Artistic impression of Kenya’s proposed Silicon Savannah

- BURUNDI
- KENYA
- RWANDA
- SEYCHELLES
- TANZANIA
- UGANDA

**Special Theme**: The State of Kenya’s Private Sector
The *East Africa Quarterly Bulletin* is produced by country economists of the African Development Bank Group’s (AfDB) East Africa Regional Resource Center (EARC). The publication covers all five member states of the East African Community (EAC) as well as the Seychelles. It 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. The report is deliberately crafted to be succinct and in non-technical language for wider circulation. Each issue also includes a dedicated section on a topical subject (either about a single country or several of them).

This report is based on information gathered through consultations, review of country documents, and other relevant sources. Contributors to this issue include Bernis Byamukama, Prosper Charle, Josef Loening, Susan Mpande, Vera Oling, Edward Sennoga, Joel Tokindang, Walter Odero, Tilahun Temesgen, and Richard Walker, under the general guidance of Stefan Muller, Regional Economist EARC, Gabriel Negatu, Director EARC; as well as the respective Resident Representatives of the AfDB in Burundi (Abou Ba), Rwanda (Negatu Makonnen), Tanzania (Tonia Kandiero), and Uganda (Jason Mochache, OIC).

The thematic section in this issue was written by Richard Walker.

Please direct your feedback and comments to e.sennoga@afdb.org.

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Angle de l’avenue du Ghana et des Rues
Pierre de Coubertin et Hédi Nouira
BP 323 -1002 TUNIS Belvédère
TUNISIA

Tel: +216 71 333 511 / 71 103 450
Fax: +216 71 351 933
E-mail: afdb@afdb.org
Web: www.afdb.org
I | REGIONAL OVERVIEW

MACROECONOMIC DEVELOPMENTS

External shocks including a reduction in aid inflows particularly for Burundi, Rwanda, and Uganda, and a weak global economy contributed to lower real GDP growth rates in third quarter of 2012 compared to the second quarter. However, due to strong growth in the first half of 2012, averaging 8.7%, Rwanda is on course to achieving the 2012 real GDP growth target of 7.7%. Real GDP growth in Rwanda has been driven by industry and services. The growth targets for Burundi and Uganda have been revised downward and are now projected to be 1-2 percentage points lower than the initial projections of 4.8% and 6% respectively. The authorities in Burundi, Rwanda, and Uganda have taken various measures to respond to the delayed aid disbursements ranging from reducing government expenditure to borrowing from the domestic financial markets. These measures are aimed at minimizing the impact of reduced resource envelopes on public service delivery so as to preserve the socio-economic achievements. However, these policy choices also have unintended consequences. For instance, expenditure cuts imply that recruitment in the public sector will be suspended and this is expected to affect the provision of social services such as education and health. Reduction in development spending will peg-back critical investments in productivity enhancing projects. Recourse to domestic borrowing to bridge the public spending gap will crowd out private credit with further negative effects on economic activity. Consequently, progress towards the MDGs and efforts to achieve economic transformation will be impeded. Strong growth in services and industry contributed to robust real GDP growth during Q3 in Kenya and Tanzania and it is expected that 2012 growth targets of 5.1% and 6.5% respectively will be achieved.

A combination of tight monetary policy, increased food production and lower fuel prices contributed to a reduction in inflation in the five East African Community partner states and Seychelles. In light of the receding aid inflows and weak global demand, the East African governments will be expected to sustain the use of appropriate monetary and fiscal policy tools to contain inflation but also bolster economic expansion.

Fiscal Stance

The fiscal stance for Burundi, Rwanda and Uganda was driven by the need to accommodate the reduced aid inflows and the increased mobilization of domestic revenues. For countries with an IMF Policy Support Instrument programme – Rwanda, Seychelles, Tanzania, and Uganda – fiscal policy was also shaped by fiscal consolidation with emphasis on prioritizing spending towards growth generating expenditures and reducing the share of public spending financed by aid. Revenue enhancing measures implemented during Q4 included electronic single window for customs (Burundi); turnover-based SME tax and gaming tax (Rwanda); and one-stop border posts (Burundi, Rwanda and Tanzania). In spite of compensatory measures implemented to mitigate the reduction in fuel taxes, 2012 tax collections in Burundi were 3% lower than programmed. Low budget execution particularly for development spending constrained the implementation of government’s spending.

1 Fourth quarter GDP growth data were not yet available at the time of publishing this report.

HIGHLIGHTS

- Reduced aid inflows are projected to reduce real GDP growth in Burundi and Uganda while Rwanda has remained resilient to aid shocks in 2012 owing to strong real GDP growth during the first half of 2012. Real GDP growth in Kenya and Tanzania benefited from resurgence in services and industry.

- Policy responses to the receding aid inflows pose significant downside risks to achieving the MDGs and economic transformation.

- Fiscal policy was shaped by the need to accommodate the receding aid inflows, prioritization of public spending and increasing the mobilization of domestic revenues.
plan in Kenya during the quarter under review. Seychelles’ FY 2013 budget was unveiled in December and seeks to sustain investments in infrastructure and programmes aimed at improving livelihoods. The FY 2013 budget also aims at achieving a budget surplus of 5.6% of GDP in 2013, underpinned by robust growth in public revenues.

**Monetary and Financial Sector**

Central banks in the region remained focused on the twin objectives of containing inflation and supporting growth in private sector credit. A combination of cautious monetary policy, tight fiscal policy, favorable weather and fuel tax reductions in Burundi and Rwanda contributed to a reduction in headline inflation in Q4 in all countries under review except in Uganda. Tax exemption on major food items in Burundi also contributed to the reduction in headline inflation. The successive increase in headline inflation in Uganda during Q4 is attributed to the expansionary monetary policy and the exchange rate pass-through to domestic inflation. The Bank of Uganda’s key policy rate was reduced by 300 basis points to 12% between September and December 2012 and Uganda Shilling depreciated by 6.2% against the US Dollar during the same period. Relative exchange rate stability in the other countries under review reduced the exchange rate pass-through effects to domestic inflation. Headline inflation remains in double-digits only in Burundi and Tanzania (Chart 1) but has decreased consistently throughout Q3 and Q4 2012.

**Chart 1: Regional Inflation Developments in Q4 (year-over-year, %)**

- Central banks implemented cautious monetary policy during Q4 to contain inflationary pressures but also to support growth in private sector credit
- Headline inflation decreased progressively during Q4 for all countries under review except Uganda. The build-up in inflationary pressures in Uganda is attributed to expansionary monetary policy and exchange depreciation against the US Dollar
- Pent-up import demand continues to outstrip the narrow but expanding export base leading to persistent trade deficits in the East African economies

**External Sector**

High import demand continued to outstrip the increase in export receipts leading to trade deficits in Q4 and for the year 2012. Trade deficits are expected to persist in the medium term due the increasing demand for intermediate and capital imports to support strategic public sector investments in Rwanda and capital goods for oil and gas exploratory activities in Kenya, Tanzania, and Uganda. A narrow and largely
undiversified export base remains a major source of external vulnerability for the countries under review.

Section II provides more details on major macroeconomic developments across the region. Following this, Section III summarizes the state of Kenya’s private sector in 2012 and provides some key recommendations for achieving the country’s vision for the private sector.
II | COUNTRY UPDATES
MACROECONOMIC DEVELOPMENTS

Economic Growth

In 2012, the economy was negatively affected by the food and fuel shocks and lower-than-expected aid inflows, resulting in a downward revision in economic growth to about 4.2% (same level as in 2011). Agriculture remains the mainstay of the Burundi’s economy, accounting for 40% of GDP. Growth in the coffee and tea sub-sectors spurred growth in 2012. Agriculture expanded by 11.4% in 2012 compared to 2011 due to increased production of coffee and tea by 34% and 9% respectively during the same period. Growth in construction (22.7%) and tourism (12.9%) was also strong.

Real GDP growth is projected at 4.5% for 2013 and will be driven by industry and services. Moreover, construction of the hydroelectric dam (Kabu 16) in 2013 and implementation of road transport projects is expected to fuel GDP growth. Expansion in the agriculture sector remains vulnerable to fluctuations in weather conditions and international prices for major exports such as coffee and tea.

Fiscal Policy Stance

Government’s fiscal policy in Q4 was influenced by the need to deal with shocks arising from reduced aid inflows. However, the government maintained its focus on structural reforms within the framework of the Extended Credit Facility that was agreed with the IMF during Q1 2012. Thus, the fiscal policy stance focused on increasing revenue mobilization, strengthening public financial management, and improving debt management.

Tax revenue collections improved significantly in Q4 2012 to reach FBU 166.77 billion (US$ 110.8 million or 4.7%), representing a 34% increase compared to the same period in 2011. Total revenue collections were estimated at FBU 528 billion (US$ 262 million or 14.8% of GDP) at end-2012 and higher than the FBU 471 billion (US$ 239 million) collected in 2011. The Office Burundais des Recettes (OBR) has continued implementing reforms to improve revenue collection including registration of new taxpayers including in the informal sector and rationalization of tax exemptions. Other reforms include the establishment of a “Guichet Unique” (Single Window) and the operationalization of single border control stations with
Tanzania and Rwanda. However, OBR missed the 2012 revenue target by 3% due to the reduction in fuel-and food related excise taxes and the overall economic slowdown. On the expenditure side, spending on priority areas was slightly lower than expected due to lower than programmed disbursements by some donors. This resulted in a budget execution rate of 83% in 2012.

The Parliament approved the FY2013 budget in December 2012, which amounts to FBU 1,389 billion (US$ 862 million or 36.3% of GDP). This represents an increase in the resource envelope of 17% compared to 2012. Close to 50% of the FY2013 budget will be financed by development partners through projects and budget support—excluding the withheld aid. The overall deficit (including grants) is projected to reduce from 6.5% of the budget in 2012 to 4.9% in 2013.

**Monetary and Financial Sector**

Monetary policy was aimed at achieving price while allowing measured expansion in credit to support economic growth. Key objectives also included achieving exchange rate stability, improving financial sector liquidity and capitalization and reducing the non-performing loans ratios. The central bank reversed the contractionary monetary policy stance pursued during the first half of 2012 with a reduction in the key policy rate from 15.4% in Q3 to 13.8% in Q4. The average key policy rate increased from 11% in 2011 to 14.5% in 2012 leading to a reduction in private sector credit growth from 30.7% to 12.3% during the same period. The financial system remains shallow and concentrated which constrains domestic resource mobilization and the monetary transmission mechanism.

To mitigate the effects of external shocks on the economy, the central bank adopted a more flexible foreign exchange policy. The daily reference exchange rate is now determined by the weighted average of the previous day’s foreign exchange buying and selling rates. The central bank also conducts bi-weekly foreign exchange auctions to smooth-out exchange rate fluctuations. However, the Burundian franc continued to depreciate against the US Dollar, from FBU 1,261/US$ in January 2012 to 1,500/US$ in December 2012 due to a decline in exports receipts and reduced budget support disbursements.

Burundi’s headline inflation rate fell to 11.8% (year-on-year) in December 2012 from 15.9% in October, largely due to reduced food prices. The food inflation decreased to 6.5% for the year ended November, down from 12.4% in October. The suspension of taxes on imported food items, such as beans, rice and potatoes contributed to the reduction in food inflation and headline inflation. The inflation outlook during Q1 2013 will be influenced by trends in international oil prices and the central bank is expected to use appropriate monetary policy tools to contain inflationary pressures.

**External Sector**

A narrow export base remains the key reason for current account deficits. Burundi’s import bill rose by 34% in 2012 compared to 2011 largely due to high fuel and food imports, which accounted for 23% and 19% of total imports, respectively. Imports amounted to FBU 1084.1 billion (US$ 677.5 million or 30% of GDP), up from FBU 952.8 billion in 2011. Export earnings rose to FBU 194.3 Billion (US$ 121.4 million or 5.4 percent of GDP) in 2012, 24% higher than in 2011. In 2012, the main export crops, coffee and tea, recorded high growth rates of 34% and 9% compared to 2011, and

- Monetary policy was aimed achieving price while supporting measured expansion in credit to the private sector
- Growth in export earnings remains insufficient to offset the high and rising import demand leading to persistent trade deficits
accounted for 70.1% of total export earnings. Export receipts from coffee and tea were estimated at FBU 137.5 billion (US$ 85.9 million) and 12% higher than in 2011.

The current account deficit increased from 12% of GDP in 2011 to 16.2% in 2012 owing to the reduction in transfers which reduced from 11.2% of GDP to 7.3% during the same period. Reduction in donor support and increase in imports is cited as the primary driver of the expanding current account deficit.

Foreign Direct Investment (FDI) increased by 120% to $229 million in December 2012 compared to the same period in 2011. This increase is due to improvements in the business regulatory environment especially the reductions in the number of procedures required to start a business, obtain a trade license and the fiscal identification number. Over 90% of the FDI in 2012 was absorbed in the processing industry, information and communications technology, and agro-business.

Gross official reserves (in months of imports) have continuously increased since 2005. However, the decline in aid inflows contributed to a reduction in import cover from 4.4 months of imports in 2011 to 3.5 months in 2012.

**OTHER NOTABLE DEVELOPMENTS AND UPDATES**

**Political Developments**

The closure at the end of 2012 of the Mtabila refugee camp in Tanzania, which hosts some 37,000 Burundian refugees, has had a significant impact on the level of reintegration activities planned for 2012-2013. The most vulnerable returnees are those who have no access to land. Needs arising from land disputes will be addressed in close collaboration with local implementing partners and the “Commission Nationale des Terres et Autres Biens (CNTB)”, the Government’s land commission. Politicians and civil society have differing views on the approach taken by the CNTB to resettle and reintegrate the former refugees and this poses risks security and could fuel intra-community conflicts. The Judiciary is handling several land related disputes which currently represent more than 80% of court cases. Expeditious resolution of these court cases is expected to contribute to peace and security. However, the Government is yet to establish the compensation fund for victims of conflict in line with recommendations the Arusha Accords.

**Private Sector Activity**

Burundi continues to face challenges in catalyzing private sector development. However, some progress has been made in improving the business climate in 2012. As a result, the GDP share of private investment increased, from 13.5% in 2011 to 14% in 2012, mainly driven by expansion in in the tourism sector (hotels). However, corruption remains a constraint to private sector development. According to the 2012 Transparency International Corruption Perceptions Index, Burundi’s ranking deteriorated from 172th out of 176 countries surveyed in 2011 to 165th in 2012.

**Institutional Reforms**

The Government adopted in December 2012, the second generation Public Finance Management Strategy covering the period 2012-2014. This strategy articulates 12 programs including budget management, internal controls and external audits, and

- Foreign Direct Investment increased by 120% in December 2012 compared to the same period in 2011 due to improvements in the business regulatory environment
- The closure of the Mtabila refugee camp in Tanzania increased land related disputes and poses a security threat if not resolved expeditiously
introduction of information management systems in public expenditure management. This strategy is expected to consolidate gains and achievements made during the implementation of the first generation strategy contributing to improved efficiency in public sector management.

**Donor Relations**

The Government of Burundi held the Geneva Round Table on 28-29 October 2012 to mobilize resources for its second generation Poverty Reduction Strategy Paper (PRSP 2012-2016). Over 120 delegations participated in the event and comprised delegates from multinational institutions, bilateral partners, the private sector and NGOs. Commitments of US$ 2.6 billion were pledged, higher than the US$ 1.1 billion initially targeted by the Government. Five development partners (African Development Bank, European Union, International Monetary Fund, United Nations Development Program, and the World Bank) pledged their continued support to the country’s achievements and commitments. These partners also singled out the need to further intensify the fight against corruption and impunity, and to ensure open dialogue with all stakeholders. Burundi’s progress in implementing public sector reforms was commended but partners requested that progress be systematically monitored and reported along with the implementation of other priority reform programs of the PRSP.

The Global Partnership for Education (GPE) in November 2012 approved a grant of US$ 52.9m to support Burundi’s efforts in achieving gender parity in education, increase numeracy and early grade reading proficiency rates. The grant will also be used to finance the construction of school to reduce the current severe school overcrowding.

Burundi organized an International Conference on Mining for Sustainable Economic Development in the Great Lakes Region from 22 to 23 November 2012. Several delegations from Africa and Western countries took part in this event chaired by the Minister of Energy and Mines of Burundi. The objectives of the conference included facilitating the sharing of best practices on how to effectively harness the mining sector for sustainable development in the sub-region. The conference outcomes are expected to inform the preparation of Burundi’s mining code. The AfDB through its country office in Burundi made a presentation on African Legal Support Facility which provides support countries upon request, for the negotiation of major contracts including the mining sector.

- The Government’s funds mobilization drive at the Geneva Round Table raised more than 100% of the initially targeted resources for financing the country’s Poverty Reduction Strategy Paper
- Burundi will receive US$ 52.9 million from the Global Partnership for Education to support gender parity in education, literacy and numeracy skills
MACROECONOMIC DEVELOPMENTS

Economic Growth

Main economic indicators for the final quarter of 2012 continued to point to real GDP growth being in line with the projection of between 3.5% and 4.5%. The main sectors driving growth include transport and communication, and agriculture and forestry.

Fiscal Stance and Public Debt

The central government cumulative revenue collection including appropriations in aid (A-I-A) as at end of December 2012 amounted to KShs. 379.3 billion2 (equivalent to 10.1% of GDP) against a target of KShs. 446.1 billion. The central government cumulative expenditure and net lending for the period ending 31st December 2012 amounted to KShs. 505.5 billion (equivalent to 13.5% of GDP), which was below the target of KShs. 593.4 billion and was largely attributed to low absorption in operations and maintenance, as well as slow utilization of domestically and foreign financed development expenditures.

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of KShs. 126.2 billion (equivalent to 3.3% of GDP), as at end-December 2012, compared with a deficit of KShs. 73.0 billion (equivalent to 2.2% of GDP) in a similar period in FY 2011/12.

Gross public debt increased from KShs. 1,633.4 billion as at end of June 2012 to KShs. 1,793.2 billion by 31st December 2012 comprising of 45.8 percent external and 54.2 percent domestic. Net public debt increased by KShs. 156.9 billion over the same period. The overall increase was attributed to net increase in domestic borrowing. Gross Government domestic debt increased by KShs. 113.0 billion to stand at KShs. 971.8 billion on December 28, 2012, from KShs. 858.8 billion at the end of June 2012.

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2 Average exchange rate for 2012 was 1US$ = 84.5 Kenya Shillings.

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HIGHLIGHTS

- Main economic indicators for Q4 suggest that the 2012 GDP growth targets will be achieved.
- Poor revenue performance more than offset the less than programmed budget execution leading to an increase in the fiscal deficit.
Monetary and Financial Sector

Overall 12-month inflation declined slightly from 3.3% in November 2012 to 3.2% in December 2012 due to continued easing of fuel inflation. The fall in inflation was however, marginal across all categories except food that recorded a slight increase.

The Kenya shilling continued to exhibit relative stability against major international currencies standing at KShs 84.94 per US Dollar in the week ending September 27, 2012 compared to KShs 84.10 per US dollar in the week ending June 28, 2012. The shilling closed the year exchanging at KShs 85.92 per US Dollar.

The official foreign exchange reserves held by Central Bank stood at US$ 5,396 million (equivalent to 4.24 months of import cover) during the week ending December 27, 2012. The reserves held by Central Bank previously stood at US dollar 5,163 million (equivalent to 4.11 months of import cover) as at September 27, 2012 and US dollar 4,924 million (equivalent to 4.13 months of import cover) as at June 28, 2012.

External Sector

Kenya’s overall Balance of Payments position improved from a deficit of US$ 217 million in the year to October 2011 to a surplus of US$ 1,242 million in the year to October 2012. The improvement in the balance of payments was attributed to performance of the capital and financial account which more than offset the deterioration in the current account. The current account deficit widened by 40.2 percent to US$ 4,357 million in the year to October 2012, up from US$ 3,107 million in the year to October 2011. This reflected a 14.5% or US $ 1,266 million deterioration in the merchandise account deficit. However, there was a marginal improvement in the services account of 0.3% or US$ 16 million.

OTHER NOTABLE DEVELOPMENTS AND UPDATES

Political Developments

Heavy political jostling was experienced during the quarter with leading politicians forming alliances ahead of the general elections expected on 4th March 2013. Three coalitions emerged, one bringing together the Prime Minister and Vice President. The other coalition brought together one Deputy Prime Minister and Former Minister. The third Coalition was led by the other Deputy Prime Minister. Given previous movements by politicians between several parties before and after elections, new laws required politicians to abide by some ethical standards including membership of alliances that would maintain after elections. This was intended to restore stability in political parties and coalitions.

Institutional reforms

The vetting of judges and magistrates continued during the quarter. The first Inspector General of Police appointed competitively under the new constitution took oath of office in December 2012. Police reforms were one of the recommendations made at the establishment of the Grand Coalition Government. The open selection of key state officers and the vetting of judges will help restore confidence of Kenyans in the various public institutions.

- The Kenya shilling remained stable against major currencies during the quarter under review. International reserves increased marginally and remain at 4 months of import cover
- The surplus on the capital and financial account more than offset the current account deficit yielding an overall Balance of Payments surplus in October 2012
- Political alliances were formed in the run-up to the March 2013 general election in line with the new constitution that calls for more stability in political parties and coalitions
Donor Coordination and Aid Effectiveness

The African Development Bank finally assumed the chair of the Aid Effectiveness Group (AEG) during the annual retreat of the AEG held in November 2012. They will co-chair with the Ministry of Finance. The AEG monitors the implementation of Paris Declaration on aid effectiveness and further agreements made in Accra and Busan. It is attended by Heads of Technical and Economic Units of the Development Partners. During the retreat, it was resolved that a chapter be introduced in the Medium Term Plan II (2014 – 2018) so as to replace the need for a separate Kenya Joint Assistance Strategy.
MACROECONOMIC DEVELOPMENTS

Economic Growth

Real GDP growth decreased to 7.3% in Q3 2012 down from 9.9% in Q2 due to slower growth in agriculture, industry and services. Growth in the agriculture sector which employs over 70% of the work force declined by two percentage points to 1.7% in Q3 due to negative growth in export crops. The 27% reduction in export crops resulted from a decrease in prices for coffee and lower tea production. Growth in industry also decelerated from 9% to 7%, due to weaker performance in manufacturing and mining. Following strong growth of 14.5% in Q2; the services sector sustained double-digit growth of 12% owing to the strong contribution from wholesale and retail trade, transport, storage communication and education which posted double-digit growth rates. Real GDP growth averaged 8.2% during the first three quarters of 2012 and the target of 7.7% target growth rate for 2012 is expected to be achieved.

The economic outlook for 2013 will be shaped by four major factors. First, aid suspension will continue to constrain government spending including on social and productive sectors and lead to inflationary and balance of payment pressures. Recourse to domestic borrowing to bridge the funding gap is also expected to crowd-out private sector borrowing. Second, the weak global demand could negatively affect exports, foreign direct investment, and tourism. Third, the Government’s fiscal consolidation strategy is projected to contribute to a reduction in aggregate demand. Finally, the implementation of a tight monetary policy stance is expected to reduce growth in private sector credit. Reduction in aggregate demand and private sector credit should reduce private consumption which is the largest contributor to GDP growth. Real GDP growth is expected to reduce to 7.1% in 2013 assuming that the suspended aid is disbursed during the first half of 2013.

Fiscal Stance and Public Debt

Fiscal policy management in the quarter under review was largely driven by the government’s need to accommodate the aid suspension. The Government adopted various measures to accommodate the delayed FY 12/13 budget support

HIGHLIGHTS

- Real GDP growth slowed to 7.3% in Q3 following strong growth of 9.9% in the previous quarter due to a slowdown in all three economic sectors. However, average real GDP growth of 8.2% during the first three quarters of 2012 indicates that the target 7.7% real GDP growth for 2012 is likely to be met.

- The economic outlook for 2013 is expected to be influenced by aid suspension, the weak global economic environment, and fiscal and monetary policy.

- The government adopted several measures to accommodate the aid suspension including domestic borrowing and expenditure cuts. These measures will ensure that budget support is maintained and real GDP growth is sustained.
disbursements amounting to US$ 240.5 million or 12% of the FY 12/13 budget including use of central bank overdraft and treasury bills (Rwf 37.1 billion or US$ 59 million) and budget cuts (Rwf 74 billion or US$ 117 million). The options taken by the government in response to the delayed budget support disbursements are aimed at ensuring the delivery of a minimum level of public services so as to minimize the negative impact on the country’s socio-economic achievements. However, government borrowing from the central bank and private sector will crowd out private sector credit and reduce expansion in economic activity. The expenditure cuts will affect recruitment across government agencies with diverse effects on the quality of and access to education and health among other public services. Reduction in development spending will lead to delayed implementation of some capital projects leading to reduced productivity and stalling efforts to increase economic competitiveness.

Tax revenue for the fourth quarter amounted to US$ 242.9 million, which was 4.3% lower than the target and a significant decrease in revenue collection compared Q3 where the actual outturn exceeded the target by 2%. The cumulative domestic revenue outturn for the July –December period amounted to US$ 481.8 million (7% of GDP) which is in line with the FY 12/13 target tax to GDP ratio of 14% of GDP. Revenue performance in July-December is attributed to strong contributions from direct taxes including taxes on income and profit and taxes on goods and services which jointly account for 91% of the total tax collections.

The IMF and World Bank Debt Sustainability Assessment (DSA) update conducted in Q4 2012 confirmed that Rwanda continues to be assessed at moderate risk of debt distress. Public debt increased from 14.8% of GDP in 2010 to 18.4% at end-2011 due to new debt for RwandAir and Kigali Convention Center, two of the Government’s strategic investments. However, key debt indicators remain sustainable and indicate that there is some head-room for additional non-concessional borrowing.

**Monetary and Financial Sector**

The National Bank of Rwanda continued to pursue a tight monetary policy stance aimed containing inflation while supporting adequate growth in private sector credit. In line with this objective, the Central Bank maintained its policy rate (Key Repo Rate) at 7.5% held since May 2012 through the second half of 2012. A more flexible monetary targeting framework was adopted in October 2012 to provide for more timely adjustment of monetary policy to inflationary pressures. The combination of tight monetary policy, the progressive easing of inflationary pressures from the EAC region and improvements in food production contributed to a reduction in inflation during the quarter under review. Headline inflation dropped from 5.6% for the year ended September 2012 to 3.9% in December and below the 7.5% target. Core inflation mirrored similar trends declining from 3.7% to 2.5% during this period. Private sector credit increased by 33.9% in December 2012 compared to 26.8% in December 2011. However, growth in private sector credit was stronger during the first half of 2012 compared to the second half reflecting the increase in government borrowing from the domestic financial markets. The rise in government domestic borrowing was driven by the need to bridge the financing gap resulting from the suspended budget support. New authorized loans from the banking system increased by 47% to US$ 812.1 million.
between January and December 2012. The credit expansion largely benefited commerce restaurants and hotels (40.7%) and construction (22.4%). An estimated 31% of the new authorized loans benefited the Small and Medium Enterprises (SMEs) and 43.9% of SME loans went to SMEs headed by women.

Money market interest rates remained relatively stable and in line with the monetary policy stance. Increased competition among commercial banks to mobilize deposits contributed to an increase in deposit rates from 8.5% in September 2012 to 10.7% in December. Lending rates also decreased from 17.1% to 16.5% during the same period.

Indicators of financial sector soundness improved during the period under review. Total banking sector assets increased by 15% from US$ 1.7 billion (24.6% of GDP) to US$ 1.9 billion (28.3% of GDP) between December 2011 and December 2012. The non-performing loans ratio, an indicator of banking sector asset quality, decreased from 8% in December 2011 to 6.3% in Q3 2012 and further to 6.1% in Q4. The capitalization levels for the banking sector also remained adequate in 2012; with the capital adequacy ratio increasing to 23.9% and above the 15% minimum regulatory requirement. However, net after-tax profits remained stable between September and December 2012 with the return on average assets declining from 2.3% to 2.2%.

External sector

The balance of trade deficit narrowed by 26.6% to US$ 283.2 million in Q4 compared to Q3 due to a reduction in imports and a relatively smaller reduction in exports. Imports decreased by 20% to US$ 390.2 million in Q4 compared to Q3 due to declining imports for capital and intermediate products including fertilizers and machinery. This reduction was in part due to budget cuts following the suspension of budget support disbursements. Exports also declined from US$ 110.3 million to US$ 107 million during the same period largely due to lower international prices for coffee and Wolfram which declined by 9% and 18% respectively. Coffee and tea jointly contributed 40% of total exports, followed by minerals (31.3%) and nontraditional exports including processed foods (12.6%). Overall, the trade deficit increased from US$ 1,031 million in 2011 to US$ 1,276.6 million in 2012.

The current account deficit excluding transfers increased from 7.3% of GDP in 2011 to 10% of GDP in 2012 driven by high import growth. Excluding transfers, the current account deficit increased from 19% to 21.5% during the same period. Gross international reserves reduced by 25% to US$ 1,049.8 million in 2012 compared to 2011, yielding 4.8 months of import cover. Increased foreign exchange sales by the central bank in response to the high foreign exchange demand to finance imports and reduction in aid inflows were the key drivers of the reduction in international reserves. These factors coupled with a reduction in private capital flows contributed to a Balance of Payments deficit estimated at 0.1% of GDP in 2012 compared to a surplus of 3.7% in 2011.

The Rwanda Franc depreciated by 2% against the US Dollar in Q4 compared to the 1% depreciation in Q3 in part due to the high import demand and reduced aid inflows. The local unit however remained stable against the Tanzania and Kenyan shillings but appreciated by 2% against the Ugandan shilling. Overall, the Rwanda Franc depreciated by 4.5% between December 2011 and December 2012.
OTHER NOTABLE DEVELOPMENTS AND UPDATES

Political Developments

The 10\textsuperscript{th} annual national dialogue (\textit{Umushyikirano}) was held on 13-14 December 2012 under the theme; “Promoting Values and Principles of Self-reliance”. Several recommendations for promoting self-sufficiency were made including increasing savings mobilization and securing innovative financing for development; and addressing skills gaps and youth employment. Three key priorities were identified in the area of skills gaps and youth employment: (i) reforming the curriculum to match training with the skills needed on the job market and (iii) promoting entrepreneurship including through increased access to finance and business development services.

Private Sector Activity

South African based Pretoria Portland Cement Co (PPC) acquired a 51\% stake, amounting to US$ 69.4 million, in Rwanda’s sole cement producer CIMERWA. PPC is now the largest shareholder in CEMERWA whose other shareholders include the government, Rwanda Social Security Board and Rwanda Investment Group, among others. PPC will also make additional investments including building a new plant and upgrading the existing production facility so as to boost the overall production capacity from the current 100,000 tons of cement per annum to 600,000 tons per annum. This investment is expected to reduce on the importation of cement, currently estimated at 350,000 tons per annum and thus contribute to an improvement in the trade balance.

Population and Housing Census

The Provisional results from the 2012 Population and Housing Census were released in the quarter under review. Rwanda’s population has increased from 8.1 to 10.5 million people between 2002 and 2012, leading to a rise in population density from 321 to 416 people/sq. km. However, the average population growth rate decreased from 2.9\% to 2.6\% during the same period although it remains among the highest in Africa. Population growth remains an important policy issue due to limited arable land and increasing rate of urbanization, all of which imply greater pressure on the environment and infrastructure.

Donor Relations

The IMF Executive Board in November completed the fifth review under the Policy Support Instrument (PSI) and commended the authorities for the satisfactory implementation of the economic programme supported by the PSI in spite of the challenging global environment. The Board noted that monetary and fiscal policies remain appropriate but called for cautious implementation of fiscal policy during the remainder of the fiscal year 2012/13. This is necessary to accommodate delays in budget support disbursements with minimal recourse to domestic borrowing which could crowd out the private sector.

\begin{itemize}
\item Pretoria Portland Cement (PPC) acquired a 51\% stake in the country’s sole cement producer. PPC is expected to invest in increased production, which will reduce cement imports and thus improve the trade balance.
\item The IMF completed the fifth review under the Policy Support Instrument (PSI) commending the authorities for the satisfactory implementation of the economic programme supported by the PSI.
\end{itemize}
Economic Growth

The Seychelles economy faced a challenging year in 2012, which resulted in lower GDP growth compared to 2011. Real GDP growth was estimated at 2.8% in 2012 compared to 5% the previous year. Economic growth held up largely due to an improvement in the tourism sector as tourist arrivals from non-traditional markets increased. GDP growth was also supported by positive performances in a few other sectors of the economy, including fishing, manufacturing, and construction.

Fiscal Stance and Public Debt

Government continued to pursue tight fiscal policies during the quarter under review, aimed at achieving debt sustainability over the medium term and reducing public debt to 50% of GDP by 2018. In November 2012, a primary deficit of Seychelles Rupee SCR953 million3 (equivalent to 0.4% of GDP) relative to the budgeted deficit of SCR937.2 million (0.7% GDP) was recorded. Most tax lines underperformed (such as trade, excise and business taxes) and were below forecast by 3.3%. In contrast, the non-tax category over-performed by 10%. This was mainly on account of higher than expected collection of fees and charges. Total revenue (including grants) stood at SCR396 million, below projection by 14%. Aggregate expenditure for November 2012 was 20% less than planned. This was mainly attributed to savings under the primary current expenditure. The primary balance in Q4 2012 was in surplus equivalent to 6.8% of GDP and higher than the projected 3.8%. Overall, a primary surplus of 5.9% of GDP (SCR 837.2 million) in 2012 was expected, above the target of 4.5%. At the end of October 2012, the aggregate stock of public debt stood at SCR 11 million (US$ 841 million or 76% of GDP).

On 4th December, the Minister of Finance, Trade and Industry, Honourable Pierre Laporte presented the Budget for the FY2013 to Parliament. The primary fiscal

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3 Average exchange rate in 2012 was 1US$ = 13.7 Seychelles Rupees.
objectives in 2013 will include consolidating public social programs to improve livelihoods and scaling up investments in infrastructure to support economic growth. Fiscal policy will remain consistent with the Government’s aim of achieving debt sustainability over the medium term. Achieving a primary budget surplus of 5.6% of GDP or SR 850.1 million will be key fiscal objective in 2013. Other parameters include: total revenue of 37.3% of GDP of which tax revenue equivalent to 32.7% of GDP; total revenue and grants at 41.6% of GDP; expenditure and net lending of 39.5% of GDP (composed largely of primary current expenditure of 25.8% of GDP and transfers of 10% of GDP) and overall balance at 2.1% of GDP. The Government is also expected to commence debt repayments following debt restructuring in 2012.

Total domestic debt increased by 1.2% (or US$ 128 million) in November 2012 in comparison to October 2012, but remains at 34% of GDP. However, this also represents a rise of 11% in comparison to November 2011. The notable rise in domestic debt is associated with the issuance of government securities in support of monetary policy. The stock of external debt declined from 45% of GDP in October 2012 to 42% of GDP in December and below the 48% share of GDP in November 2011. Total public debt is estimated at 80% of GDP at end-2012, higher than the 75% in 2011.

Monetary and Financial Sector

The Central Bank of Seychelles (CBS) eased its monetary policy stance for the fourth quarter, increasing its reserve money target for the period. The loosened policy stance reflected the decreased inflationary pressures observed since the previous quarter. As at end November 2012, the stock of reserve money stood at R1, 932 million (approximately US$ 148 million) overshooting its target of R1, 850 million by R82 million. Money supply, as measured by the broadest monetary aggregate (M3), recorded positive growth for the first time in five months in November 2012; increasing by 1.8%. This expansion in liquidity reflected an improvement in net foreign assets at the commercial banks coupled with a growth in domestic assets. Monetary statistics showed an increase across all the major components of money, with a 3.4% rise in foreign currency deposits (in rupee terms) being the most significant. Foreign currency deposits increased to US$ 190 million in November from US$ 185 million a month earlier.

Credit disbursed by commercial banks grew by 12% by the end of the third quarter of 2012 compared to the same period in 2011. As of November 2012, the stock of commercial banks’ outstanding credit was R5, 894 million representing growth of 2.2% relative to the previous month. This was largely due to a 4.4% increase in banking sector claims on the government following the increased issuance of government securities for monetary policy management. Credit to the private sector grew by 4% in November 2012 compared to the same period a year ago. This increase in private credit was largely absorbed by the ‘building and construction’ and ‘trade’ sectors.

However, interest rates at commercial banks increased in November 2012. The overall average effective return on fixed-term rupee deposits increased from 4.63% in October 2012 to 5.60% or by 96 basis points. Deposit rates increased from 1.94% in October 2012 to 1.93% in November 2012 while the average effective lending rate increased from 13.24% to 13.32% over the same period. This resulted in the
widening of the spread between the lending and deposit rates from 11.30 percentage points in October 2012 to 11.39 percentage points during the month under review.

The year-on-year inflation fell from 7.6% in October 2012 to 6.2% in November 2012 indicating further easing in inflationary pressures. The 12-month average inflation rate stood at 7.1% in November 2012. The rupee traded at an average of 13.07 against the US dollar in November 2012, representing a slight depreciation of 0.1% compared to the previous month. Against the euro, the rupee appreciated by 10 cents, trading at an average of 16.79 per US Dollar compared to 16.90 in the previous month. On a year-on-year basis, the rupee weakened by 1.6% against the US dollar, but strengthened by 4.5% relative to the Euro.

**External Sector**

The current account deficit reduced from 23% of GDP in 2011 to 21% in 2012, in part driven by a rise in exports (mainly from a rebound in the fishing industry and manufacturing particularly beverages) and lower FDI-related imports. The reduction in current account deficit was driven by the larger than programmed level of grants. However, as a net importer, Seychelles remains vulnerable to external commodity price shocks.

Tourism continued to be the engine of the economy with a 5% growth in earnings projected for 2012 compared to 2011. The total number of visitors stood at 187,422 in November 2012 and 6.2% higher than in 2011. The majority of visitors originated from Europe, accounting for 71% of the total. France remained the leading market, supplying 19% of visitors, followed by Germany with a contribution of 16%. Although tourists originating from Asia have contributed significantly to growth in visitor arrivals in 2012, data also show a decline of 5.8% in Asian tourists compared to November 2011, and a 35% reduction compared to October 2012.

At the end of November 2012, gross international reserves stood at US$ 293 million which was a decline of US$ 10.1 million compared to the previous month. In terms of import cover, this was equivalent to 2.7 months against 2.8 months recorded in October 2012. The net international reserves fell short of the end-December 2012 target by US$ 2.1 million to close the month at US$ 222 million.

**OTHER NOTABLE DEVELOPMENTS AND UPDATES**

**Donor Coordination**

**IMF completes 6th review under the Extended Fund Facility (EFF) and Government of Seychelles (GoS) submits its Memorandum of Economic and Financial Policies (MEFP):** Following a mission to Victoria, held in October 2012, the IMF Board completed the sixth review under the EFF program on December 17, 2012. The completion of the review enables a disbursement of about US$ 2.0 million bringing total disbursements under the arrangement to about US$ 30.5 million. In order to support the completion of some structural reforms that slipped in 2012, the IMF approved an extension of the arrangement by one year to support the country’s economic reform program and an augmentation of access by 60.6% (US$ 10.23 million) of quota. The completion of the review follows the country meeting all the mid-year quantitative targets for 2012. Some structural targets such as the implementation of the VAT by mid- 2012, were postponed to January 2013. Subsequent to this review, the GoS submitted its MEFP outlining policies to be

- Inflationary pressures continued to ease with headline inflation decreasing to 6.2% for the year ended November 2012 down from 7.6% in October 2012
- The Seychelles Rupee depreciated by 1.6% against the US Dollar in November 2012 compared the same period in 2011 but appreciated by 4.5% against the Euro during the same period
- Strong performance in tourism, fishing and industry and reduced imports contributed to a reduction in the current account deficit
monitored under the EFF in 2013. The broad fiscal and monetary policy objectives remained unchanged while the GoS outlined the remaining reforms to be undertaken in Public Financial Management (PFM), private sector development and public enterprise reform. Key among the structural reforms is the strengthening of tax administration; improvement in tax collection through implementation of VAT and simplification of tax measures; implementation of measures under the new PFM Act approved in 2012 including introduction of Performance Based budgeting in two ministries in 2014; improvement in access to finance legislation; improvement in legislation for insolvency and creation of a Public Enterprise Monitoring authority.

Regional Integration

Seychelles receives monetary support for regional integration: In line with the Common Market for Eastern and Southern Africa (COMESA) regional integration program (Regional Integration Support Mechanism-RISM) Seychelles as well as eleven other member countries received the first disbursement under the COMESA Adjustment Facility (CAF). The country received Euro 618,152 out of Euro 1.5million planned for 2012-2014 in support of the implementation of regional commitments.

- The IMF completed the 6th review under the Extended Fund Facility but extended the programme for one year to allow the completion of economic reforms that slipped in 2012
- Seychelles received the first disbursement from the COMESA Adjustment Facility to support implementation of regional commitments
MACROECONOMIC DEVELOPMENTS

Economic Growth

Tanzania’s economic growth performance has remained strong in Q3 2012: the economy grew by 6.5% during the third quarter of 2012, building on the strong performance of 7.1% and 6.9% in the first and second quarters. This performance was driven by services, particularly telecommunications, transport and financial intermediation, industry, and trade. There are also prospects of strong performance for the fourth quarter of 2012. This is due to booming industry and service sectors relatively favorable weather conditions in 2012 benefitting agricultural production. Economic growth prospects are expected to remain stable around 7% in the medium-term.

Fiscal Stance and Public Debt

The fiscal policy stance remained tight in Q4 as the government continued with fiscal consolidation measures to manage expenditure growth, and keep fiscal deficits within the levels recommended under the IMF’s Policy Support Instrument (PSI) framework. According to official estimates, cumulative government expenditures for the July–November 2012 period amounted to TZS 3,792.6 billion, equivalent to 73% of the budget estimates for the period. Recurrent expenditure amounted to TZS 2,786.1 billion, equivalent to 73% of budget estimates, while development expenditure amounted to TZS 1,006.4 billion, equivalent to 71.1% of the budget estimates for the period. The low execution of development budget was mainly attributed to delays in foreign disbursements. Tax revenues during the September–December 2012 amounted to TZS 2.1 trillion, which was about 100% of the budget estimates for the period. This represents a significant recovery after missing the target by 5% during previous quarter. Cumulative domestic revenues reached about 9% of GDP for July–December 2012. This trend suggests that the government is on course to achieve its revenue target of 18.8% of GDP for the fiscal year 2012/13.

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4 Average exchange rate in 2012 was 1US$ = 1,586.9 Tanzania Shillings.
Progress in revenue collection has been a result of the ongoing reforms to strengthen domestic resource mobilization and limit tax leakages, mainly through improvements in tax structure and administration as well as widening the tax base by bringing the informal sector into the tax net.

External debt increased in 2012. Tanzania’s external debt stock reached US$ 10.7 billion in December 2012, which was about 7.3% higher than the US$ 10.6 billion recorded in December 2011. The increase resulted from newly disbursed external debt to the Government and accumulation of interest arrears. Overall, prudent fiscal policies suggest low risks of debt distress, though the assessment is sensitive to domestic revenue generation, non-concessional borrowing, and quasi-fiscal developments, particularly in the transport and energy sectors.

Monetary and Financial Sector

The Bank of Tanzania maintained a tight monetary policy stance in line with its objectives of supporting economic growth and maintaining price stability. The discount rate was kept at 12%, while targeting annual money supply growth below 19%. Money supply growth declined to 13.1% in December 2012, compared to 18.2% growth recorded in the corresponding period in 2011. This was due largely on account of the contraction in the growth of net foreign banking assets as well as some deceleration in the growth of credit to the private sector. The savings deposit rate averaged 2.9%. The overall lending rate averaged 15.9% during the quarter. In line with money supply and interest rate developments, the annual growth of private sector credit decelerated to 18.2% in December 2012, compared to annual growth of 27.2% recorded in the corresponding period in 2011.

Inflationary pressures continued to ease gradually. Headline inflation declined from 12.9% in October to 12.1% in December 2012. The continued downward trend may have been the result of tight monetary and fiscal policies, as well as short-run improvements in food and energy supply situation in 2012. Headline inflation, however, remained at double digit levels, largely because of high food and energy prices. During the October–December 2012 period, core inflation, which excludes food and energy, averaged 8.7%. The nominal exchange rate during the period was fairly stable, with the weighted average exchange oscillating between TZS 1,575.05 and TZS 1,583.68 per US Dollar throughout the quarter. There are signs of increased nominal exchange rate volatility, largely due to the small foreign exchange market and recent significant inflows of foreign capital targeting the hydrocarbon and mining sectors. As a result of the still relatively high inflation, the real effective exchange rate has slightly appreciated, reflecting a loss of competitiveness.

External Sector

Tanzania continued to record strong export performance. During the fourth quarter of 2012, exports of goods and services exceeded US$ 8.7 billion by December 2012, representing an increase of about 17.4% over the US$ 7.4 billion recorded during the corresponding period in 2011. Gold remained the dominant export item, accounting for more than a quarter of total exports, followed by travel services (18%) and manufactured goods (13%). Gold exports were slightly affected by a decline in the world market. The value of import of goods and services during the period was about US$ 12.6 billion. This represents a 5.3% increase over the import levels of the corresponding period in 2011, largely driven by oil imports. The current account balance improved slightly, narrowing to a deficit of US$ 3.4 billion in December 2012 compared to a deficit of US$ 3.9 billion recorded in December 2011. The narrowing
The current account deficit was largely explained by improved industrial production as power supply continued to stabilize; increase in international tourist arrivals; as well as increase in export volumes for most of the traditional cash crops, particularly cotton, coffee and tobacco associated with good weather. The current deficit is estimated at almost 17% of GDP. At the end of October–December 2012 quarter, Tanzania had a fairly comfortable level of foreign reserves, sufficient to cover about 4 months of import of goods and services. The external account remains vulnerable to shocks. Especially high international oil prices could adversely affect the economy.

OTHER NOTABLE DEVELOPMENTS AND UPDATES

Political Developments

Tanzania is in the process of formulating a new constitution. A constitutional reform commission formally concluded its consultations with civil society. According to the reform commission, from July to November 2012, a total of 1,776 meetings were held and about 1.4 million citizens participated in constitutional review discussions throughout the country. The commission continued to receive views about the new constitution through various media—including mobile phones, web-based social networks such as Facebook, and postal services.

The ruling party CCM re-elected President Jakaya Kikwete as national chairman during the Party’s National Congress in November 2012. Zanzibar President Ali Mohammed Shein was elected as vice-chairman for Zanzibar. Mr. Philip Mangula, the former CCM’s secretary general, was elected as vice-chairman for Mainland Tanzania. The party’s elections exposed some factional rivalry within the CCM party.

Energy Sector

Chronic inefficiencies in the energy sector have gained prominence. Following last year outages, caused by a slump in hydropower generation, electricity supply has been restored by emergency fuel-based generation from the private sector. Yet TANESCO, the parastatal electricity company, has accumulated arrears currently estimated at almost 1.3% of GDP. Further deterioration of finances would translate into a drain on the fiscal budget and could result in more power outages, significantly undermining short-run growth and fiscal prospects. Developments in the natural gas and oil sector are also becoming a political risk factor, as demonstrated by pipeline tensions of the local population in the southern Mtwara region and tensions over a long-standing territorial dispute over Lake Malawi.

Statoil, the Norwegian energy firm, announced additional discoveries of natural gas offshore Tanzania. In December 2012, Statoil indicated that it had already discovered about 9 trillion cubic feet (tcf) of gas in the area and would need roughly another 3 trillion cubic feet to make commercial development viable. Before Statoil’s discovery, the government of Tanzania maintained its estimate of recoverable natural gas reserves at 33 trillion cubic feet. Statoil will release the estimates of recent discoveries in 2013. Tanzania’s medium-term growth prospects could be significantly boosted by natural gas discoveries through investment flows, increased government revenues, power generation, and various spin-off effects.
Population and Housing Census

Tanzania’s population growth rate declines slightly. In December 2012, the National Bureau of Statistics released the preliminary results of the 2012 population and housing census, which showed that Tanzania has 44.9 million people, of which about 1.3 million live in Zanzibar Islands, while 43.6 million are on the mainland. The census findings indicate that Tanzania’s population growth rate declined to 2.6 percent between 2002 and 2012, compared to 2.9% between 1988 and 2002. And based on the census results, Tanzania’s population is projected to reach 51 million by 2016. With the current pace of economic growth high population growth will strain the provision of basic services. More analysis and research on the National Census are expected to be ready in fall 2013, along with results from the 2012 Household Budget Survey, reflecting an overall trend in increased attention to statistical surveillance.

Donor Relations

The General Budget Support (GBS) annual review meeting suggested satisfactory performance. The dialogue endorsed progress in the overall performance in 2012 noting that: macroeconomic stability has been maintained in line with the IMF’s Policy Support Instrument (PSI), rural roads have been improved to acceptable conditions, and more births are taking place in health facilities. However, substantial challenges remain, including: access to clean and safe water, quality and equity of social service delivery, governance and accountability, access to electricity, and the financial sustainability of the energy sector.

Development partner’s commitments to GBS declined. The commitments from the GBS partners for the fiscal year 2012/13 amounted to US$ 496 million, representing a decline from the US$ 597 million disbursed in the previous fiscal year. During the conclusion of the 2012 annual review, development partners had disbursed US$ 337 million in the first quarter of fiscal year 2012/13, equivalent to 68% of their GBS commitments. There are currently debates by some development partners on the future of the GBS instrument, reflecting new government policy and planning processes, Tanzania’s natural gas and energy sector developments, and the increased emphasis on performance and results.
ECONOMIC GROWTH

The most recent estimates available indicate that real GDP increased by 1.8% in Q3 of 2012 up from 0.6% in the previous quarter and much higher than the 0.4% growth achieved in Q3 of 2011. Real GDP growth is projected to rise to 4.25% in 2012 compared to 3.4% in 2011. This is much lower than the earlier growth projections of 5-6% if aid amounting to 1.3% of GDP had not been suspended.

The service sector was the key driver of growth in Q3 2012, growing by 3.4% compared to 2.9% during the same period the previous year. Growth in services sector, which accounts for 45.1% of GDP, was driven by Public Administration (15.6%), other business services (14.9%), financial services (9%) and real estate activities (7.8%). The agriculture sector, which accounts for 23.7% of GDP, recorded a moderate growth of 3.1% on account of the increased food crop production activities which grew at 7.1%. The growth of livestock rearing, forestry and logging and fishing subsector was below 2%. Industrial growth was the weakest at 1.2% compared to a growth of 1.3% during the previous quarter, but an improvement from a contraction of 7.2% during similar period in 2011. The construction activity which accounts for more than half the share of the sector grew by 3.0%, while mining & quarrying, and manufacturing subsectors declined by 19.2% and 4% respectively.

Key donors, including the UK, EU, World Bank, Germany, Norway, Denmark, Ireland, France, Belgium and Austria suspended aid disbursements amounting to US$ 300m in November 2012 due to misappropriation of funds by the Office of the Prime Minister (OPM) and the Ministry of Public Service. The aid suspension will affect economic growth primarily by reducing public spending. Recurrent expenditure cuts have caused significant delays to wage payments of public servants including teachers and medical workers, while budget cuts to development budget could have potential to affect the implementation of public investments especially those related to infrastructure development. The Government hopes that...
Development Partners will resume Budget Support disbursements by June 2013 to allow for inclusion in the next budget resource envelope for 2013/14 fiscal year and beyond.

**Fiscal Stance and Public Debt**

The government continued to pursue a tight fiscal stance in Q4, driven by the need to accommodate for revenue shortfall attributed to weak domestic revenue performance arising from the slowdown in economic activity and aid cuts. The fiscal strategy for 2012/13 has been revised to respond to the substantial aid cuts equivalent to 1.3% of GDP. The government will accommodate the shortfall in the budget resources by a combination of expenditure cuts, and additional domestic borrowing projected at 0.7% of GDP. Spending priorities going forward will focus on infrastructure, and agricultural productivity to boost exports, food production and to create employment.

Efforts to increase domestic revenue mobilization and expenditure prioritization remained a top government priority during the quarter. However, the Uganda Revenue Authority (URA) failed to achieve the monthly revenue targets (including grants) for six successive months of FY 2012/13 due to a shortfall on corporate, PAYE and Value added taxes. By end of December 2012, the cumulative domestic revenues for the first half of FY 2012/2013 (July-December 2012) reached UGX 3,376 billion, (US$ 1,256 million) equivalent to 95% of the overall revenue target of UGX 3,551.94 billion (US$ 1,322 million), also equivalent to about 6% of GDP, and representing a 15% increase (UGX 449.13 billion or US$ 169.5 million) compared to the same period in 2011. Strong revenue performance was recorded in domestic taxes (100.9% of the target), and indirect domestic taxes (104.1% of the target), while shortfalls were recorded in international trade taxes (88.3% of the target), fees and licenses (85.7% of the target), and direct domestic taxes (99.7% of the target). The shortfall in International Trade Taxes' was mainly due to a reduction in fuel imports in Q4 compared to Q3. Further declines were recorded in the importation of high tax yielding items such as telephone equipment and motorcycles during the period ending December 2012. Depreciation of the Uganda Shilling and administrative bottlenecks at the Kenyan port of Mombasa also contributed to the revenue shortfall.

The 5th review under the IMF Policy Support Instrument (PSI) undertaken in December 2012 concluded that Uganda continues to be at a low risk of debt distress, as government maintains close control over fiscal deficits in the medium term to avoid a deterioration of public debt. Borrowing on non-concessional terms is set to increase from 20.4% of GDP in 2011/12 to 23% of GDP in 2012/13 to boost development and capital spending especially in energy and transport sectors in order to stimulate growth. The ceiling on contracting or guaranteeing of new non-concessional external debt with maturities greater than one year by the public sector for 2012/13 is set at US$ 1 billion, however the indicative outturn target at end September was US$ 455 million. Government is in the process of finalizing a policy document proposing reforms for domestic debt management. These reforms will among other things guide the issuance of securities for deficit financing vis-à-vis monetary policy management.
Monetary and Financial Sector

The central bank pursued an expansionary monetary policy stance in Q4 2012 with a reduction in the central bank rate from 15% in September 2012 to 12% in December 2012. The subsequent monetary easing has so far produced only a small decline in lending costs, revealing asymmetries in the transmission mechanism. The slow bank credit recovery is attributed to the cautious risk management of commercial banks, coupled with the new requirement by the Central Bank to raise the minimum paid up capital for commercial banks to UGX 25 billion (US$ 9.4 million) effective March 2013 (from UGX 10 billion or US$ 3.8 million). While non-performing loans have risen, banks remain solvent, liquid and profitable. The subdued private sector credit which fell significantly in the course of 2011/12 as a result of monetary tightening has begun a slow recovery. On a quarterly basis, private sector credit grew by 5.8% in November 2012 compared to 1.8% at end Q3 in September 2012, and 3.5% in November 2011.

The annual headline inflation decreased from an average of 10.5% in Q3 to 4.9% in Q4 of 2012 from a peak of 30.5% in October 2011 driven by improvements in food crops inflation attributed to increased food supply to markets on account of improved seasonality as well as stable international oil prices. Following the demand pressures associated with the festive season, core inflation rose to 4.6% at end-December 2012 up from 3.9% at end-November 2012. Looking ahead, inflation is projected to remain moderate, averaging 6.2% in 2013 and return to the central bank’s medium-term policy target of 5.0% by 2014.

The Uganda Shilling was slightly more volatile against the US dollar in Q4 than in Q3, depreciating by 6.2% between September 2012 and December 2012, caused mainly by the speculative tendencies around the festive season. Nevertheless, the suspension of aid in November 2012 also contributed to the depreciation of the exchange rate, prompting the Bank of Uganda to intervene twice in the foreign exchange market in Q4 to smooth out volatilities. On the positive side, the depreciation is expected to improve Uganda’s international competitiveness and trade balance.

External Sector

Total imports slightly decreased from US$1,280 million in Q3 to US$ 1,225.79 million in Q4 due to delays experienced by importers at the Mombasa port, arising from the proposed introduction of the controversial cash bond on imports in addition to the increased port service fees in Q4. Despite these administrative hiccups, imports outweighed exports which only decreased from US$ 759.4 million in Q3 to US$ 688 million in Q4. Hence, the current account deficit slightly improved in Q4 from US$ 179.8 million in Q3 to US$ 152.3 million in Q4 and is projected to remain unchanged at about 11.25% of GDP in FY 2012/13. However, the increased importation of both consumption and capital goods in light of the oil and road construction investments, have led to increase in the balance of payments deficit.

Foreign exchange purchases by the Bank of Uganda to build up foreign reserves contributed to an increase in gross international reserves from 3.67 months of imports (UGX 2,399 billion or US$ 905 million) in December 2011, to 4.3 months of imports (UGX 2,880 billion or US$ 1.09 billion) by September 2012. International reserves decreased marginally to 4.28 months at end December 2012

- The expansionary monetary policy pursued in Q4 contributed to only minimal reductions in lending rates indicating asymmetries in the transmission mechanism. However, inflation reduced by over 50% to 4.9% in Q4.

- The deficit on the balance of trade reduced marginally due to a reduction in imports following the introduction of cash bonds and increased port services fees at Mombasa.
due to aid suspension. The IMF has advised the government to consider scaling back its target for the accumulation of foreign exchange reserves held at the Central Bank so to accommodate the aid suspension.

OTHER NOTABLE DEVELOPMENTS AND UPDATES

Political Developments

Corruption in the public sector continued to dominate the political scene during Q4. In November 2012, the Auditor General released a special report on the Office of the Prime Minister (OPM) revealing massive misappropriation of funds meant for the northern Uganda recovery and reconstruction in the amount of US$ 15 million. Investigations into the misappropriation of US$ 24 million pension sector funds and the alleged erroneous Government compensation of a leading business person (US$ 54 million) which commenced during Q3 continued into Q4. Some top government officials and politicians have been implicated.

Private Sector Activity

An energy business consultation under the Africa-EU Energy Partnership (AEEP) was hosted by the Ministry of Energy and Mineral Development in Kampala on 13-14 December 2012 to explore the legal and financial framework policy gaps constraining private sector investments in renewable energy. These consultations revealed that private sector involvement in the design of the existing renewable energy policy has been limited; hence affecting the competitiveness of Uganda's energy sector compared to other EAC partner states. Moreover, local financing solutions for energy projects have been lacking due to the low bankability and limited awareness by financial institutions of the opportunities in the energy sector. The private sector thus called for a review of the existing renewable energy policy and to align the national regulatory framework with regional commitments.

Donor Relations

The abovementioned case of corruption in the public sector involving senior government officials and politicians during the quarter under review culminated into the suspension of aid amount to US$ 300 million by ten donors including: the UK, EU, World Bank, Germany, Norway, Denmark, Ireland, France, Belgium and Austria.

Following a meeting between government and DPs on 12th December 2012, a set of measures to strengthen the Public Financial Management (PFM) was agreed. These measures include: the refund of the DPs misappropriated funds, enforcement of administrative sanctions against government officials mentioned in the audit reports, satisfactory progress on investigations, prosecutions of indicted public officials, and the implementation of the recommendations to reinforce controls in the PFM system in order to increase transparency.

- Corruption in the public sector continued to dominate the political scene with the alleged involvement of top public officials and politicians
- PFM measures were agreed by the Government and donors and successful implementation of these measures is expected to restore donor’s fiduciary confidence in the Government
III | TOPICAL THEME
THE STATE OF KENYA’s PRIVATE SECTOR

1. Introduction

A thriving private sector is central to achieving the objectives of Kenya’s Vision 2030. In fact, the success of Vision 2030 is largely premised on the role of the private sector in addressing the country’s growth challenges and, thereby, creating greater wealth and employment opportunities. In this respect, six priority sectors were targeted in Vision 2030 to raise the national GDP growth up to 10% by 2012.

In order to support the development of the private sector, the Government prepared a Private Sector Development Strategy (PSDS) 2006-2010 and Private Sector Development Strategy Implementation Plan (PIP) 2007-2012. The purpose of the PSDS and PIP was to address the poor business environment and improve the competitiveness and productivity of the private sector (especially MSMEs). Recently, an addendum has been prepared to formally align the PSDS to the timeframe of the accompanying PIP, following which preparations will begin to formulate a new national framework (potentially PSDS II) to enhance PSD in Kenya going forward.

In December 2010, the Bank Group completed the mid-term review of its 2008-2012 Country Strategy Paper for Kenya. The review established that the Bank’s public sector operations were generally performing well, especially those focused on infrastructure development. However, the review also established that private sector operations remain limited and that the Bank should engage its private sector window more effectively in Kenya. Consequently, through the new Country Strategy Paper for Kenya, being prepared this year, the Bank intends to increase its support to PSD and enhance its non-sovereign operations.

It is against this background that EARC prepared a report on the ‘State of Kenya’s Private Sector’. The report profiles in detail what the private sector looks like now, analyses the current business environment (including the impact of the new constitution and devolved Government), assesses the strengths, weaknesses, challenges and opportunities faced by the sector, and provides targeted recommendations for certain audiences.

This report will now inform a new national framework to enhance PSD in Kenya. It will also inform the Bank’s (and other DPs) approach to private sector development and non-sovereign operations in Kenya. Finally, the report will benefit other stakeholders (i.e., business community, investors, and private sector associations) in Kenya.

2. Main findings

The overall finding of the report is that the private sector in Kenya is vibrant and in good health. Kenya is a promising place to do business, with growing markets and good opportunities. Importantly, there is a widespread intellectual appreciation amongst Kenyans, including government officials, that the private sector is important and will be the main driver of growth and employment, rather than the state. Positively, the business climate has improved over the last decade; frustratingly, it is the same recurrent challenges that prevent the private sector from reaching its full potential: political uncertainty, corruption, infrastructural deficits, and an untapped informal sector.

This report explores seven characteristics of the private sector:

i. Importance and size: The private sector is well developed and large by sub-Saharan and regional standards and plays the leading part in the Kenyan economy. The health of the economy and benefits to citizens are directly correlated to the health of the private sector.

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5 The full report will only be released to the public in the second quarter of 2013. This brief provides a provisional look at the report’s broad findings and recommendations.

6 (i) Tourism; (ii) Agriculture, Livestock and Fishing; (iii) Wholesale, Retail and International Trade; (iv) Manufacturing; (v) Business Process Outsourcing; and (vi) Financial Services.
ii. Growth: The private sector has been growing and continues to grow, impressively at times, though on balance remains below full potential. A number of infrastructure, regulatory, security and political challenges persist in restraining private sector growth.

iii. Structure: The private sector is noticeably split into two parts: a formal, large business sector which is relatively healthy and productive, and a massive, informal small business sector that is poorly understood and supported, yet which employs almost nine out of ten workers. Links between the formal and informal sectors are very weak – and initiatives that bridge the gap should be a priority.

iv. Diversification: The formal private sector is well diversified across primary, secondary and tertiary activities, and the tertiary sector is impressive for a developing country. Exports, however, are dominated by a handful of globally competitive agricultural products, with limited value addition.

v. Sectors: Agriculture, manufacturing, trade, tourism, transport and communication, and financial services account for over 80% of the private sector’s contribution to total GDP. Agriculture remains the most important sector in terms of contribution to private sector GDP and employment, though the importance of agriculture in terms of its contribution to GDP is declining relative to other sectors, while that of manufacturing remains relatively stagnant. Growth in the private sector is increasingly driven by trade, transport, ICT and financial services.

vi. Local versus foreign ownership: The private sector is relatively closed and concentrated – dominated by domestic companies and attracting less FDI than much smaller neighbouring countries, in both absolute and relative terms. Early indications are that this FDI underperformance may be changing, possibly related to the discovery of oil.

vii. Stability: The performance of the private sector is volatile primarily because business must operate in a politically charged environment. Political disruptions and uncertainty is the most obvious brake on consistent private sector (and economic) growth. Also, the private sector is structurally exposed to shocks – tourism to demand shocks, agriculture to supply shocks and the whole economy to import inflation, especially from fuel imports – which make stable and consistent growth harder to achieve.

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7 Note: agriculture is not included in the measure for informal sector employment, as KNBS observes the ILO definition of the informal sector, which excludes primary activities. KNBS calculations suggest that most people working in the informal sector (approximately 60%) are traders in the wholesale and retail trade sector.

8 KNBS (Kenya National Bureau of Statistics) only captures data for ‘hotels and restaurants’, which is used as a proxy for tourism. In 2007, Vision 2030 estimated that tourism accounts for 10% of Kenya’s GDP, whereas in 2009, KIPPRA estimated a 5% GDP contribution.
3. Strengths, challenges and opportunities

Below is a summary of the main strengths and challenges of the Kenyan private sector and the environment in which it operates; followed by a selection of emerging opportunities that, if capitalised upon, would contribute to stronger private sector growth and development.

Strengths

The diversified nature of the Kenyan private sector bolsters its ability to weather external shocks (although still vulnerable) and bodes well for future resilience in a competitive global market. It is clear that the private sector drives growth and employment in the economy.

The private sector is vibrant and it benefits from a well-educated and entrepreneurial workforce. The private sector is more developed, in terms of scale and sophistication, relative to Kenya’s neighbours. This has contributed to Kenya’s status as a net exporter to all other East African Community (EAC) countries. In the global market, the private sector is competitive in a variety of export products, especially tea, cut flowers, leguminous vegetables and cements.

Government has invested, and continues to invest, in the improvement of transport infrastructure. Kenya’s infrastructure advantage, relative to its neighbours, combined with its strategic geographic position, affords the country the status of a regional trade and transport hub. The tertiary sector is growing in importance in terms of value addition and employment. Notably, Kenya has an innovative and fast-developing ICT industry that also enables the financial services sector (e.g. M-Pesa), which in turn is growing rapidly.

Figure 1: Relative employment creation, average growth rate, and % contribution to GDP (2011) for Kenya’s main sectors. (Adapted from KNBS Economic Survey 2012 and Statistical Abstract 2011)
Finally, it appears that there is widespread intellectual appreciation within the Government of Kenya that the private sector is important and should be developed, as well as a genuine commitment to dialogue and partnership. This augurs well for positive, collaborative outcomes in private sector development.

**Challenges**

Kenya has a disruptive political cycle, with a mediocre, but improving, business climate. Political uncertainty, especially around elections, and the associated volatility is arguably the main handbrake on sustained private sector investment and growth. Without long periods of stability and peaceful transitions of government, private sector performance will continue to underperform against its long-term potential. There is widespread perception of corruption, political interference and patronage in business, which hinders small businesses in particular.

Macro-economic volatility has been cited as a challenge to doing business. The cost of capital is high and a variable exchange and inflation rate is challenging to business operations and planning. The macro-economy has been more stable in recent years. Critical enabling infrastructure remains below par: Transport infrastructure and logistics systems (including customs, goods clearance and weigh-bridge processes) are persistently weak for a regional trade and transport hub. High energy costs and weak and interrupted supply of power are crippling to business, especially manufacturing businesses.

A possible outcome of the aforementioned political uncertainty, macroeconomic volatility and high costs of doing business is a low level of foreign direct investment (FDI) - an anomaly for a pre-eminent regional market. This FDI status quo could also be a function of company and land ownership restrictions, a closed and protective political economy with strong local vested interests and anticompetitive behaviour by dominant firms. However, early indications are that FDI might be increasing, primarily driven by opportunities in oil.

There is a reported mismatch of skills of those leaving the education sector and those attractive to the private sector, particularly in new and fast-paced industries such as ICT.

The private sector is bifurcated between the formal sector and mostly informal MSE sector with weak linkages between the two. The informal sector is poorly understood and documented, and is not supported by coherent government action. There is limited empirical evidence for the factors that give rise to a large, fragmented and delinked informal sector in Kenya. Anecdotal evidence suggests that the main barriers to growth and formalisation include low skills and access to technology; high effective tax rates; an unfriendly regulatory environment for small business (e.g. trading restrictions and minimum wage regime); inadequate access to financial services; and a poor collective voice of small business, particularly in policy decisions.

There is a lack of comprehensive and consistent economic data for the tourism and ICT (including Business Process Outsourcing (BPO)) sectors, as well as FDI, which inhibits evidence-based policy decisions. There is a perception by business that the pace of government reform is too slow and the administration is characterised by fragmentation and duplication of effort, compounded by unnecessary bureaucracy and red tape (e.g. the burden of inefficiencies within the tax system).

Finally, the impact on business of devolved government is still unclear but may be mildly negative overall, at least during the transition period. The ability to maximise county-level opportunities and foster a business friendly environment will greatly depend on the vision and capability of county leadership, which is still untested.

**Opportunities**

The Constitution is likely to be a positive force for the private sector, if it is upheld and if constitutional institutions are properly empowered. It should promote a more transparent and stable economic environment in which the private sector can confidently invest.
Much of the vision for a more inclusive, growing and wealth-creating private sector depends on the government’s ability to implement stated policies and plans in a timely fashion. That said, it is also incumbent on the private sector to leverage the opportunities within the country and region, and to play a role in holding government to account and bridging the gap between the formal and informal sectors.

Opportunities include an increasingly attractive domestic market, with improving appeal to foreign investors, particularly in the ICT, manufacturing and financial services sectors, and a rapidly urbanising Kenyan population, which may present further opportunities in sectors such as retail trade, construction and real estate.

The technological innovations emerging from the ICT industry, such as those that improve access to, and functionality of, mobile phone and internet services have the potential to catalyse growth and improve efficiencies.

Government’s intention to increase public-private partnerships (PPPs), particularly in large infrastructural projects presents an opportunity for private sector involvement in national development, and the multiplier effects of these developments will improve growth across the economy. Infrastructural developments will also assist in the facilitation of increased regional trade in goods and services resulting from increased access to the EAC common market.

Government actions emerging from the Micro and Small Enterprises (MSE) Act will present opportunities for the inclusion of small enterprises in the formal economy.

Possibilities for growth exist in Kenya’s “budding sectors”, namely oil & gas and real estate. The discovery of oil in the Lake Turkana region can play a transformative role in the economy, accelerating the growth trajectory of the private sector and providing a boost to the fiscus. If handled poorly it may also bring the attendant problems of “Dutch disease” and escalate the extent and magnitude of corruption and civil unrest.

4. Recommendations

A number of insights and recommendations emerge for developing the private sector further and faster, the responsibility for which are shared by policy makers (Government of Kenya), development partners, and the private sector itself. The recommendations are grouped around six topics:

a) Improving the business and investment climate;

b) Understanding and supporting MSEs and the informal sector;

c) Mitigating possible negative consequences of devolved government, and upholding the Constitution;

d) Encouraging further public/private co-operation;

e) Supporting sector growth and competitiveness; and

f) Improving the collection of economic data relating to the private sector.

From the numerous recommendations discussed under these topics, the table below draws out a few to ‘whet the appetite’ in anticipation of the report’s release.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Government of Kenya</th>
<th>Development Partners</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eliminate corruption and political patronage in government decision making</td>
<td>Fast-track the computerisation of government processes (relating for example to fees, tax and procurement) to increase transparency and close avenues for corrupt behaviour.</td>
<td>Provide strategic support in the form of technical capability and systems capacity building to the Public Procurement Oversight Authority, Ethics and Anti-Corruption Commission and Land Commission. Share global best practice on policies and associated implementation around declaring interests transparently and managing conflicts of interest in relation to politician/public servant participation in business; and whistle-blower protection mechanisms.</td>
<td>Finalise, activate and monitor adherence with the Kenyan Private Sector Alliance (KEPSA)-led private sector Code of Conduct, to tackle private sector participation in corrupt behaviour. Create and support a non-aligned private sector-funded non-governmental organisation (NGO) “Corruption Watch” entity, which has the resources to investigate and publish instances of both private and public sector corruption.</td>
</tr>
<tr>
<td>Foster a business-friendly regulatory environment</td>
<td>Prioritise the revision and passing of the Business Regulation Bill, Statutory Instruments Bill (RIA legislation) and various new companies’ legislation e.g. Companies Bill, Insolvency Bill, and Partnerships Bill that seek to coordinate and reduce the red tape in doing business. Drive the wholesale replacement of various local level business permits with a Single Business Permit.</td>
<td>Undertake a study to evaluate the impact of local ownership requirements in relevant industries; and share information on the global experience of indigenisation policies.</td>
<td></td>
</tr>
<tr>
<td>Create programmes to link MSEs with government business and large private sector business</td>
<td>Provide government support to corporate business linkage efforts by better directing government finance and business development services to MSEs that are actively competing for or executing corporate business. Design and implement a programme to support government’s intent to procure 25% of goods and services from MSEs, without compromising value for money, independence of procurement decisions and eroding local content.</td>
<td>Understand barriers to successful business linkages by assessing and sharing the experience, or consolidating the assessed experience, of donor linkage initiatives (e.g. USAID, UNIDO SPX DANIDA) and existing/historical corporate linkage initiatives (e.g. GM, EABL, Unilever and KTDA). Support government and business associations (BMOs) to develop effective business linkage programmes.</td>
<td>Commit to tangible plans (e.g. design and fund business linkage programmes) and targets to create and grow business linkages with MSEs. Business associations (BMOs) to provide members with best practice tools and knowledge in developing business linkages. Adopt a Financial Sector Charter to encourage formal lending institutions to improve access to financial services for MSEs, building on the work of Financial Sector Deepening (FSD) Kenya.</td>
</tr>
<tr>
<td>Generate comprehensive and consistent national economic data on private sector output and investment</td>
<td>Provide KNBS with the necessary financial and human resources to modernise and streamline data collection methodologies and statistical accounts, to capture comprehensive tourism data (e.g. create Tourism Satellite Accounts), disaggregate Transport and Communications data, and improve the veracity and granularity of FDI data.</td>
<td>Provide KNBS with technical assistance to modernise and streamline data collection methodologies and statistical accounts (e.g. create Tourism Satellite Accounts) and advise KNBS on global best practice in managing data collection efforts of multiple government agencies.</td>
<td></td>
</tr>
</tbody>
</table>
IV | STATISTICAL ANNEX
### A- SELECTED LONGER TERM STATISTICS

#### Table 1 - Basic Indicators, 2012

<table>
<thead>
<tr>
<th></th>
<th>Population (thousands)</th>
<th>Land area (thousands of km²)</th>
<th>Population Density (pop / km²)</th>
<th>GDP current prices (US $ Million)</th>
<th>GDP per Capita (current prices, $)</th>
<th>Annual real GDP growth (average over 2001-2012)</th>
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<tr>
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<td>35</td>
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*Note: * Fiscal year July (n-1)/June (n)

**Sources:** ADB Statistics Department, Various domestic authorities; IMF World Economic Outlook 2012.

#### Table 2 - Real GDP Growth Rates, 2001-2012

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<td>6.9</td>
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<td>5.7</td>
<td>5.8</td>
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<td>10</td>
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<td>East Africa</td>
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<td>4.5</td>
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</table>

*Note: * Fiscal year July (n-1)/June (n)

**Sources:** ADB Statistics Department, Various domestic authorities; IMF World Economic Outlook 2012.

#### Table 3 - Demand Composition and Growth Rates, 2010-2012

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Final Consumption</td>
<td>Gross Capital Formation - Total</td>
<td>Exports</td>
</tr>
<tr>
<td></td>
<td>Percentage changes, volume</td>
<td>Percentage changes, volume</td>
<td>Percentage changes, volume</td>
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<tr>
<td>Burundi</td>
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<td>Kenya</td>
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*Note: * Fiscal year July (n-1)/June (n)

**Sources:** ADB Statistics Department, Various domestic authorities and IMF World Economic Outlook 2012.
## Table 4 – Public Finances and Fiscal Indicators, 2008-2012 (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012 (e)</th>
<th>2010</th>
<th>2011</th>
<th>2012 (e)</th>
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<th>2010</th>
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<td></td>
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<tr>
<td>Seychelles</td>
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Notes: * Fiscal year July (n-1)/June (n)

Sources: ADB Statistics Department, Various domestic authorities, OECD/DAC, OECD Development Centre calculations and IMF World Economic Outlook.

## Table 5 – Selected Monetary Indicators

<table>
<thead>
<tr>
<th></th>
<th>Inflation (percent)</th>
<th>Exchange Rate (LCU / $)</th>
<th>Reserves, excluding gold, ($ million)</th>
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</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>8.27</td>
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<td>6.98</td>
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<td>6.36</td>
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<td>Uganda</td>
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<td>Africa*</td>
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Sources: ADB Statistics Department, Various domestic authorities; IMF World Economic Outlook & International Financial Statistics and authors’ estimates and forecasts. *data on reserves is for sub-Saharan Africa
Table 6 - Balance of Payments Indicators, 2008–2012

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 (e)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 (e)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
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<td>-262.9</td>
<td>-277.4</td>
<td>-414.9</td>
<td>-155.6</td>
<td>-179.6</td>
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<td>-289</td>
<td>-12.87</td>
<td>-13.44</td>
<td>-12.48</td>
<td>-16.2</td>
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<tr>
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<td>-7,715.7</td>
<td>-9,711.1</td>
<td>-2,551.7</td>
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<td>-6.18</td>
<td>-5.32</td>
<td>-10.5</td>
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<td>-249.6</td>
<td>-258.4</td>
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<td>-235.9</td>
<td>-227.6</td>
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<td>-2,328.7</td>
<td>-2,084.5</td>
<td>-3,100.7</td>
<td>-3,873.5</td>
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<td>-13.57</td>
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<td>Uganda</td>
<td>-1,311.8</td>
<td>-2,327.1</td>
<td>-2,940.3</td>
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<td>-1,011.8</td>
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<td>23,335.7</td>
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Note: * Fiscal year July (n-1)/June (n)

Sources: ADB Statistics Department; IMF WEO October 2012

Table 7 - External Debt Indicators

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<td>59.1</td>
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<td>22.43</td>
<td>14.1</td>
<td>12.6</td>
<td>12.4</td>
<td>9.45</td>
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Sources: ADB Statistics Department; IMF, World Economic Outlook Database, October 2012; GDF Online Database, World Bank
### B - SELECTED SEASONAL STATISTICS

#### Table 8 - Comparative Prices: Major Food Crops (October—December 2012) - (USD per metric Ton)

<table>
<thead>
<tr>
<th></th>
<th>Maize</th>
<th>Rice</th>
<th>Beans</th>
<th>Wheat</th>
<th>Sorghum</th>
<th>Millet</th>
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<td>1268.9</td>
<td>1692.8</td>
<td>1187.6</td>
<td>-</td>
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<tr>
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<td>1093</td>
<td>639</td>
<td>456</td>
<td>436</td>
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<td>650</td>
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<td>729</td>
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<td>951</td>
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<td>431</td>
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</tr>
<tr>
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<td>1292</td>
<td>516</td>
<td>572</td>
<td>482</td>
<td>1141</td>
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<tr>
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<td>1279</td>
<td>547</td>
<td>572</td>
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<td>1098</td>
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<tr>
<td>December</td>
<td>468</td>
<td>1219</td>
<td>548</td>
<td>680</td>
<td>506</td>
<td>965</td>
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<td></td>
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<td></td>
<td></td>
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<td>October</td>
<td>336</td>
<td>1012</td>
<td>757</td>
<td>-</td>
<td>422</td>
<td>536</td>
</tr>
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<td>376</td>
<td>1048</td>
<td>821</td>
<td>-</td>
<td>435</td>
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<tr>
<td>December</td>
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<td>1056</td>
<td>873</td>
<td>688</td>
<td>436</td>
<td>554</td>
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<td><strong>Uganda</strong></td>
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</tr>
<tr>
<td>October</td>
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<td>-</td>
<td>350</td>
<td>510</td>
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<td>-</td>
<td>398</td>
<td>535</td>
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<tr>
<td>December</td>
<td>288</td>
<td>1114</td>
<td>517</td>
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<td>347</td>
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</table>

**Sources:** Regional Agriculture Intelligence Network, except for Burundi whose data is from Burundi Institute of Statistics (ISTEEBU).

#### Table 9: Regional Inflation Developments (October—December 2012)

<table>
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<tr>
<th></th>
<th>October 2012</th>
<th>November 2012</th>
<th>December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Burundi</strong></td>
<td>15.9</td>
<td>11.7</td>
<td>11.8</td>
</tr>
<tr>
<td><strong>Kenya</strong></td>
<td>4.1</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Rwanda</strong></td>
<td>5.4</td>
<td>4.6</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Seychelles</strong></td>
<td>7.6</td>
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<td>5.8</td>
</tr>
<tr>
<td><strong>Tanzania</strong></td>
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<td>12.1</td>
<td>12.1</td>
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<tr>
<td><strong>Uganda</strong></td>
<td>4.5</td>
<td>4.9</td>
<td>5.5</td>
</tr>
</tbody>
</table>

**Sources:** National Statistics Bureaus (various countries)
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