

Accession of Burundi and Rwanda to the EAC *Implication for Private Sector Development*

The current EAC regional integration initiative has its origin in the Mediation Agreement for Division of Assets and Liabilities of the East African Community (EAC) which collapsed in 1977. The original three EAC Partner States: Kenya, Tanzania and Uganda, agreed on the establishment of the EAC on November 30, 1999 and it came into force on July 07, 2000. Burundi and Rwanda joined the EAC on July 01, 2007.

The EAC Treaty places Private Sector Development at the heart of its strategy for accelerating regional growth, creating wealth and reducing poverty. The accession of Burundi and Rwanda to EAC seems to bring a mixture of positive and negative effects. As is true for any economic reform, there is a need to identify and evaluate the various ways through which potential benefits can be maximised and the potential adverse effects minimised. However, assessments of the economic situation of Burundi and Rwanda also determine implications for accession, and such data is limited. This policy brief examines available information with a focus on Burundi, the poorest country in the region, followed by a set of policy recommendations.

Market Profiles of Burundi and Rwanda in Comparison to Other Member States

a) Macroeconomic Performance

Poverty remains the predominant concern in EAC – the majority of the population lives in absolute poverty, and the gross domestic product (GDP) per capita in all countries other than Kenya is less than US\$400.

The EAC's expectation of a nine percent growth during 2011-12 does not seem unrealistic, given the strong

recovery from the global recession. This assessment is predicated on a strong rebound in agriculture, which is estimated to grow by 4.5 percent with satisfactory crop yields. Industry is expected to grow by 9.6 percent and services by 8.9 percent.

In terms of trade balance, the Burundian economy is characterised by the greatest susceptibility to external shocks, as reflected by export and import dependency or concentration coefficients. In terms of exports, Tanzania is the least dependent (or less concentrated) whereas in terms of imports it is Kenya.

Table 1: Macroeconomic stability (GDP figures for 2007, estimates by IMF staff)

	BURUNDI		KENYA		RWANDA		TANZANIA		UGANDA	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
GDP (in US\$bn)	0.9	1.0	22.8	29.3	2.9	3.3	14.2	16.2	9.5	11.2
Population (in million)	7.6	7.7	34	35	9.2	9.4	38.2	39	29.8	30.9
GDP Growth (in percent)	5.1	3.6	6.1	6.9	5.4	6.2	6.7	7.2	5.7	6.5
Inflation (in percent)	2.8	8.3	14.4	9.8	8.8	9.4	7.2	7.0	6.6	6.8
GDP per Capita (US\$)	120	128	670	854	311	353	371	415	318	363

Source: East African Community Facts and Figures – 2009

Table 2: EAC Development Indicators, 2008

Country	Population (in million)	Sustainable human development Indicator	Position (within 117 countries)	Adult literacy (% ages 15 and >)	Life expectancy at birth (years)
Burundi	8,09	0,384	169	59,3	42
Rwanda	7,5	0,450	158	64,9	44,2
Uganda	27,8	0,502	145	66,8	48,4
Kenya	33,5	0,491	152	73,6	47,5
Tanzania	37,6	0,430	162	69,4	45

Source: East African Community Facts and Figures – 2009

b) Governance and Aid-Dependency

It is obvious that the authorities of the EAC stress on the role of good governance as a prerequisite for East African economic integration. Hence, it is essential to establish institutions and structures that will promote good governance, uphold rule of law, combat corruption and enhance ethics and integrity.

Table 3: Aid Dependency in EAC Countries, 2007

Country	Burundi	Kenya	Rwanda	Tanzania	Uganda
Aid dependency	47.88	4.71	20.99	17.43	14.81

Source: OECD Stats

With regard to aid-dependency, Kenya is the least aid-dependent country amongst the five EAC countries. The Kenyan economy should therefore play the role of sustaining economic growth through the regional integration process of the EAC as its economy is better endowed in terms of domestic financing. The most aid-dependent country within the EAC is Burundi.

c) Doing Business in EAC: Improvements from 2007-2008

According to the World Bank/IFC "Doing Business" ranking of 178 countries, which is based on the ease of doing business in the concerned country, the EAC countries rank is shown in Table 4. Again only Kenya is ranked in the top 100 while Burundi and Rwanda perform very badly at 174 and 150 respectively.

Table 4: Doing Business in EAC

Country	Burundi	Kenya	Rwanda	Tanzania	Uganda
Ranking	174	82	150	130	118

d) FDI and Regulatory Framework

Most of new direct foreign direct investment (FDI) into the EAC region has gone to the extractive industries, notably mining and gas/oil exploration, with Tanzania and Uganda being the major beneficiaries.

However, understanding the nature and characteristics of private sector in the region should form the first step as it helps in the design of appropriate and effective business and investment promotion and support strategies for investment based on identification and definition of the characteristics, needs and impact of different investor groups.

The EAC is developing several policy initiatives aimed at promoting intra and extra-EAC investment, which include: the EAC Model Investment Code, Code of Conduct for Investment incentives, and Common Income Taxation and Double Taxation Agreement.

The factors which have adversely affected investment in the region include high cost and unreliable provision of electricity, access to finance, high tax rates, practices by the informal sector including selling sub-standard and counterfeit goods, and transportation bottlenecks. It is notable that electricity is cited as the severest constraint in all the countries except Kenya.

EAC countries should put restrictions on FDI in certain sectors. In some cases, FDI could have significant negative effects on the overall economy by reducing the number of people employed in the retail sector (one of the largest employment sector nationally) and depressing the income of people involved in the agriculture sector (currently the largest employment sector regionally).

The four most severe constraints as perceived by private firms in each country:

- Burundi:** Electricity, Access to finance, Political instability and practices by informal sector.
- Kenya:** Electricity, Access to finance, Tax rates and practices by informal sector.
- Rwanda:** Electricity, Access to finance, Tax rates and Transportation bottlenecks.
- Tanzania:** Electricity, Access to finance Tax rates and Transportation bottlenecks.
- Uganda:** Electricity, Access to finance, Tax rates and practices by informal sector.

e) Corruption and External Perception, 2007

Corruption in the EAC countries is extremely high with no country other than Tanzania ranked in the top 100 clean economies. The corruption perception index in 2007 was below 3 for all listed countries which is way below the score of 8-9 (higher the score, cleaner the governance) seen in most developed economies. In terms of foreign investment attractiveness, the perception of potential or would be investors matters. Therefore, the EAC as a region needs to respond to the challenges related to corruption, as it affects the business climate in the region. The newly formed anti-corruption association in East Africa needs to proceed and address the substantive corruption problems the region faces.

Table 5: Corruption Perception Index in 2007

Country	Burundi	Kenya	Rwanda	Tanzania	Uganda
Corruption Perception rank (out of 180 states)	134	150	111	94	110
Corruption Perception Index	2.4	2.2	2.5	2.9	2.7

Benefits and Challenges for the Private Sector in Burundi and Rwanda from Accession to EAC

The Private Sector is still restructuring in Burundi, while there is a wide range of reforms yet to be implemented. In Rwanda, the Private Sector Forum is more advanced

and they have its Strategic Plan operational (2007-2010). Many constraints continue, including poorly performing private sector, lack of adequate institutional framework for Private Sector Development Strategy, etc.

Positive Implications

i) Burundian actors expect to realise positive impacts in the following respects:

Structure of Burundi Federal Chamber of Commerce and Industry (CFCIB) is being improved with 10 independent sector-based chambers on Tradesmen, Mining, Tourism and Hotel Services, Industrials, Artisans, Conveyors and Forwarding Agents, Professionals of the Building Industry, Banking and Insurance Companies, Agribusiness and Services and New Technologies.

ii) Rwandan stakeholders expect to realize positive impacts in the following respects:

The PSF is currently regrouping nine professional chambers: Agriculture and Livestock, Commerce and Services, Crafts, Artists and Artisans, Industry, Liberal Professionals, Tourism, Women Entrepreneurs, Young Entrepreneurs and Financial Institutions.

Challenges Arising from Regional Integration into EAC

Most new jobs are created in the informal economy. Therefore, the relative size of the informal economy is increasing. Most of the players in the informal economy are poor people who are pushed into self-employment (necessity entrepreneurs as opposed to opportunity entrepreneurs) by a lack of employment opportunities.

Lack of entrepreneurial skills partly explains the low growth dynamics of micro and small enterprises. This supports the perspective that internal weaknesses are the most binding constraints for micro and small firm development. Investing in human capital would thus be more important.

Inter-firm linkages in the region are weak. This applies to linkages between the informal and the formal economy. Many firms are barely integrated into value chains, and existing chains tend to be short. Inter-firm specialisation in local clusters is limited.

Linkages among small and large, modern and traditional or domestic and international enterprises in value chains or through clusters have a number of positive effects which ultimately contribute to company competitiveness.

Policy Recommendations

- Harmonise various policies across the EAC Partner States such as monetary, investment and social policies.
- Strengthen partnership with the EAC to improve infrastructure and increase electricity production.
- EAC Partner States to encourage and welcome skilled labour into their countries with higher levels of know-how and thus the learning-by-doing strategies for local communities.
- Encourage Public Private Partnerships in various areas of investment; set up a reliable regulatory framework that defines time-bound objectives or targets to be met by private operators and also to assist in identifying the appropriate type of Public/Private Partnerships.
- Governments to protect public goods by preventing incentive structures that encourage private actors to over-use or destroy them.
- Expand the room for Private sector and Civil society contribution and participation in the policy making at the EAC level.
- Build capacity and train actors from the informal sector within the EAC generally, and from Burundi and Rwanda specifically.
- Provide regional banking facilities by extending the EADB coverage and strengthening its loans availability for private sector from less developed regions of the community.
- The civil society to embark on thematic research in collaboration with research institutions in order to shed light on some problematic issues arising from regional integration processes.
- Encourage regional trainings for private sector and civil society as well as for civil servants aiming at experience sharing along through these trainings.

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