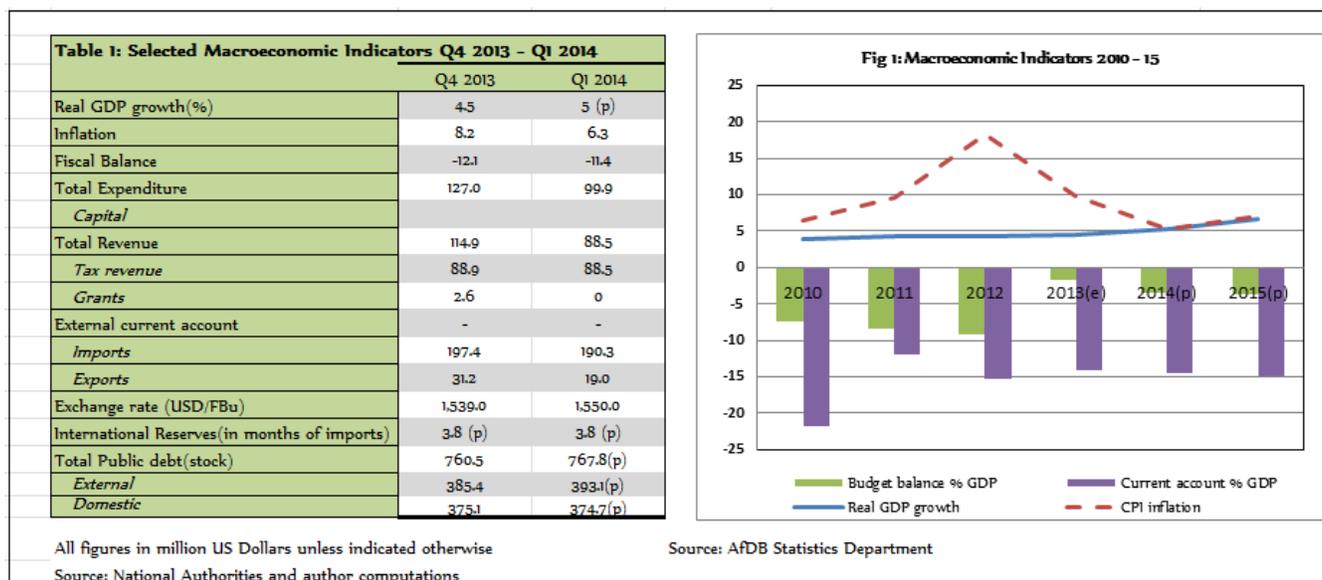
The Country Profiles presented in the following chapter explain in more detail the macroeconomic and other developments in the countries covered by the Bulletin during Q1 2014.

11 | COUNTRY UPDATES



BURUNDI

MACROECONOMIC DEVELOPMENTS



Economic Performance

- Burundi's economic recovery continues to gain momentum in the aftermath of the 2013 food and fuel price shocks. Real GDP growth is estimated at 5% in 2014, up from 4.5% in 2013, and is expected to be driven by the agriculture and industry sectors. The implementation of major infrastructure projects, including fiber optics, hydropower, and roads has gained momentum.
- The economic outlook remains challenging and external vulnerabilities persist in the context of lower international coffee prices. Despite poor harvests in the country last year, the inflation outlook in 2014 remains favorable, owing to lower than projected international food and fuel prices. However, fiscal expenditure pressures constitute key risks to the outlook particularly in the run up to 2015 presidential elections.

Fiscal Policy and Public Debt

- Fiscal policy remained consistent with the Government's consolidation objectives, in spite of a shortfall in domestic revenues and delays in the disbursement of budget support. Revenue collections for Q1 2014 at USD 88.5m were lower

than the programmed USD 99.5m, representing an underperformance of 11% compared to a 2.5% underperformance in revenue collections during the same period in 2013. The lower revenue yield is in part due to the revision of the tax law which among other things provided for tax credit and customs exemptions, leading to an estimated revenue loss of USD 10m during Q1 2014. Public spending at USD 99.9m was 14% higher than programmed due to the payment of arrears dating back to 2013.

- The total stock of debt increased by 1% to USD 767.8m between Q4 2013 and Q1 2014 due to an increase in external debt in part due to fluctuations in the nominal exchange rate. The disbursement of budget support from the World Bank in December 2013 of USD 25m contributed to a reduction in domestic debt.

Monetary Policy and Financial Sector

- The central bank reduced its policy rate from 11.8% in Q4 2013 to 8.8% in Q1 2014 to support credit expansion. Credit to the economy remained stable during the two quarters at an estimated USD 407.9m in February 2014. Headline inflation eased to 6.3% in Q1 2014 from 8.2% during the previous quarter due to a reduction in food prices. Average headline inflation is projected at 8% in 2014 down from 9.8% in 2013 due to a reduction in international food and fuel prices.
- The Burundian franc depreciated by 0.7% against the U.S. dollar, trading at BIF 1539.4 in Q4 2013 and 1550.9 in Q1 2014, due to measures taken by the Central Bank in 2013 to stabilize the exchange rate including limits on foreign exchange purchases by commercial banks.

External Sector

- Imports decreased by 4% to USD 190.3m in Q1 2014 compared to Q4 2013, due to a reduction in fuel and food imports. Export earnings also decreased from USD 31.2m in Q4 2013 to USD 19.0m in Q1 2014 due to a 50% reduction in coffee production, the major export. Coffee accounted for 31% of export earnings in 2013/14 compared to 70% in 2012.
- International reserves at end-March 2013 were estimated at 4.0 months of imports and higher than 3.8 months of imports at end-December 2013, reflecting in part a reduction in central bank interventions on the foreign exchange market. Projections indicate an increase in Foreign Direct Investments, especially in the ICT, from less than 5% of GDP in 2013 to 6% of GDP in 2014.

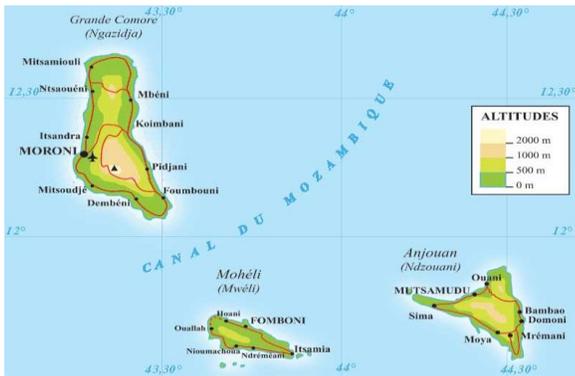
OTHER NOTABLE DEVELOPMENTS

Political Developments

- The Government requested the United Nations Office in Burundi (BNUB) to end its peacekeeping mission, arguing that peace has been realized which renders the presence of BNUB in Burundi unnecessary. After consultations with the Government, the UN Security Council adopted a resolution that will bring a closure to BNUB's mandate in Burundi on December 31, 2014. BNUB will be replaced by the Election Observation Mission (EOM) to monitor the elections in 2015. The EOM to be established in 2014 will submit regular reports to the Security Council on developments in Burundi before and after the 2015 elections. The Government, the Commission for Peace-building, and development partners are set to establish a Steering Group whose primary task will include defining the framework for donor coordination.

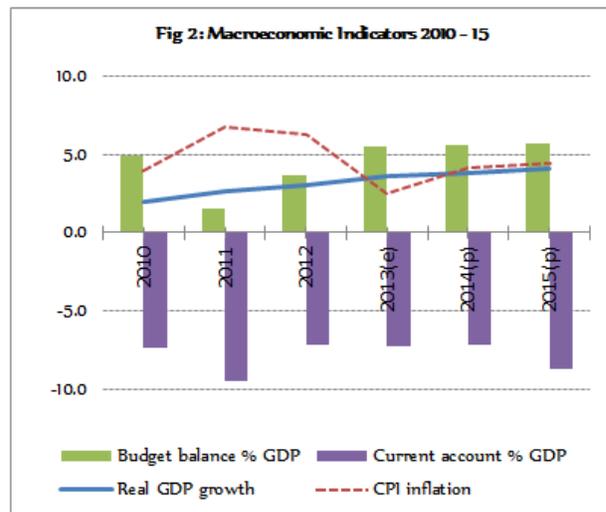
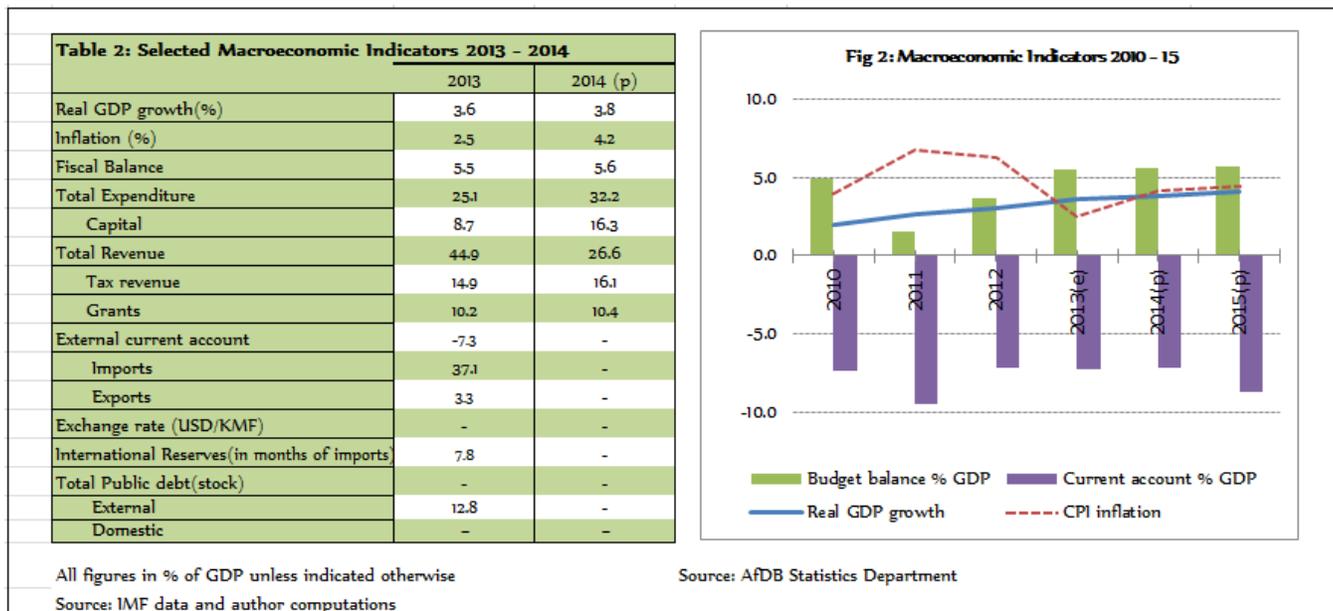
Donor Relations

- The IMF completed in February 2014 the fourth review the program supported by the Extended Credit Facility (ECF) and approved a disbursement of USD 7.7m. Performance under the program was satisfactory and indicative targets were observed, including the indicative target on pro-poor expenditure. Satisfactory progress was also made in the implementation of structural reforms particularly regarding the streamlining of customs procedures at three recently established border posts with Rwanda and Tanzania. Implementation of public financial management reforms related to enhancing treasury and financial safeguards was also satisfactory.



COMOROS

MACROECONOMIC DEVELOPMENTS



Source: AfDB Statistics Department

Economic Performance

- The economic outlook for 2014 remains positive on account of the sustained implementation of the public investment program. For instance, the Saudi Fund for Development announced in January 2014 the mobilization of USD 37.5m for the financing of infrastructure.

Fiscal Policy and Public Debt

- The IMF program with Comoros was concluded in December 2013. Discussions are underway for a successor program. Towards formulation of this program, the IMF conducted a mission in February 2014, which also led to the development of a budgetary framework. Fiscal projections from the budgetary framework indicate that Comoros may not need IMF funding due to the Country's good domestic revenue performance, budget support inflows of USD 17.6m and a statutory advance of USD 3.4m from the central bank.

- During the quarter under review, the Saudi Development Fund announced the cancellation of 80% of its outstanding debt, estimated at USD 55m and the rescheduling of the repayment period (to be paid over a 40-year period) of the remaining 20% . This debt relief by the Fund is expected to significantly improve the Comoros' public debt sustainability position.

Monetary Policy and Financial Sector

- Headline inflation increased to 3.7% year-over-year in Q1 2014 from 3.5% in Q4 2014 and 0.2% in Q1 2013. The rise in headline inflation was mainly driven by high food prices. The central bank announced that it will maintain its monetary policy stance including retaining the indicative rate on required reserves at 20%, held since July 2012. Commercial bank credit to the economy is estimated at USD 151 m in March 2014 which is similar to the March 2013 levels but lower than the USD 152.5m recorded in December 2013.

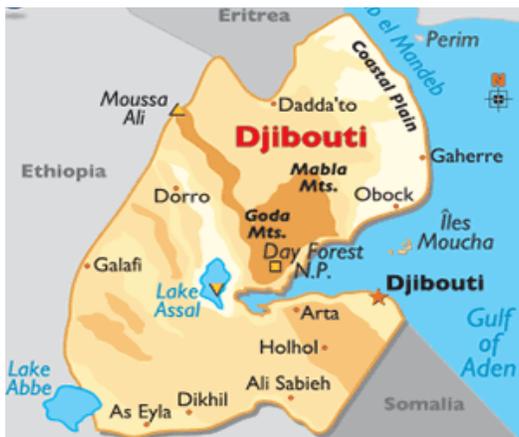
External Sector

- Imports during Q1 2014 amounted to USD 193.18m compared to USD 9.8m for export receipts. Food products comprise the largest share of imports.

OTHER NOTABLE DEVELOPMENTS

Donor Coordination

- Sectoral consultations on the next five-year development strategy (2015-19) were held across Government institutions and also with development partners to, among other objectives, improve the alignment of sector policies with the country's economic development priorities. The Bank's study on the drivers of fragility was used in the consultations and helped in developing a common understanding of the underpinnings of fragility and the required strategy and policy responses.



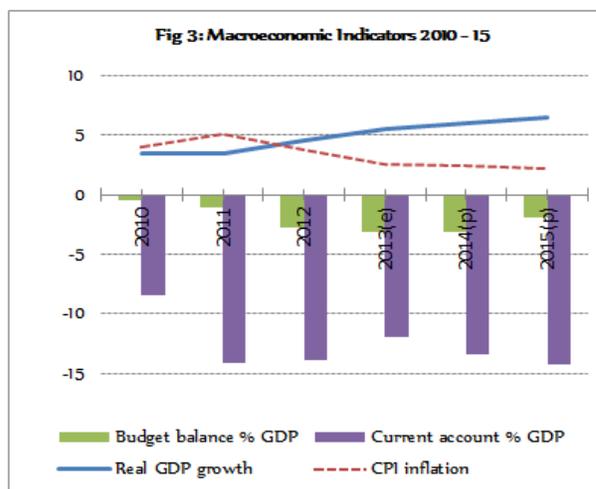
DJIBOUTI

MACROECONOMIC DEVELOPMENTS

Table 3: Selected Macroeconomic Indicators Q3 - Q4 2013

| | Q3 2013 | Q4 2013 |
|---|---------|---------|
| Real GDP growth(%) | - | - |
| Inflation | - | - |
| Fiscal Balance | -7891 | -5956 |
| Total Expenditure | 24627.0 | 25849.0 |
| Capital | 8404 | 10416 |
| Total Revenue | 16735 | 31745 |
| Tax and non-tax revenue | 13260 | 23098 |
| Grants | 3475 | 8647 |
| External current account | - | - |
| Imports | - | - |
| Exports | - | - |
| Exchange rate (USD/DJF) | 177.72 | 177.72 |
| International Reserves(in months of import) | - | - |
| Total Public debt(stock) | - | - |
| External | - | - |
| Domestic | - | - |

All figures in million US Dollars unless indicated otherwise
Source: IMF data and author computations



Source: AfDB Statistics Department

Economic Performance

- Following an IMF mission to Djibouti in March 2014, estimates for some key macroeconomic aggregates were revised downwards for the year 2013. The IMF maintained a 5% real GDP annual growth rate forecast for 2013. The AfDB forecast is pegged at 5.4% real GDP growth for 2013 on account of the projected increase in volume of port activities, particularly in transit activities at entry during Q4 2013. Real GDP growth is projected to increase to 6% and 6.5% in 2014 and 2015 respectively, due to the implementation of the public investment program, especially in the transport sector.
- Emerging sectors, in terms of GDP contribution, such as the telecommunication sector continue to expand at a rapid pace. Internet connection subscriptions registered a 27% annual increase in 2013 compared to 2012, followed by mobile phone subscriptions (15%) and landline (5%).

- Preliminary data for Q1 2014 confirm the projected higher 2014 real GDP growth forecast. Transit port activities at entry continue to accelerate with an annualized 48% increase in volume up from 31% in Q4 2013. Subscriptions for internet, mobile phone and landline services in the telecommunication sector continue to be dynamic with respective annualized growth rates of 25%, 20% and 14% in Q1 2014.

Fiscal Policy and Public Debt

- Fiscal policy in 2013 was more expansionary than programmed, with an actual budget deficit of 5.6% of GDP compared to the projected 3.1%. The increase in budget deficit was due to increased expenditure in goods and services coupled with deterioration in the performance of direct tax collections. The less than programmed performance in direct tax collections was due to lower revenue yields for corporate and property taxes.

Monetary Policy and Financial Sector

- The headline annual inflation rate decreased to 2.4% in 2013 from 3.7% in 2012. However, inflation trends remain very sensitive to changes in international prices for the two main imports of food and oil. Consequently, the Government has continued to contain imported inflation by subsidizing the main food staples and oil products and operating farms in Ethiopia and Sudan to produce sunflowers, sorghum and wheat, which are then sold at controlled prices in Djibouti.
- The exchange rate has been pegged to the US dollar under the currency-board regime at DJF 177.721/ USD since 1973 and this regime is expected to be maintained over the short- to medium-term.

External Sector

- The current account deficit increased to 23.9% of GDP in 2013 from 12.3% in 2012, driven by an increase in imports of equipment owing to increased FDIs inflows. Imports increased by 40% in 2013 compared to 2012 on the back of a surge in imports of chemical products which increased by 268%, woods (255%) and equipment machinery and electrical appliance (193%).

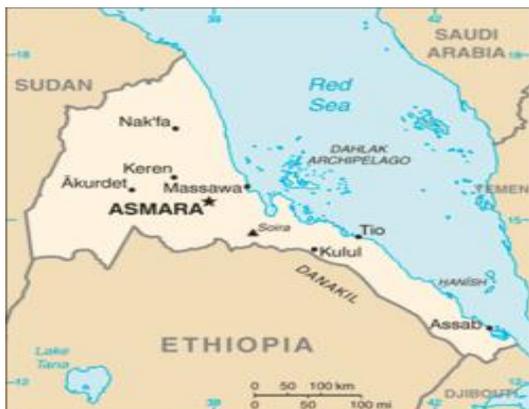
OTHER NOTABLE DEVELOPMENTS

Donor Relations

- The IMF conducted a mission to Djibouti in March 2014 to assess the potential impact and risks of the country's investment and borrowing programs. The mission followed the acquisition of two loans at the end of 2013. The two loans, which jointly account for 60% of GDP, will finance the construction of a water pipeline and railway line between Ethiopia and Djibouti. Preliminary estimates indicate that the debt to GDP ratio is likely to reach 80% over the coming years, with serious implications for the country's debt sustainability prospects. Djibouti was classified at high risk of debt distress prior to the acquisition of these two loans.

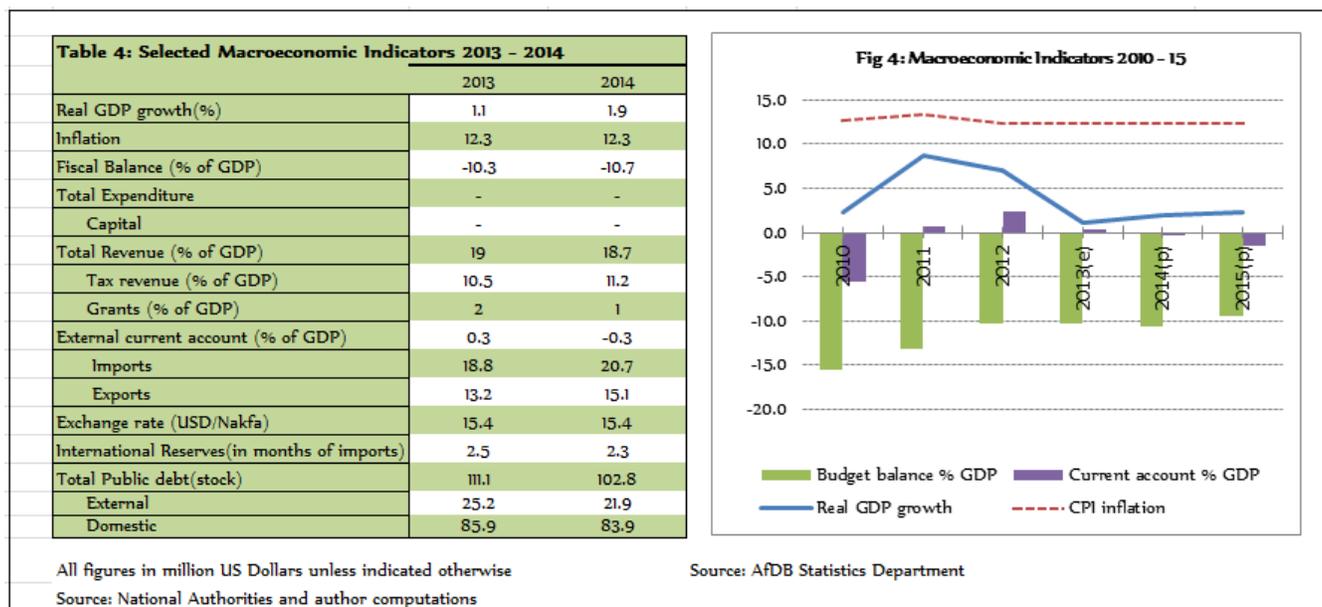
Institutional Reforms

- The authorities initiated a reform agenda for key public entities pertaining to the water, energy and transport sectors during 2013. Specifically, a tailored program was formulated for the water utility to support implementation of the water desalination project. This program is expected to double the current water production capacity of the utility. The program includes measures to improve billing and collection processes to reduce production costs. An average 10% increase in water tariffs is also planned.



ERITREA

MACROECONOMIC DEVELOPMENTS



Economic Performance

- Real GDP growth remained weak during Q1 2014 as a result of slower growth in production at the Bisha mine, low diaspora remittances, and recurrent droughts that have negatively affected the agriculture sector.
- The mining sector remains the main driving force behind Eritrea’s economic growth. Programs being designed under the drought resilience and sustainable livelihoods in the Horn of Africa initiative are expected to boost agriculture and livestock productivity.

Fiscal Policy and Public Debt

- The Government’s fiscal consolidation policy aims to increase domestic revenue collections in order to create fiscal space to finance a selected set of infrastructure projects, particularly roads and telecommunication. The need to broaden the tax base remains a key priority.

- Fiscal deficits are projected to remain high due to low domestic revenue mobilization relative to the public investment program. Moreover, the Government considers that its continued debt distress position is because it has not enjoyed any HIPC and MDRI program. As a result, the country can only access grant resources which are not adequate to finance the public investment program

Monetary Policy and Financial Sector

- Monetary policy during the quarter under review was geared towards financing the budget deficit as the Government continued to allocate resources to priority investments. The limited resources amidst growing and competing country needs are curtailing the activities of the private sector, thereby undermining its role as the driver of economic growth.
- Headline inflation remained stable at 12.3% in Q1 2014 and is projected to remain high due to the effects of recurrent droughts on food prices and continued monetization of the fiscal deficit.
- The official exchange rate has remained at Nakfa 15.4 per US dollar despite the Government's liberalization of the exchange rate in 2013. A market determined exchange rate is expected to contribute to the re-alignment of the Nakfa/US dollar exchange with foreign exchange market fundamentals.
- The Government has taken measures to improve the efficiency of the financial sector. The measures include technical support to the Eritrea Development and Investment Bank in line with the broad objective of reducing borrowing costs. As a result, lending rates are projected to remain within the 7 – 12% range during 2014. These measures are aimed at attracting private investors to key sectors such as tourism, agriculture, and fisheries that have great potential for job creation for the majority of the unemployed or underemployed youths.

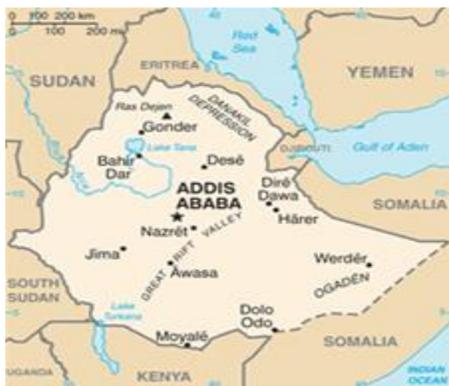
External Sector

- The current account deficit is projected to increase from an estimated 2.7% of GDP in 2013 to 3.1% of GDP in 2014 due to low gold and copper production amidst rising imports of capital goods for the mining sector.

OTHER NOTABLE DEVELOPMENTS

Political developments

- The Government's facilitation and participation in key international events and observances including the UN Day and the active participation of its delegation to the UN General Assembly high-level side events points to improving relations between the Government and the UN. The United Nations Development Group-Department of Economic and Social Affairs (UNDG-DESA) high-level mission to Eritrea in Q1 2014 is also an indication of the authorities' increasing willingness to collaborate on policy issues with various development stakeholders.
- The Government submitted its second Universal Periodic Review (UPR) report, an important commitment to the implementation of the recommendations of the UPR on human rights. This development is also seen as a positive indicator for confidence building between the UN and the Government and provides an important platform for the UN and other development partners to strengthen development cooperation.

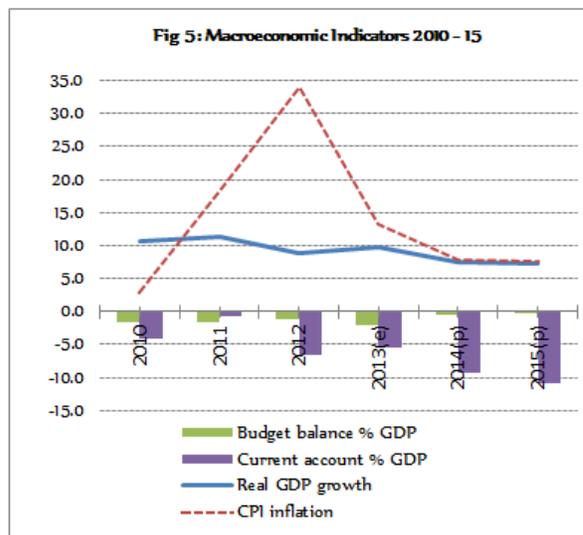


ETHIOPIA

MACROECONOMIC DEVELOPMENTS

Table 5: Selected Macroeconomic Indicators 2012/13 - 2013/14

| | 2012/13 | | 2013/14 |
|--|-----------|----------|-----------|
| | Q1 | Q4 | Q1 |
| Real GDP growth(%) | - | - | - |
| Inflation | 3.2 | 2.2 | 4.1 |
| Fiscal Balance (% of GDP) | - | - | - |
| Total Expenditure | 1,200.54 | 2,052.33 | 1,593.25 |
| Capital | 496.82 | 856.46 | 607.48 |
| Total Revenue | 1,320.43 | 1,192.43 | 1,299.70 |
| Tax revenue | 1,241.07 | 1,173.55 | 1,253.03 |
| Grants | 46.18 | 6.80 | 2.36 |
| External current account | -824.50 | -569.4 | -602.6 |
| Imports | 2,819.20 | 2,990.90 | 2,669.30 |
| Exports | 984.2 | 813.1 | 847.9 |
| Exchange rate (USD/ETB) | 17.8705 | 18.5331 | 18.7384 |
| International Reserves(in months of imports) | 2 | 1.9 | 1.8 |
| Total Public debt(stock) | 13,258.34 | - | 16,114.00 |
| External | 8,888.65 | - | 11,117.22 |
| Domestic | 4,369.69 | - | 4,996.78 |



All figures in million US Dollars unless indicated otherwise

Source: AfDB Statistics Department

Source: National Authorities and author computations

Note: Q1 2012/13 = July - September 2012; Q4 2012/13 = April - June 2013; Q1 2013/14 = July - September 2013;

Economic Performance

- Government’s third quarter report for the current fiscal year indicates its satisfaction with the country’s economic performance despite the global economic slowdown. The government is encouraged by the sustained growth rate of the economy over the past decade. Real GDP growth is projected at 11.3% in 2013/14, with agriculture, industry, and services sectors projected to grow by 8.6%, 21.4%, and 10.5%, respectively.
- Ethiopia is creating millionaires at a faster rate than any other country on the continent. The number of US Dollar millionaires in Ethiopia rose from 1,300 in 2007 to 2,700 by September 2013, according to New World Wealth report. These figures place the country well ahead of Angola, up by 68%, and Tanzania, which had a 51% increase. Zambia and Ghana completed the top five. The study finds that the rise in millionaires has been closely tied to GDP growth, in which Ethiopia has also fared best over the past six years achieving 93%, followed by Egypt (81%) and Angola (61%). This is expected to further enhance the country’s economic growth.

Fiscal Policy and Public Debt

- In 2013/14, the Federal Government pursued prudent fiscal policy to combat inflation while maintaining increases in physical and social infrastructure expenditure. Fiscal policy focused on strengthening domestic resource mobilization and reducing government borrowing from the central bank. Consequently, the Federal Government's revenue collection during the first six months of the fiscal year increased by about 13% compared to the previous year and accounted for 54% of the annual target.
- Spending by the Federal Government increased by 27% during the first half of 2013/14, albeit lower than programmed. As a result of good revenue performance and relatively lower than projected spending, the fiscal deficit registered during the half-year mark was only 13% of the budget. While the level of the fiscal deficit at the Federal Government level continues to be largely sustainable, the broader public sector deficit (including public enterprises) remains a concern as bank lending to the non-government sector increased marginally by 28% in the first quarter of 2013/14, from 26% in 2012/13.
- The risk of debt stress remains low. However, vulnerabilities remain high due to the marked increase in the external debt stock from USD 2.8bn in 2007/08 to USD 11.2bn in 2012/13, and projections of further increases in external borrowing to finance the Government's ambitious national investment program.

Monetary Policy and Financial Sector

- The central bank adopted a tight monetary policy stance to limit the growth of money supply through control of reserve money growth. Consequently reserve money which is used by the central bank to anchor its monetary policy, increased on annual basis by 7.7% in September 2013, driven largely by a rise in domestic credit. The increase in reserve money during Q1 2013/14 was lower than the 13.6% increase recorded for 2012/13. While this might suggest that monetary policy was probably tighter in the first three months of this fiscal year, the increase in central bank's lending to the Government (from 22.1% in June 2013 to 27.5% in September 2013) seems to indicate some monetary policy easing. On balance there was a general tightening of monetary conditions as inflation has remained in single digits since March 2013 while the annual inflation rate stood at 8.8% in March 2014.
- About 108 new bank branches were opened during Q1 2013/14 bringing the total number of bank branches in the country to 1,832 in September 2013. Consequently, the bank branch-to-population ratio improved to 1:46,397 compared to 1:49,303 in June 2013. However, the financial sector remains shallow as it continues to provide a limited range of products and services, while foreign participation is restricted and capital markets are non-existent. In addition, banking institutions remain concentrated in urban areas and the state-owned Commercial Bank of Ethiopia dominates the banking sector, accounting for over 60% of national total deposits and loans.

External Sector

- The export sector grew by 2% during the past nine months which was less than the government's projection for the period. Exports were negatively affected by the decline in global coffee prices, with coffee exports declining by 25% during the same period. The decline in gold prices also contributed to the lower than programmed performance in the export sector with international gold prices decreasing by 30% at the end-2013. Agricultural exports increased by 9% while manufacturing exports increased by 11.4%.
- Imports increased by 7% during the first quarter of the fiscal year, widening the trade deficit. Imports of fuel and consumer goods increased while capital goods imports declined slightly.

OTHER NOTABLE DEVELOPMENTS

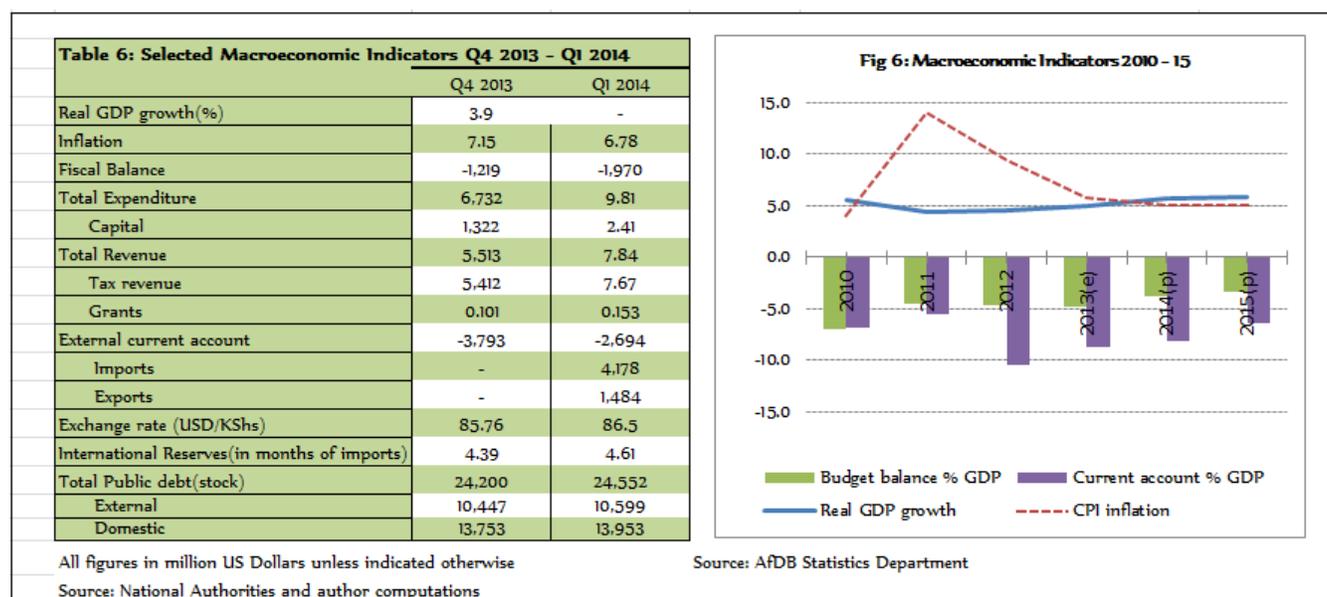
Institutional Reforms

- The Federal Government announced that its accession instruments to the COMESA Free Trade Area (FTA) will be deposited with the Secretariat by December 2014. Ethiopia, a founding member of the COMESA in 1993, is one of eight countries that have delayed their decision to join the FTA that was launched in 2000. Ethiopia has however been providing a 10% discount on its tariffs to other COMESA member countries. The impact of the FTA on government revenues and competitiveness concerns have been cited by the Government as some of the reasons for delays in joining the COMESA FTA. Ethiopia has also taken further steps to facilitate increased regional trade with its neighboring countries. Key among these measures is the signing of a Memorandum of Understanding and the Transport Corridor Service Agreement with Kenya and South Sudan.
- A large share of domestic tax revenue is still generated through external trade tax, at about 36% in 2012/13 but lower than 47% in 2006/07. Customs administration and administrative entry barriers appear to be the major Non-tariff barriers (NTB) affecting Ethiopia's trade with COMESA member states, along with the tariff barriers. Ethiopia ranks 166 out of 189 economies on the ease of trading across borders compared to the sub-Saharan Africa average of 141. Thus, the afore-mentioned reforms are aimed at improving the ease of trading across borders and further deepening regional integration.



KENYA

MACROECONOMIC DEVELOPMENTS



Economic Performance

- Real GDP grew by 5.7%, 4.7%, 4.6% and 3.9% during Q1, Q2, Q3 and Q4 of 2013, mainly driven by expansion in wholesale and retail trade and repairs, mining, financial intermediation and transport and communication. Overall, the economy expanded by 4.7% in 2013 compared to 4.6% in 2012.
- The macroeconomic stability witnessed in 2013 continued into the first quarter of 2014 and is likely to be maintained during the remained of 2014. Moreover, operationalization of the development budget in the 47 counties is expected to spur further economic growth while private consumption is also likely to improve given the stable interest rates and the prevailing low inflation regime.

Fiscal Policy and Public Debt

- The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of USD 1.97bn

(4.1% of GDP), as at end-March 2014, compared with a deficit of USD 2.69bn (6.3% of GDP) in a similar period in FY 2012/13.

- The National Government cumulative revenue collection including end of 31st March 2014 (Q3 FY 2013/14) amounted to USD 7.84bn (16.2% of GDP) against a target of USD 8.45bn (17.4% of GDP). The shortfall was due to the VAT Act which reduced revenue levels.
- The total cumulative expenditure and net lending inclusive of transfers to county governments for the period ending 31st March 2014 amounted to USD 9.81 bn. This was USD 3.27bn below the target of USD 13.08bn and was largely attributed to lower than programmed disbursements to the County Governments and operations and maintenance in the National Government, as well as slow utilization of foreign financed development expenditures.
- At the beginning of the year, the National Treasury announced its intention to launch a Eurobond at end-January 2014. The value was expected to be between USD 1.5 and 2bn. The bond is planned to be used to retire the USD 600m syndicated loan borrowed from international banks in 2012 and to finance key infrastructure development projects. However, by the end of Q1 2014, the bond had not been issued as the Treasury and Parliament continued dialogue on the issuance.
- As part of austerity measures to curb the rapidly rising wage bill, on 7th March 2014, the Kenyan cabinet led by the President and his Deputy decided to take a salary cut with immediate effect. Specifically, the President and his Deputy agreed to a 20% pay cut while the 18 Ministers agreed a 10% pay cut. This decision was made against the background of Kenya's high public wage bill, which has increased to about 50% of the FY 2013/14 national budget or 12% of GDP. The public wage bill has been rising since the promulgation of the 2010 Constitution as a result of the establishment of new constitutional offices and the operationalization of 47 new County governments.

Monetary Policy and Financial Sector

- The Central Bank of Kenya (CBK) retained the central bank rate (CBR) at 8.5% in Q1 2014 to control inflationary pressures. After rising to 7.21% in January 2014, the overall headline inflation rate decreased to 6.86% in February 2014 and further to 6.27% in March 2014. The decline in inflation in March 2014 is attributed to lower food and fuel inflation.
- The Kenya Shilling was stable against major global and regional currencies during Q1 2014 with most currencies varying by less than 5%. This was mainly attributed to short term capital inflows; remittances; and CBK's interventions in the foreign exchange market.

External Sector

- Kenya's overall balance of payments position recorded a surplus of USD 1,224 million in the year to February 2014, up from a surplus of USD 662m in the year to February 2013. The increased surplus reflected the buildup in the capital and financial account and a reduced deficit in the current account.
- The volume of trade (exports and imports) decreased from KSh 173.2bn (USD 2bn) in January 2014 to KSh 149.7bn (USD 1.74bn) in February 2014. The total value of exports decreased from KSh 43,062.5m (USD 500m) to KSh 42,647.8m (USD 488m) during the same period in part due to a reduction in both volume and price of tea. The value of imports fell to KSh 107,072.3m (USD 1.3bn) in February 2014 from KSh 130,116.5m (USD 1.5bn) in January 2014 due to the reduction in imports of machinery and equipment.

OTHER NOTABLE DEVELOPMENTS

Institutional reforms

- The Kenyan Senate executed the first impeachment of a County Governor in February 2014, after voting to impeach the Governor of Embu County on accusations of abuse of office. The impeachment process begun with the Members of the Embu County Assembly voting to have their Governor removed from office. The Senate, following provisions of the constitution, investigated the allegations, prepared and debated a report and then voted unanimously to impeach the Governor. The Governor was accused of disregarding procurement rules and procuring maize seeds which failed to germinate.

Donor Relations

- The Government and Development Partners during Q1 2014 continued dialogue on ways of increasing development partner disbursement rates, which remained as low as 10% of the planned aid disbursements for FY 2013/14. The Development Partners also engaged the government on issues of security and ways of addressing corruption.
- The IMF 3-year Extended Credit Facility (ECF) program for Kenya was approved in January 2011 in an amount equivalent to SDR 488.52 (USD 760.63m). The 6th and final review under the ECF was completed in December 2013 and all structural benchmarks and targets were met.
- Although the authorities indicated interest in a successor program with the IMF during a visit by the IMF Managing Director in January 2014, a new program has not been agreed. During the visit, the Managing Director advised the authorities to continue implementing the reform agenda to achieve middle-income status within the next decade. She cited 3 areas of focus for sustained and inclusive growth including: (i) continued and careful implementation of fiscal devolution; (ii) improvement of quality of public spending by providing more resources to infrastructure investment and social programs, and strengthening revenue mobilization and transparency, especially in the management of natural resource wealth; and (iii) continuation of regional integration process, drawing upon the experience and lessons learned from other regions.

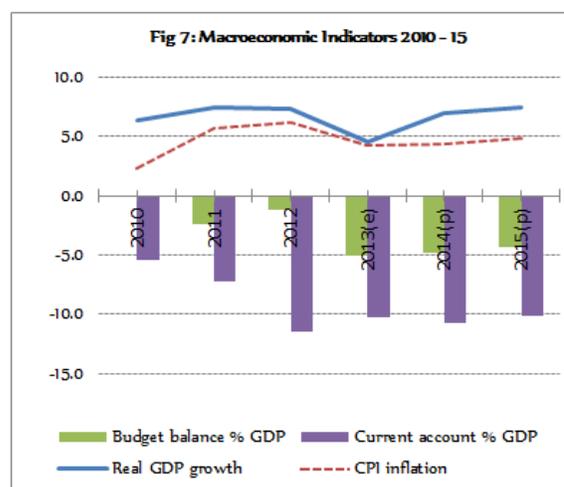


RWANDA

MACROECONOMIC DEVELOPMENTS

| | Q4 2013 | Q1 2014 |
|---|--------------|------------|
| Real GDP growth (%) | - | - |
| Inflation (%) | 4.4 | 3.1 |
| Fiscal Balance (% GDP) | 0.2 | - |
| Total Expenditure | 1039 | - |
| Capital | 479.7 | - |
| Total Revenue and Grants | - | - |
| Tax revenue | 278.3 | 278.6 |
| Grants | 221.8 | 78.8 |
| External current account | - | - |
| Imports | 599.2 | 563.2 |
| Exports | 130.7 | 129.5 |
| Exchange rate (USD/RWF) | 666.12 | 675.82 |
| International Reserves (in months of imports) | 4.5 (2013) | 4.5 (2014) |
| Total Public debt (stock) | 2,085 (2013) | - |
| External | 1,602 (2013) | - |
| Domestic | 483 (2013) | - |

All figures in million USD unless indicated otherwise
 Fiscal balance, grants, and expenditure data are for July - December 2013
 Source: National Authorities and author computations



Source: AfDB Statistics Department

Economic Performance

- Real GDP growth slowed from 7.3% in 2012 to 4.6% in 2013 in part due to the aid related delays in implementing the Government's strategic investment program and poor performance in agriculture – which grew by 3% in both 2012 and 2013 – in part due to adverse weather conditions. The industrial sector grew by 11% as compared 6% in the preceding year while growth in services at 4%, down from 11% in 2012, was constrained by the slowdown in credit growth following the delayed disbursements of budget support in 2012/13.
- Economic growth is projected to increase to 6% in 2014 on account of increased productivity in the agriculture sector and a rebound in the services sector. Stability in aid inflows and increased domestic revenue mobilization are expected to drive the implementation of the Government's investment program fueling the recovery in services and sustaining the momentum in industry.

Fiscal Policy and Public Debt

- The 2014/15 – 2016/17 Budget Framework Paper (BFP) was presented to Parliament in March 2014. The BFP proposes a USD 2.54bn budget for 2014/15, representing a USD 36.6m increase compared to 2013/14. The Fiscal Consolidation Strategy (FCS), adopted in June 2010, remains the key medium term objective. The FCS aims to increase revenue mobilization and rationalize public spending to priority sectors. The budget is aligned with the second Economic Development and Poverty Reduction Strategy (EDPRS-2) 2013-18 with 52% of the budget being allocated to the four thematic areas of EDPRS-2 including economic transformation, rural development, productivity and youth employment and accountable governance. Over 60% of the budget will be financed from domestic resources, as was the case in 2013/14, and the fiscal deficit is projected to reduce to 3.1% of GDP in 2014/15 from 5.3% in 2013/14.
- Total tax revenue collections remained stable at USD 278.3m and USD 278.6m in Q4 2013 and Q1 2014 respectively, equivalent to 3.6% and 3.7% of annual GDP. However, for the period July 2013 to March 2014, total tax revenue collections at USD 825.7m (10.7% of annual GDP) were less than the programmed USD 847m (11.1% of GDP) due to the slowdown in real GDP growth and delays in implementing some revenue enhancement measures. For instance, the proposed increase in the excise tax rate on mobile phone airtime initially planned for December 2013 was postponed to FY 2014/15.
- Revenue collections are projected to increase during the remainder of 2014 with the sustained implementation of revenue enhancement measures including the roll out of the electronic billing machines for VAT payers and revision of the investment code to eliminate unproductive exemptions. Moreover, the projected recovery in real GDP growth in 2014 is expected to contribute to increased revenue collections.
- Total spending during the period July-December 2013 at USD 1.04bn (13.4% of annual GDP) was USD 111.2m less than projected due to lower than programmed spending under recurrent and capital expenditures. Lower than programmed recurrent spending was in part due to delays in finalizing new public service recruitments while delays in completing disbursement processes for infrastructure projects contributed to the underperformance of capital expenditures.
- On 27th February 2014, the Government issued a Rwf 12.5bn (USD 18.3m) Treasury Bond to raise infrastructure funding. The 3-year Treasury bond with coupon and yield rates of 11.475% and 11.625% respectively is part of the Central Bank's grand plan of developing the country's financial market to support the mobilization of long-term financing.

Monetary Policy and Financial Sector

- The central bank maintained an accommodative monetary policy stance during the quarter under review by keeping its key policy rate (KRR) at 7%. The central bank has maintained the KRR at 7% since June 2013 in line with its medium term objectives of ensuring low and stable inflation while supporting adequate expansion in private sector credit to bolster economic growth. Outstanding credit to the private sector at USD 1.16bn (18.3% of GDP) in March 2014 was higher than USD 1.13bn (17.6% of GDP) and USD 1.11bn (16.3% of GDP) in December and March 2013 respectively.
- Headline inflation decreased from 3.7% year-over-year in December 2013 to 3.4% in March 2014. Average headline inflation decreased from 4.4% in Q4 2013 to 3.1% in Q1 2014 and remains below the central bank's 5% medium target. Core inflation (excluding fresh food and energy) also decreased from 3.9% to 3.6% during the same period.

External Sector

- The trade deficit decreased by 7.4% to USD 433.7m in Q1 2014 compared to Q4 2013 due a reduction in both imports and exports. The reduction in export receipts was driven by a decrease in prices and lower production for principal exports including minerals particularly coltan and wolfram, coffee and tea in Q1 2014 compared to Q1 and Q4 2013. The principal exports accounted for 52% of total exports in Q1 2014 compared to 62% and 61% in Q1 and Q4 2013 respectively. Total imports decreased by 6% to USD 563.2m in Q1 2014 compared to the previous quarter due to a

reduction in consumer, capital and energy imports. However, total imports were 9% higher in Q1 2014 compared to Q1 2013.

OTHER NOTABLE DEVELOPMENTS

Donor Relations

- The 10th annual Development Partners Retreat (DPR) was held in February 2014 to discuss approaches to improve the effectiveness of aid in the implementation of Rwanda's second Economic Development and Poverty Reduction Strategy (EDPRS-2) 2013-18. During the DPR, the Government of Rwanda (GoR) and Development Partners (DPs) agreed on key approaches for the effective implementation of EDPRS-2 including joint planning and programming by DPs to reduce transaction costs and increase aid predictability. Mechanisms for supporting GoR to diversify its financing base were also discussed. Innovative financing instruments including partial credit and partial risk guarantees, trade finance, and the Africa50 fund were presented by the African Development Bank as potential vehicles to complement its concessional resources.
- The IMF conducted the first review mission under the Policy Support Instrument (PSI) in March 2014. The current PSI covering the period 2014-16 was approved in December 2013 to succeed the initial 3-year PSI that was approved in June 2010. Performance under the PSI remains satisfactory. At the conclusion of the mission, GoR and the IMF reached a preliminary agreement on the key economic policies that will underpin the recovery in real GDP growth to 6% and 6.7% in 2014 and 2015 respectively. Fiscal policy will continue to focus on increasing revenue mobilization, prioritizing public spending, and reducing borrowing from the domestic financial sector. Monetary policy will maintain focus on achieving low and stable inflation, steady growth in private sector credit, and adequate foreign reserve levels.



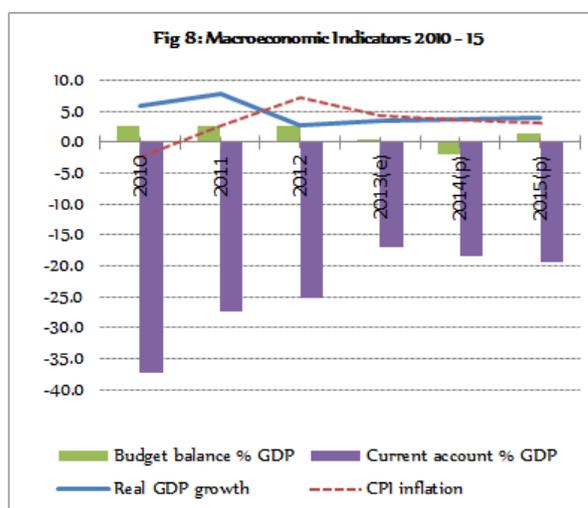
SEYCHELLES

MACROECONOMIC DEVELOPMENTS

Table 8: Selected Macroeconomic Indicators Q4 2013 – Q1 2014

| | Q4 2013 | Q1 2014 |
|--|---------|---------|
| Real GDP growth(%) | 4.1 | - |
| Inflation | 4.34 | 2.56 |
| Fiscal Balance | - | - |
| Total Expenditure | 142.5 | 63.7 |
| Capital | 38.6 | 5 |
| Total Revenue | 129 | 72.35 |
| Tax revenue | 103 | 64.96 |
| Grants | 8 | 2.7 |
| External current account | -70.39 | -40.62 |
| Imports | 318.37 | 306.18 |
| Exports | 269.23 | 389.63 |
| Exchange rate (USD/SCR) | 12.05 | 12.01 |
| International Reserves(in months of imports) | 3.8 | 4 |
| Total Public debt(stock) | 877 | 867 |
| External | 477 | 477 |
| Domestic | 400 | 390 |

All figures in million US Dollars unless indicated otherwise.
Source: National Authorities and author computations



Source: AfDB Statistics Department/ National authorities

Economic Performance

- Real GDP posted the highest growth rate in Q4 2013 at 4.1% compared to the first three quarters of the year which recorded growth rates of -1.2%, 0.9%, 2.5% respectively. The main contributors to GDP growth in Q4 2013 were agriculture and fisheries which grew by 17% compared to the previous quarter, followed by accommodation and food services at 7.8% and wholesale and retail trade at 7.2%. On an annual basis, the main contributors to GDP growth in 2013 were real estate, accommodation and food services and transportation.
- In 2014, real GDP is projected to grow by 3.7%, as hotel investments in the tourism sector come on stream. The GDP contribution from fishing is also expected to increase following the completion of a new fishing quay on Mahe. Tourist arrivals during Q1 2014 were down by 3% to 57,489 compared to 59,080 the same quarter last year, although these figures are in line with the cyclical patterns in tourist arrivals.

Fiscal Policy and Public Debt

- According to the budget figures for 2014, the primary and overall budget balances are projected at 4.4% and 0.9% of GDP, largely due to the continued expenditure rationalization which is expected to offset the 12% public service wage increase. As of end February 2014, total expenditure amounted to USD 63.66m compared USD 142.36m at end December 2013. In line with the expenditure rationalization policy stance, total expenditure in Q1 2014 decreased by 22% compared to the first two months (September and October) of Q4 2013.
- In line with its new Debt Management Strategy (2014-16), the government aims to attain a debt to GDP ratio of 69% by end-2014. This will require a very conservative expenditure framework particularly as the external debt service repayments for most of the debt restructured in 2008 become due in 2014. The government is expected to have debt service obligations amounting to SCR 367m (USD 30.6m) in 2014, SCR 511m (USD 42.6m) in 2015 and SCR 622m (USD 52m) in 2016. As at end Q1 2014, the debt to GDP ratio declined to 58% (USD 867m) from 63% at end 2013 (USD 877m).

Monetary Policy and Financial Sector

- On 27 March 2014, the Central Bank of Seychelles (CBS) unveiled its 5 year Strategic Plan (2014-18) whose primary goal is to promote domestic price stability. In line with this new strategy, the CBS will target annual inflation not exceeding 5% and gross international reserves of at least 4.5 months of import per year. The other objective of the Strategic Plan is to promote a sound financial system, including payments system and consumer protection.
- Headline inflation was in line with annual projections, with year-on-year inflation decreasing from 3.42% in Q4 2013 to 2.23% in Q1 2014 following a reduction in domestic food prices, particularly for fish, in line with annual cyclical fluctuations. In order to maintain longer term price stability, and to also achieve the debt objectives, particularly on limiting domestic debt, the CBS provided longer term debt instruments in March 2014, by issuing 2, 3 and 5 years Treasury bonds. The 2 and 5 year treasury bonds with an interest rate of 4% and 5.5% respectively were fully subscribed indicating confidence in the domestic market.
- The Seychelles Rupee (SCR) held steady during Q1 2014. The exchange rate of the rupee to the US dollar was SCR12.01/ USD similar to the average exchange rate at end 2013. The CBS maintained reserve money targeting to monitor liquidity and improve domestic pricing. In this regard, reserve money increased by 16% from SCR 2,085m (USD 173.75m) at end of Q4 2013 to SCR 2,417m (USD 201.41m) at end Q1 2014.

External Sector

- Imports continued to outperform exports in Q1 2014. Imports were estimated at USD 306.18m while exports were estimated at USD 289.63m at end March 2014. According to the balance of payments projections for 2014, tuna exports are expected to account for 93% of merchandise exports, while food and fuel products are expected to comprise 60% of total imports. Gross International Reserves (GIR) increased to USD 457m (4 months of imports) at end March 2014 from USD 425m (3.8 months imports) at end 2013. In line with the economic objectives and the new CBS strategic plan, GIR are projected to increase to 4.5 months of import cover by end 2014.

OTHER NOTABLE DEVELOPMENTS

- On 11 March 2014, the IMF and Government of Seychelles (GoS) reached an agreement on a new 3-year arrangement under the Extended Fund Facility (EFF) in support of the GoS economic and financial program. Seychelles will access up to SDR 11.5m (USD 17.8m) under the new arrangement which aims to consolidate macroeconomic stabilization, enhance resilience, and foster sustained and inclusive growth. The program is expected to be presented to IMF Board in June 2014.



SOMALIA

MACROECONOMIC DEVELOPMENTS

Economic Performance

- GDP was last estimated at USD 5.8bn in 2010 with a projected real growth rate of 2.6% and GDP per capita of USD 600. Agriculture (livestock, farming and fisheries) is the mainstay of the economy and livelihoods, accounting for about 60% of GDP and employing 65% of the workforce. Livestock contributes about 40% to GDP and more than 50% to export earnings.
- Economic growth is hampered by under-investment, insecurity and lack of an enabling business regulatory and legal environment. Preliminary costing of the Economic Recovery Plan (ERP) 2014-16 amounts to USD 662m which mostly focuses on public administration, infrastructure, natural resources management, and social services. The ERP only covers south central Somalia and plans are under to expand its coverage to all economic sectors, Peace and State Building Groups and to also incorporate strategies for the country's various regions.
- The economy continues to rely on high levels of aid and remittances by private agencies in the absence of commercial banks. Humanitarian and development aid in 2012 was estimated at USD 750m, the highest globally on a per capita basis. Remittances are estimated at USD 1.3bn and represent the largest contributor to national capital inflows.
- The private sector is the main provider of electricity and health, education, and water supply services. A joint government/international financial institutions oversight mechanism, the Financial Governance Program, has been put in place to enhance public financial accountability to build confidence in the new Government's key institutions and systems. The latter include public financial management, the Central Bank, public procurement, concessions and asset recovery.

Fiscal Policy and Public Debt

- The budget deficit is projected to reach USD 30m in 2014. Measures to improve public financial management have been implemented including a Treasury Single Account (TSA) at the Central Bank and some DPs are already using the TSA.
- The Government has recently prepared a new Income Tax Law, which has been submitted to Parliament for approval. A Revenue Mobilization Strategy (RMS) is in place to increase domestic revenue for fiscal sustainability, in particular, to generate at least enough resources to finance the recurrent budget. The RMS is expected to contribute to the mobilization of USD 115m in additional public revenues in 2014. Currently, the main sources of tax revenues for the Federal Government of Somalia (FGS) are the Mogadishu port and international airport.

- External sovereign debt owed to public creditors was estimated at USD 5.7bn at the end of 2013, of which USD 1.5bn is owned to multilateral creditors (79% in arrears), USD 2.5bn owed to Paris Club creditors (most of which is in arrears), and USD 1.6bn owed to non-Paris Club bilateral creditors.

External Sector

- Available estimates indicate a trade deficit of USD 740m in 2010. Between 1998 and 2010, the trade deficit averaged USD 371m, with an all-time high of USD 845.6m having been recorded in December 2008. The trade deficit is largely driven by the high dependency on imports for virtually everything including food, fuel, construction materials, and manufactured goods.
- The country's main trading partners remain the United Arab Emirates, Yemen and Oman. Somalia is a longstanding member of COMESA, though that membership has been dormant for a while in need of re-activating. The country is yet to submit an application for membership to the EAC although discussions have been held with the EAC.

OTHER NOTABLE DEVELOPMENTS

Peace and State Building

- Significant progress has been made in peace and state building and in the implementation of the economic recovery programme. To deliver on its mandate, the new FGS has developed a six pillar policy, which focuses on full stability; economic recovery; peace building; service delivery; international relations; and national unity.
- On 16 September 2013, the Somalia New Deal Compact was endorsed by the FGS and international community. The Compact lays out the critical priorities under five peace and state building goals that were endorsed as part of the New Deal principles for engagement in Fragile States.

Political Developments

- Political progress has in recent months been accompanied by military advancements in central and southern Somalia with the national army and AMISOM recapturing several strategic towns previously held by the Al-Shabaab. These developments the potential to pave the way for political dialogue and stability. The northern regions of the country remain relatively peaceful.

Donor Relations and Coordination

- The Somali Compact was endorsed in Brussels by the international community, with pledges amounting to EUR 1.8bn. Following this milestone achievement, a new UN Mission to Somalia –UNSOM –was established in June 2013, while the UK and Turkey have established Embassies and others have promised to follow suit.
- The main active donors in Somalia operate under the Somalia Development Partners Forum (DPF). And the Somalia Technical Working Group (TWG) on external debt was established in 2013 to spearhead work programs on Somalia's arrears clearance and debt relief for re-engagement with international financial institutions. The TWG is co-chaired by the FGS, the IMF and the World Bank.



SUDAN

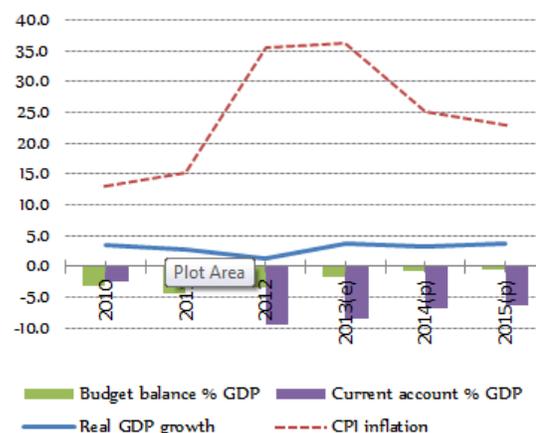
MACROECONOMIC DEVELOPMENTS

Table 9: Selected Macroeconomic Indicators Q4 2013 - Q1 2014

| | Q4 2013 | Q1 2014 |
|--|---------|---------|
| Real GDP growth(%) | 3.6 | 2.8 |
| Inflation | 47.4 | 37.9 |
| Fiscal Balance | -410 | -189.2 |
| Total Expenditure | 1984 | 1964 |
| Capital | 183.63 | 181.7 |
| Total Revenue | 1,835.1 | 1,991.9 |
| Tax revenue | 1,165.9 | 1,382.5 |
| Grants | 69.7 | 109.85 |
| External current account | -94.1 | -100.1 |
| Imports | 2,397.6 | 1,171.2 |
| Exports | 2,303.5 | 1,071.1 |
| Exchange rate (USD/SDG) | 5.7 | 5.69 |
| International Reserves(in months of imports) | 2 | 1.8 |
| Total Public debt(stock) | 47,295 | 47,372 |
| External | 43,515 | 43,892 |
| Domestic | 3,780 | 3,480 |

All figures in million US Dollars unless indicated otherwise
 Source: National Authorities and author computations

Fig 9: Macroeconomic Indicators 2010 - 15



Source: AfDB Statistics Department

Economic Performance

- Sudan is slowly recovering from the 2011 secession of South Sudan as evidenced by the increase in real GDP growth from 1.4% in 2012 to 3.6% in 2013. The real GDP growth recovery was due to the resumption of payments of transit fees, gold exports, and revitalization of the agricultural sector.
- The outlook for 2014 remains favorable, especially with good agricultural winter season. However, the high uncertainty of oil transit fees receipts due to the ongoing conflict in South Sudan presents a serious risk to the country's economic prospects.

Fiscal Policy and Public Debt

- The overall federal government budget deficit in 2014 is projected to reduce to 1.9% of GDP from 2.5% in 2013. Nonetheless, the deficit continues to be high due to the fiscal imbalances caused by the secession of South Sudan, which resulted in the loss of 75% of the country's oil revenues. The federal government cumulative budget deficit for Q1 2014 has reached USD 189m, which is significantly lower than the USD 410m deficit recorded in Q4 2013.
- Total government revenues collected in Q1 2014 at USD 1991.91m were 9% higher compared to revenues collected in Q4 2013. This is attributed to the large increase in tax revenues by about 18% in Q1 2014 compared to Q4 2013 and the increase in the grants by about 60%.
- The Government expenditures decreased by 10% in Q1 2014 compared to Q4 2013. This has been reflected in the lower budget deficit of 0.8% of GDP in Q1 2014 compared to the overall estimated deficit for the 2014 at 1.9% of GDP.

Monetary Policy and Financial Sector

- Monetary policy stance in 2014 continues to be contractionary. The central bank is committed to reducing money supply and close the expanding gap between the official and the market exchange rates as spelled out in the 14th Staff Monitored Program (SMP) recently agreed upon between the government and the IMF.
- The exchange rate was stable during Q1 2014 largely due to the credibility of monetary policies. When compared to Q4 2013, the official exchange rate remained stable at around Sudanese Pounds (SDG) 5.7/ USD. However, the difference between the official and the parallel market exchange rates widened between Q4 2013 and Q1 2014, with the parallel market exchange rate depreciating from SDG 8.5/ USD in end-December 2013 to SDG 9/ USD in end-March 2014.
- Contractionary monetary policy and other reforms including the 29% devaluation of the local currency in 2013 contributed to the reduction in the headline inflation rate from 47.9% in Q4 2013 to 37.9% in Q1 2014.

External Sector

- Exports and imports decreased in Q1 2014 compared to Q4 2013. However, imports exceeded exports, resulting in a trade deficit of USD 100m. When compared to Q4 2013, the current account deficit increased by 5.9% in Q1 2014. Although the gap between exports and imports is narrowing, more effort is required to enhance the country's competitiveness in the international markets.

OTHER NOTABLE DEVELOPMENTS

Political Developments

- A national dialogue has been initiated by President Bashir to move the political process towards a sustainable transition to a constitutional democracy. Most of the political parties have joined the dialogue, but the absence of the Sudanese Revolutionary Front (SRF) could threaten the success of this initiative.
- The Government held peace talks with SPLM-N in Addis Ababa under the leadership of the African Union High Level Panel (AUHIP). The AUHIP Chairperson, Fmr. President Mbeki remained optimistic about the possibility of reaching an agreement between the two parties.
- Sudan's political outlook will be shaped by several factors including the internal conflicts in Darfur, Blue Nile, and South Kordofan regions as well as the civil strife in South Sudan. These factors also present considerable downside risks to the country's economic outlook.

Donor Relations

- Sudan is under sanctions from many development partners (DPs), including the African Development Bank (AfDB), and thus, very few interventions are currently on-going with weak coordination between DPs. However during Q1 2014, donor coordination gained momentum within the framework of the Interim Poverty Reduction Strategy Paper (I-PRSP) implementation and preparation of the full PRSP. The AfDB and the World Bank are co-chairing a donor coordination group to improve coordination and collaboration amongst DPs and with the Government and considerable progress was registered during Q1 2014.
- The Government continued to work on conditions for reengagement with the international community by meeting the technical requirements for debt relief, including the preparation and implementation of the full PRSP. However, while remarkable progress has been achieved in the area of technical eligibility to debt relief, some of the political concerns by major DPs need to be addressed.



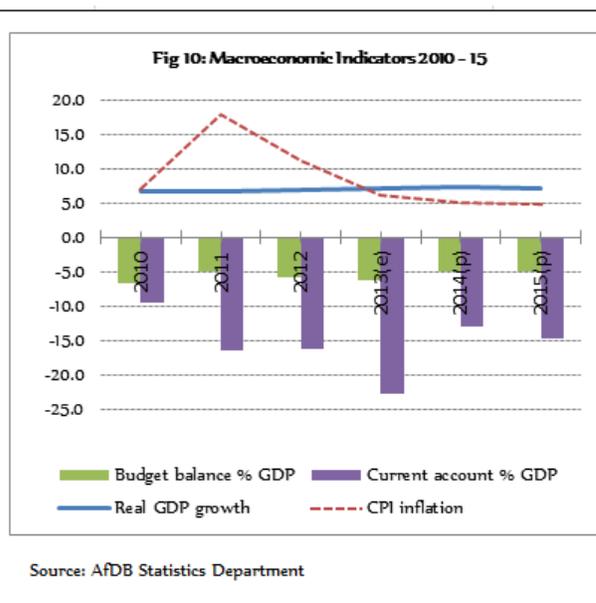
TANZANIA

MACROECONOMIC DEVELOPMENTS

Table 10: Selected Macroeconomic Indicators Q4 2013- Q1 2014

| | Q4 2013 | Q1 2014 |
|--|-----------|-----------|
| Real GDP growth(%) | - | - |
| Inflation | 6 | 6 |
| Fiscal Balance (% of GDP) | - | - |
| Total Expenditure | - | - |
| Capital | - | - |
| Total Revenue | - | - |
| Tax revenue | - | - |
| Grants | - | - |
| External current account | -4,267 | -4975.7* |
| Imports | 1,334 | 13667.4* |
| Exports | 8,283 | 8609* |
| Exchange rate (USD/TZS) | 1609.7 | 1637.71 |
| International Reserves(in months of imports) | 4.4 | 4.4 |
| Total Public debt(stock) | 13,975.20 | 17,413.60 |
| External | 10,728.90 | 13,551.80 |
| Domestic | 3,246.40 | 3,861.80 |

All figures in million US Dollars unless indicated otherwise; *data for Jan 2014
Source: National Authorities and author computations



Economic Performance

- Economic activity in 2014 is expected to sustain the strong momentum from the second half of 2013, driven by improved performance in industry, agriculture and services. Real GDP growth is estimated at 7% in 2013 and projected at 7.2% in 2014, supported by the public infrastructure investments.

Fiscal Policy and Public Debt

- Although the authorities have continued to maintain a tight fiscal policy, the implementation of the FY 2013/14 budget has been affected by revenue shortfalls. During the first seven months of FY 2013/14 (July 2013 to January 2014), cumulative government revenue collections were below the target by around 18%. The shortfalls resulted from delays in the implementation of several revenue measures, particularly in the mobile communication sub-sector. During the same period, execution of the budget was around 80%.

- The public debt stock reached USD 17.4bn in February 2014, with external debt accounting for the largest share at 78%. The ratio of external debt to GDP is 40% and the overall risk of debt distress remains low.

Monetary Policy and Financial Sector

- Monetary policy remained tight, with money supply growing at 14% in January and lower than the 18% growth ceiling. Private sector credit grew by 16.2% in January, flowing mostly to construction activities, transport and communication, manufacturing and trade.
- Headline inflation remained stable at 6% in Q1 2014, the same level as in Q4 2014. The Shilling remained relatively stable, depreciating by 1% against the US Dollar in Q1 2014 compared to the weighted average exchange rate recorded in Q4 2013.

External Sector

- The current account deficit remained at 14% of GDP in February 2014, the same level recorded in Q4 2013. Tourism/travel (USD 1.9bn) and gold (USD 1.7bn) were the dominant export earners, accounting for more than 42% of export earnings, while oil accounted for the largest share of imports at 38%. The overall balance of payments recorded a surplus of USD 608.8m which was more than double the surplus recorded in the corresponding period in 2013 due to the increased inflows in the form of capital grants, external borrowing and foreign direct investments. Gross official reserves amounted to USD 4.52bn as at end of February, equivalent to 4.4 months of imports of goods and services.

OTHER NOTABLE DEVELOPMENTS

Political Developments

- An important milestone was reached in the constitutional review process as President Kikwete announced the names of 629 Constituent Assembly (CA) members. The CA is comprehensively representative, featuring 357 Parliamentarians of the United Republic, 82 Parliamentarians from Zanzibar House of Representatives, and 201 representatives from non-state actors. On 21 March 2014, the President officially inaugurated the final review of the draft New Constitution by the Constituent Assembly (CA) before it is presented to the public for a referendum. The structure of the Union between Tanzania and Zanzibar remains the major issue in the writing of the new constitution.

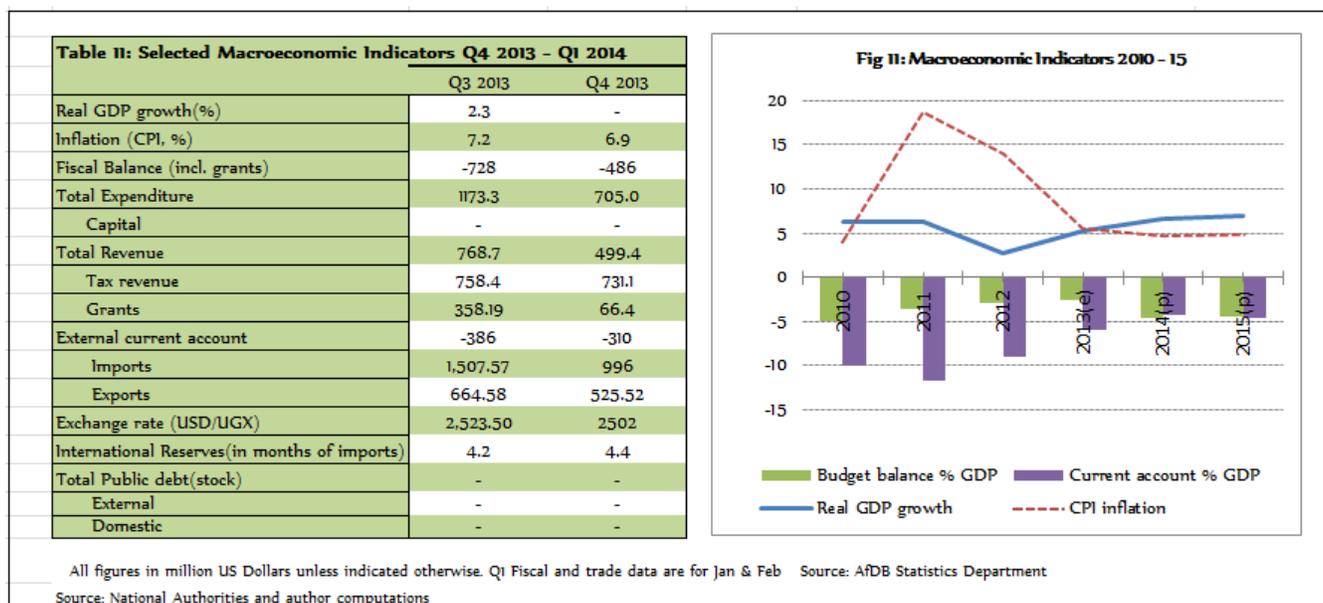
Donor Relations

- The IMF completed the final assessment under the Standby Credit Facility (SCF) and held discussions with the Government about the possibility of a new Policy Support Instrument (PSI) program. The assessment noted broadly favorable performance under the SCF program, with growth remaining strong, and inflation moderating towards the medium target of 5% by mid-2014. The key fiscal challenges highlighted in the assessment include accumulation of arrears and shortfalls in domestic revenue. The new PSI is expected to begin in June 2014.
- A high level dialogue session was held in February and was chaired by the Minister for Energy and Minerals to inform Development Partners and other stakeholders on the measures being taken by the Government to prepare a reform roadmap for energy sector. The Government of Tanzania indicated that an international consultant had started working on the sector reform plan in February, following which a roadmap would be developed. The government expects the energy sector reform roadmap to be ready by June 2014. The roadmap is one of the 2014 indicators in the Performance Assessment Framework (PAF) for General Budget support, agreed between the Government and Development Partners. The African Development Bank is supporting the Government in preparing the Roadmap.



UGANDA

MACROECONOMIC DEVELOPMENTS



Economic Performance

- Real GDP is estimated to have increased by 2.3% in Q4 2013 up from 1.0% in Q3 2013 owing to strong growth in the industrial sector (4.8%); service sector (2.7%) and agriculture sector (0.2%). Annual GDP growth is estimated at 6.0% in 2013, up from 2.8% in 2012. Growth in 2013 was driven by strong industrial sector performance largely attributed to mining and quarrying and manufacturing as well as the service sector which registered increases in wholesale, transport and telecommunications services.
- The Economic outlook is positive, with real GDP growth projected at 6.4% in 2014 and driven by trade, foreign direct investments, remittances and manufacturing. The major downside risks are related to the impact of the South Sudan conflict and the loss of trade resulting from a contraction in exports to South Sudan and a reduction in remittances from South Sudan. Since FY 2006/07, an average of 19% of Uganda’s exports has been destined for South Sudan, making it

Uganda's biggest export market. Other uncertainties relate to reduced donor aid, projected at 18.2% of budget in 2014 but lower than the 38% in 2013.

Fiscal Policy and Public Debt

- Fiscal policy remained consistent with the Government's fiscal objectives of consolidating investment priorities in the three thematic areas of infrastructure development (railway, road, energy, oil and gas), human resource development, and private sector development despite the underperformance in domestic revenues mobilization. In January and February 2014, Government expenditure amounted to UGX 1,893.4bn (USD 705m) compared to UGX 2,444.25bn (USD 557.8m) during the same period in 2013.
- Total revenue collections (excluding grants) decreased from UGX 2,064.6bn² (USD 768.7m) in Q4 2013 to UGX 1,341.37bn³ (USD 499.4m) in Q1 2014. On an annual basis, total revenues remained stable at 13.2% of GDP in 2013 and 2012 respectively. However, in nominal terms the total revenue collections increased by 8.4% from UGX 7,161.7bn (USD 2,666.7m) in 2012 to UGX 7,768.3bn (USD 2,892.5m) in 2013. On a quarterly basis, tax revenue collections decreased by 3.6% from UGX 2,036.93bn (USD 758.4m) in Q4 2013 to UGX 1,963.49bn (USD 731.1m) in Q1 2014 due to reduced profitability in the banking sector and mergers in the telecoms sector which contributed to reduction in domestic taxes.
- The total debt stock remained unchanged between Q4 2013 and Q1 2014 at USD 6.40bn (29% of GDP), of which 4.1bn (64%) is debt disbursed (DOD) while USD 2.30 bn are loan commitments yet to be disbursed.

Monetary Policy and Financial Sector

- The central bank maintained its key policy rate, the Central Bank Rate (CBR) at 11.5% throughout Q1 2014 to support real GDP growth. However, credit to the private sector remained weak between Q4 2013 and Q1 2014 on account of reduced exports and remittances from South Sudan.
- Headline inflation eased from 7.2% in Q4 2013 to 6.9% in Q1 2014 due to the appreciation Uganda shillings against the US Dollar by 7% between February 2013 and February 2014. The reduction in non-food inflation from 4.9% in December 2013 to 4.4% in March 2014 also contributed to reduction in inflationary pressures. Core inflation increased from 4.07% in Q4 2013 to 6.63% in Q1 2014 but is projected to reduce to 4-5% in 2014.
- The Ugandan shilling has remained relatively stable against the U.S. dollar, trading at average of Shs. 2,502.03/ USD in Q1 2014 compared to Shs. 2523.53/USD in Q4 2013 owing to measures taken by the central bank to stabilize the exchange rate and favorable terms of trade due to increased exports.

External Sector

- Imports between January and February 2014 grew by 1.9% to USD 996.57m from USD 977.93m compared to the same period in 2013; driven by increased fuel imports, increased machinery equipment, and increased private sector and Government imports for infrastructure investment. In Q4 2013, imports amounted to USD 1,507.57m. Export earnings also increased between January and February 2014 to USD 525.52m from USD 518m during the same period in 2013 due to increased non-coffee formal exports (simsim, pulses, oil re-export) and coffee exports which accounted for 71.3% and 12.3% of total exports respectively.
- International reserves grew from USD 3,046m at end November 2013 to USD 3,276m at end February 2014, equivalent to 4.2 and 4.4 months of imports of goods and services respectively.

² Total revenue for the months of October, November and December 2013

³ Total revenue for the months of January and February 2014

OTHER NOTABLE DEVELOPMENTS

Country Dialogue

- The first quarterly Country Portfolio Improvement Plan (CPIP) monitoring review meeting was jointly held by the Uganda Field Office (UGFO) and the Ministry of Finance. The workshop aimed to review progress in implementing the September 2013 CPIP. A wide range of issues were discussed and by the end of the workshop, the 70 participants observed that there were five unresolved issues that should be prioritized including (i) delays in providing counterpart funding vis-a-vis disbursement and payment of taxes, ii) persistent delays in disbursement, iii) delays in receiving Parliamentary ratification/legal opinion, iv) procurement delays, and v) maintenance and sustainability of projects post completion. The meeting reached a consensus on ways to address these issues.

Private Sector Activity

- The bidding process to identify a lead investor for the development of Uganda's Oil refinery project started in October 2013 and continued during Q1 2014. Of the 8 firms invited to bid for the refinery, 6 were issued with a Request for Proposals (RFP) in January 2014 with the bidders' conference being held in Kampala from 12th-14th March 2014. Uganda discovered about 3.5bn barrels of oil reserves in 2006 with an estimated commercial viability of over 1.5bn barrels and only two-thirds of the exploration area has been drilled. The discovery of commercial quantities of oil presents great opportunities in terms oil revenue estimated at about USD 75bn, which is about five times the country's 2012 GDP. Oil production, which is scheduled to begin in 2017/18, requires various infrastructure including a refinery and pipeline. An oil refinery with a capacity of 60,000 barrel per day and an oil pipeline are to be developed under a Public-Private Partnership arrangement with the private developer meeting 60% of the cost and the Government covering the remaining 40%.

III | SPECIAL THEME

Inclusive Growth in Kenya – Potential Dividends from Devolution

1.0 Background

The distinguishing features of inclusive growth are that its benefits reach, to the extent possible, all sections of society in all parts of the country while ensuring that citizens participate in the growth processes. More specifically, an inclusive growth strategy is broad-based and not only seeks to decrease poverty and inequality in a country but also takes into account the economic, social, political and spatial/regional inclusion of all sections and parts of the economy in the growth process.

Although Kenya's rate of economic growth since independence has been relatively high for most of the years, various studies – including some of the government's reports⁴ – indicate that there has been limited inclusive growth⁵ in the country. Despite programmes to reduce poverty and inequality, and notwithstanding positive economic growth – above 3% – over most of the last 10-15 years, poverty continues to afflict about half of the population, while income inequality is one of the highest globally. A number of historical and implementation problems have been identified to account for the limited progress at reducing poverty, such as limited stakeholder participation in the formulation of strategies, programmes and plans to reduce poverty as well as past skewed distribution of resources.

Kenya has experienced remarkable rates of economic growth over the last two decades, except for a few years, (1997, 2000, 2002, and 2008), as shown in the table below. During this period, shocks and economic volatility appear to have been the major factors that influenced Kenya's rate of economic growth. For example, since 2007, real GDP in excess of 5 percent was recorded only in 2010, the only year when Kenya did not experience either internal or external shocks. In 2008 and 2009, the post-election violence and a severe drought brought the economy to a standstill. Between 2011 and 2013, another drought, macroeconomic instability and adverse reaction to the pending elections in 2013 exerted their toll on the economy, although in these years the economy grew relatively robustly above four percent.

| Year | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| GDP growth % | 0.3 | 3.4 | 2.1 | 0.5 | 4.5 | 0.6 | 3.0 | 4.9 | 5.9 | 6.3 | 7.0 | 1.6 | 2.7 | 5.8 | 4.4 | 4.6 | 4.7 |
| Agric growth% | -3.4 | 8.8 | 6.7 | -1.3 | 11 | -3.2 | 2.7 | 1.7 | 6.9 | 4.4 | 2.4 | -4.1 | -2.6 | 6.4 | 1.5 | 3.8 | 2.9 |

Sources: Economic Surveys, and the KNBS Basic Report on Well-being in Kenya; World Bank, Kenya Economic Update, December 2012; World Bank, Kenya Poverty Assessment Report Vol1, June 2008.

According to the most recent 2005/6 Kenya Integrated Household Budget Survey (KIHBS), 46.6% (49.7 in rural and 34.4% in urban) of all Kenyans were classified as being below the poverty line⁶, translating into 16.3 million people at that time. Nearly 44 people out of every 100 lived on KShs 105 or less per day compared to only 38 in Uganda according to the Global Monitoring Report 2013. Kenya Economic Survey 2014, estimates that 45.2% (50.5% in rural and 33.5% in urban) were below the poverty line in 2009, assuming the same conditions of 2005/6. In addition, Kenya is home to the some of the largest informal settlements, which have also been growing rapidly as the population of the poor expands. In 2005/6, the regional distribution of overall poverty varied quite significantly,

⁴ For example, Annual Progress Reports produced by the Directorate of Monitoring and Evaluation in the Ministry of Planning.

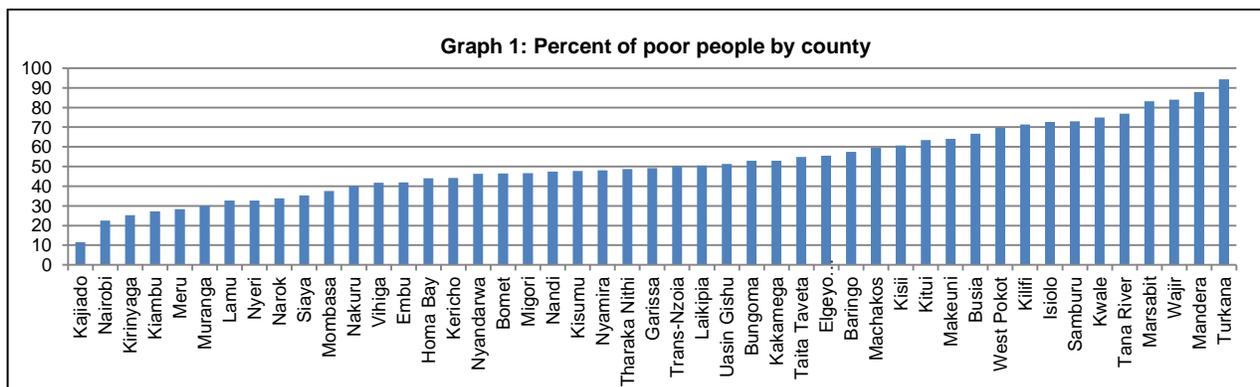
⁵ Inclusive growth in this study is taken to have two primary facets – i.e. participation of all Kenyans in the process and the distribution of its benefits.

⁶ The line for overall poverty was set at KShs.1562 per month for rural areas and KShs.2913 per month for urban areas and the food poverty line was set at KShs 988 for rural areas and KShs 1474 for urban areas.

from 30% in Central Province (comprising Kiambu, Muranga, Kirinyaga and Nyeri counties) to 74% in North Eastern Province (comprising Mandera, Garissa and Wajir counties).

The poverty incidence showed significant variations between urban and rural areas as well as among different social categories. In urban areas, the poverty prevalence was 30% for male-headed households compared to 46.2% for female-headed households. There were also more female headed households than male-headed households among the people below the poverty lines in the rural areas. Poverty incidence was higher among people with primary or no education than it was among the people with secondary education or higher. The incidence of poverty was lower among small families than it was among larger families.

Based on Welfare Monitoring Surveys (WMS) in 1992, 1994, 1997, and the 2005/6 KIHBS and updates in Economic Survey 2014, Kenya’s poverty levels appear to have not changed much since 1992. Nationally, the trend showed an increase in the incidence of poverty from about 45% in 1992, 46.6% by 2005/6, with a slight drop to 45.2% in 2009. Over the same period, poverty levels in rural areas also increased by a similar margin from 48% (1992) to 49.7% (2005/6) and 50.5% (2009). For urban areas the poverty level – though lower in absolute terms – increased by bigger margins, from 29% in 1994 to 34.4% in 2005/06 with a slight drop to 33.5% in 2009. The ranking of the counties shows wide variations (Graph 1) In terms of numbers, the Kenyans who lived below the poverty line were 11.5 million in 1994, 12.6 million in 1997, 16.3 million in 2005/06 and 16.9 million in 2009. The trend shows that much of Kenya’s poverty is chronic and that there are a significant number of vulnerable people – just above the poverty line. They have a higher likelihood of slipping back into poverty in the face of new adverse income and other shocks and there is a core of others who have lived in poverty for long periods.



Source: Kenya Integrated Household Budget Survey 2005/6

The First Medium Term Plan (MTP) 2008-12 underscored that the situation in Kenya showed substantial disparities in distribution of public resources between individuals, regions and along gender lines. The Plan noted the outstanding challenges as including: faster job creation required to address the high unemployment of labour which was compounded by an increasing number of youths leaving school and unable to find gainful employment; the large number of Kenyans still living in poverty; high inequality in income distribution; inequity in gender; considerable disparities in development among the different regions of the country; low savings and investment rates; insecurity; persisting corruption and weak governance; poor infrastructure; slow progress in achieving structural changes in the economy, away from reliance on agriculture and export of primary products.

Despite positive economic growth over the last two decades, Kenya has been ranked by the World Bank, as the world’s third most unequal society after South Africa and Brazil. According to the Bank’s Report⁷, the 2012 Gini Index for South Africa was 0.63, Brazil 0.54 and Kenya 0.48, with Kenya’s inequality seemingly worsening over the last decade. Inequality, measured across the distribution of household consumption was also high. In 2005/6, the

⁷ WB, Kenya Economic Update, December 2012

Consumption Decile Ratios (CDRs) of the top 10 percent to the bottom 10 percent stood at about 20:1 and 12:1 in urban and rural areas respectively, a situation that had not changed much in 2009.

There have been wide variations between urban and rural areas and among the counties in access to services such as education, safe water, and health facilities. Access to education, is generally high at over 75% across the country, except for counties in north eastern parts; where about 65% of the non-poor household members and 70% of the poor household members never attended school. About 12% of Kenyans in the rural areas used piped water while 67.5% of residents in urban areas received piped water. A majority of people in the rural areas obtained their water supplies from rivers or streams. The 2005/06 KIHBS showed that only 11.3% of Kenyans would travel one kilometre or less to reach a health facility, while about a half (47.7%) would travel for 5 kilometres or more. More than a half of the people in rural areas would travel 5 or more kilometres to reach a health facility compared to 11.9% in urban areas.

The above trends indicate that, until the promulgation of the new constitution in 2010, the efforts to address poverty and inequality in Kenya were largely ineffective or insufficient. Exclusion of some sections of Kenyans or regions from the development process appears to have continued unabated. It is for this reason that the 2010 constitution provided for strong devolution of planning, budgeting and management of resources. Establishment of the 47 County Governments, effective since March 2013, was expected to result in equitable sharing of resources across the country.

2.0 Outcomes of past efforts aimed at addressing poverty and inequality

2.1 Past efforts

Beginning in 1996 with the introduction of Social Dimensions of Development, the Government of Kenya made poverty reduction and employment generation two of its overarching policy priorities. The National Poverty Eradication Plan (1999 – 2015), the Poverty Reduction Strategy (1999-2002), the Economic Recovery Strategy (2003-2007), the first Medium Term Plan (2008-2012) of Kenya and Vision 2030 prioritized both.

At the same time, specialized institutions and programmes were established to focus on particular issues. The Community Development Trust Fund (CDTF) established in 1996 as a joint venture between Government of Kenya (GoK) and European Union (EU) was to establish an integrated approach to poverty alleviation. A Poverty Eradication Commission was established in 1999 with the mandate of promoting policies and piloting strategies for eradicating poverty in Kenya as well as monitoring and evaluating poverty eradication programmes nationally. The Constituencies Development Fund (CDF) implemented since 2003, with 1.5% of the national budget, has had projects aimed to benefit a wide cross section of the inhabitants of every constituency. The Youth Enterprise Development Fund (YEDF) established in 2006 is a programme aimed at reducing unemployment among the youth by funding small business set-ups. Following closely was the Women Enterprise Development Fund (WEDF) established in December 2006 as a government strategy to address poverty through socio-economic empowerment of women. The *Njaa Marufuku* is a programme undertaken by Agriculture sector ministries in collaboration with ministries of Education, Health and Development Partners to fast track the fulfilment of MDG-1 (reducing the number of poor and hungry by half by 2015). Finally, the first MTP programmes were primarily intended to spur economic growth as the first phase of the long-term growth to the Vision 2030. They were implemented under the economic, social, political pillars, or as cross-cutting programmes.

Development Partners in Kenya have provided assistance in the sectors of infrastructure, private sector, education, gender, health, environment, climate change, agriculture, and governance among others. In addition to the AfDB, the other main DPs who have provided development support to Kenya are UNDP, World Bank, EU, USAID, DFID, and JICA.

2.2 Assessment of the Extent to which the interventions have led to Inclusive Growth

As defined by the AfDB, inclusive growth has four elements: economic inclusion, social inclusion, spatial inclusion and political inclusion. It is a growth process that incorporates two aspects: providing opportunities for individuals

to participate in the production of a country's goods and services, while at the same time, ensuring that all individuals have opportunities for sharing the results from the process. The projects and programmes under the First MTP were aimed at achieving a high rate of growth, which would later lead to reduction of poverty and inequalities. However, their contextual basis was less inclusive growth, as depicted by the continued rise in inequality.

Although the policies and programmes that have been undertaken by the Government and main Development Partners were largely pro-poor, most of the projects were limited to a few geographical and community areas. The projects also focused more on achieving economic and social goals with no specific references to achieving inclusive growth. Thus, inclusive growth, in terms of its mandatory participation and sharing dimensions was not mainstreamed in the interventions by both GoK and DPs.

As reported in the annual progress reports of the MTP, the results from the GoK interventions show that good progress was made in the implementation of the planned infrastructure projects, e.g. roads and energy installations. However, some projects were not started; some set targets had not been met in many areas especially macroeconomic management and social sector outcomes. Apart from the few that have been completed, most of the DPs' projects/programmes are still ongoing. However, it is not possible to establish if, and to what extent, the results from all the programmes/projects had facilitated the citizen participation and equitable sharing of benefits in the economy's growth processes as would have been the case under an explicit inclusive growth strategy. Similarly, there are no baselines provided to be used as a basis for determining how effective the interventions have been. Based on these considerations, the extent to which the results were inclusive is largely indeterminate.

3.0. Issues, Challenges and Opportunities on Inclusive Growth in Kenya

3.1. Issues

First, inclusive growth is a relatively new approach to development planning which is inadequately understood not only in Kenya but also in other parts of the world⁸. The Kenyan policymakers and implementers should be given adequate training on the strategy and its proper application to development planning in Kenya. Poverty and inequality levels in the country remain high.

Secondly, as alluded to above, the policies and programmes which the GoK and DPs undertaken or promoted until recently have had limited impact and in at least one indicator, maternal mortality, there was deterioration between 2003 and 2009, when the number rose from 414 to 488. Efforts are needed to address the design of the interventions to ensure that they embrace inclusive growth objectives.

Thirdly, the consequences for a country's stability and prosperity of high and persistent inequality, particularly between poor and non-poor sections of society, tend to be serious and far reaching. Even if equal rights to vote and participate are formally granted and guaranteed in a highly unequal society, people's real possibilities of equitable participation and sharing will remain limited. Inclusive growth is therefore a desirable development strategy as it would reduce the potential for instability.

Finally, mainstreaming inclusive growth entails formulating and implementing policies and interventions, which embed participation and sharing by all population segments in the development of a given society. To be effective in mainstreaming inclusive growth, the development policies and interventions by the GoK, the AfDB, and other DPs should ensure that all sections of society across the country participate in and benefit from the country's growth. This requires careful analysis of the rollout of devolution, especially fiscal decentralization, to ensure that the participation of the people is guaranteed.

⁸ R.A. Ramos, R. Raneri, J.M Lammens; Mapping Inclusive Growth; International Policy Centre for Inclusive Growth; UNDP; March 2013.

3.2. Challenges

Designing and implementing appropriate inclusive growth initiatives, with quick results, is likely to face a number of constraining factors, of which the following are the main ones: high levels of unemployment, high poverty levels, consequences of climate change and continued unpreparedness for disasters, perception of endemic corruption, limited knowledge of Inclusive Growth and its application in planning development initiatives, inadequacy of statistics, budget constraints, ensuring synergy and effectiveness of cooperation arrangements between DPs, limited capacities in County Governments for policy and program design, danger of creeping, reduced focus on poverty eradication and underdeveloped indicators for measuring, tracking, and assessing inclusive growth.

About the African Development Bank Group

The African Development Bank Group – which comprises the African Development (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF) – aims is to promote the economic development and social progress of its regional member countries. It contributes to improving the living conditions of the populations, as well as creating, expanding and rehabilitating productive and social investments. It finances development and structural adjustment projects and programs, provides advisory services and stimulates investments from other sources of finance. Although the ADF and NTF are legally and financially distinct from the ADB, they share the same staff, and their projects are subject to the same standards.