



THE EAST AFRICAN COMMUNITY

EAC TRADE AND INVESTMENT REPORT 2016

Linking EAC to the Global Economy

**EAC Secretariat
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ACRONYMS

AfDB	African Development Bank
BOT	Bank of Tanzania
BOU	Bank of Uganda
CBK	Central Bank of Kenya
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community for West African States
EDC	Economic and Development Cooperation
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FRW	Rwanda Francs
GDP	Gross Domestic Product
GNS	Gross National Savings
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
NMC	National Monitoring Committees
NTBs	Non-Tariff Barriers
RO	Rules of Origin
ROA	Rest of Africa
ROW	Rest of the World
SADC	Southern Africa Development Community
SCT	Single Customs Territory
SCTIFI	Sectoral Council on Trade, Industry, Finance and Investment
SOLAS	Safety of Life at Sea
TRA	Tanzania Revenue Authority
UBOS	Uganda Bureau of Statistics
UK	United Kingdom

URA	Uganda Revenue Authority
USA	United States of America
WTO	World Trade Report
AGOA	African Growth and Opportunities Act
CPI	Consumer Price Index
TIFA	Trade and Investment Framework Agreement
Ken Invest	Kenya Investment Authority
TIC	Tanzania Investment Centre
ZIPA	Zanzibar Investment Promotion Agency
UIA	Uganda Investment Authority,
RDB	Rwanda Development Board
API	Burundi Investment Promotion Authority
IPAs	Investment Promotion Agencies
TBP	Time Bound Programme
EALA	East African Legislative Assembly
TFTA	Tripartite Free Trade Area
ICT	Information and Communication Technology
KRA	Kenya Revenue Authority
KNBS	Kenya National Bureau of Statistics
RRA	Rwanda Revenue Authority
NISR	National Institute of Statistics of Rwanda
UNCTAD	United Nations Conference on Trade and Development

FOREWORD

The Vision 2050 is East Africa Community's blueprint for Economic Development and Foreign Direct Investment promotion. However, the slow growth of the global economy over the last three years affected the achievements of the annual targets under the Vision 2050. While there has been progress on trade and investment, especially as a result of increasing global prices for commodities, the benefits have only accrued to the developed economies. At the same time, the impact of the slowdown in global economic development over the past four years still has an impact on Foreign Direct Investments and growth of trade in the EAC.

The annual EAC Trade and Investment Report is a critical tool to facilitate informed decision making by Partner States and other stakeholders on trade and investment matters in the East Africa Community and strategies to unleash the region's growth potential.

The Trade and Investment Report 2016, prepared in collaboration with Partner States, highlights the achievements, challenges and trends in Trade and Investment in the region. This Report shows that the key milestone achieved in 2016 was the admission of the Republic of South Sudan as the sixth member of the Community in September 2016. The EAC Secretariat has since drawn a clear road-map for integration of the Republic of South Sudan in all EAC projects and programmes.

In 2016, the EAC Secretariat and Partner States continued to consolidate the achievements of the Single Customs Territory (SCT) by widening its scope. Coverage of goods cleared was expanded to include all intra-regional trade to facilitate free movement of goods within the Community. Eliminating duplication of customs processes resulted in drastic reduction of the period taken to clear and transport goods in the Central and Northern corridors.

Partner States have also constructed infrastructure at the borders and ports to improve the amenities and facilitate trade in the region. The Partner States and the Secretariat with support

from the Development Partners planned to construct 15 One-Stop Border Posts in the EAC region, out of which, 13 have so far been completed and 10 of these are already operational.

During the period under review, the EAC Secretariat continued to play its role of coordinating trade negotiations between Partner States and the Third Parties, particularly the European Union –East African Community Economic Partnership Agreements (EU-EAC EPAs), Common Market for Eastern and Southern Africa-East African Community-Southern African Development Community (COMESA-EAC-SADC) Tripartite Agreement, Continental Free Trade Area as well as the African Growth and Opportunities Act (AGOA) and the East African Community-United States Investment Partnership Agreement.

I would like to take this opportunity to acknowledge the support from TradeMark East Africa who have continued to assist the EAC integration process by facilitating the preparation, production and printing of the EAC Trade and Investment Reports. The Secretariat appreciates this support.

Lastly, I would like to express my appreciation of the effort demonstrated by the Team of Experts from the EAC Partner States and EAC Secretariat who contributed to the compilation of the EAC Trade and Investment Report 2016. It is through them that the Secretariat is greatly honoured to accomplish this task and I hereby convey my sincere thanks to the Team.

.....
Amb. Liberat Mfumukeko
Secretary General, EAC

EXECUTIVE SUMMARY

The East African Community (EAC) consists of five countries namely: Burundi, Kenya, Rwanda, Tanzania and Uganda. South Sudan was admitted to the EAC in 2016. The EAC has a population of about 168.2 million with a combined GDP of US\$155.2 billion. As one of the fastest growing regional integration areas, growth in the EAC was driven by a growing manufacturing sector characterised by industrial development in all the five countries as well as a buoyant services sector especially construction, tourism and financial services. EAC is one of the leading exporters of agricultural commodities such as cotton, coffee and fish. The region has also discovered significant amounts of extractives resources including oil, gas, high value minerals and abundant renewable energy generation potential.

The 2016 Trade and Investment Report aims at providing a detailed analysis of the trade and investment trends for the year and synthesise the challenges to and prospects for enhanced trade and investment in the region. The Report provides a platform for stakeholders, academics and policy makers to review the status of trade and investment, interrogate the challenges and assess the proposed policy recommendations.

The EAC developed a comprehensive strategy for trade and investment enhancement. This included signing agreements with other countries and trading blocs to promote cooperation in trade and investment. Notably, the EAC-COMESA-SADC Tripartite and the EAC-U.S Trade and Investment Partnership Agreement. However, implementation challenges exist.

The economies of the five EAC countries grew at 5.3 percent in 2016, but the growth was lower than 2015. Also, this growth masked stark contrasts in the economic performance of the Partner States. Tanzania, Rwanda and Kenya's economies grew by 7 percent, 5.9 percent and 5.8 percent, respectively. Uganda's economic growth was 2.3 percent while Burundi's economy grew by 1.7 percent, up from a recession of negative 3.1 percent in 2015. At the same time, the EAC currencies depreciated against the major currencies during the year while inflation increased in most of the countries exerting pressure on the monetary policy of the Partner States, further constraining the macroeconomic outlook of the EAC countries.

Total EAC trade continued the decline experienced in 2015. In 2016, total trade declined by 19.5 percent to US\$44.6 billion from US\$55.4 billion in 2015. The fall in total trade was attributed to fluctuations in demand and prices of exports resulting from the unfavourable global economic environment. Total exports declined by 6.8 percent to US\$14.9 billion from US\$16.0 billion in 2015, while imports fell by 24.6 percent to US\$29.7 billion in 2016 from US\$39.4 billion in 2015. The fall in imports was attributed to the fall in crude oil prices that could have reduced the import bill for petroleum products. The EAC trade deficit declined by 36.8 percent to US\$14.8 billion in 2016, partly because of a fall in the imports into the region. Overall, EAC trade was meagre and accounted for only 0.3 percent of the global trade in 2016.

Intra-regional exports continue to constitute a small proportion amounting to only 5.9 percent of total EAC trade despite the implementation of Single Customs Territory that provides for removal of tariffs and other barriers to trade among Partner States. Total intraEAC exports declined by 17.4 percent to US\$2.6 billion in 2016 from US\$3.2 billion in 2015. However, exports to COMESA region excluding the EAC Partner States increased by 2.9 percent to US\$2.4 billion reflecting growing trade relations between EAC and COMESA. The report concludes that the prolonged drought experienced by EAC Partner States that resulted in lower yields further affecting exports of agricultural products, an inadequate trading regime which restricts the export of certain commodities to Partner States, lack of product diversification and existence of Non-Tariff Barriers in the region have affected intra regional trade.

While measures to attract Foreign Direct Investment have been put in place, the level of FDI into the region is low. Total FDI into the region amounting to US\$6.7 billion in 2016, has averaged about US\$6.9 billion over the last three years and was mainly concentrated in the extractives sector which does not provide much in terms of employment. FDI into the EAC grew modestly due to increased investment inflows into Uganda and Tanzania which increased by 194.9 percent and 3.5 percent to US\$1.5 billion and US\$3.6 billion in 2016, respectively. However, the level of FDI into EAC is still low as a percentage of global FDI inflows, despite progress in creation of more conducive investment climate in the Partner States.

The Report notes that the low level of FDI inflows was mainly due to the lack of effective markets, resulting from low per capita income as well as structural and institutional challenges

that make the EAC less attractive to investors. The EAC global competitiveness as well as 'Doing Business', shows that there is a lot required to improve the business environment.

However, given the region's comparative advantage, there are prospects for enhanced trade and FDI inflows into the region which has plans to develop regional infrastructure to enhance trade and attract investors. There is also a review of the legal and institutional framework for trade and investment that will improve the business environment. In addition, the Partner States are optimistic about increased FDI as a result of the discovery of viable quantities of minerals, and oil and gas in the region.

Expansion of intra and extra regional trade as well as FDI inflows into the EAC region has long been the strategy of Partner States. Increase in the volume of intra and extra regional trade as well as attracting more investment into the region will provide the necessary resources, employment creation and economic development that will raise the standard of living of citizens in the region. While Partner States have been active in promoting export trade and attracting FDI, the level of intra regional trade, exports and FDI is still low and the region experienced trade deficits over the last three years. To tackle this challenge, there is need to:

- i. Undertake Strategic partnerships with high profile multinationals to strengthen value chain production and to enable EAC products penetrate international market as intermediate goods.
- ii. Review the CET and the exemption regimes to enable goods produced in the region access the EAC market with little restrictions.
- iii. Fast track conclusion of bilateral and regional agreements that will enhance market access for EAC goods to enter other regional and international markets. Fully fledged customs integration will also eliminate non-tariff barriers and increase free movement of goods.
- iv. Fast track the completion of infrastructure projects in order to improve the movement of goods across the region and integrate East Africa into the global supply chains.
- v. Create a credible rules-based regional investment regime that enhances predictability for investment policies and laws with mechanisms to resolve trade disputes and enhance awareness and promotion of the EAC region as a single destination for FDI.

- vi. Improve the free movement of capital as well as factors of production through the operationalization of the provisions of the Common Market to enable capital and other factors of production move freely from one Partner State to another.
- vii. Improve Information and Communication Technology (ICT) in order to remove impediments to trade and investment in the region. Improvements in the harmonization of integrated customs management procedures and policies will enhance collection analysis and dissemination of trade statistics for improved planning and monitoring.

The Report is structured in three parts covering 6 chapters. Part one is the background covering chapters 1 to 3. Chapter 1 is the introduction and outlines the timelines and progress for the EAC integration. Chapter 2 reviews the global macroeconomic position and analyses the macroeconomic position of the EAC Partner States in light of the global context.

Part two deals with the trade and investment outlook in the region. Chapter 3 reviews the trade among the partner states as well as with the rest of the world. The chapter also reviews the impact of different trade promotion policies on customs revenue in the Partner States and concludes with an analysis of the challenges to trade development in the region. Chapter 4 analyzes Foreign Direct investment inflows as well as intra-regional investment flows. The chapter concludes with an analysis of the challenges of attracting investment to the region.

Part three is the conclusion section. Chapter 5 draws conclusions on the analysis of the trade and investment outlook in the region and draws conclusions. Chapter 6 provides policy recommendations to enhance trade and investment in the region.

PART I: INTRODUCTION

1 CHAPTER 1: THE EAST AFRICAN COMMUNITY INTEGRATION PROCESS

The East African Community (EAC) comprises the Republic of Burundi, Republic of Kenya, Republic of Rwanda, Republic of Uganda and the United Republic of Tanzania. The EAC was expanded in 2007 by the admission of the Republic of Burundi and the Republic of Rwanda and was further expanded in 2016 by the admission of the Republic of South Sudan. The Treaty for the establishment of the EAC was signed in November 1999 and came into force in July 2000. Since then, the EAC Customs Union, established in March 2005, has made significant progress. In 2010 the EAC established a Common Market and signed the Monetary Union in 2013 that will come into force in 2023. The EAC plans for a Political Federation as the ultimate goal.

As one of the fastest growing regional blocs on the African continent, the EAC has a population of about 168.2 million people with a combined GDP of US\$155.2 billion. The economies of the EAC mainly depend on export of agricultural commodities.

Industrial production especially manufacturing has recently increased in all the countries that comprise the trading bloc. At the same time, the services sector has grown mainly with respect to tourism, ICT and financial services.

The EAC Partner States have prioritized infrastructure development in order to provide the foundation for trade promotion, Foreign Direct Investment and economic development in the region. The construction of the Standard Gauge Railway, has, for instance, already reached Nairobi from Mombasa. The extension to Malaba and further to Kampala was expected to commence once funding arrangements were finalized. At the same time, feasibility studies for extension of the railway to Rwanda and South Sudan were commissioned. The port of Mombasa was dredged to a depth of minus 15 meters and widened to at least 300 meters. The construction of the 19th berth and upgrade of the second container terminal commenced. It is expected that the terminal will add 160 meters to the existing terminal and extend the container area to 760 meters in order to improve cargo handling at Mombasa. Progress has been achieved on the Dar es Salaam port development under the Dar es Salaam Maritime Gateway Project (DSMGP). Berths one to seven are currently being upgraded. This will improve waiting time to berth from 80 hours to 30 hours. The improvements at the port were being complemented by the construction of the Standard Gauge Railway linking the port of Dar es Salaam to Tanzania's

landlocked neighbours. Major inter-regional road infrastructure was upgraded. These included major highways from the two key ports of Mombasa and Dar es Salaam into the land locked hinterland.

1.1 Overview of the EAC Integration

Customs Union

The EAC Partner States are committed to the attainment of a fully-fledged Customs Union as envisaged in the Treaty and the Protocol establishing the Union. The aim of the Customs Union was to create a level playing ground with uniform policies with regard to competition, customs procedures and external tariffs on goods imported from Third World countries. It was envisaged that the common policies and laws would support the region to attract Foreign Direct Investment (FDI) and regional investment to advance EAC's economic development and poverty reduction agenda.

A number of activities aimed at implementing the Customs Union were undertaken in 2016. The Customs Union was expanded in 2016 with the admission of the Republic of South Sudan as a member of the EAC after South Sudan signed the Treaty of Accession to the Community. Considerable progress towards a single entry visa, as well as harmonization of cross border ICT connectivity as part of the integrated border management programme was achieved in 2016. The EAC also embarked on elimination of Non-Tariff Barriers through the development of an online monitoring and tracking system. Several NTBs were resolved although there is more work to be done in this area. Improvements in the border clearance time were achieved as a result of infrastructure developments, specifically the One-Stop Border Posts.

The attainment of the Single Customs Territory is premised on the need to consolidate the implementation of the Customs Union in accordance with the Treaty and Protocol establishing the EAC. This framework spells out the main pillars of the Single Customs Territory. The main pillars are Free Circulation of Goods, Revenue Management and the Legal and Institutional Framework.

Policy and Institutional Arrangements

The Third EAC Legislative Assembly achieved a number of milestones in 2016. The Assembly passed 15 bills and approved 30 reports during the year. These included: the EAC Anti-Trafficking Persons Bill, 2016; the EAC Supplementary Appropriation Bill, 2016; the EAC People with Disabilities Bill, 2016, and the EAC Customs Management Act (Amendment) Bill, 2016. The EALA also undertook awareness programs for EAC citizens during the year and passed a resolution urging the Summit to amend the EAC Treaty with regard to the adoption of Kiswahili within the region.

The mandate to prepare and produce the EAC Trade and Investment Report is anchored in Article 4, paragraph f of the EAC Customs Union which provides for “production and exchange of customs and trade statistics and information”. The Sectoral Council for Trade, Industry, Finance and Investment (SCTIFI) meeting held on 27th February 2016, among others, decided that The EAC Annual Trade Reports be adopted by the Council every year in August.

In accordance with Article 9 of the EAC Treaty, the institutional framework of the Community consists of the Executive, the Legislative and the Judicial arms. The Executive arm is composed of the Summit of the Heads of State (playing the broad Vision setting role), the Council as the policy making organ and the Secretariat which is the executive organ of the Community and EAC Institutions. The Legislative and Judicial arms are made up of the East African Legislative Assembly and the East African Court of Justice, respectively. The functions, mandates, and operational frameworks of these Organs and Institutions are set out in the Treaty, Protocols, and Rules of Procedures.

The institutional framework to enable the implementation of the Community agenda was strengthened by deepening the existing inter-agency arrangements at the secretariat. As part of the strengthening of the institutional review process, the ad hoc EAC Service Commission was established. The Commission is mandated to oversee the recruitment of additional staff during the year in view of the community's expanded mandate. Other new institutions that commenced

operations in the region included the Kigali based EAC Regional Centre of Excellence for Vaccines, Immunization and Health Supply Management.

The mechanism for engagement between the Secretariat, the East African Legislative Assembly (EALA), the East African Court of Justice (EACJ) and private sector bodies resolved to hold regular strategic meetings to support and strengthen public- private sector engagement at the regional level.

1.2 Establishment of EAC Single Customs Territory

A Single Customs Territory (SCT) reduces the cost of doing business by eliminating duplication of processes, administrative costs, regulatory requirements and the risks associated with non-tariff barriers in the transit of goods. The SCT enhances trade in locally produced goods, particularly agricultural goods and boosts investment flows in the region.

The attainment of the Single Customs Territory is premised on the need to consolidate the implementation of the Customs Union Protocol in accordance with the Treaty establishing the EAC. In 2016, Partner States continued to implement activities aimed at the implementation of a fully-fledged Customs Union. The EAC developed and piloted the ex-warehousing and transfer of duty paid goods under customs control as part of the proof of payment platform. The Partner States also commenced the process of developing the EAC regional bond to increase the number of goods cleared. The implementation of the SCT was enhanced by the construction of One-Stop Border Posts (OSBP) linked through Integrated Border Management systems (IBM) to support the coordination of all agencies operating at the border posts. The EAC continued to implement the simplified trade regime which has improved the process of clearing goods for small scale traders. This has been accomplished by the introduction of a Simplified Certificate of Origin (SCOO), a list of common goods and a simplified customs declaration document which can be obtained at the border for all goods that appear on the common list.

To attain full implementation of Single Customs Territory (SCT), Partner States have interfaced their Customs Systems and so far the Interconnectivity of Customs Systems project has been finalised. This includes the development of two solutions with a centralized platform at EAC to enable harmonized customs valuation and risk management. A proof of concept on an I-cloud

platform covering Exports and Certificates of origin is in the process of being implemented. Partner States have increased the number of deployed officers at the ports of entry and major cities where the goods are manufactured. As a result of implementation of the SCT, cargo transit time from the ports of Mombasa and Dar es Salaam to landlocked Partner States has reduced to less than four days, resulting in increased cargo volumes.

Similarly, initiatives to support elimination of Non-Tariff Barriers (NTBs) and reduce delays in movement of goods were initiated by the Partner States. Partner States held many bilateral meetings aimed at eliminating NTBs. Quality standards and testing of goods imported into the country was boosted through the setting up of smaller quality testing laboratories to enable testing of goods without unnecessary delays.

1.3 EAC Trading Arrangements with other Regional Blocs

The EAC continued to engage in the establishment of market access outside the region under different trade arrangements. These are:

EAC-EU EPA Negotiations

The EAC-EU Economic Partnership Agreement is part of the wider strategy to widen trade with other regional blocs. The provisions of the agreement cover trade in goods; agriculture; economic and development cooperation; institutional provisions; dispute avoidance and settlement; general exceptions; general and final provisions; and related annexes and protocols. The agreement also contains extensive provisions on fisheries that aim to reinforce cooperation on the sustainable use of resources as well as provisions for further negotiations on services and trade-related rules in the future.

The EAC has committed to liberalise the equivalent of 82.6 percent of imports from the EU by value. Currently, more than half of these imports are imported duty free, not only from the EU but from the rest of the world under the EAC Customs Union Protocol. The remaining trade between the two blocs will be progressively liberalised within 15 years from the date of entry into force of the Economic Partnership Agreement.

At the 34th meeting of the Council of Ministers held on 5th September 2016 in Arusha, the Republic of Kenya and the Republic of Rwanda reported that they had signed the EAC-EU EPA on 1st September 2016 in Brussels, Belgium. The Republic of Uganda indicated willingness to sign the Agreement at an appropriate time, while the United Republic of Tanzania and Republic of Burundi expressed reservations about signing the Agreement.

The Extra-Ordinary Summit of EAC Heads of State held on 8th September 2016 in Dar es Salaam, Tanzania, considered the Report of the Council of Ministers on the EAC – EU EPA and noted that the Republic of Kenya and the Republic of Rwanda had signed the Agreement. The Summit agreed on a three-month period (up to January 2017) to finalize internal consultations on the clarification of the concerns of the remaining Partner States before considering the signature of EPA as a bloc. In the meantime, the Summit requested the EU not to penalize the Republic of Kenya by removing her duty free, quota free market access under Market Access Regulation 1528 of 2007 as from 1st October 2016, and directed the Secretariat to communicate to the EU about the matter.

COMESA, EAC, SADC Tripartite FTA

The TFTA Agreement was signed on 10th June 2015 in Sharm el Sheikh, Egypt, during the 3rd Tripartite Summit of Heads of State and Government. The Agreement will come into force 30 days after 14 Tripartite Member/Partner States deposit their instruments of ratification. The Tripartite Summit also signed the Sharm el Sheikh Declaration launching the Tripartite FTA and commencement of Phase II of the tripartite negotiations and adopted a Tripartite FTA Post Signature Implementation Roadmap. Negotiations are on-going to finalize the outstanding issues under Phase I of the Tripartite Negotiations namely; rules of origin, trade remedies and tariff negotiations, movement of business persons, industrial development and infrastructure pillars.

The EAC Secretariat took over the Chairmanship of the Tripartite Task Force in the margins of the Tripartite meetings held in October 2016 in Nairobi, Kenya. The Chairmanship of the Tripartite Task Force rotates among the three Regional Economic Communities on an annual basis.

EAC-U.S Trade and Investment Partnership Agreement

The EAC–US Cooperation Agreement on Trade Facilitation, Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) was signed on 26th February 2015 during the EAC–US Ministerial meeting in Washington, D.C. The objective of the agreement is to increase exports, expand investment, enhance job creation and economic growth. The EAC-US Trade and Investment Partnership has the following components: Cooperation Agreement on Trade Facilitation, SPS and TBT; Regional Investment Treaty; Continued Capacity Building; and, Commercial Dialogue. The EAC Secretariat developed draft work plans on Trade Facilitation, SPS and TBT which were considered by the Technical Officials of the EAC and US during a joint meeting held in August 2015.

The EAC Regional work plans on Trade Facilitation and SPS were finalized and shared with the U.S. in September 2016. The EAC Partner States were also finalizing country specific priorities on TF in their respective National Action Plans which will be shared with the U.S. The U.S. committed to supporting the implementation of the EAC-U.S. Cooperation Agreement on TF, SPS and TBT.

The Continental Free Trade Area

The negotiations for the Continental Free Trade Area (CFTA) were launched at the African Union Commission (AUC) Summit in June 2015. In conformity with the SCTIFI decisions, the EAC had proposed to the 11th TTNF held in October 2015 that the TTNF Members should consider developing common positions for negotiating the CFTA based on the TFTA Agreement and Annexes. This would preserve the integrity of the TFTA arrangement involving 26 Member States of the AU and also resolve the challenge of implementing different trade instruments that may result from the TFTA and CFTA processes. During the period under review, the EAC Partner States continued to participate in the on-going CFTA negotiations under the organization of the AUC.

In conformity with the Abuja Treaty, the African Union launched the CFTA negotiations in June 2015 and the Summit of the AU heads of State and Government that was held in July 2016,

reaffirmed its commitment to fast track the CFTA by 2017. In November 2016, the AU organized the Africa Trade Week to discuss the CFTA and this culminated into the high level Trade Facilitation Forum characterized by a series of meetings to prepare for the CFTA negotiations.

1.4 Export Promotion Initiatives

EAC Export Promotion Strategy

The Sectoral Council on Trade, Industry, Finance and Investment at its meeting held on 27th May 2016 directed the Secretariat to coordinate the review and evaluation of the performance of the EAC Export Promotion Strategy, 2013-2016, in order to inform the development of a new EAC Export Promotion Strategy, 2017–2022. Pursuant to the directive, the Secretariat with the technical support from TradeCom, undertook a preliminary review of the EAC Export Promotion Strategy, 2013-2016. The review, when completed, will inform further reforms that can enhance export promotion in the region.

Africa Growth and Opportunity Act (AGOA)

The African and U.S. Ministers, Trade Officials, Civil Society, and Business Sector representatives met at the 15th AGOA Forum held from 22nd to 26th September 2016 in Washington, D.C. The Forum gave stakeholders an opportunity to exchange potential possibilities for enhancing U.S. -Africa economic ties and discuss the implementation of the African Growth and Opportunity Act (AGOA) among others. The 2016 AGOA Forum was organized under the theme “*Maximizing U.S.-Africa Trade and Investment; AGOA and Beyond.*” The 15th AGOA Forum noted that despite the significant opportunities offered by the AGOA framework, trade between the U.S. and Sub-Saharan African countries has not been performing as expected in recent years.

On the positive side, non-oil exports from Sub-Saharan African countries to the U.S. have increased since the creation of AGOA, with apparel and transport equipment among the most promising sectors. With regard to apparel, the renewed version of AGOA also renewed the third country fabric provision – a special rule allowing African apparel exports to the US to remain

eligible under AGOA even when the fabrics used in producing those goods are imported from non-AGO countries.

The 15th AGOA Forum provided an opportunity for participants to discuss the sensitive question of determining how to update trade and investment relationships between the U.S. and Sub-Saharan Africa once the AGOA extension ends in 2025. The EAC developed the regional AGOA Strategy adopted by Council in September 2016. The Partner States also accomplished the alignment of their National AGOA Response Strategies with the EAC AGOA Strategy.

East African Community Special Economic Zones

In order to attract investment and promote industrialization in the region, the Sectoral Council on Trade, Industry, Finance and Investment (SCTIFI) approved in principle the establishment of various Special Economic Zones (SEZs) schemes in the region. The schemes include, among others, Industrial Parks, Free Trade Zones, Tourist Parks, ICT Parks, Science and Technological Parks as provided under Article 32 of the EAC Customs Union Protocol. In order to support implementation of the protocol, SCTIFI directed the EAC Secretariat to draft regulations on the various investment promotion initiatives under the SEZ scheme. Drafting the SEZ regulations continued during 2016 and once complete, and adopted by the Council, the Regulations will provide a clear and harmonised framework for the development, operations and management of SEZs in the region.

US-Africa Leaders Summit

The Ministers from the EAC Partner States and the U.S officials met on 26th September 2016 in Washington, D.C. to discuss how to improve the EAC – U.S trade and investment relationship. The discussions were led by Ministers of Trade from EAC Partner States and the United States Trade Representative who led the U.S delegation to the meeting.

1.5 EAC Trade and Investment Outlook

Since its inception in 2005, the Customs Union has transformed the EAC into one of the continent's fast growing trading blocs. This was achieved through focus on infrastructure development especially the ports of Mombasa and Dar es Salaam, elimination of tariffs on trade

among Partner States, mechanisms for identification and elimination of trade barriers and support to trade development. Also, the EAC put in place conducive investment policies to attract FDI into the region.

The initiatives resulted into increased intra-regional trade and increased the region's access to markets outside the region. Exports grew by 30 percent to US\$19.4 billion in 2014 but since then, EAC exports have fallen by 23.1 percent in 2015 and by a further 6.8 percent in 2016. At the same time, total imports into the region fell by 24.6 percent, to US\$29.7 billion in 2016 from US\$39.4 billion in 2015. As well, intra-EAC trade has not grown as expected with total intra-EAC exports amounting to only US\$2.5 billion in 2016 and accounting for only 16.7 percent of total exports. The EAC has been successful in eliminating internal tariffs however, non-tariff barriers remain. Also, the EAC regulations on trade are not uniformly applied in all the Partner States. In addition, costly administrative measures, falling global crude oil prices, infrastructure bottlenecks and low economic growth has hampered trade in the region.

While measures to attract Foreign Direct Investment have been put in place, the level of FDI into the region is low. Total FDI into the region amounting to US\$6.7 billion in 2016, has averaged about US\$6.9 billion over the last three years and is mainly concentrated in the extractives sector which does not provide much in terms of employment. The region has a small domestic market due to a low per capita income. Further, slow progress towards full implementation of the Common Market Protocol has created restrictions on free movement of capital and services thus making FDI entry into the market very expensive.

1.6 Prospects for Future Trade and Investment

EAC as a region has a number of advantages with regard to future growth of trade and investment. The region is one of the leading exporters of agricultural commodities including cotton, coffee and fish. The region has significant extractives resources such as oil and gas, high value minerals and abundant renewal energy power generation potential. The region has sustained high economic growth levels - one of the highest in Africa: labour costs in the region are still low and EAC's proximity to regional and international markets, creates a conducive environment for future trade and investment growth.

EAC is undertaking regional infrastructure projects to tackle infrastructure deficits and create opportunities for investments in infrastructure as well as other sectors like tourism, energy, manufacturing and agriculture. Investment prospects can be further boosted by fast tracking the integration process and strengthening the legal and institutional reforms with regard to business registration and resolving disputes. Further, there are opportunities for the region to develop and modernize the Information, Communication and Technology (ICT) that would support the integrated Border Management and support harmonization of customs processes across the Partner States.

1.7 Purpose of the Report

The 2016 Trade and Investment Report reviews trade and investment in the EAC in the context of global trade and investment climate. The Report focuses on trade and investment as the two most important drivers of economic development and growth and examines their impact on government revenue and economic development in the region. Trade and investment are important since they drive productivity; increase overall employment; labour development; and increase access to a range of products at low prices that drive up the standard of living.

The Report analyses the challenges to growth of trade and investment in the region. The evidence collected in this Report shows that EAC has the potential to grow and increase if the region can focus on improvements in a few critical areas. These critical areas are elaborated in the policy recommendations. Specifically, the findings of the Trade and Investment Report 2016 will inform the Council of Ministers and the Summit of the Heads of State on trade and investment matters for the period under review.

2 CHAPTER 2: MACROECONOMIC AND TRADE DEVELOPMENTS OUTLOOK

2.1 Global Economic Growth Outlook

Global economic growth for 2014 to 2016 is represented in table 2.1. According to the World Development Report (2017), global economic growth stagnated at 3.1 percent for a second consecutive year. The lack in progress of global economic growth was mainly due to low productivity and inward looking policies in developed economies that continued to constrain economic recovery for a second year (IMF 2017).

According to the World Economic Outlook (2017), while economic growth was stable over the four quarters of 2016, the developed economies experienced better growth during the later part of the year due to the recovery of the manufacturing sector. This compensated for the sluggish growth in the first half of the year. Overall, the economic growth in most advanced and emerging markets fell during 2016 compared to 2015. Among the advanced economies, the real GDP growth in the United States fell to 1.6 percent in 2016 from 2.4 percent in 2015. Similarly, growth in the United Kingdom also stagnated at 1.8 percent in 2016 similar to in 2015. Growth in the Euro Area remained stagnant at 1.7 percent but the economy of Japan rebounded by 1.0 percent in 2016 from 0.5 percent in 2015.

Growth in emerging markets and Developing Asia grew slightly to 4.1 percent in 2016 from 4.0 percent in 2015. Among the emerging economies, China registered a growth of 6.7 percent in 2016, down from 6.9 percent in 2015. Similarly, economic growth in India fell to 6.8 percent in 2016 from 7.6 percent in 2015. Countries currently in recession like Argentina and Brazil in Latin America, as well as Turkey, experienced weaker economic growth. Growth in Russia was slightly better than expected, in part reflecting firmer oil prices resulting from an agreement among major producers to trim supply as well as increases in the prices of base metals. Growth in Middle East and North Africa grew by 3.9 percent in 2016 up from 2.3 percent in 2015 mainly driven by higher global crude oil prices. However, growth in Sub Saharan Africa fell to 1.4 percent in 2016 from 3.3 percent in 2015.

While headline inflation rates recovered in advanced economies, global inflation remained unchanged at 2.8 percent in 2016 compared to 2015. Inflation ticked up in China as capacity cuts and higher commodity prices pushed producer price inflation to positive territory after more than

four years of deflation. However, in other emerging market economic and developing countries, long-term nominal and real interest rates rose substantially mainly driven by anticipated changes in the United Kingdom monetary policy as a result of Brexit. The increase in commodity prices has contributed to a recovery in global inflation since August 2016. Notably, China's producer prices have emerged from deflation after four years, reflecting higher raw material prices as well as efforts to reduce excess industrial capacity and recovering real estate.

The U.S. Dollar has appreciated in real effective terms by over 6 percent since August. The currencies of advanced commodity exporters have also strengthened, reflecting the firming of commodity prices, whereas the Euro and especially the Japanese Yen have weakened. Several emerging market currencies depreciated substantially in recent months like the Turkish Lira and the Mexican Peso, while the currencies of several commodity exporters notably Russia, appreciated.

With weak growth and limited policy space in many countries, continued multilateral effort is required in several areas to minimize risks to financial stability and sustain global improvements in living standards. This effort must proceed simultaneously on a number of fronts. To share the long-term benefits of economic integration more broadly, policymakers must ensure that well targeted initiatives are in place to help those adversely affected by trade opening and to facilitate their ability to find jobs in the sectors of the economy that are expanding. Economic fairness also calls for multilateral and national efforts to crack down on tax evasion and prevent tax avoidance practices. As such, strategies that mitigate lower commodity revenues and financial limitations should be adopted for most emerging and developing countries. Further, holistic multilateral and regional strategies are required to address challenges to enhanced global economic integration.

Table 2:1 Summary of Global Output Growth 2012-2016 (Percentage Change)

Region/ Country	2012	2013	2014	2015	2016
Global	3.2	3.4	3.4	3.1	3.1
Advanced Economies	1.5	1.4	1.9	1.9	1.7
<i>USA</i>	2.8	2.2	2.4	2.4	1.6
<i>Euro Area</i>	-0.6	-0.4	0.9	1.7	1.7
<i>United Kingdom</i>	0.2	1.7	3.1	2.2	1.8
<i>Japan</i>	2	1.6	0.0	0.5	1.0
Emerging Markets and Developing Asia	4.9	5.0	4.6	4.0	4.1
<i>China</i>	7.7	7.0	7.3	6.9	6.7
<i>India</i>	3.2	7.7	7.2	7.6	6.8
Middle East and North Africa	4.6	2.4	2.7	2.3	3.9
Sub-Saharan Africa	4.9	5.2	5.1	3.3	1.4
<i>South Africa</i>	2.5	2.2	1.6	1.3	0.3

Source: IMF, *World Economic Outlook*, April 2017

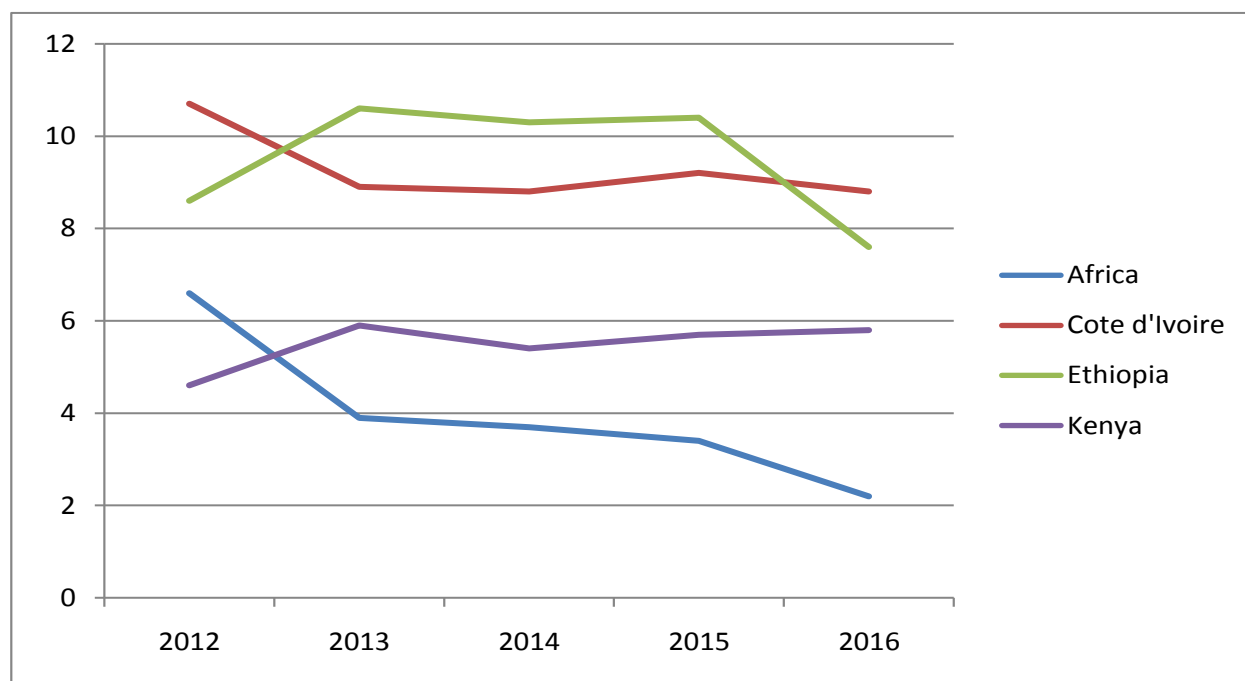
2.2 Africa Economic Outlook

Economic growth in Africa continued the downward trend experienced in the last three years. The region's real GDP growth slowed down to 2.2 percent in 2016 from 3.4 percent in 2015, mainly due to the continued fall in commodity prices and weak global economic growth (Figure 2.1). East Africa was the fastest growing region at 5.3 percent real GDP growth, followed by North Africa at 3 percent. Growth in other regions was much slower, ranging from a low of 0.4 percent in West Africa, dragged down by the recession in Nigeria, to 1.1 percent in Southern Africa.

The rate of growth among oil exporters, such as Algeria, Angola, Nigeria and Sudan, fell sharply to 1.6 percent in 2016 from 3.3 percent in 2015. Africa's exports to emerging economies comprise mainly oil and metals mainly destined to China, exposing the continent to global

demand shocks. Currently, China accounts for 27 percent of Africa's total global exports with primary commodities representing about 83 percent of exports to China.

Figure 2:1 Economic Growth for Selected African Economies, 2012-2016 (percentage)



Source: AfDB- AEO 2017

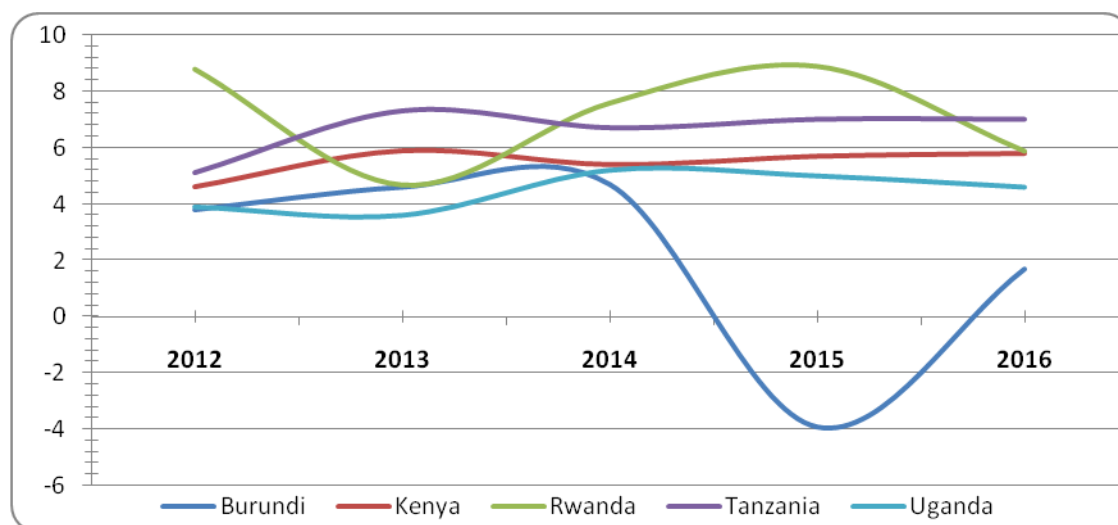
2.3 EAC Economic Growth

East Africa maintained its lead in regional growth in Africa with economic growth of 5.3 percent in 2016, down from 6.5 percent in 2015. The decline in economic growth was attributed to macroeconomic volatility characterised by inflationary pressure in almost all the Partner States, coupled with a depreciation of the EAC currencies against the Dollar and a narrowing of the current accounts.

Despite the reduction in real GDP, growth in East Africa was driven by the services sector especially construction while the industrial sector contributed significantly to growth among East African countries. However, growth among the different Partner States varied in 2016. Tanzania was the fastest growing economy among the Partner States registering growth of 7.1 percent.

Rwanda's economy grew at 5.9 percent, Kenya grew at 5.8 percent, Uganda's economy grew at 2.3 percent, down from 5.4 percent in 2015, while the economy of Burundi grew at 1.7 percent up from a recession that was experienced in 2015.

Figure 2:2 EAC- GDP Growth, 2012-2016 (annual percent)



Source: World Bank: Statistical Abstracts 2017:

2.3.1 Burundi

Economic Growth

The economy of Burundi registered positive growth compared to the recession period experienced in 2015. However, the 2016 growth was not as high as that experienced in 2014. In 2016, the economy of Burundi grew by 1.7 percent, up from a recession characterized by growth of negative 3.1 percent in 2015. The growth was associated with an improvement in the performance of the secondary sector which grew at 1.4 percent in 2016 from negative 2.7 percent in 2015.

The growth in the value added of the secondary sector was attributed to positive performance in the industrial sector which grew at about 2.6 percent in 2016, up from 0.8 percent in 2015. In the industrial sector, food industry production grew slightly to 3.1 percent, up from 3.0 percent in 2015. Similarly, the weighted average industrial production index rose by 2.4 percent to 136.7 from 133.5 in 2015. The increase in the index of industrial production was mainly due to the

increase in production of food industries by 3.1 percent in 2016 from 3.0 percent in 2015. These include soft drinks, sugar and cigarettes which increased by 0.9 percent, 3.7 percent and 10.1 percent, respectively. Electricity production also grew by 11.3 percent, to 287.4 GWH in 2016, compared with 258.3 GWH in the previous year.

The tertiary sector grew by 4.6 percent in 2016, up from 2.4 percent in 2015 mainly driven by increase in transport and communication which increased to 5.4 percent in 2016 from 0.1 percent in 2015. Public administration increased to 6.0 percent in 2016 from 5.6 percent in 2015, while health and social work increased to 11.5 percent in 2016 from 4.5 percent in 2015.

Activity in the port of Bujumbura increased compared to the previous year. Freight tonnage increased by 33.1 percent, to 109,154 Mt in 2016 from 81,983 Mt in 2015. This increase is particularly related to imports of clinker and cement transiting through Lake Tanganyika.

GDP growth was partly hampered by a continued negative growth in the primary sector activity which stood at negative 0.3 percent in 2016 from negative 3.6 linked to poor performances in subsistence agriculture which declined to negative 3.7 percent in 2016 from negative 1.9 percent in 2015 while growth in export agriculture fell to negative 7.3 percent from 20.1 percent in 2015. However, the negative performance in the primary sector was partially offset by an increase in breeding which grew by 20.0 percent in 2016 from 19.2 percent in 2015 as well as in fisheries, which grew by 13.0 percent from 12.6 percent in 2015 and in forestry which grew by 15.0 percent from 13.3 percent in 2015.

Food production declined partly due to the poor rainfall during the fourth quarter of 2016. Production of the main food crops fell by 15.2 per cent to 4,108 Mt in 2016 from 4,842 Mt in 2015. Fish catch on Lake Tanganyika increased by 7.5 per cent to 21.8 Mt in 2016 from 20.3 Mt in 2015, while production in northern lakes quadrupled to 5.4 Mt from 1.1 Mt in 2015. This increase in fish production was the result of improved fisheries management measures including fish farming and handling.

In 2016, the value added of traditional export products declined by 7.3 compared to an increase of 20.1 percent in 2015. Total production of parchment coffee declined by 18.6 percent to 17.9 Mt in 2016, from 22.1 Mt in the previous year. Similarly, annual production of green leaf tea fell by 2.0 percent to 52.7 Mt from 53.8 Mt in 2015 as a result of poor rainfall. The volume of dry tea production also fell by 4.7 percent to 11.0 Mt in 2016, from 11.6 Mt in 2015. As a result, the volume of dry tea sold at the auction decreased by 1.8 percent to 10.7 Mt in 2016 from 10.9Mt in 2015. The two products collectively contribute about 70 percent of all exports.

Inflation

Inflation in Burundi rose slightly to 5.6 percent in 2016 from 5.5 percent in 2015. The inflation in 2016 could be attributed to the increase in food prices to 7.2 percent in 2016 from 5.8 percent in 2015. The increase of food inflation was mainly due to the price increase of foodstuffs. Specifically, bread and cereals increased by 40.8 percent in 2016 compared to 4.6 percent in 2015; meat increased to 8.9 percent from 5.5 percent in 2015; fish increased to 31.8 percent from 14.9 in 2015; sugar, jam, honey and confectionery increased to 16.7 percent from 3.9 percent in 2015 while milk, cheese and eggs increased to 11.3 percent from 6.6 percent in 2015.

There was also an increase in the prices of some non-food items particularly health, prices of which increased by 9.9 percent in 2016 compared to 3.0 percent in 2015. Alcohol, narcotics and beverages prices rose to 12.7 percent from 3.5 percent in 2015. Prices for furnishings, household items and house maintenance increased to 8.9 percent from 6.7 percent in 2015. Clothing and footwear prices rose to 12.0 percent from 11.8 percent in 2015 while prices for transport increased by 2.5 percent from 0.7 percent in 2015. Despite the increase in prices of some non-food sector, overall non-food sector inflation declined to 4.3 percent in 2016 from 5.3 in 2015 partly offsetting the increase in inflation in the economy.

Exchange Rate

In 2016, the Central Bank of Burundi maintained the established floating exchange rate policy driven by market mechanisms. During 2016, the Burundi Franc depreciated by 5.3 percent against the United States Dollar, 2.8 percent against the Swiss Franc, 17.8 percent against the

Japanese Yen and 5.0 percent against the Euro. However, the Franc appreciated by 6.0 percent against the Pound Sterling. With regard to East African currencies, the Burundi Franc depreciated against the Ugandan and Tanzanian Shillings and Rwandese Franc but remained stable against the Kenyan Shilling.

Balance of Payments

Burundi's current account deficit declined to US\$354.8 million from US\$373.3 million in 2015. The reduction in the current account deficit was in part driven by the decline in the merchandise trade and services trade deficit. The merchandise trade deficit decreased to US\$373.3 million in 2016 from US\$483 million in 2015 while the services trade deficit reduced to US\$142.6 million from US\$173.2 million in 2015. Further, the surplus secondary incomes decreased to US\$250.5 million in 2016 from US\$282 million in 2015. At the same time, Burundi's capital account increased to US\$70.5 million in 2016 from US\$55.6 million in 2015. As a result, there was a lower net lending both on the current and capital accounts amounting to negative US\$284.4 million in 2016, down from negative US\$317.8 million in 2015. As a result of a slight decrease in reserve assets to negative US\$35.92 million from negative US\$173.2 million in 2015, the financial account also registered a decline to negative US\$253.7 million in 2016 from negative US\$330.4 million in 2015.

National Savings

Domestic consumption grew by 5.9 percent to US\$3.6 billion in 2016. This exceeded GDP of US\$3.3 billion. Consequently Gross Domestic Savings amounted to negative US\$284.5 million, up from negative US\$506.3 million in 2015. Gross National Savings reduced to negative US\$79.9 million in 2016 from negative US\$43.7 million in 2015. This was mainly a result of a decrease in the primary and secondary incomes which fell to US\$204.6 million from US\$281.2 million in 2015.

External Debt

The stock of external debt increased by 4 percent to US\$446.8 million in 2016, from US\$427.4 million in 2015. The 4 percent increase in the stock of external debt resulted partly from new drawings on external borrowing and revaluations which amounted to US\$25.6 million but this

was lower than the drawings and revaluations in 2015 which amounted to US\$29.1 million. These drawings exceeded repayments of US\$4.3 million over the year 2016. The new drawings only concerned direct debt and were mainly used in infrastructure, agriculture, mining and energy sectors. The external debt service ratio to exports increased from 3.9 to 4.5 percent. In conclusion, Burundi's external debt comprises 76.6 percent, 13.6 percent and 9.8 percent for multilateral, bilateral and commercial external debt, respectively.

2.3.2 Kenya

Economic Growth

Kenya's real Gross Domestic Product (GDP) is estimated to have maintained growth momentum for the third consecutive year. GDP expanded at 5.8 percent in 2016 compared to a revised growth of 5.7 percent in 2015. Generally, the growth was well spread and robust in most sectors but subdued in a few. Accommodation and food services registered the most improved growth of 13.3 percent in 2016 from a contraction of 1.3 percent in 2015.

Information and communication sector also registered impressive performance remaining robust during the review period, mainly supported by the continued expansion of the scope of use of information and communication technologies, coupled with enhanced efficiency in connectivity. The sector recorded an accelerated growth of 9.7 percent in 2016 after slowing down in 2015. On the other hand, the activities in the Agriculture, Forestry and Fishing sectors in 2016 were depressed, growing by 4.0 percent in 2016 compared to 5.5 percent growth recorded in 2015.

The decelerated performance was attributed to unfavourable weather conditions in the second part of the year when the country experienced poor and short rains. The growth in the Financial Intermediation sector also slowed significantly to 6.9 percent in 2016 from 9.4 percent in 2015 as a result of a decelerated growth in earnings from banking institutions partly due to uncertainty associated with the capping of interest rates that came into effect in September 2016.

Inflation

Kenya's annual average inflation continued to fall in the past two years. Average inflation fell to 6.3 percent in 2016 compared to an average of 6.6 percent in 2015. This was mainly due to a

decline in prices of transportation, housing and utilities, communication as well as reduction in overall costs of petroleum products and tight monetary policies.

Exchange Rate

In 2016, the Kenyan Shilling depreciated against the US Dollar by 3.4 percent to an annual average of Ke101.5 to the US dollar, from an average of Ke98.2 to the US\$ Dollar in 2015. Within the EAC region, the Kenyan Shilling remained stable, gaining against the Rwandan Franc, Tanzanian Shilling and Ugandan Shilling by 5.8, 3.8 and 2.2 percent, respectively. However, the Kenyan Shilling depreciated against the Burundian Franc by 0.9 percent over the same period.

Balance of Payments

In Kenya, the overall balance of payments position improved to a surplus of US\$129 million in 2016 from a deficit of US\$254 million in 2015. This is partly attributable to improvement in the current account balance. The deficit in the current account, narrowed by 14.8 percent to US\$3.7 billion in 2016, from US\$4.3 billion in 2015. This was partly due to a marginal decline in merchandise exports, coupled with substantial decline in merchandise imports on free-on-board basis. Imports remained subdued on account of a depreciated Kenyan Shilling against major trading currencies and the reduction in transport equipment. The current account balance as a percentage of GDP was 5.2 percent in 2016 compared to 6.8 percent in 2015. Net financial inflows were surplus and went up by 5.9 percent to US\$4.1 billion in 2016 from US\$3.9 billion in 2015.

National Savings

In Kenya, the level of gross savings increased by 2.7 percent to US\$7.2 billion in 2016 from the US\$7.0 billion in 2015. As a share of GDP, the gross savings decreased from 10.9 percent to 10.1 percent over the same period, reflecting suppressed savings relative to consumption.

External Debt

The overall debt for Kenya increased to US\$31.6 billion in 2016 from US\$26.5 billion in 2015 fiscal year. Kenya's external debt stock increased to US\$17.7 billion in 2016 from US\$14.5

billion in the previous year. As a percentage of GDP, the external debt stock increased to 25.1 percent of GDP in 2016 from 22.7 percent in 2015. The increase in the external debt stock was due to an increase in debt owed to both bilateral and multilateral creditors. The bilateral and multilateral debts increased by 19.2 percent and 12.9 percent to US\$5.4 billion and US\$7.9 billion, respectively in 2016. Similarly, the domestic debt increased to US\$13.9 billion in 2016 from US\$12.0 billion in 2015.

2.3.3 Rwanda

Economic Growth

The economy of Rwanda contracted modestly in 2016. GDP growth for the year fell to 5.9 percent from 8.9 percent growth in 2015. GDP for Rwanda for 2016 at current US Dollars was US\$8.4 billion while the GDP per capita was US\$702.8. The contribution of the services sector to GDP remained stagnant at 48 percent over the two years while the agriculture sector contributed 30.0 percent of the GDP in 2016 up from 28.0 percent in 2015. The contribution of the industrial sector to GDP remained stagnant at 17 percent similar to what the sector contributed in 2015.

Inflation

In 2016, the National Bank of Rwanda (BNR) implemented a prudent monetary policy not only to mitigate inflationary and exchange rate pressures that cropped up in that period but also to continue supporting the financing of the economy by the banking sector. Headline inflation increased from 4.5 percent in January 2016 to 7.3 percent in December 2016. However, annual inflation increased to 5.7 percent in 2016 from an average of 2.5 percent in 2015. The increase in inflation was mainly driven by rising food prices and transport costs.

Exchange rate

In 2016, the Rwandan Franc was under pressure mostly due to the mismatch between a high import bill and the still low export revenues, as well as high demand for Dollars from different companies and government projects under the Public Private Partnership (PPP) framework which mobilized hard currency from the domestic market. Consequently, the FRW depreciated by 9.7 percent in 2016. In 2016, the FRW against the US Dollar depreciated by 7.6 percent,

trading at 819.8 to the US\$ Dollar, compared to FRW 747.4 to the US\$ over the 2015 year. Over the same period, the FRW depreciated by 5.3 percent against the Euro; 9.6 percent, 8.6 percent and 2.3 percent against the Kenyan, Tanzanian and Ugandan Shillings, respectively. However, it appreciated by 9.2 percent against the Pound Sterling (GBP) and by 0.2 percent against the Burundian Franc. Overall, the Franc experienced the highest level of depreciation in 2016 compared to the previous three years.

Balance of Payments

In 2016, the Balance of Payments showed that Rwanda ended the year with a drawdown of reserves to the tune of US\$20.8 million from a drawdown of US\$28.5 million in 2015. Although Rwanda recorded an improvement in formal trade deficit by 5.9 percent to US\$1.6 billion in 2016 from US\$ 1.8 billion in 2015, there was deterioration in the current account deficit arising from a higher level of imports compared to exports.

National Savings

Rwanda's level of saving increased by 34.6 percent to US\$861.5 million in 2016, from US\$ 640.3 million in 2015. The gross national savings share to GDP increased to 10.2 percent in 2016 from 7.7 percent in 2015.

External Debt

In 2016, the public external debt was mostly composed of loans from multilateral institutions, such as IDA and the African Development Bank, representing 76.7 percent of total public external debt. The remaining 23.3 percent were from bilateral partners. Comparatively, the public external debt stock of Rwanda rose by 17.7 percent, to US\$ 2.5 billion at the end of 2016 from US\$ 2.1 billion at the end of 2015. This was mainly driven by an increase of 27.4 percent of multilateral debts, which rose to US\$1.4 billion in 2016 from US\$1.1 billion in 2015.

2.3.4 Tanzania

Economic Growth

In 2016, Tanzanian economy maintained a strong growth of 7.0 percent, similar to the growth rate recorded in 2015. The economic growth was achieved in the midst of continued improvement

in infrastructure investments, stability of power supply, investments in provision of mobile and internet services, and subdued global oil prices. The economic activities which recorded highest growth in 2016 included mining and quarrying which grew by 17.6 percent, information and communication grew by 13.5 percent, construction grew by 13.0 percent, transport and storage grew by 11.8 percent, and financial and insurance services grew by 8.2 percent.

Inflation

The monthly annualized headline inflation remained at single digit throughout 2016, consistent with sustained tight monetary policy, general slowdown in global commodity prices, especially oil prices, and slower pace in the increase of domestic food prices. In 2016, headline inflation averaged at 5.2 percent compared to 5.6 percent recorded in 2015. This was mainly on account of stability in global oil prices, improved domestic power supply, and increased supply of food in the domestic and neighbouring country markets resulting from improved weather condition.

Exchange Rate

The value of the Shilling against the US Dollar sustained a notable stability throughout 2016, consistent with monetary policy stance and the improvement in the current account. The exchange rate fluctuated within a range of about TZS 2,167.0 to TZS 2,200 against the US Dollar, compared with a range of TZS 1,713.3 to TZS 2,227.2 to the US\$ recorded in 2015. This is largely explained by the strengthening of the US Dollar against other major currencies which was associated with the policy decision to raise interest rate in the US in December 2016.

Balance of Payment

Tanzania's overall balance of payments significantly improved to a surplus of US\$305.5 million in 2016 from a deficit of US\$199.1 million in 2015. The improvement was mostly a result of a substantial fall in imports. Gross foreign official reserves stood at US\$4.3 billion in 2016. The reserves were sufficient to cover about 4.2 months of projected imports of goods and services, excluding those financed by Foreign Direct Investment.

In 2016, the deficit in the current account narrowed to US\$2.2 billion, almost half of deficit recorded in the preceding year. The outturn resulted from a substantial decline in imports of goods and services coupled with an increase in exports.

National Savings

In Tanzania, the level of gross national savings decreased by 3.1 percent, from US\$11.2 billion in 2015 to US\$ 10.9 billion in 2016. The share of National Savings to GDP decreased from 26.8 percent to 25.0 percent over the same period.

External Debt

Tanzania's external debt stock, as at the end of December 2016, went up by US\$1.5 billion to US\$17.4 billion compared to the stock registered in 2015. The profile of external debt by borrower category shows that the central government accounted for the largest share of about 80.1 percent, amounting to US\$13.9 billion, while private sector debt amounted to US\$3.5 billion at the end of 2016. External debt by creditor category shows that multilateral creditors accounted for 47.2 percent of the debt followed by commercial creditors, which was 32.1 percent of the total debt.

2.3.5 Uganda

Economic Growth

Uganda's economy registered a growth of 2.3 percent in 2016, down from 5.4 percent in 2015. The slower economic growth could be attributed to the impact of macroeconomic volatility in the private sector as well as lower global crude oil and commodity prices during the year. Lower global crude oil prices affected investment into the sector which had been growing over the past two years. Also, lower prices for key commodities like coffee, tea, tobacco and cotton reduced export revenues, further constraining public investment. In addition, the continued civil strife in South Sudan led to a decline in exports, increasing Uganda's vulnerability to global price volatility.

Inflation

The first three quarters of calendar year 2016 were characterized by deflationary pressures largely due to stable exchange rate and the impact of global conditions dominated by excess capacity and low commodity prices which suppressed inflation globally, leading to low prices for Uganda's imports. In the last quarter of 2016, inflation rose gradually, largely driven by rising

food prices following a prolonged drought. Uganda's annual average inflation rate therefore rose slightly to 5.5 percent in 2016 from 5.4 percent in 2015.

Exchange rate

Overall, the Uganda Shilling remained stable throughout the first three quarters of 2016 compared to the significant depreciation experienced in 2015. However, the currency experienced sustained depreciation pressures in the last quarter of the year. In October 2016, the Shilling depreciated by 1.6 percent month on month, followed by a further depreciation of 3.6 percent and 1.1 percent in November and December 2016, respectively.

The weakening of the Uganda Shilling in the last quarter of 2016 is attributed to the global strengthening of the US dollar against all major currencies and heightened demand for foreign exchange, especially by the corporate sector and off-shore players amidst low foreign exchange inflows. Over the year, the UGX depreciated by 5.2 percent to UGX 3,420.1 to the US Dollar in 2016, down from an average of UGX 3,240.6 to the US Dollar in 2015.

Balance of Payments

Uganda's overall balance of payments in 2016 recorded a surplus of US\$318.6 million, a reversal from a deficit of US\$389.9 million registered in 2015. However, the current account deficit improved by 41.3 percent to US\$ 1.1 billion in 2016 from US\$1.8 billion in 2015. This was driven by a lower import bill as a result of duty exemption on imported rice to cover the shortfall due to the prolonged drought. Official foreign exchange reserves increased to US\$3.0 billion at end of 2016 from US\$2.3 billion in 2015.

National Savings

Though Uganda's gross national savings as a percentage of GDP fluctuated substantially in recent years, it tended to increase and stood at 19.43 percent of GDP in 2016. This was higher than the 17.7 percent recorded in 2015. The world's average Gross National Savings as a percentage of GDP is averaged at 24.9 percent. This suggests that Uganda's Gross National Savings as a percent of GDP is below the world's average percentage points.

External Debt

Uganda's external debt stock increased from US\$4.9 billion as at the end of December 2015 to US\$5.4 billion by the end of December 2016. Multilateral creditors remained the major sources of external debt at the end of December 2016, albeit with a reduced share of 73.4 percent from 79.3 percent of debt outstanding at the end of 2015.

The share of outstanding external debt stock owed to bilateral sources continued on an upward trend, rising to 38.1 percent in 2016 to 25.3 percent of the total external debt outstanding at the end of December 2016, from 20.1 percent at the end of December 2015. This was largely driven by new loans and disbursements from China to support road infrastructure (Albertine road network and Entebbe express highway) and the Energy sector developments (Karuma and Isimba hydro dams). The share of private banks and other financial institutions rose to 1.3 percent following the conclusion of a financing agreement between the government of Uganda and the PTA Bank.

PART II: TRADE AND INVESTMENT: TRENDS, CHALLENGES AND PROSPECTS

3 CHAPTER 3: MERCHANDIZE TRADE

3.1 Global Merchandize Trade

Global trade growth slumped to 1.3 percent in 2016 from 2.8 percent in the previous two years. The sudden slump in global trade growth was attributed to falling commodity prices, inward looking policies in some of the trading blocs as well as the effects of the economic crisis that continues to impact on trade in the developing economies. Overall, global commodity prices fell for a second successive year by 8.7 percent following a 34 percent fall in 2015 (UNCTAD 2017).

Crude oil prices rebounded during the year but still registered declining growth of 15.7 percent. Processed food products grew modestly by 2.4 percent in 2016 compared to a decline of 10.0 percent in 2015, with coffee prices growing by 2.1 percent from a decline of 19.7 percent in 2017. However, there was declining growth in the prices of non-processed agricultural commodities and manufactured commodities during the year.

Generally, the growth in prices of non-processed agricultural commodities fell by 0.7 percent while prices of manufactured commodities fell by 1.9 percent in 2016. Mineral prices generally grew by 1.7 percent in 2016 but this modest growth masked disparities within the group. For example, the prices of most minerals and ores apart from iron ore and tin, registered negative growth in 2016.

Developing economies suffered a sharp 3 per cent decline in imports in the first quarter of 2016, equivalent to an annual drop of 11.6 per cent, but growth resumed in the second quarter and by the end of the year, imports had returned to their previous level. Meanwhile, the growth in imports of developed economies continued to fall during the year.

Imports of developed economies grew at only 2.0 per cent while those to developing economies stagnated at 0.2 percent. Exports recorded modest growth of 1.4 percent in developed economies and 1.3 percent in developing economies. Worldwide, regions were affected to varying degrees

by the slump in trade in 2016. World merchandise exports decreased by 3 percent mostly caused by the strong decline in export of fuel and mining products which grew at negative 14 percent in 2016. However, the decline for this category was less marked than in 2015 at negative 36 percent. Exports of manufactured goods decreased slightly, growing at negative 2.0 percent while exports of agricultural products registered a slight increase of 1.0 per cent. Export of manufactured goods totalled US\$11.2 trillion in 2016, representing more than 70 percent of total world exports in 2016.

Prices for food and beverages registered a small increase of 1 per cent. This was mostly due to unfavourable weather conditions in several parts of the world, making many of these products scarce. The prices of minerals and non-ferrous metals decreased by 5 percent in 2016 but there was an increase in prices for some commodities, such as tin which grew by 12 percent, zinc by 8 percent, lead by 4 percent and iron ore at 4 percent. However, while prices for crude petroleum fell by 18 percent, coal prices went up by 14 percent.

Table 3:1: Global Trade: Import and Exports, 2014-2016 (percentage change)

Economic Group or Region	Volume of Exports			Volume of Imports		
	2014	2015	2016	2014	2015	2016
Global Level	2.7	2.6	1.3	2.7	2.9	1.2
Developed Economies	2.4	2.7	1.4	3.6	4.7	2.0
North America	4.2	0.7	0.5	4.8	6.7	0.4
Europe	2.0	3.6	1.4	3.2	4.3	3.1
Developing Economies	3.0	2.0	1.3	1.7	0.5	0.2
Africa	2.8	4.9	1.2	4.2	3.2	-4.6
Asia	4.3	1.1	1.8	3.0	2.9	2.0
Latin America & the Caribbean	-2.2	2.5	2.0	-2.4	-5.8	-8.7
Transition Economies	0.5	-0.2	-3.0	-7.9	-19.9	7.3

Source: WTO Secretariat World Statistics Review 2017

3.2 Merchandize Trade in Africa

Africa has enjoyed advances in trade and regional integration. This is because the region adopted more open policies through liberalization and regional integration, and undertook infrastructure development to reduce costs associated with movement of goods. However, the volume of intra-Africa trade remains low.

Total volume of merchandize trade in Africa dropped in 2016 compared to 2015 (WTO 2017). Exports from Africa grew by only 1.2 percent in 2016 from 4.9 percent in 2015. Imports on the other hand declined by 4.6 percent in 2016 from a growth of 3.2 percent in 2015. This is because the region has not taken steps to diversify export production that will reduce global commodity price fluctuations and increase intra-Africa merchandize trade.

3.3 EAC Regional Merchandize Trade

Sectoral Distribution of EAC Trade

A large proportion of trade between East African countries as well as with the rest of the world consists of trade in primary commodities although trade in finished goods is increasing. The main exports in 2016 included tea, coffee, cocoa and horticultural products. Mineral ore, especially gold and diamond, constituted a sizeable percentage of the exports. East Africa is heavily dependent on imports especially from China, the Far East and Europe. The key imports include petroleum products, machinery, electronics, motors and iron and steel. Also, importation of food stuff especially rice and wheat constituted a large proportion of the imports over the year 2016.

3.4 Total EAC Trade Trends

The total EAC trade in goods is presented in Table 3.2 below. Table 3.2 shows that EAC recorded a 19.5 percent decline in trade to US\$44.6 billion in 2016 from US\$55.4 billion in 2015. Overall, total EAC trade was meagre and accounted for only 0.3 percent of global trade in 2016. The fall in total trade could be explained by the falling prices and demand for exports from the region resulting from the unfavourable global economic environment.

Total EAC exports in 2016 decreased by 6.8 percent to US\$14.9 from US\$16.0 billion in 2015. The bulk of EAC exports were destined to COMESA and EU, amounting to US\$2.4 billion and US\$ 2.1billion, respectively.

Total EAC imports fell by 24.6 percent to US\$29.7 billion in 2016 from US\$39.4 billion in 2015. Imports from the EU accounted for about 12.8 percent, while intra-EAC imports accounted for about 5.9 percent in 2016. The fall in imports was attributed to the fall in crude oil prices that could have reduced the import bill for petroleum products. Overall, the region registered a trade deficit with the rest of the world in 2016 partly due to a fall in imports into the region. The deficit for the EAC reduced by 36.8 percent to US\$14.8 billion from a deficit of US\$23.4 billion registered in 2015.

Table 3:2: EAC-Total Trade Flows, 2012-2016 (US\$ million and percentage change)

Trade Flow	Destination/Origin	2012	2013	2014	2015	2016	Percentage Change				
							2013	2014	2015	2016	
Exports	Total EAC Exports	15,989.7	14,902.7	19,374.3	15,991.3	14,906.3	(6.8)	30.0	(23.1)	(6.8)	
	Intra-EAC Total Exports	3,155.0	3,698.6	3,230.4	3,128.3	2,467.8	17.2	(12.7)	(23.6)	(21.1)	
	COMESA	2,055.9	1,801.1	2,763.2	2,334.5	2,402.2	(12.4)	53.4	(13.1)	2.9	
	SADC	2,329.9	2,127.2	3,067.1	1,495.7	1,312.8	(8.7)	44.2	(57.2)	(12.2)	
	Rest of Africa	293.2	433.8	787.5	515.0	1,255.7	47.9	81.5	59.5	143.8	
	EU	2,513.0	2,183.8	2,696.8	2,401.6	2,121.4	(13.1)	23.5	(21.3)	(11.7)	
	USA	411.8	449.5	651.2	521.9	545.2	9.1	44.9	(16.3)	4.5	
	Total Exports to Rest of the World	5,230.9	4,208.9	6,178.1	5,594.4	4,801.2	(19.5)	46.8	(22.3)	(14.2)	
	Intra-EAC % share to Total E	19.7	24.8	16.7	19.6	16.6					
	COMESA % share to total ex	12.9	12.1	14.3	14.6	16.1					
	SADC % share to total export	14.6	14.3	15.8	9.4	8.8					
	Rest of Africa % share to tota	1.8	2.9	4.1	3.2	8.4					
	EU % share to total exports	15.7	14.7	13.9	15.0	14.2					
	USA % share to total exports	2.6	3.0	3.4	3.3	3.7					
	Total exports to Rest of the World % share to total exports	32.7	28.2	31.9	35.0	32.2					
	Imports	Total EAC Imports	36,854.2	37,459.2	40,376.6	39,371.7	29,674.5	1.6	7.8	(26.5)	(24.6)
		Intra-EAC Total Imports	2,315.7	2,107.0	2,402.5	1,941.4	1,750.2	(9.0)	14.0	(27.1)	(9.8)
COMESA		895.2	828.3	1,043.7	1,027.4	924.5	(7.5)	26.0	(11.4)	(10.0)	
SADC		2,473.6	2,189.3	2,146.6	1,895.7	1,625.0	(11.5)	(1.9)	(24.3)	(14.3)	
Rest of Africa		59.7	127.3	33.6	43.7	750.4	113.2	(73.6)	2,133.4	1,616.9	
EU		5,077.5	4,739.6	5,285.8	5,237.9	3,798.0	(6.7)	11.5	(28.1)	(27.5)	
USA		1,190.0	1,075.4	2,421.2	1,771.0	849.3	(9.6)	125.1	(64.9)	(52.0)	
Total Imports to Rest of the World		24,842.4	26,392.3	27,043.2	27,454.6	19,977.2	6.2	2.5	(26.1)	(27.2)	
Intra-EAC% share to Total in		6.3	5.6	6.0	4.9	5.9					
COMESA % share to total im		2.4	2.2	2.6	2.6	3.1					
SADC % share to total import		6.7	5.8	5.3	4.8	5.5					
Rest of Africa % share to tota		0.2	0.3	0.1	0.1	2.5					
EU % share to total imports		13.8	12.7	13.1	13.3	12.8					
USA % share to total imports		3.2	2.9	6.0	4.5	2.9					
Total imports to Rest of World % share to total imports		67.4	70.5	67.0	69.7	67.3					
Total Trade								2013	2014	2015	2016
		Total intra EAC Trade	5,470.7	5,805.6	5,632.9	5,069.7	4,218.0	6.1	(3.0)	(25.1)	(16.8)
	Total Trade	52,843.9	52,361.9	59,750.9	55,363.0	44,580.8	(0.9)	14.1	(25.4)	(19.5)	
	EAC Trade Balance	(20,864.4)	(22,556.5)	(21,002.3)	(23,380.4)	(14,768.2)	8.1	(6.9)	(29.7)	(36.8)	

Source: National Statistical Offices and Revenue Authorities of Partner States

Notes:

- (1) COMESA excludes Kenya, Uganda, Burundi and Rwanda
- (2) SADC excludes Tanzania
- (3) COMESA and SADC have overlapping membership

3.5 Intra-Regional Merchandize Trade

Significance of intra-Regional Merchandise Trade

The composition of EAC trade continued to be dominated by agricultural commodities, namely coffee, tea, tobacco, cotton, rice, maize and wheat flour, while manufactured goods such as cement, petroleum, textiles, sugar, confectionery, beer, salt, fats and oils, steel and steel products, paper, plastics and pharmaceuticals were also traded across the region.

Intra-regional trade in the EAC continues to be dominated by Kenya which accounted for over 45.6 percent of total intra-regional exports. Noticeably, exports from Rwanda to the other Partner States grew by 31.8 percent to US\$156.6 million in 2016. However, intra-regional exports have continued to decline since 2014 with the region experiencing the highest decline in intra-regional exports in 2016. Total intra-regional exports declined by 17.4 percent to US\$2.6 billion in 2016 from US\$3.2 billion in 2015. With the exception of Rwanda, the other Partner States experienced a decline in the value of exports. Tanzania experienced the highest decline of 44 percent while Burundi, Uganda and Kenya experienced decline of 16.9 percent, 7.9 percent and 6.9 percent, respectively.

The decline in exports could be attributed to a number of factors: All Partner States are involved in agricultural production. Over the last two years, the EAC region experienced prolonged drought that affected output in most of the agricultural products that are traded among the Partner States including maize and dairy products. The level of manufacturing in the EAC increased over the last five years as evidenced by the existence of manufacturing concerns for products like cement, iron and steel, wheat and edible oil in all Partner States. This has limited the level of intra-EAC trade in some of these manufactured goods. In addition, existing remission schemes that restrict to 20 percent, the intra-regional export of goods manufactured from raw materials that benefitted from exemptions further limited intra-regional trade. Further, Stay of application prevented countries from re-export of goods that benefitted from exemptions meant that Partner States ended up importing similar products from outside the region as opposed to trade among each other. Further, the decline in exports was associated to the global economic crisis as well as the fall in global fuel prices that led to a reduction in the value of re-exports of petroleum products and motor vehicles.

Specifically, the decline in Kenya exports was attributed to falling exports resulting from Partner States increasing their manufacturing capacity for products like cement, iron and steel products.

Tanzania's declining intra-EAC trade was attributed to falling export volumes while the decline in exports from Uganda was associated with the reduction in the value of re-exports of petroleum products and motor vehicles.

Table 3:3: Total intra EAC Trade, 2012-2016 (US\$ million and percentage change)

		2012	2013	2014	2015	2016	Percentage Change			
							2013	2014	2015	2016
Imports	Uganda	646.9	616.6	684.6	630.2	530.0	-4.7	11.0	-8.0	-15.9
	Tanzania	678.6	397.0	709.8	278.6	298.8	-41.5	78.8	-60.7	7.2
	Kenya	364.3	334.5	416.9	407.8	324.4	-8.2	24.6	-2.2	-20.5
	Burundi	173.6	171.4	169.1	151.1	157.2	-1.3	-1.3	-10.7	4.0
	Rwanda	457.8	477.7	511.0	474.1	440.2	4.3	7.0	-7.2	-7.2
	Total	2,321.2	1,997.3	2,491.4	1,941.8	1,750.6	-14.0	24.7	-22.1	-9.8
Exports	Uganda	580.3	627.4	642.2	771.6	711.0	8.1	2.4	20.1	-7.9
	Tanzania	613.3	1,118.0	779.5	995.2	552.5	82.3	-30.3	27.7	-44.5
	Kenya	1,593.0	1,451.0	1,430.8	1,285.9	1,199.0	-8.9	-1.4	-10.1	-6.8
	Burundi	20.9	20.10	15.70	14.80	12.30	-3.8	-21.9	-5.7	-16.9
	Rwanda	343.5	467.0	352.4	99.1	113.1	36.0	-24.5	-71.9	14.1
	Total	3,151.0	3,683.5	3,220.7	3,166.6	2,587.9	16.9	-12.6	-1.7	-18.3
Total EAC Trade value	Uganda	1,227.2	1,244.0	1,326.9	1,401.8	1,241.4	1.4	6.7	5.6	-11.4
	Tanzania	1,291.9	1,515.0	1,489.3	1,273.8	851.3	17.3	-1.7	-14.5	-33.2
	Kenya	1,957.3	1,785.5	1,847.7	1,693.7	1,523.4	-8.8	3.5	-8.3	-10.1
	Burundi	194.5	191.5	184.8	165.9	169.5	-1.5	-3.5	-10.2	2.2
	Rwanda	801.3	944.7	863.4	573.2	596.4	17.9	-8.6	-33.6	4.0
	Total	5,472.2	5,680.7	5,712.1	5,108.4	4,382.0	3.8	0.6	-10.6	-14.2

Source: Partner States Revenue Authorities, Central Banks and National Statistics Offices

Intra-EAC Imports

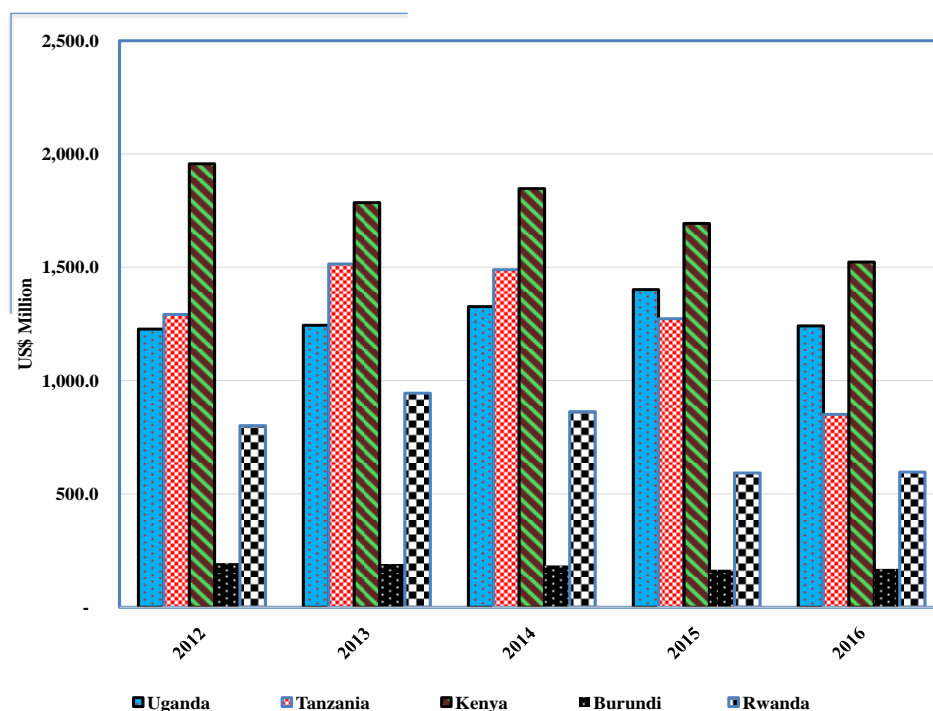
The major intra-EAC imports consisted of industrial products namely: cement, petroleum products, sugar, confectionery, vegetable fats and oils, iron and steel, paper products, plastics and pharmaceuticals as well as agricultural products like rice, maize and wheat flour.

Total intra-EAC imports declined by 9.9 percent to US\$1.8 billion in 2016, from US\$1.9 billion in 2015. Tanzania and Burundi experienced increase in the intra-EAC imports during the year. Intra-EAC imports into Tanzania increased by 7.2 percent to US\$298.8 million in 2016 from US\$278.6 million in 2015. At the same time, Burundi's intra-EAC imports increased by 4.0 percent to US\$157.2 million in 2016 from US\$151.1 million in 2015.

However, Kenya, Rwanda and Uganda all registered decline of 20.5 percent, 7.2 percent and 15.9 percent in the value of imports, respectively.

Country specific total intra -regional trade trends are summarized in figure 3.1. Total intra-EAC trade for Kenya, Tanzania and Uganda declined by 10.1 percent, 33.1 percent and 11.4 percent, respectively while that of Burundi and Rwanda grew marginally by 2.2 percent and 0.6 percent in 2016.

Figure 3:1 Total intra-EAC Trade, 2012-2016 (US\$ million)



Source: Partner States Revenue Authorities, Central Banks and National Statistics Offices

3.6 Country Specific Trade Trends

3.6.1 Burundi

3.6.1.1 Burundi's International Trade

Burundi's overall trade decreased by 13.0 percent to US\$760.7 million in 2016 from US\$874.3 million in 2015 (figure3.2). The fall in trade was attributed to a drop in both exports and imports during the year. Exports from Burundi declined by 10.5 percent to US\$132.4 million in 2016, from US\$141.2 million in 2015. At the same time, imports declined by 14 percent to US\$628.4million in 2016, from US\$730.0 million in 2015.

In 2016, Burundi's major trading partner was the European Union followed by China and India. Total trade with the EU amounted to US\$145.2 million in 2016, down from US\$179.4 million in 2015. This amounted to about 19.2 percent of total trade. Trade with China amounted to US\$105.5 million or 14 percent of total trade while Trade with India amounted to US\$88.6 million, about 11.7 percent of total trade in 2016. Other notable trade partners over the year 2016 included the United Arab Emirates (UAE) and the EAC Partner States. Overall, Burundi's trade deficit in 2016 decreased by 15.3 percent to US\$ 495.9 million, from US\$ 585.7 million in 2015.

Figure 3:2 Burundi's Imports Exports and Trade Balance, 2012-2016 (US\$ million)



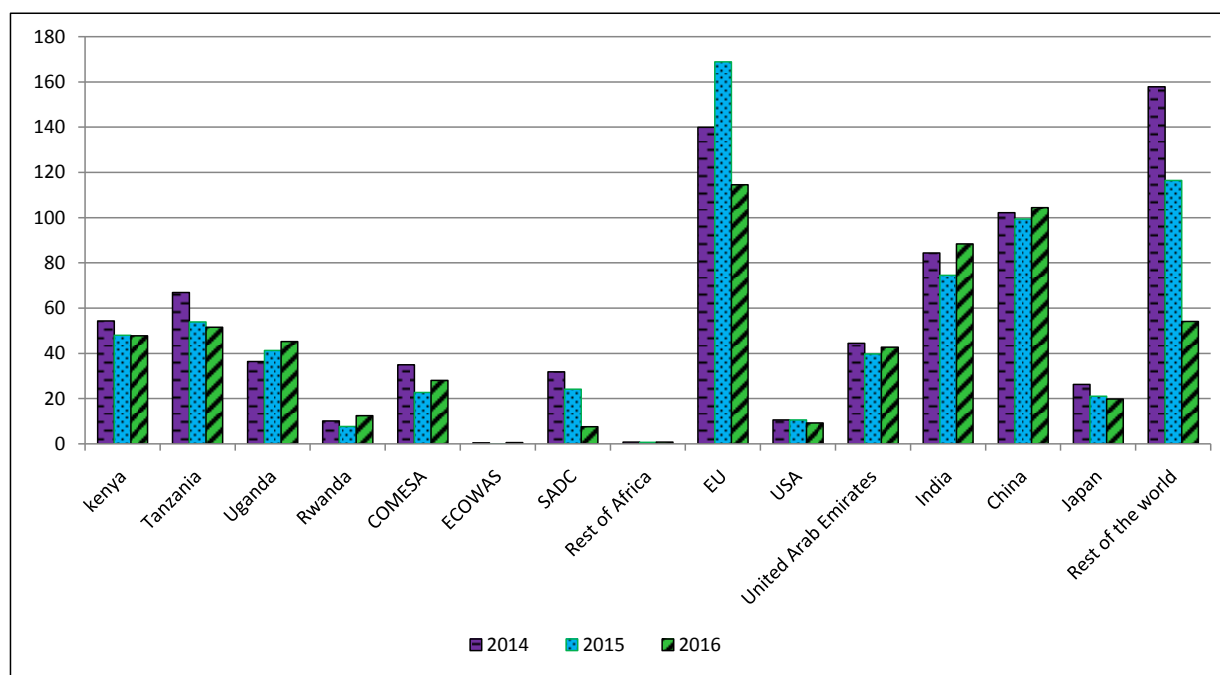
Source: Burundi National Bureau of Statistics 2017

Imports

Imports into Burundi decreased by 14 percent, to US\$628.3 million from US\$730.0 in 2015 (figure 3.3). The fall in imports over the year were attributed to a 77.2 percent decline in import of electrical apparatus for line telephone communication. Also, imports of motor cars and other passenger service vehicles declined by 13.9 while imports of petroleum products declined by 8.2 percent as a result of the fall in global crude oil prices over the last three years. In 2016, the European Union (EU) was Burundi's major trade partner accounting for 18.2 percent of total imports into the country.

However, imports from the EU declined by 32.1 percent to US\$114.6 million in 2016, from US\$168.9 million in 2015. Other notable exporters to Burundi included China, accounting for 16.6 percent of total imports in 2016 and India which accounted for about 14.1 percent of imports. Most of the imports from China and India consisted of consumer goods, mainly electronics and capital goods including machinery, while imports from UAE and the rest of the world consisted of petroleum products.

Figure 3:3 Burundi's Imports by Country/ Region of Origin



Source: Burundi National Bureau of Statistics 2017

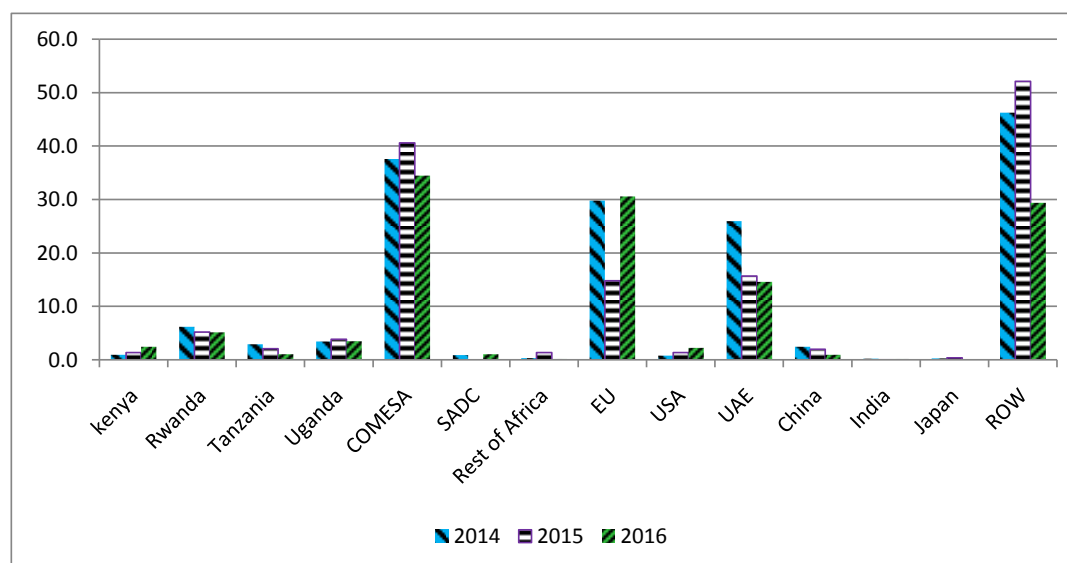
Domestic Exports

Domestic exports from Burundi are presented in figure 3.4 below. According to figure 3.4, domestic exports from Burundi declined by 10.0 percent to US\$126.3 million in 2016 from US\$141.2 million in 2015. The decline is attributed to reduced export volume of tea exports. In 2016, tea exports fell by 32.2 percent as well as the 22.2 percent fall in the global price of tea on the international tea auction market.

During the year, the COMESA region outside the EAC Partner States was the biggest export destination for Burundi. Exports to COMESA amounted to US\$34.5 million. Nevertheless, the

exports to COMESA were 15 percent lower than over the year 2015. Other notable export destinations included the EU and the UAE, amounting to US\$30.6 million and US\$14.6million, respectively.

Figure 3:4: Burundi’s Exports by Country /Region of Destination



Source: Burundi National Bureau of Statistics

Re-Exports

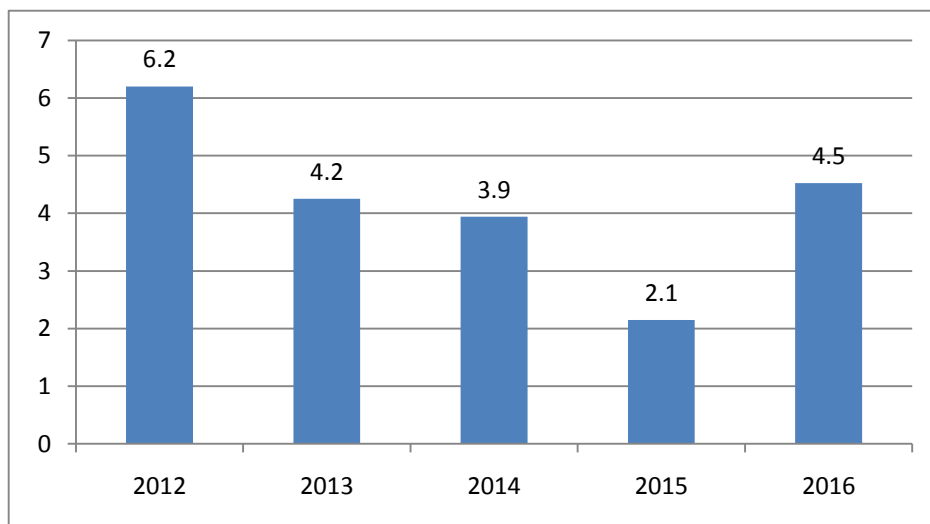
The value of re-exports during the year increased by 66.7 percent to US\$6.0 million in 2016 from US\$3.6 million in 2015. Similarly, the re-exports as a share of total exports, increased to 4.5 percent in 2016 from 2.1 percent in 2015. The increase in the value of re-exports was mainly attributed to increases in the re-export of vehicles used for tourism and transport of goods and machinery.

Table 3:4 Burundi's Re-Exports as Percentage of Total Exports 2012-2016

	Re-exports	Domestic exports	Exports	Percentage share
2012	15.8	239.9	255.7	6.2
2013	9.6	216.3	225.9	4.2
2014	6.5	158.4	164.9	3.9
2015	3.1	141.2	144.3	2.1
2016	6.0	126.4	132.4	4.5

Source: Burundi National Bureau of Statistics

Figure 3:5: Burundi's Re-Exports Share of Total Exports 2012-2016 (percent)



Source: Burundi National Bureau of Statistics

3.6.1.2 Burundi's Intra-Regional Trade

Burundi's trade with EAC Partner States increased by 2.2 percent to US\$169.5 million in 2016, from US\$ 165.9 million in 2015, resulting from an increase in imports. Imports from Partner States increased by 4.0 percent to US\$157.2 million in 2016 from US\$151.1 million in 2015. This was attributed to the increase in trade with Rwanda and Uganda which increased by 62 percent and 10 percent, respectively. However, exports to Partner States decreased by 16.9 percent to US\$12.3 million in 2016 from US\$14.8 million in 2015.

Intra-Regional Exports

Burundi's exports to the EAC Partner States decreased by 16.9 percent from US\$ 14.8 million in 2015, to US\$12.3 million in 2016. In the EAC Region, Rwanda remains the main destination of Burundi's exports, accounting for 42.1 percent, followed by Uganda, which accounted for 28.6 percent of the intra-EAC exports. The decrease in Burundi's exports to the EAC Partner States was attributed to the fall in exports of soap as well as scrap of alloy steel products to Rwanda and Uganda, respectively.

Table 3:5: Burundi: Intra-EAC Exports, 2012-2016 (US\$ million)

Intra-EAC Exports Flow	2012	2013	2014	2015	2016
Intra-EAC Domestic Exports	12.1	17.4	13.6	13.6	9.9
Intra-EAC Re-exports	8.8	2.6	2,0	1.2	2.4

Total Intra-EAC Exports	20.9	20.1	15.7	14.8	12.3
Percent share of Intra-re-exports	42.1	13.0	12.8	8.1	19.5

Source: *ISTEEBU and OBR.*

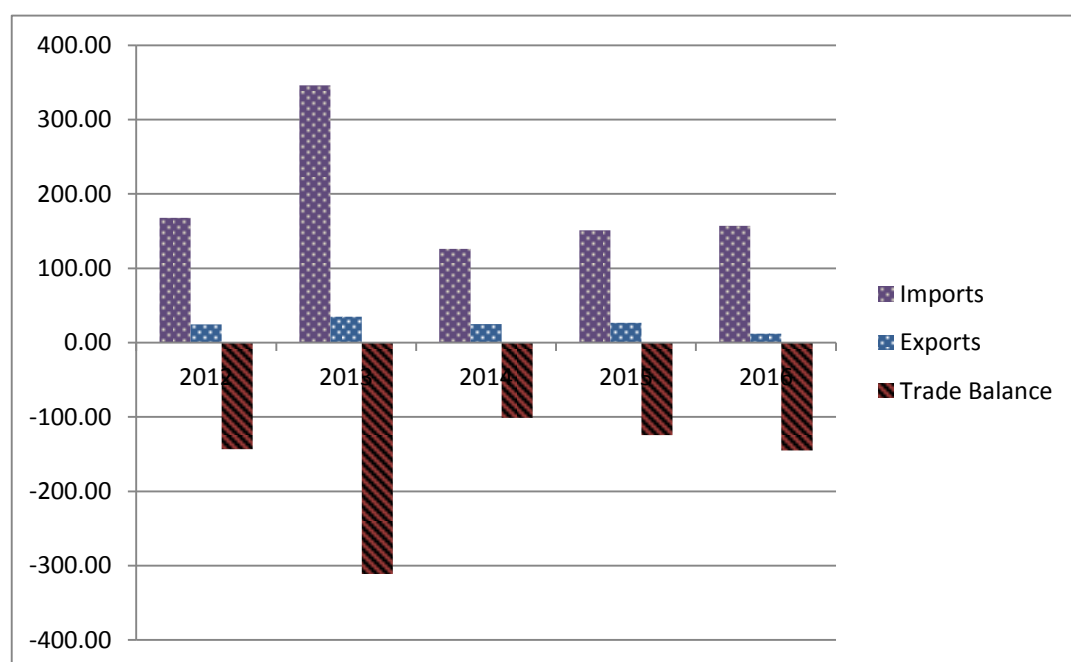
Intra-Regional Imports

Burundi's imports from EAC Partner States increased by 4.0 percent to US\$157.2 million in 2016, from US\$165.9 million in 2015. The increase in imports was attributed to the increase in imports from Uganda which rose to US\$45.3 million in 2016, from US\$41.3 million in 2015 and accounted for 29 percent of all intra-EAC imports. The major items from Uganda during the year included flat rolled iron and chemical fertilisers. The importation of these items was mainly a result of increased investment in agriculture as well as construction during the year.

Intra-Regional Trade Balance

The intra-EAC trade balance analysis shows that Burundi had a trade deficit with the rest of the EAC Partners. The Intra-EAC trade deficit increased by 6.3 percent to US\$144.9 million in 2016, from US\$136.3 million in 2015. This was due to increase in imports from the Partner States during the year. Total imports increased by 4.0 percent during the year.

Figure 3:6: Burundi's Trade with EAC Partner States, 2012-2016 (US\$ million)



Source: Burundi National Bureau of Statistics

Table 3:6 Burundi's Trade with EAC Partner States, 2012-2016, (US\$ millions)

		2012	2013	2014	2015	2016	% of change			
							2013	2014	2015	2016
Kenya	Imports	46.2	54.2	54.4	48.0	47.8	17.4	0.3	(11.7)	(0.5)
	Exports	4.1	1.0	1.2	2.4	2.5	(74.8)	15.3	99.4	2.7
	Total trade	50.3	55.3	55.6	50.4	50.2	9.8	0.6	(9.3)	(0.3)
	Trade Balance	-42.0	-53.2	-53.2	-45.6	-45.3	26.5	(0.0)	(14.3)	(0.6)
Rwanda	Imports	29.3	12.2	10.2	7.8	12.6	(58.5)	(15.8)	(24.1)	61.8
	Exports	6.5	9.8	7.6	5.9	5.2	50.5	(22.7)	(21.8)	(12.8)
	Total trade	35.8	22.0	17.8	13.7	17.8	(38.7)	(18.9)	(23.1)	29.5
	Trade Balance	-22.8	-2.4	-2.7	-1.8	-7.4	(89.7)	12.9	(30.8)	302.3
Uganda	Imports	45.2	45.9	36.5	41.3	45.3	1.5	(20.5)	13.3	9.6
	Exports	5.0	6.1	3.8	4.2	3.5	22.7	(37.4)	9.5	(16.1)
	Total trade	50.2	52.0	40.3	45.5	48.8	3.6	(22.5)	13.0	7.2
	Trade Balance	-40.2	-39.8	-32.7	-37.2	-41.8	(1.1)	(17.9)	13.8	12.5
Tanzania	Imports	52.9	59.1	67.0	54.0	51.6	11.8	13.4	(19.5)	(4.5)
	Exports	5.2	3.1	3.0	2.3	1.1	(40.9)	(1.5)	(24.4)	(50.4)
	Total trade	58.1	62.2	70.1	56.3	52.7	7.0	12.7	(19.7)	(6.4)
	Trade Balance	-47.6	-56.0	-64.0	-51.7	-50.4	17.6	14.3	(19.2)	(2.5)
Intra-EAC**	Imports	173.6	171.4	168.1	151.1	157.2	(1.3)	(1.9)	(10.1)	4.0
	Exports	20.9	20.1	15.7	14.8	12.3	(3.9)	(21.9)	(5.3)	(17.1)
	Total trade	194.46	191.44	183.79	165.92	169.49	(1.6)	(4.0)	(9.7)	2.2
	Trade Balance	-152.7	-151.3	-152.5	-136.3	-144.9	(0.9)	0.8	(10.6)	6.3

Source: Burundi National Bureau of Statistics

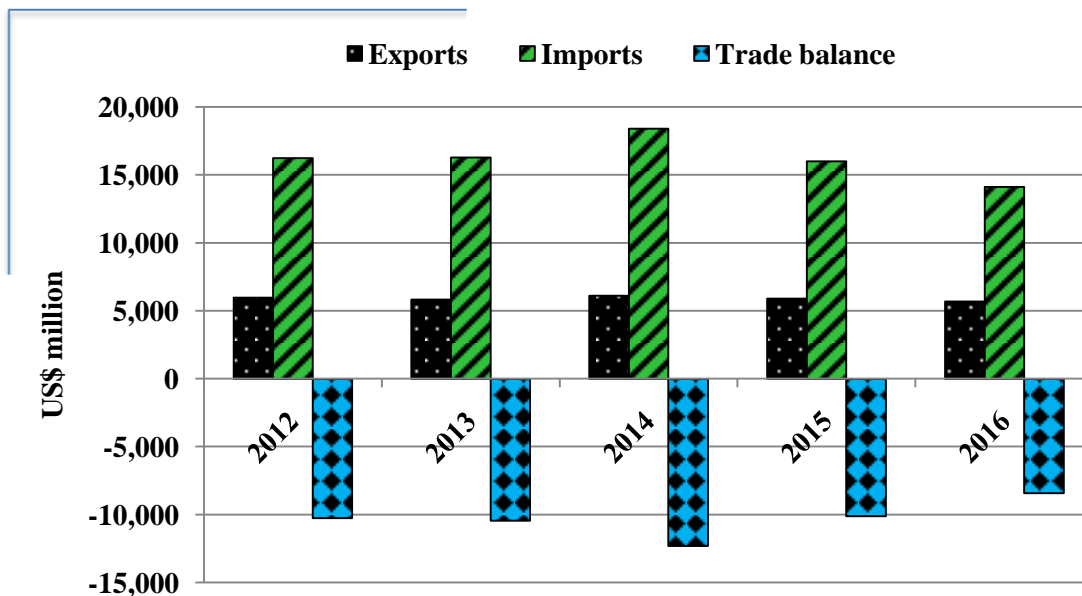
3.6.2 Kenya

3.6.2.1 Kenya's International Trade

Kenya's total trade continued with the declining trend experienced in the past two years. Kenya's total trade declined by 9.6 percent to US\$19.8 billion in 2016 from US\$21.9 billion in 2015 (figure 3.7). The decline in the EAC region was due to reduced trade with all the Partner States except Burundi, which increased by 4.1 percent to US\$69.2 million.

China, EU, India and EAC were Kenya's leading trading partners, accounting for 17.3 percent, 16.6 percent, 10.8 percent and 7.7 percent of the total trade, respectively. Kenya's total trade with China increased by 2.5 percent to US\$3.4 billion in 2016, from US\$3.3 billion in 2015, on account of higher imports from that region. However, total trade with EU, India and EAC declined by 9.6 percent, 19.2 percent and 10.1 percent, respectively, to US\$ 3.3 billion, US\$ 2.1 billion and US\$ 1.5 billion. The trade deficit narrowed by 16.9 percent to US\$8.4 billion in 2016, from US\$10.1 billion in 2015. The narrowing of the trade balance could be attributed to a reduction of 11.8 percent in merchandise imports compared to a reduction of 3.4 percent in exports.

Figure 3:7 Kenya's Total Exports, Imports and Trade Balance, 2012-2016

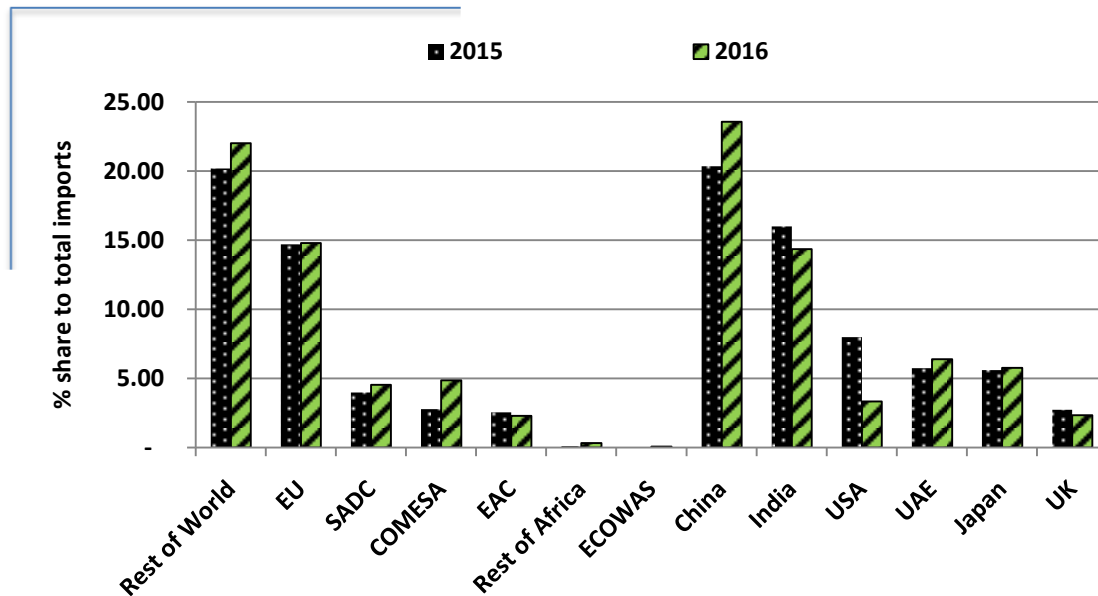


Source: KRA, KNBS & CBK

Imports

Kenya's imports continued the declining trend for the second consecutive year with the value of imports decreasing by 13.1 percent to US\$14 billion in 2016, from US\$16 billion in 2015. Imports remained subdued on account of lower global oil prices and reduced transport of equipment. The leading sources of Kenya's imports were China, European Union and India, jointly accounting for 52.7 percent of the total imports in 2016. Imports from China constituted 23.6 percent of total imports in 2016 up from 20.3 percent in 2015. Imports from USA constituted only 3.3 percent of total imports in 2016, compared to 8.0 percent in 2015. The continued reduction in the share of imports from USA was on account of reduced importation of aircraft and associated equipment during 2016.

Figure 3:8 Kenya's Imports by Country/Region of Origin (percent share)



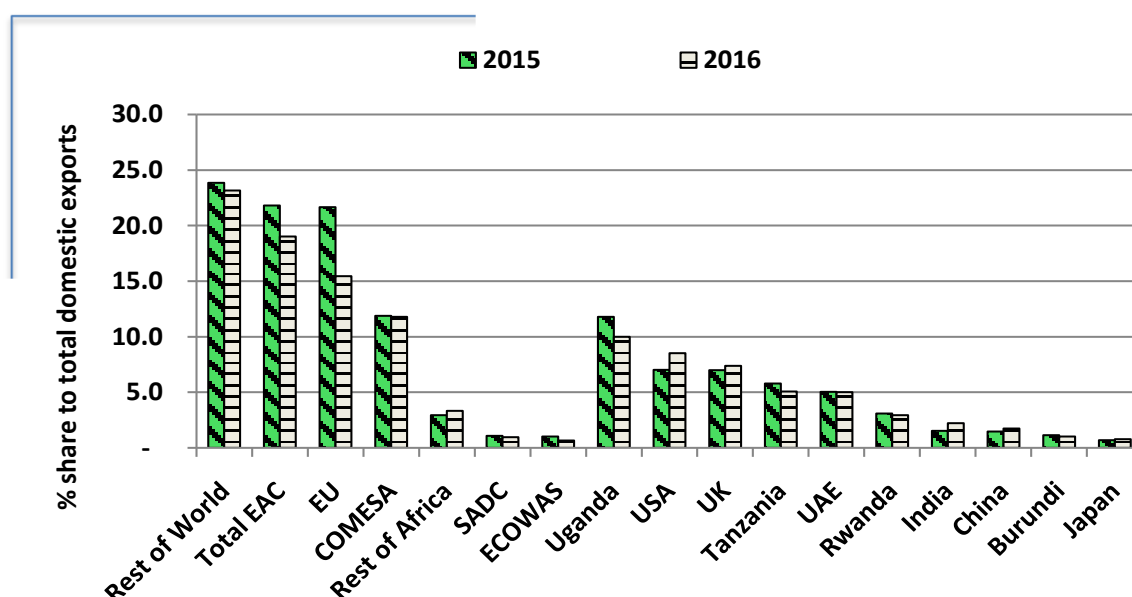
Source: KRA, KNBS & CBK

Exports

Kenya's domestic exports declined by 2.0 percent to US\$5 billion in 2016, from US\$5.1 billion in 2015. The main export destinations in 2016 continued to be EAC, which accounted for 19.0 percent of all exports. The European Union accounted for 15.4 percent of all exports and the

USA, which accounted for 8.5 percent of all exports. During the year, the share of Kenya's exports to the EU as a percentage of total exports reduced to 15.4 percent in 2016 from 21.7 percent in 2015. Within EAC region, the share of domestic exports declined in 2016 compared to 2015, as presented in **Figure 3.9**. Uganda constituted a sizable export market for Kenya with exports to Uganda accounting for 10.0 percent of total exports in 2016. The main export commodities included tea, horticulture, articles of apparel and clothing accessories as well as coffee, and iron and steel.

Figure 3:9 Kenya’s Domestic Exports by Destination (percent share)

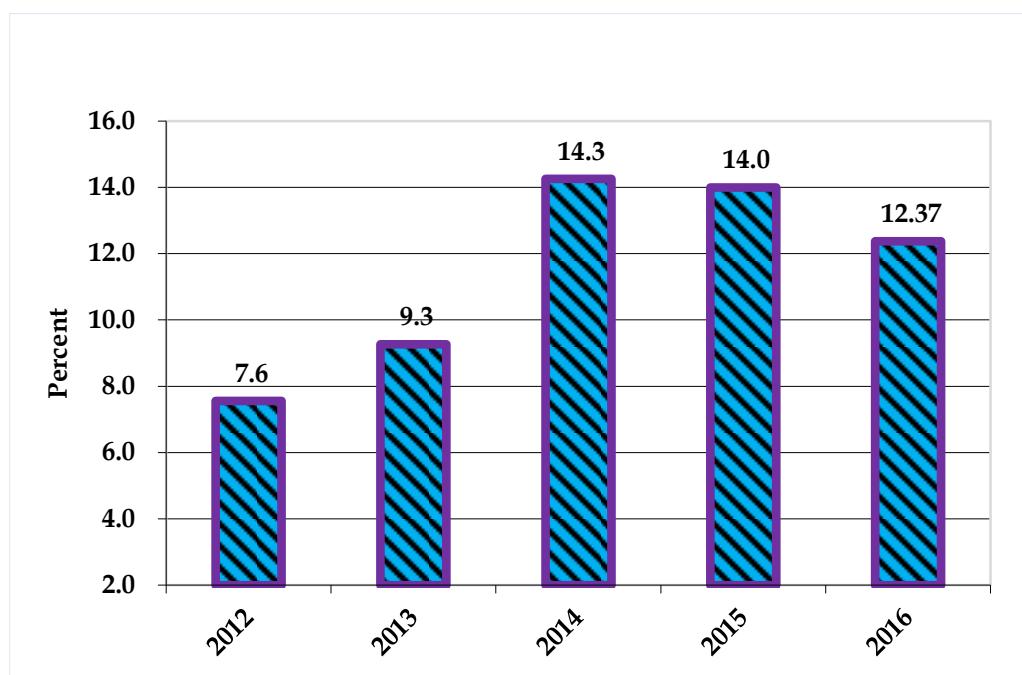


Source: KRA, KNBS & CBK

Re-Exports

Kenya’s re-exports declined significantly by 15.9 percent from US\$838.1 million in 2015 to US\$ 704.6 million in 2016. As a result, the share of re-exports to total exports declined from 14.2 percent to 12.4 percent during the review period. The decline in re-exports was mainly attributed to a contraction in the re-exports of petroleum products and manufactured articles.

Figure 3:10 Kenya- Re-Export as Percent of Total Exports, 2012-2016 (percentage)



Source: KRA, KNBS & CBK

3.6.2.2 Kenya's Intra Regional Trade

Intra-Regional Exports

Domestic exports to Uganda, Tanzania, Rwanda and Burundi accounted for 52.6 percent, 26.7 percent, 15.4 percent and 5.3 percent of Kenya's total intra-EAC exports, respectively. Kenya's domestic exports to the EAC Partner States declined by 11.4 percent to US\$ 948.5 million in 2016, from US\$ 1.1 billion in 2015. Consequently, domestic exports to the EAC as a share of total exports, declined from 21.8 percent to 19.0 percent over the same period. Domestic exports to Uganda and Tanzania declined by 26.4 percent and 46.7 percent, to US\$ 498.7 million and US\$ 252.9 million, respectively. Similarly, domestic exports to Rwanda and Burundi declined by 10.8 percent and 18.3 percent, to US\$146.5 million and US\$50.4 million, respectively, during the review period.

The decline in exports was attributed to falling intra-EAC export volumes of manufactured products like cement, petroleum products, iron and steel, salt, and medicaments. This can be attributed to four key issues. First, increased manufacturing capacity in Uganda and Tanzania resulted in reduced imports from Kenya for products like iron and steel, cement, pharmaceuticals and sugar. Second, there are restrictions on export of commodities manufactured in Export Processing Zones (EPZs). Third, Partner States requested for Stay of Application to import some of the products previously imported from Kenya, like packaging materials, articles of conveyance, and wheat. Fourth, Partner States imposed restrictions on imports of agricultural products like milk and milk products.

Intra-EAC Re-Exports

During the review period, Kenya's intra-EAC re-exports increased by 16.1 percent from US\$ 215.7 million in 2015, to US\$250.5 million. Similarly, the share of re-exports to total exports to the EAC countries increased from 6.8 percent to 20.9 percent over the same period. The re-exports were mainly destined to Uganda and Tanzania, accounting for 45.4 percent and 35.9 percent of the total intra-EAC re-exports, respectively. The main re-exports to Uganda were mineral fuels and sorghum, while those to Tanzania were nuclear reactors, boilers and machinery, electrical machinery and equipment and parts thereof, and mineral fuel.

Table 3:7 Intra-EAC Exports, 2012-2016 (US\$ million)

Intra-EAC Export Flows		2012	2013	2014	2015	2016
Kenya	Intra-EAC Domestic Exports	1,375.7	1,211.4	1,143.4	1,070.2	948.5
	Intra-EAC Re-exports	217.3	239.6	287.4	215.7	250.5
	Total Intra-EAC Exports	1,593.0	1,451.0	1,430.8	1,285.9	1,199.0
	Percent Share of Intra-Re-exports	13.6	16.5	20.1	16.8	20.9

Source: KRA, KNBS & CBK

Intra-Regional Imports

In 2016, Kenya's imports from EAC Partner States declined by 20.5 percent, from US\$407.8 million in 2015, to US\$324.4 million. The decline was a result of reduced imports from all the

Partner States, with imports from Tanzania and Uganda declining significantly by 26.4 percent and 16.0 percent to US\$126.2 million and US\$189.9 million, respectively. The main imports from Uganda were unmanufactured tobacco, cane or beet sugar, leguminous vegetables, maize corn and milk, while those from Tanzania were uncoated kraft paper and paperboard as well as maize and cement.

Table 3:8 Kenya's Trade with EAC Partner States, 2012-2016, (US\$ million)

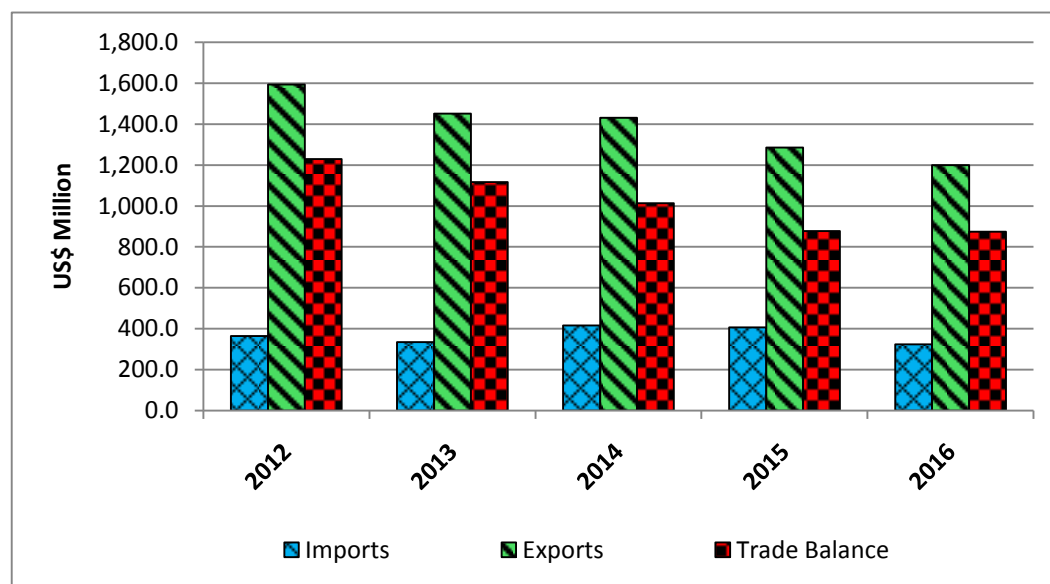
		2012	2013	2014	2015	2016	2013	2014	2015	2016
Burundi	Imports	3.7	0.6	0.3	2.3	0.7	-83.3	-45.1	577.3	-70.3
	Exports	62.7	65.0	89.3	66.9	71.3	3.7	37.3	-25.1	6.7
	Total Trade	66.3	65.6	89.6	69.2	72.0	-1.1	36.6	-22.8	4.1
	Trade Balance	59.0	64.4	88.9	64.6	70.7	9.1	38.1	-27.3	9.4
Rwanda	Imports	9.7	11.7	8.1	8.0	7.6	172.4	-30.3	-1.6	-4.7
	Exports	190.7	156.8	164.2	182.1	172.4	7.6	4.8	10.8	-5.3
	Total Trade	371.6	168.4	172.4	190.1	180.0	180.0	13.7	10.3	-5.3
	Trade Balance	181.0	145.1	156.1	174.0	164.8	164.8	7.6	11.5	-5.3
Uganda	Imports	180.9	186.8	199.6	226.0	189.9	3.3	6.9	13.2	-16.0
	Exports	796.2	759.0	691.3	695.5	612.4	-4.7	-8.9	0.6	-11.9
	Total Trade	1411.6	945.7	890.9	921.5	802.3	-33.0	-5.8	3.4	-12.9
	Trade Balance	615.4	572.2	491.7	469.5	422.5	-7.0	-14.1	-4.5	-10.0
Tanzania	Imports	170.0	135.5	208.9	171.5	126.2	342.8	54.2	-17.9	-26.4
	Exports	543.5	470.2	485.9	341.4	342.8	126.2	3.3	-29.7	0.4
	Total Trade	916.9	605.7	694.8	512.9	469.0	469.0	14.7	-26.2	-8.6
	Trade Balance	373.4	334.8	277.1	170.0	216.6	216.6	-17.2	-38.7	27.5
Intra-EAC	Imports	364.3	334.5	416.9	407.8	324.4	-8.2	24.6	-2.2	-20.5
	Exports	1,593.0	1,451.0	1,430.8	1,285.9	1,199.0	-8.9	-1.4	-10.1	-6.8
	Total Trade	1,957.3	1,785.5	1,847.7	1,693.7	1,523.4	-8.8	3.5	-8.3	-10.1
	Trade Balance	1,228.8	1,116.4	1,013.8	878.1	874.6	-9.1	-9.2	-13.4	-0.4

Source: KRA, KNBS & CBK

Trade Balance

Kenya's total trade with EAC Partner States declined by 10.1 percent, to US\$1.5 billion in 2016, from US\$1.7 billion. Kenya's trade surplus with EAC Partner States reduced marginally to US\$ 874.6 million in 2016 from US\$878.1 million in 2015. Total exports to the region reduced by 6.8 percent to US\$ 1.2 billion, mainly on account of reduction in total trade to Uganda which fell by 12.9 percent in 2016.

Figure 3:11 Kenya's Trade with EAC Partner States, 2012-2016 (US\$ million)



Source: KRA, KNBS & CBK

3.6.3 Rwanda

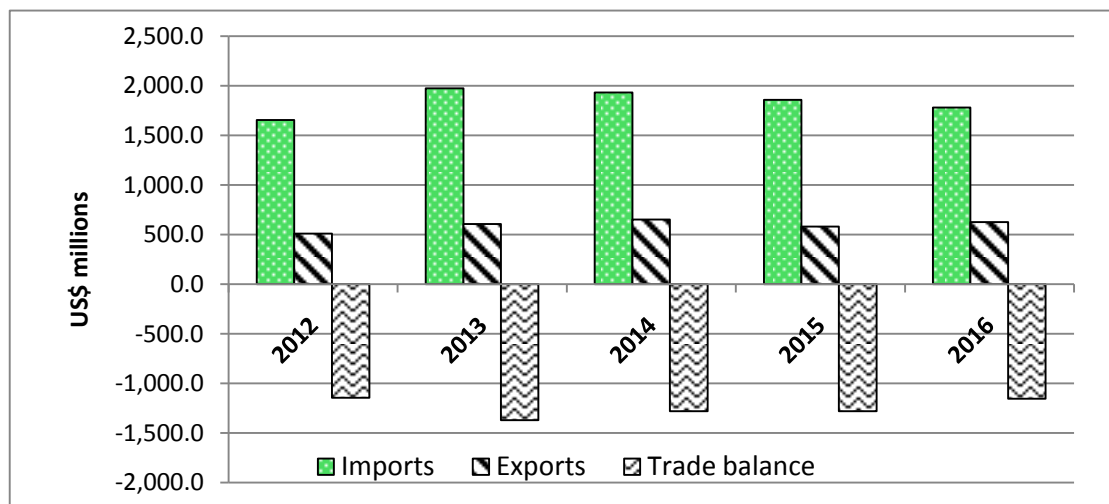
3.6.3.1 Rwanda's International Trade

Rwanda's total external trade decreased marginally by 1.4 percent, to US\$2.4 billion in 2016. Exports during the year increased by 7.6 percent to US\$624.4 million and accounted for 25.9 percent of total trade, while imports amounted to US\$1.8 billion and accounted for 74.1 percent of total trade in 2016. China, EU, EAC and India were Rwanda's main trading partners.

Total trade with China, EU, EAC and India amounted to US\$383.3 million, US\$277.3 million, US\$552.2 million and US\$132.7 million, respectively in 2016. Other key trading partners included COMESA and United Arab Emirates. During 2016, trade with UAE and China increased but trade with EAC, EU and India declined, with imports from India declining by 24.4 percent to US\$132 million in 2016, from US\$181.9 million in 2015. Overall, the trade deficit reduced by 9.6 percent to US\$1.2 billion in 2016, from US\$1.3 billion in 2015. The reduction in the trade deficit was attributed to increase in exports and a corresponding reduction in imports

over the 2016 year, partly due to the efforts of promoting consumption of locally made products through the “Made in Rwanda” policy.

Figure 3:12 Rwanda's Total Exports, Imports and Trade Balance, 2012-2016 (US\$ millions)

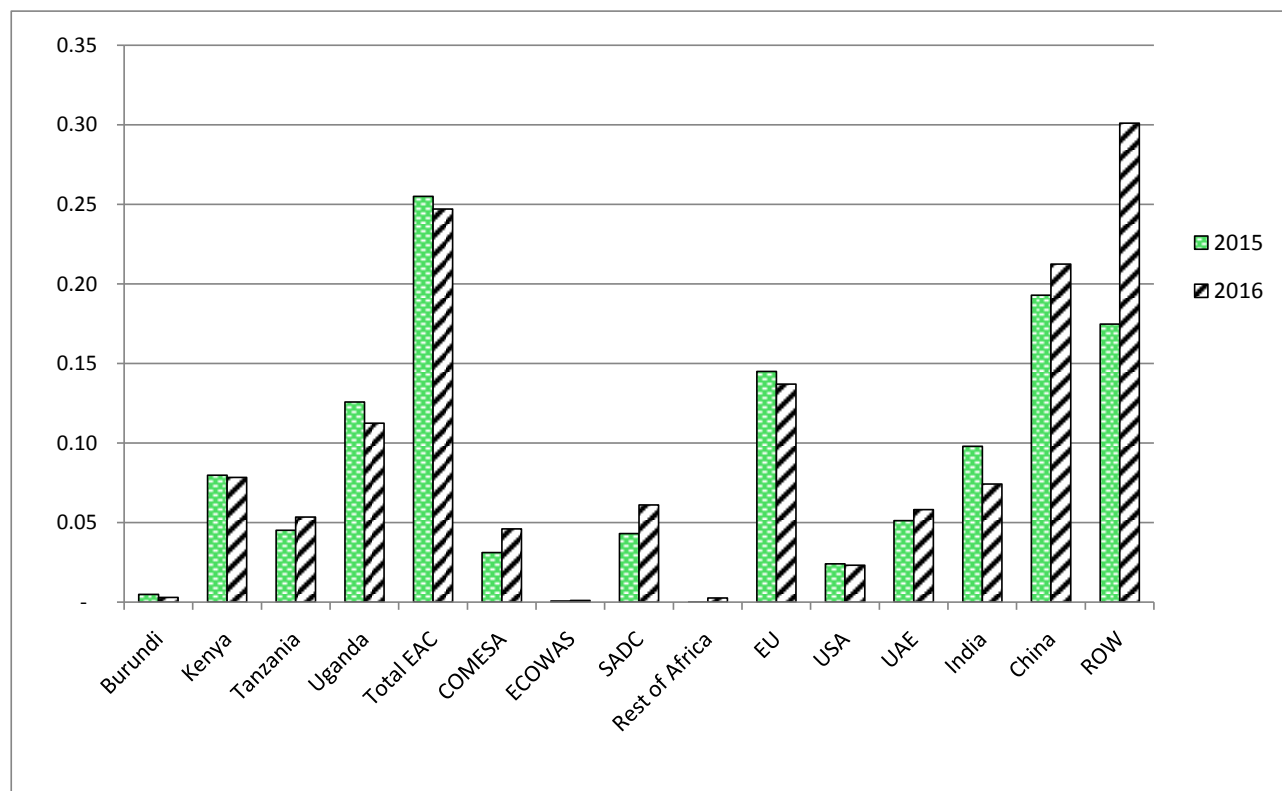


Source: NISR

Imports

Rwanda’s imports decreased by 4.2 percent to US\$1.8 billion in 2016, from US\$ 1.9 billion in 2015. Rwanda’s imports in 2016 were dominated by electrical machinery and equipment, nuclear reactors, boilers, machinery and mechanical appliances, vehicles, cereals, pharmaceutical products, salt, iron and steel, sugars, plastics articles, and fats and oils which contributed 59.19 percent of total imports. The main sources of Rwanda’s imports are EAC, China, EU, India, SADC, and the United Arab Emirates which contributed 78.97 percent of the total imports. Imports from China, India, SADC and COMESA increased during the year, while imports from the EU decreased. Imports from China increased by 5.4 percent to US\$378.2 in 2016, from US\$358.7 in 2016. Similarly, imports from UAE and SADC increased by 8.7 percent and 35.9 percent, while imports from EU fell by 9.5 percent during 2016.

Figure 3:13 Rwanda's Imports by Country/Region of Origin (percent shares)

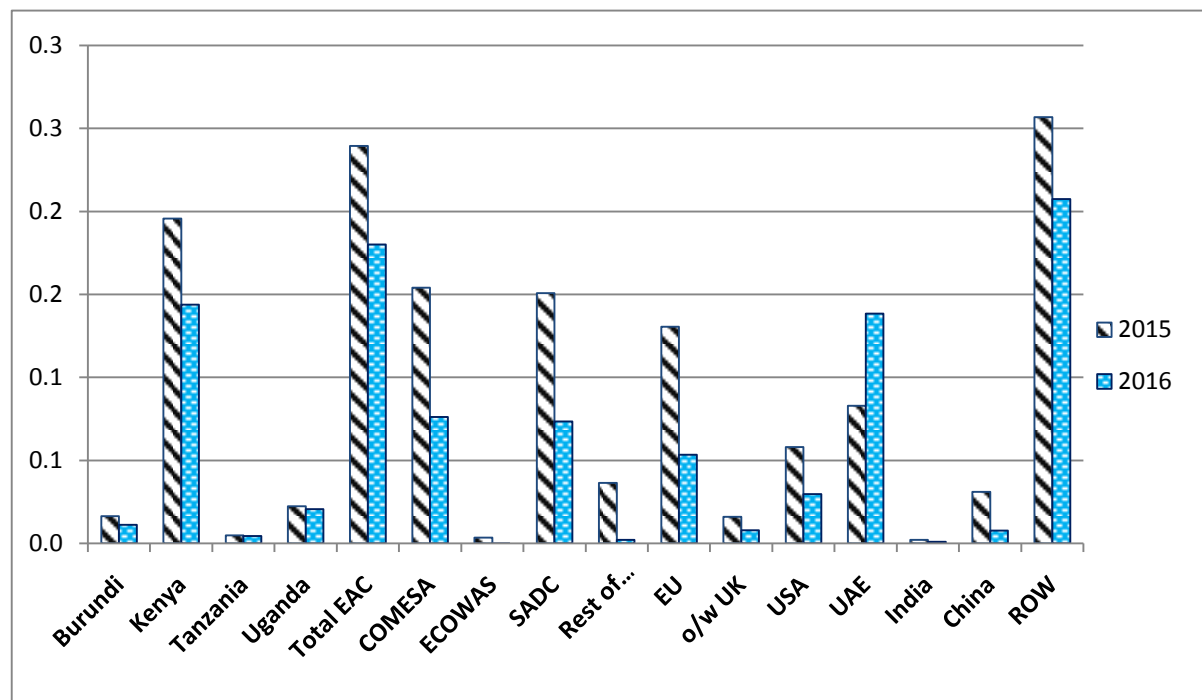


Source: NISR

Exports

Rwanda's domestic exports decreased by 0.7 percent to US\$ 407.7 million in 2016, from US\$ 410.4 million in 2015. The main domestic exports include coffee, tea, ores, precious stones, products of the milling industry, and residues and waste from the food industries, which accounted for 81.5 percent. Rwanda's domestic exports to EAC was 27.6 percent of the total.

Figure 3:14: Rwanda's Domestic Exports by Destination (percent)

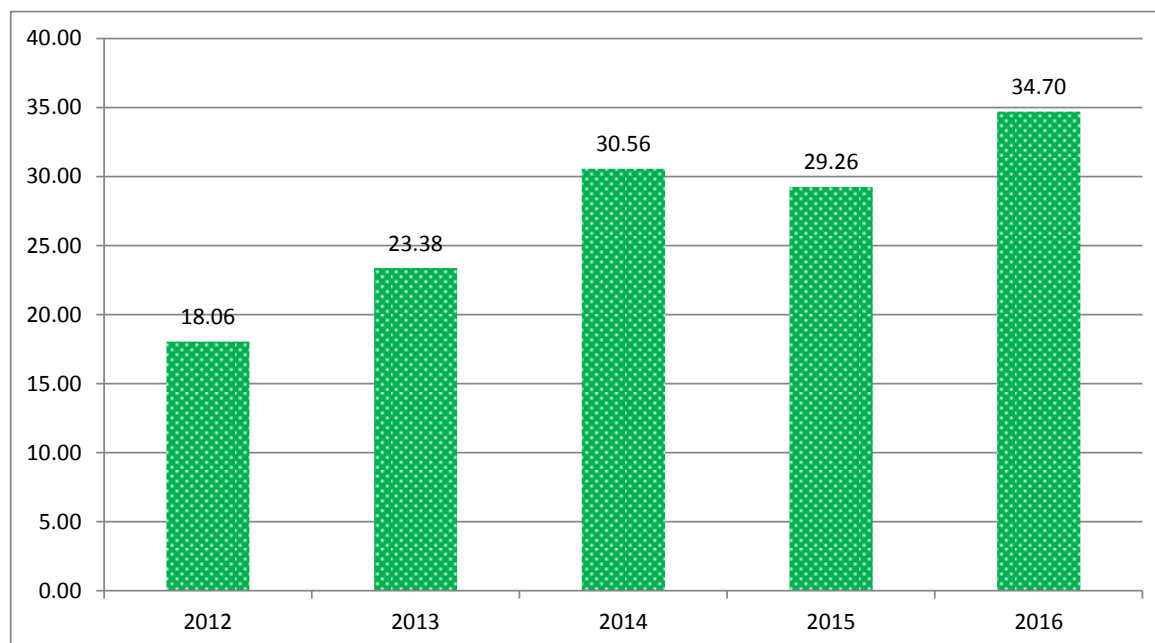


Source: NISR

Re-Exports

The share of Rwanda's re-exports to total exports increased by 4.5 percentage point in 2016. The value of re-exports went up by 27.7 per cent to US\$216.7 million in 2016, from US\$169.7 million in 2015. The main re-exports products included mineral fuels, mineral oils, fats, oils, and cereals, which accounted for 71.5 percent of total re-export value in 2016.

Figure 3:15: Share of Rwanda's Re-Exports to Total Exports, 2012-2016



Source: NISR

3.6.3.2 Rwanda's Intra-Regional Trade

Intra-Regional Exports

Domestic exports to EAC Partner States increased by 14.2 percent to US\$113.1 million in 2016, from US\$99.1 million in 2015. Domestic exports to Uganda increased by 32.2 percent to US\$ 13.0 million in 2016 from US\$9.8 million in 2015. Similarly, domestic exports to Tanzania increased by 28.2 percent to US\$ 2.8 million in 2016 from US\$ 2.2 million in 2015. Rwanda's domestic exports to Kenya increased by 12.4 percent to US\$90.2 million in 2016, from US\$ 80.3

million in 2015. Domestic exports to Burundi registered the lowest increase of 5.3 percent to US\$ 7.2 million in 2016, from US\$ 6.8 million in 2015.

Table 3:9 Rwanda Intra-EAC Exports, 2012-2016 (US\$ million)

	Intra-EAC export flows	2012	2013	2014	2015	2016
Rwanda	Intra-EAC Domestic Exports	312.3	380.7	262.6	98.3	113.1
	Intra-EAC Re-exports	31.1	86.3	89.9	20.5	43.5
	Total Intra-EAC Exports	343.5	467.0	352.4	118.8	156.6
	Percent Share of Intra-Re-exports	9.1	18.5	25.5	17.3	27.8

Source: RRA and NISR

Intra EAC Re-Exports

Rwanda's re-exports to the EAC Partner States increased by 111.5 percent to US\$ 43.5 million in 2016, from US\$ 20.6 million in 2015. The main re-exports to EAC region comprised mineral fuels, nuclear reactors, boilers, machinery and mechanical appliances and vehicles.

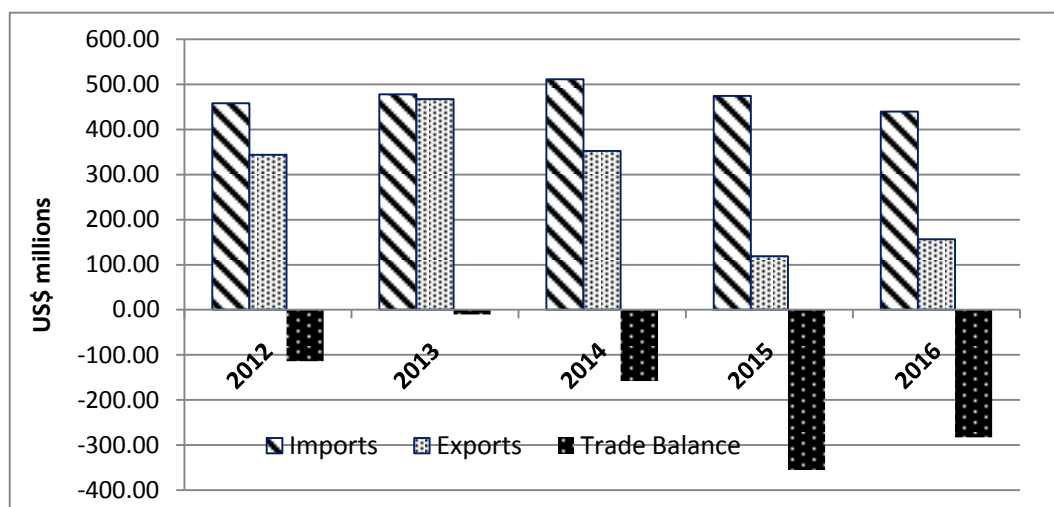
Intra-Regional Imports

Rwanda's imports from EAC Partner States decreased by 7.2 per cent, to US\$440.2 million in 2016, from US\$474.1 million in 2015. Rwanda's imports from EAC Partner States are dominated by imports from Uganda with a share of 45.5 percent, followed by Kenya with 31.8 percent. The main imports from Uganda included salt, fats, cereals, and soaps; while the main imports from Kenya were salt, fats, iron and steel, plastic articles, and paper, including paper articles.

Trade Balance

In 2016, Rwanda's total trade with EAC decreased by 3.5 percent to US\$553.4 million in 2016, from US\$573.2 million in 2015. Kenya was Rwanda's main trading partner in 2016 with 41.6 percent, followed by Uganda with 38.5 percent, Tanzania with 17.7 percent and Burundi with 2.2 percent. The country's trade balance with the EAC showed a deficit of US\$327.1 million in 2016 lower than a deficit US\$375.1 million in 2015.

Figure 3:16 Rwanda Trade with EAC Partner States, 2012-2016 (US\$ million)



Source: NISR

Table 3:10 Rwanda's Trade with EAC Partner States, 2012-2016, (US\$ million)

		2012	2013	2014	2015	2016	% change			
							2013	2014	2015	2016
Burundi	Imports	10.9	7.3	6.2	8.8	5.3	-33.6	-15.1	42.0	-40.0
	Exports	13.6	20.8	19.3	6.8	7.2	52.7	-7.5	-64.7	5.3
	Total trade	24.6	28.1	25.4	15.6	12.4	14.3	-9.4	-38.8	-20.2
	Trade Balance	2.7	13.5	13.1	-2.0	1.9	402.1	-3.4	-114.9	-197.9
Kenya	Imports	135.2	121.3	163.1	148.0	139.8	-10.3	34.5	-9.2	-5.6
	Exports	95.6	83.0	74.1	80.3	90.2	-13.1	-10.7	8.3	12.4
	Total trade	230.8	204.3	237.2	228.3	230.1	-11.5	16.1	-3.7	0.8
	Trade Balance	-39.7	-38.3	-89.0	-67.7	-49.6	-3.5	132.6	-23.9	-26.8
Tanzania	Imports	77.0	80.9	67.5	83.7	95.0	5.1	-16.6	24.1	13.4
	Exports	165.7	275.4	181.1	2.2	2.8	66.2	-34.2	-98.8	28.2
	Total trade	242.7	356.3	248.6	85.9	97.7	46.8	-30.2	-65.5	13.8
	Trade Balance	88.8	194.5	113.7	-81.5	-92.2	119.1	-41.6	-171.7	13.0
Uganda	Imports	234.7	203.1	228.3	233.6	200.2	-13.5	12.4	2.3	-14.3
	Exports	68.6	87.8	77.9	9.8	13.0	28.0	-11.2	-87.4	32.2
	Total trade	303.3	290.9	306.2	243.4	213.1	-4.1	5.3	-20.5	-12.4
	Trade Balance	-166.2	-115.3	-150.4	-223.8	-187.2	-30.6	30.4	48.8	-16.4
Intra EAC	Imports	457.8	412.5	465.1	474.1	440.2	-9.9	12.7	2.0	-7.2
	Exports	343.5	467.0	352.4	99.1	113.1	36.0	-24.5	-71.9	14.2
	Total Trade	801.3	879.5	817.5	573.2	553.4	9.8	-7.0	-29.9	-3.5
	Trade Balance	-114.4	54.5	-112.6	-375.1	-327.1	-147.6	-306.7	233.0	-12.8

Source: NISR

3.6.3.3 Rwanda's Informal Cross Border Trade

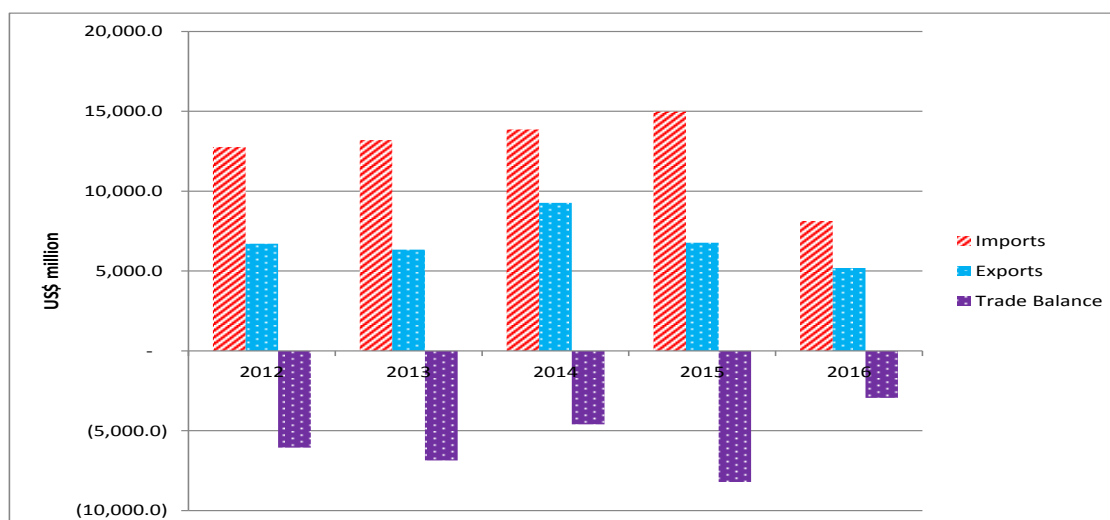
Total informal cross border trade in Rwanda increased by 16.9 percent to US\$149.40 million in 2016 from US\$127.79 million in 2015. Total informal cross border trade was about 6.2 percent of total formal trade in 2016, up from 5.24 per cent in 2015. Total informal cross border imports increased by 37.3 percent to US\$ 26.5 million in 2016, up from US\$19.3 million in 2015, while informal cross border exports also increased by 13.3 percent to US\$122.9 million in 2016, from US\$108.5 million in 2015.

3.6.4 Tanzania

3.6.4.1 Tanzania's International Trade

Tanzania's total trade in 2016 decreased by 34.3 percent to US\$13.5 billion in 2016, from US\$ 20.6 billion in 2015. The decrease in total trade was attributed to the decline in merchandise imports by 46.7 percent to US\$7.8 billion in 2016 from US\$14.7 billion in 2015. Tanzania's main trading partners during 2016 included India, China, EU and Kenya. The overall trade deficit narrowed by 75.5 percent from US\$8.9 billion it recorded in 2015, to US\$2.2 billion in 2016. The improvement of the trade balance could partly be explained by a reduction of 46.7 percent in merchandise imports compared to a reduction of 3.1 percent in exports over the same period.

Figure 3:17 Tanzania's Exports, Imports and Trade Balance, 2012 – 2016 (US\$ million)



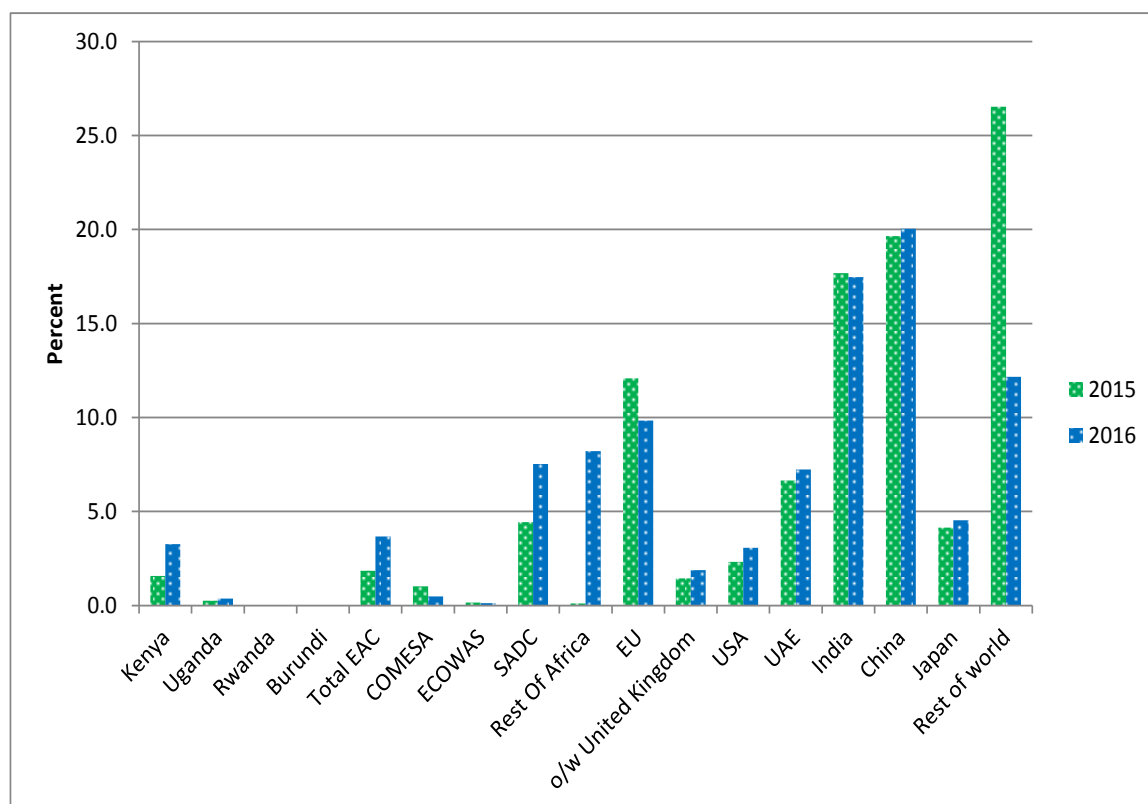
Source: TRA and NBS

Imports

Tanzania's imports declined by 46.7 percent to US\$7.8 billion in 2016, from US\$14.7 billion recorded in 2015 (figure 3.19). The decline arose from the overall fall in imports of consumer goods and capital goods with the exception of petroleum products and industrial raw materials. The reduction in imports of capital goods was associated with completion of some major projects, such as the cement factory in Mtwara, gas power plants, and exploration activities of natural resources.

During the year, Tanzania's main import countries included China, India and EU. Tanzania's imports from China amounted to US\$1.6 billion and accounted for 20.8 percent of total imports, while imports from India amounted to US\$1.4 billion and accounted for 18.1 percent of total imports. Tanzania also imported goods amounting to US\$800.7 million, equivalent to 10.2 percent of total imports from the EU.

Figure 3:18: Tanzania's Imports by Country/Region of Origin, 2015-2016 (percentage share)

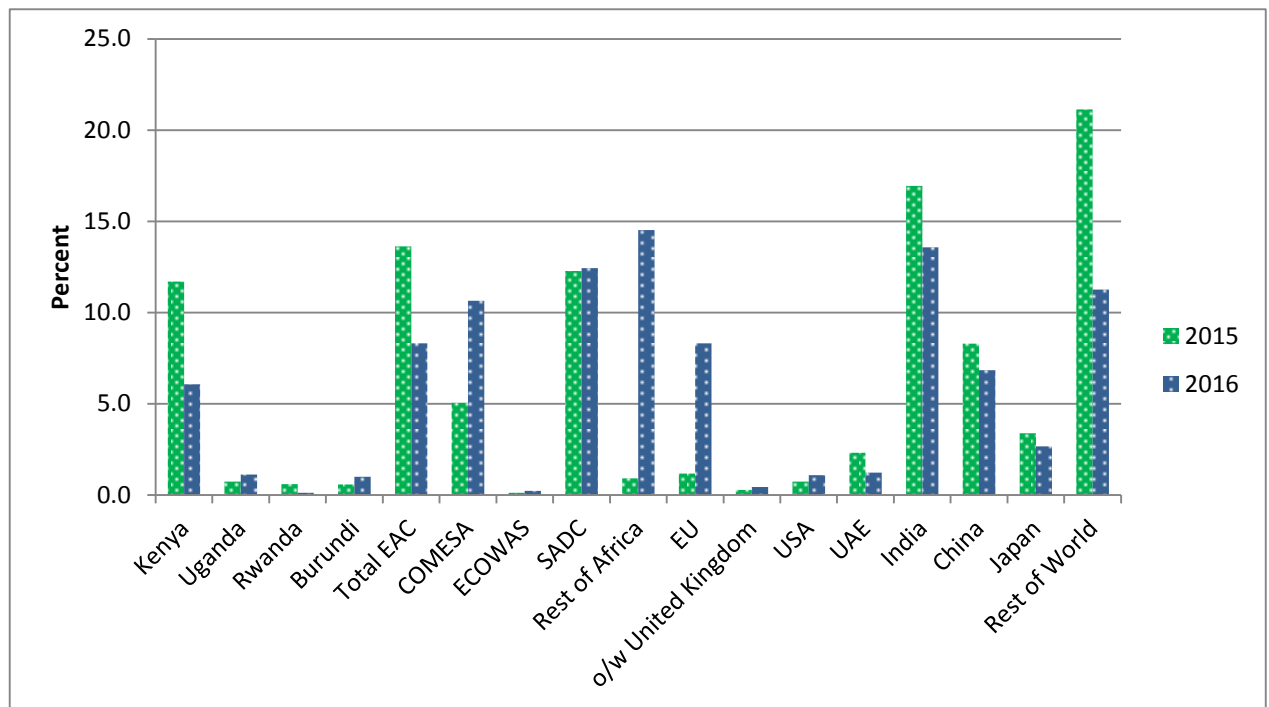


Source: TRA and NBS

Exports

In 2016, Tanzania's domestic exports decreased by 18.6 percent to US\$4.8 billion, from US\$ 5.9 billion in 2015 (figure 3.20). The decline in exports was largely explained by decrease in the value of manufactured goods exports, particularly edible oil, plastic products, ceramic and glassware products. During the period under review, India, SADC, COMESA, EU and China were among the leading destinations for Tanzania's domestic exports jointly accounting for 56.6 percent. Exports to India amounted to US\$706.2 million and accounted for 14.8 percent of total exports while exports to SADC amounted to US\$ 646.7 million or 13.6 percent of total exports. COMESA, EU and China accounted for 11.6 percent, 9.1 percent and 7.5 percent of total exports, respectively. The exports were primarily gold, cotton, tea, tobacco, coffee, sisal, cashew nuts, cloves, and horticulture products.

Figure 3:19 Tanzania's Domestic Exports by Destination, 2015-2016 (percentage share)

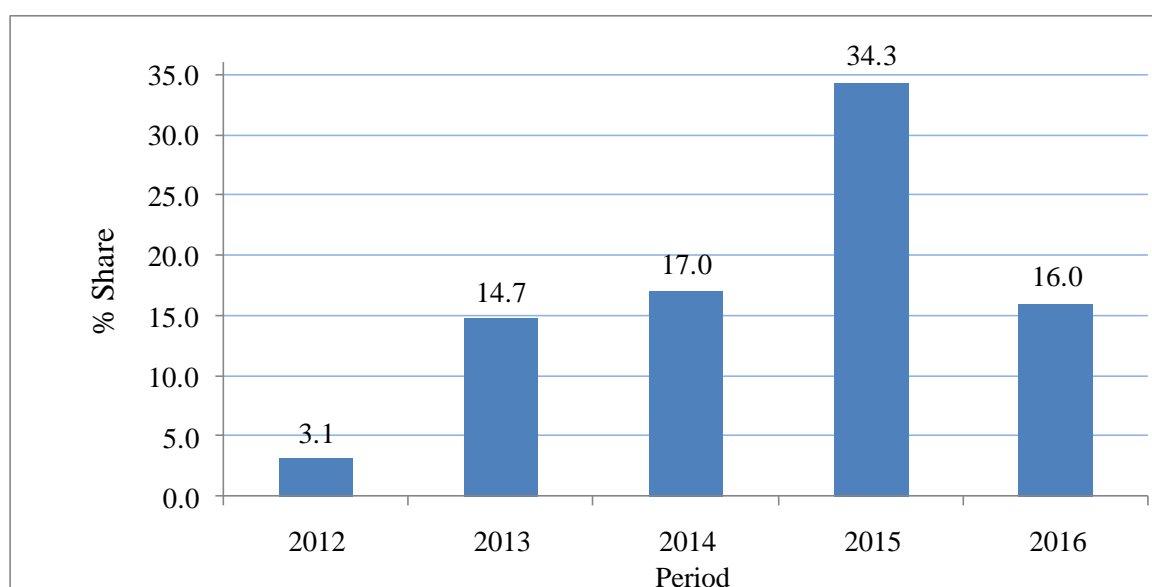


Source: TRA and NBS

Re-Exports

In 2016 Tanzania's re-exports declined by 54.7 percent to US\$908.8 million, from US\$2.0 billion in 2015. The share of re-exports to total exports decreased to 16.0 percent recorded in 2016, compared with 35.0 percent in 2015 (**Figure 3.21**). The goods re-exported included light vessels, fire-floats, motor vehicles, electrical equipment and spare parts, mineral fuels, fertilizer and machinery parts.

Figure 3:20 Share of Tanzania's Re-exports to Total Exports, 2012- 2016 (percentage share)



Source: TRA and NBS

3.6.4.2 Tanzania's Intra-Regional Trade

Total intra-EAC trade declined by 33.2 percent to US\$851.3 million in 2016, from US\$1.3 billion in 2015. The decline in intra-EAC trade was attributed to a fall in the volume of exports to the region. Specifically, Tanzania's intra-EAC exports declined by 44.5 percent to US\$552.5 million, from US\$995.2 million in 2015.

Intra-Regional Exports

Tanzania's domestic exports to EAC Partner States decreased by 53.2 percent to US\$432.7 million in 2016, from US\$924.0 million in 2015 (Table 3.11). Kenya remained the major

destination, accounting for 72.9 percent of Tanzania’s domestic exports to EAC Partner States, followed by Uganda which accounted for 13.5 percent of domestic exports. Burundi and Rwanda accounted for 12.1 percent and 1.5 percent, respectively. Most of the items exported to EAC Partner States included oil cakes and other solid residuals of vegetable fats, paper and paper products, seaweeds, vegetable products and maize corn. In 2016, the share of re-exports to the EAC Partner States to total exports increased to 21.7 percent in 2016, from 7.2 percent recorded on 2015.

Table 3:11 Tanzania’s Intra-EAC Exports, 2012-2016 (US\$ million)

Intra-EAC export flows	2012	2013	2014	2015	2016
Intra EAC Domestic Exports	519.8	419.5	601.0	924.0	432.7
Intra EAC Re-Exports	93.5	698.5	178.5	71.2	119.8
Intra EAC Total Exports	613.3	1,118.0	779.5	995.2	552.5
Percent Share of Intra-Re-exports	15.2	62.5	22.9	7.2	21.7

Source: TRA & NBS

Intra EAC Re-exports

Tanzania’s re-exports to EAC Partner States increased notably to US\$119.8 million in 2016, compared to US\$71.2 million registered in 2014 (Table 3.11). Tanzania’s major re-export destinations during the period were Uganda, Kenya and Burundi that accounted for 78.5 percent, 19.0 percent, and 1.9 percent of total re-exports, respectively. Total re-exports accounted for 16.0 percent of Tanzania’s total exports. The major re-exports to EAC Partner States were motor vehicles and mineral fuels.

Intra-Regional Imports

In 2016, Tanzania’s imports from EAC Partner States rose to US\$298.8 million, from US\$ 278.7 million in 2015. Imports from Kenya increased by 12.3 percent to US\$ 266.4 million, while imports from Uganda and Burundi decreased by 22.1 percent and 30.0 percent, to US\$ 30.6 million and US\$0.8 million in 2016, respectively. Tanzania’s import from Rwanda remained unchanged at US 1.1 million in 2016. Major imports from EAC Partner States include pharmaceuticals products, soaps, plastic items and machinery appliances.

Table 3:12 Tanzania's Trade with EAC Partner States, 2012-2016 (US\$ million)

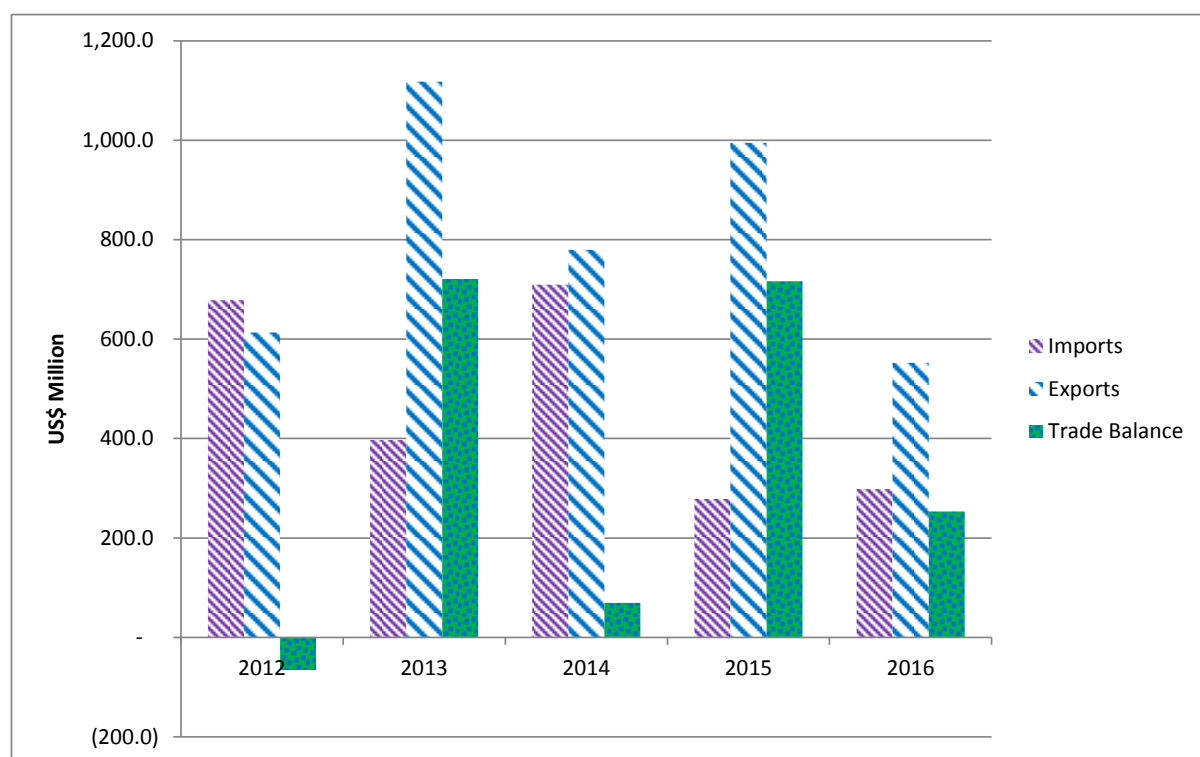
		2012	2013	2014	2015	2016	% Change			
							2013	2014	2015	2016
Kenya	Imports	564.2	336.0	657.9	237.3	266.4	-40.5	95.8	-63.9	12.3
	Exports	349.7	864.0	577.6	855.1	338.1	147.1	-33.1	48.0	-60.5
	Total trade	913.9	1,200.0	1,235.5	1,092.4	604.5	31.3	3.0	-11.6	-44.7
	Trade Balance	-214.6	528.0	-80.3	617.8	71.7	-346.1	-115.2	-869.4	-88.4
Uganda	Imports	108.3	58.0	48.2	39.2	30.6	-46.5	-16.9	-18.7	-22.1
	Exports	103.2	76.0	93.0	56.6	152.6	-26.3	22.4	-39.1	169.6
	Total trade	211.5	134.0	141.2	95.8	183.1	-36.6	5.4	-32.2	91.1
	Trade Balance	-5.2	18.0	44.8	17.4	122.0	-447.2	148.9	-61.2	601.3
Burundi	Imports	3.9	2.0	0.6	1.1	0.8	-48.6	-70.0	83.3	-30.0
	Exports	54.6	68.0	61.6	41.4	7.2	24.5	-9.4	-32.8	-82.7
	Total trade	58.5	70.0	62.2	42.5	7.9	19.7	-11.1	-31.7	-81.3
	Trade Balance	50.7	66.0	61.0	40.3	6.4	30.1	-7.6	-33.9	-84.1
Rwanda	Imports	2.1	1.0	3.2	1.1	1.1	-52.8	220.0	-65.6	0.0
	Exports	105.8	110.0	47.3	42.1	54.7	3.9	-57.0	-11.0	29.9
	Total trade	108.0	111.0	50.5	43.2	55.8	2.8	-54.5	-14.5	29.1
	Trade Balance	103.7	109.0	44.1	41.0	53.6	5.1	-59.5	-7.0	30.7
Intra-EAC	Imports	678.6	397.0	709.9	278.7	298.8	-41.5	78.8	-60.7	7.2
	Exports	613.3	1,118.0	779.5	995.2	552.5	82.3	-30.3	27.7	-44.5
	Total trade	1,291.9	1,515.0	1,489.4	1,273.9	851.3	17.3	-1.7	-14.5	-33.2
	Trade Balance	-65.3	721.0	69.6	716.5	253.7	123.8	-109.1	88.4	-64.6

Source: TRA and NBS

Intra-Regional Trade Balance

Tanzania's total trade with other EAC Partner States in 2016 decreased by 32.2 percent to US\$ 851.3 million, from US\$1.3 billion recorded in 2015. Likewise, Tanzania's trade balance with EAC Partner States decreased substantially by 64.6 percent to 253.7 million in 2016, down from a surplus of US\$ 716.5 million in 2015. The development was mainly driven by a decrease in exports. Despite the decrease in the trade surplus during the period under review, Tanzania recorded a trade surplus with all EAC Partner States.

Figure 3:21 Tanzania’s Trade with EAC Partner States, 2012 – 2016 (US\$ million)



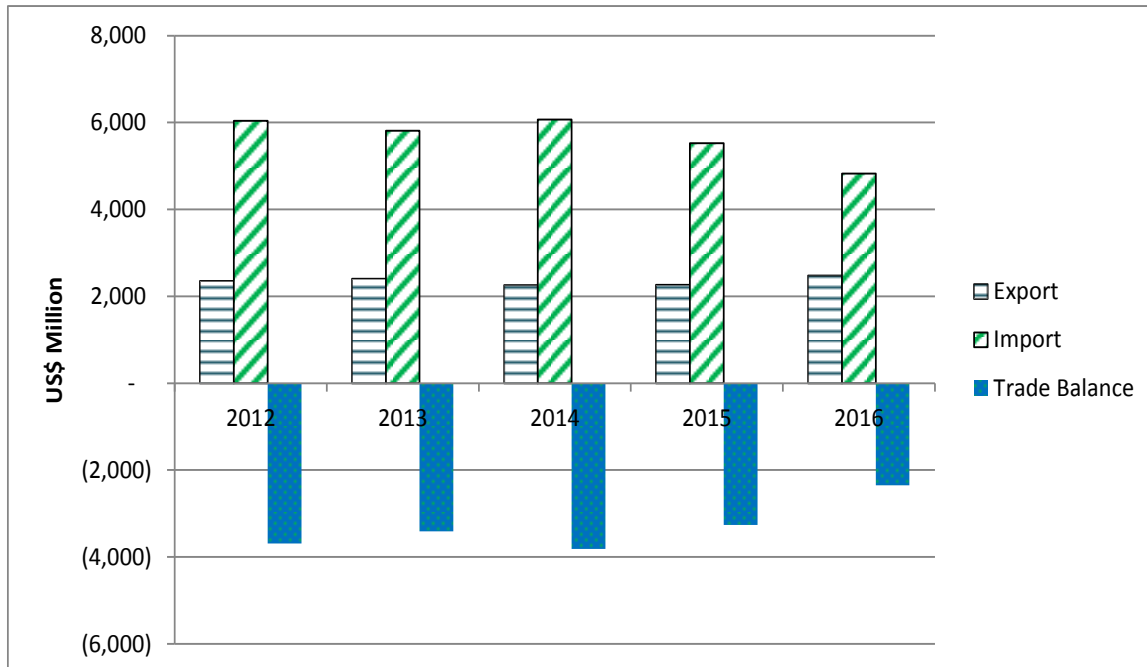
Source: TRA and NBS

3.6.5 Uganda

3.6.5.1 Uganda's International Trade

Uganda's total trade stagnated at US\$7.8 billion in 2015 and 2016. Total imports declined by 5 percent in 2016, while the value of exports remained marginally stagnant. The trade performance over the year 2016 could be attributed to the decline in prices of key commodities like coffee, cotton and tobacco. Overall, Uganda continued to experience trade deficits in the international trade albeit with slight improvement. The trade deficit improved to US\$2.0 billion in 2016, from US\$3.0 billion registered in 2015. This reduction in the deficit was attributed to reduced value of formal imports due to low demand in the private sector during 2016.

Figure 3:22 Uganda's Total Exports, Imports and Trade Balance, 2012-2016 (US\$ millions)



Source:

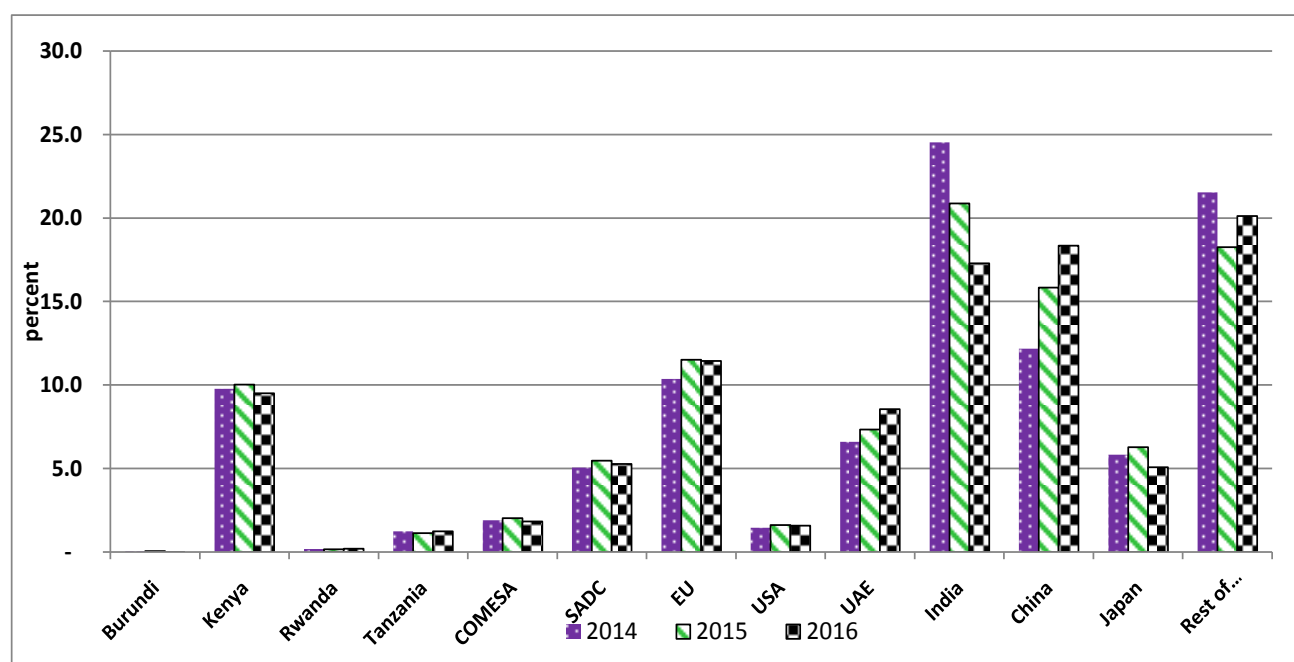
Uganda Bureau of Statistics, Bank of Uganda and URA statistics

Imports

The total imports bill in 2016 was US\$4.9 billion, of which formal imports accounted for US\$ 4.8 billion, while informal cross border imports were estimated at US\$64.9 million. The total imports bill declined by 12.5 percent in 2016. The reduction in imports value could be attributed to political uncertainties during the general elections that were held in February 2016 and associated difficulties in clearing goods at Mombasa port in 2016.

Asia remained Uganda's main source of imports although the value of imports decreased to US\$ 2.5 billion in 2016 from US\$ 3.0 billion in 2015 and the share of imports from Asia dropped to 50.9 in 2016, from 53.8 percent in 2015. This drop was a result of reduction in value of imports from India whose share decreased to 17.1 percent in 2016, from 20.9 percent in 2015. Imports from the Middle East amounted to US\$741 million, and accounted for 15.4 percent of the total imports in 2016. The main trading partners in the Middle East were the United Arab Emirates (UAE) and Saudi Arabia, accounting for 8.4 percent and 5.1 percent, respectively. Imports from the COMESA region amounted to US\$609 million, representing 12.4 percent of the total imports in 2016, with imports from Kenya accounting for 9.9 percent of the total imports from COMESA.

Figure 3:23 Uganda's Imports by Country /Region of Origin, (percentage)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics

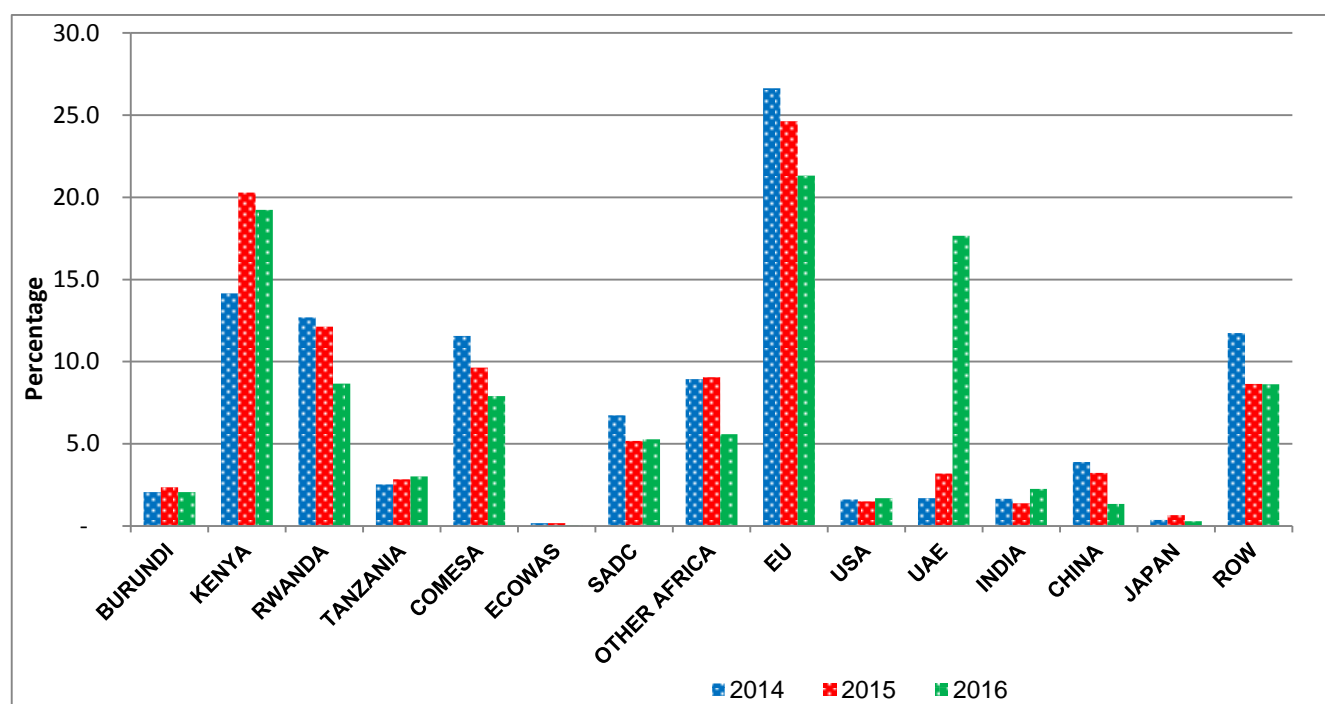
Domestic Exports

Overall export earnings increased by 8.8 percent to US\$2.9 billion in 2016, of which, formal exports were US\$2.5 billion, while informal cross border exports amounted to US\$419.2 million. Formal exports increased by 9.5 percent to US\$2.5 billion in 2016, from US\$ 2.3 billion in 2015. On the other hand, informal cross border exports increased by 5.0 percent to US\$419.2 million in 2016, from US\$ 399.1 million in 2015.

The Common Market for Eastern and Southern Africa (COMESA) regional bloc remained the main destination for Uganda's exports. However, earnings from formal and informal exports from the COMESA region especially Rwanda, Kenya and DR. Congo decreased to US\$ 1.2 billion in 2016, from US\$1.3 billion. In terms of percentage, total export to COMESA fell to 42.2 percent of total exports in 2016, from 47.0 percent in 2015. Within the COMESA region, exports to Kenya, D.R. Congo and Rwanda amounted to US\$483 million, US\$398 million and US\$ 227 million, respectively in 2016. Meanwhile, exports to South Sudan amounted to US\$ 281 million, accounting for 9.7 percent of the total export earnings in 2016. The Share of exports to Africa outside the COMESA region registered a slight decrease to 15.2 percent in 2016, from

16.9 percent in 2015, while exports to the European Union (EU) in 2016 registered a slight decrease to 14.8 percent of total exports. Exports to the European Union were mainly destined to Italy (3.4 percent), The Netherlands (2.8 percent), Federal Republic of Germany (2.6 percent), and Belgium (2.3 percent).

Figure 3:24 Uganda's Domestic Exports by Country/Region of Destination (percentage share)

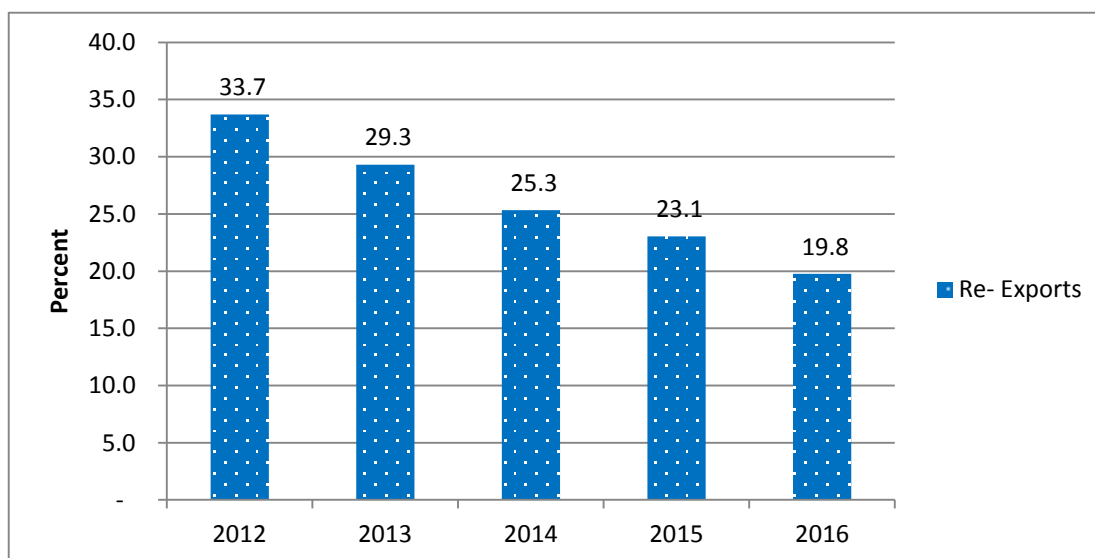


Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics

Re-Exports

Uganda's re-exports declined by 6.5 percent to US\$491 million in 2016, from US\$523 million in 2015. As a result, the share of re-exports to total exports declined to 19.8 percent during the year from 23.1 percent in 2015. The main re-export products from Uganda were grain and aviation fuel. The decline in re-exports was attributed to a contraction in re-exports to the COMESA and the Middle-East.

Figure 3:25 Uganda's Re-exports as Percent of Total Exports (percentage change)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA Statistics

3.6.5.2 Uganda's Intra-Regional Trade Trends

Intra-Regional Exports

Uganda's domestic exports to the EAC Partner States declined by 7.9 percent to US\$711.0 million in 2016, from US\$771.6 million in 2015. In 2016, domestic exports to Rwanda declined by 18.7 percent to US\$193.3 million, while domestic exports to Tanzania increased by 13.3 percent to US\$68.9 million. The main domestic exports to EAC partner states comprised grain, energy, cement and tobacco.

Table 3:13 Uganda's Intra EAC Exports, 2012-2016 (US\$ million)

Intra-EAC export flows		2012	2013	2014	2015	2016
Uganda	Intra EAC Domestic Exports	473.62	525.03	530.27	655.39	655.68
	Intra EAC Re-exports	106.64	102.39	111.98	116.24	55.65
	Intra EAC Total Exports	580.27	627.42	642.24	771.63	711.34
	Percent Share of Intra-Re-exports	18.38	16.32	17.44	15.06	7.82

Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics

Intra-Regional Imports

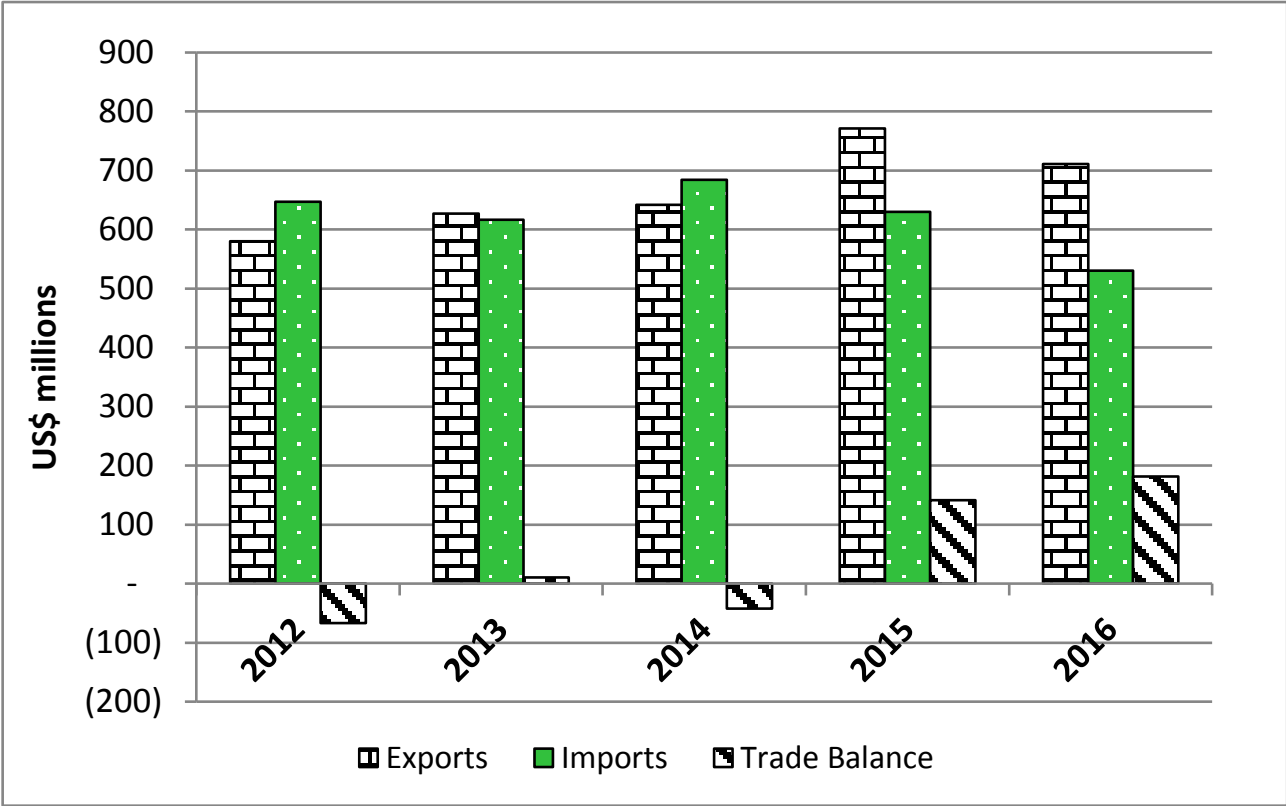
Uganda's imports from EAC Partner States decreased by 15.9 percent to US\$530.1 million in 2016, from US\$630.2 million in 2015. Kenya continued to be the major source of Intra-EAC imports, accounting for 87.0 percent of Uganda's Intra-regional imports valued, amounting to

US\$ 459.0 million in 2016. The main imports from Kenya included petroleum products, cement, iron and steel and pharmaceutical products. Imports from Tanzania decreased to US\$59.7 million in 2016 from US\$62.9 million in 2015. The main imports from Tanzania included petroleum products, coffee and plastic products.

Intra-Regional Trade Balance

Uganda’s total trade with EAC Partner States declined by 11.4 percent to US\$1.2 billion in 2016, from US\$1.4 billion in 2015. Uganda’s trade surplus with EAC Partner States increased by 28.2 to US\$181.3 million in 2016, from US\$141.5 million in 2015. Total exports to the region declined by 7.8 percent to US\$711.3 million in 2016, from US\$771.6 million in 2015.

Figure 3:26 Uganda's Trade with EAC Partner States, 2012-2016 (US\$ million)



Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics

Table 3:14 Uganda's Trade with EAC Partner States, 2012-2016, (US\$ million)

		2012	2013	2014	2015	2016	Percentage Change			
							2013	2014	2015	2016
Burundi	Imports	1.4	0.5	4.1	3.4	1.3	(68.1)	809.0	(17.9)	(61.8)
	Exports	46.1	48.7	43.5	46.3	45.1	5.7	(10.8)	6.5	(2.5)
	Total trade	47.5	49.2	47.6	49.7	46.4	3.5	(3.3)	4.4	(6.6)
	Trade Balance	44.7	48.3	39.3	42.9	43.8	8.1	(18.5)	9.1	2.1
Rwanda	Imports	5.4	7.4	10.9	9.4	10.1	38.0	47.1	(13.9)	7.6
	Exports	226.1	216.3	245.3	237.6	193.3	(4.3)	13.4	(3.2)	(18.7)
	Total trade	231.5	223.7	256.2	246.9	203.3	(3.4)	14.5	(3.6)	(17.7)
	Trade Balance	220.7	208.9	234.5	228.2	183.2	(5.4)	12.2	(2.7)	(19.7)
Kenya	Imports	590.2	562.8	593.9	554.5	459.0	(4.6)	5.5	(6.6)	(17.2)
	Exports	254.1	314.4	297.4	427.0	404.1	23.8	(5.4)	43.6	(5.4)
	Total trade	844.3	877.2	891.3	981.5	863.1	3.9	1.6	10.1	(12.1)
	Trade Balance	(336.1)	(248.4)	(296.5)	(127.5)	(54.9)	(26.1)	19.4	(57.0)	(57.0)
Tanzania	Imports	50.0	45.9	75.7	62.9	59.7	(8.1)	64.9	(16.9)	(5.1)
	Exports	54.0	48.0	56.0	60.8	68.9	(11.2)	16.8	8.5	13.3
	Total trade	104.0	93.9	131.7	123.7	128.6	(9.7)	40.3	(6.1)	4.0
	Trade Balance	4.1	2.0	(19.7)	(2.1)	9.2	(49.9)	(1,069.6)	(89.2)	(531.4)
Intra-EAC**	Imports	646.9	616.6	684.6	630.2	530.1	(4.7)	11.0	(8.0)	(15.9)
	Exports	580.3	627.4	642.2	771.6	711.3	8.1	2.4	20.1	(7.8)
	Total trade	1,227.2	1,244.0	1,326.9	1,401.8	1,241.4	1.4	6.7	5.6	(11.4)
	Trade Balance	(66.7)	10.8	(42.4)	141.5	181.3	116.2	(491.7)	(433.9)	28.2

Source: Uganda Bureau of Statistics, Bank of Uganda and URA statistics

3.6.5.3 Uganda's Informal Cross-Border Trade

The 2016 Informal Cross Border Trade (ICBT) survey monitoring activities was jointly conducted by the Uganda Bureau of Statistics and the Bank of Uganda (BOU) at the 20 main border crossings of the country. It collected information on cross border trade between Uganda and her neighbours that are not recorded by the Customs Department of the Uganda Revenue Authority (URA).

Informal exports and imports are grouped into three categories; industrial, agricultural and other products, to take into account the level of processing of the goods transacted. During 2016, industrial products dominated informal trade exports, while agricultural products dominated informal imports whose market share stood at 67.3 percent for informal exports and 59.9 percent for informal imports, respectively.

Informal Cross Border Exports

Uganda's informal exports grew by 4.8 percent to US\$419.2 million, from US\$399.1 million recorded in 2015, although the share of informal exports to total exports fell to 14.4 percent in

2016, from 15.0 percent in 2015. Generally, informal export receipts from neighbouring countries decreased with the exception DR Congo, Tanzania and Rwanda. This could be attributed to the increasing reliance by the population of the border areas of Eastern DR. Congo, Tanzania and Rwanda on products from Uganda. Informal exports to DR Congo grew by 21.5 percent to US\$221.3 million in 2016, from US\$182.1 in 2015, Tanzania by 140.1 percent to US\$43.8 million from US\$18.2 million, and Rwanda by 53.9 percent to US\$33.5 million from US\$21.8 million in 2015. However, informal exports to Burundi fell significantly by 100.0 percent and South Sudan by 47.2 percent in 2016.

In 2016 manufactured informal exports increased by 10.8 percent to US \$282.2 million, from US\$251.7 million in 2015. DR Congo was the major destination for most of the industrial exports, accounting for US\$171.8 million, representing 60.8 percent of the informal manufactured exports during 2016. However, agricultural informal exports fell to US\$ 135.2 million in 2016, from US\$146.2 million in 2015.

Informal Cross Border Imports

Informal cross border imports declined by a marginal 1.0 percent, to US\$ 64.8 million in 2016, from US\$ 64.2 million in 2015. The share of informal imports in total imports remained relatively stable at 1.3 percent in 2016. Kenya was the leading source of Uganda's informal imports, accounting for 41.0 percent of total informal imports in 2016. Informal imports from Kenya fell by 16.6 percent to US\$26.6 million, from US\$31.9 million in 2015. Informal imports from DR Congo amounted to US\$ 20.3 million, accounting for 31.2 percent of total informal cross border imports.

Agricultural products dominated informal imports, accounting for 59.9 percent of all informal imports in 2016. The value of agricultural informal imports increased to US\$38.9 in 2016, from US\$31.2 million in 2015. DR Congo, Tanzania and Kenya were the main source countries for agricultural commodities, with a combined value of US\$35.7 million, representing 91.8 percent of the informal agricultural imports. Imported industrial products fell to US\$25.3 million in 2016 from US\$32.7 million in 2015. Other informal imports comprising mainly natural resources amounted to US\$ 0.7 million during 2016, up from US\$0.6 million in 2015.

3.7 Special Category Considerations in the EAC Customs Union

With the coming into force of the Customs Union, the EAC partner states established the Customs Union Protocol to support trade liberalization, among other things. The main features of the Protocol are: the elimination of internal tariffs on goods traded among the Partner States; the adoption of a 3-band CET with a minimum rate of 0 percent on raw materials and capital goods; a middle rate of 10 percent on intermediate products and a maximum rate of 25 percent on finished goods; the designation of a group of (58) goods as sensitive products with ad-valorem tariffs ranging from 35 percent to 100 percent; the application of EAC Rules of Origin; the establishment of an exemption and remission regime in order to promote and facilitate export-orientated investments; producing export competitive goods, and attracting foreign direct investments. The implementation of these provisions of the Protocol has implications for customs revenue performance as outlined in this section.

Table 3:15 Duty Foregone due to Exemptions and Remissions, 2012 -2016 (US\$ Million)

Partner States	Heading	2012	2013	2014	2015	2016	Percentage change			
							2013	2014	2015	2016
Uganda	Value of Exemptions	323.2	591.6	295.6	305.9	322.0	83.1	(50.0)	3.5	5.3
	Revenue Foregone	88.9	130.8	53.2	70.1	81.8	47.0	(59.3)	31.8	16.7
	Total Trade Taxes	1,188.7	1,285.9	1,503.9	1,486.8	1,463.1	8.2	17.0	(1.1)	(1.6)
	Percent Foregone	7.0	9.2	3.4	4.5	5.6	32.6	(63.0)	31.8	24.2
Tanzania	Value of Exemptions	2683.0	3664.2	3940.8	2868.1	7069.3	36.6	7.5	(27.2)	146.5
	Revenue Foregone	671.0	1131.9	730.9	592.6	444.1	68.7	(35.4)	(18.9)	(25.1)
	Total Trade Taxes	1800.5	2108.8	2315.3	2338.3	2542.0	17.1	9.8	1.0	8.7
	Percent Foregone	27.1	34.9	24.0	20.2	14.9	28.7	(31.3)	(15.7)	(26.4)
Kenya	Value of Exemptions	4421.7	3621.0	3032.8	3126.5	2619.3	(16.2)	3.1	(100.5)	(99.9)
	Revenue Foregone	934.0	838.5	621.0	664.2	597.8	(10.2)	(25.9)	6.9	(10.0)
	Total Trade Taxes	2990.1	3163.0	3885.4	3838.6	4804.5	5.8	22.8	(1.2)	25.2
	Percent Foregone	23.8	21.0	13.8	14.8	11.1	(12.0)	(34.2)	7.0	(25.0)
Rwanda	Value of Exemptions	780.4	671.1	684.3	646.6	576.6	(14.0)	2.0	(5.5)	(10.8)
	Revenue Foregone	193.9	169.1	189.4	182.2	157.3	(12.8)	12.0	(3.8)	(13.7)
	Total Trade taxes	301.4	310.3	342.7	369.4	382.8	3.0	10.4	7.8	3.6
	Percent Foregone	64.3	54.5	55.3	49.3	41.1	(15.3)	1.4	(10.8)	(16.7)
Burundi	Value of Exemptions	528.3	369.8	77.8	340.8	203.9	(30.0)	(79.0)	338.2	(40.2)
	Revenue Foregone	120.2	70.8	7.6	80.4	54.3	(41.1)	(89.3)	964.7	(32.4)
	Total Trade taxes	149.6	124.8	147.5	143.2	150.6	(16.6)	18.2	(2.9)	5.1
	%age Foregone	80.4	56.8	5.1	56.1	36.1	(29.4)	(91.0)	996.2	(35.7)

Source: Partner States Revenue Authorities, Central Banks and National Statistics Offices

3.7.1 Exemptions and Remissions

Burundi

Burundi's imports subject to exemptions, decreased by 40.2 percent to US\$203.9 million in 2016 from US\$340.8 million in 2015, while revenue foregone decreased by 32.4 percent to US\$54.3 million in 2016, from US\$80.4 million in 2015. Trade taxes increased by 5.1 percent to US\$150.6 million in 2016, from US\$143.2 million in 2015.

Kenya

In Kenya, the value of goods imported under exemptions and remissions regime decreased by 16.2 percent to US\$2.6 billion in 2016 from US\$3.1 billion in 2015. Similarly, revenue foregone decreased by 10.0 percent to US\$597.8 million in 2016 from US\$664.2 million in 2015. This is due to stringent measures enforced by customs to seal loopholes, which were being used to evade tax payments.

Rwanda

Rwanda's imports subject to exemptions decreased by 10.8 percent to US\$576.66 million in 2016, from US\$646.6 million in 2015, while revenue foregone decreased by 13.7 percent to US\$157.3 million in 2016, from US\$182.22 million in 2015. Trade taxes increased by 3.6 percent to US\$382.8 million in 2016 from US\$369.4 million in 2015.

Tanzania

In 2016, the value of goods imported under exemptions and remissions regime amounted to US\$ 7.1 billion, which was 146.5 percent higher than the amount recorded in 2015. However, the revenue foregone as a result of the exemptions went down to US\$444.1 million in 2016, from US\$592.6 million in 2015.

Uganda

During 2016, the value of imports under exemption and remissions regime, increased to US\$ 322.0 million in 2016, from US\$305.9 million in 2015. Similarly, revenue forgone as a result of the exemptions increased to US\$81.8 million from US\$70.1 million recorded in 2015. The major goods imported under the exemption regime included parts of helicopters/planes, photo sensitive semi-conductor devices, mosquito nets and medical diagnostic as well as laboratory reagents.

3.7.2 Sensitive Products

Burundi

Burundi's imports of sensitive goods from non-EAC Partner States decreased by 2.6 percent to US\$55.6 million in 2016, from US\$55.0 million in 2015. Major imports included wheat, sugar, worn clothing and cement. Burundi's imports of sensitive goods from EAC Partner States decreased by 45.10 percent, from US\$39.8 million in 2015 to US\$21.9 million in 2016. Major sensitive products imported by Burundi from EAC Partner States included maize, cement and rice.

Kenya

Kenya's imports of sensitive products from non-EAC countries decreased by 44.8 percent to US\$739.9 million in 2016, from US\$1.3 billion in 2015. This was a result of removal of some products from the list of sensitive commodities especially Portland cement in the review period. The decrease in importation of motor vehicles for transportation of goods to US\$7.3 million in 2016 from US\$362.7 million in 2015, also contributed to the decline. On the other hand, import of cane or beet sugar increased by 42.3 percent to US\$170.8 in 2016, from US\$120.1 million in 2015. Import of sensitive products from EAC Partner States decreased by 51.3 percent to US\$ 70.4 million in 2016, from US\$144.4 million in 2015, mainly on account of 88.5 percent decrease in imports of maize corn.

Rwanda

In 2016, Rwanda's imports of sensitive goods from non-EAC Partner States increased by 47.0 percent to US\$295.3 million in 2016 from US\$200.9 million in 2015. Major imports included cement, sugar, motor vehicles for the transport of goods, wheat, rice and maize. Rwanda's imports of sensitive goods from EAC Partner States decreased by 8.1 per cent to US\$103.4 million in 2016, from US\$112.5 million in 2015. Major sensitive products imported by Rwanda

from EAC Partner States included cement which accounted for 51.6 percent, maize accounted for 20.4 percent, sugar accounted for 7.1 percent, and cereal flour accounted for 4.8 per cent.

Tanzania

Total import of sensitive goods decreased by 97 percent, to US\$22.9 million in 2016, from US\$ 886.8 million in 2015. Import of sensitive goods from non-EAC countries decreased by 98.4 percent to US\$ 13.9 million in 2016, compared with US\$ 869.1 million in 2015. All sensitive products from non-EAC Partner States showed a significant decline. The value of sensitive goods imported from EAC Partner States decreased by 49.0 percent to US\$9.0 million in 2016, from US\$ 17.7 million in 2015. Much of the decrease was recorded in the importation of milk and cream, beer made from malt, tobacco and Portland cement.

Uganda

In 2016, the total value of sensitive goods imported in Uganda decreased by 11.4 percent to US\$585.6 million, from US\$652.9 million recorded in 2015. The value of sensitive goods imported from non-EAC Partner States accounted for 87.5 percent of the total value of sensitive products imported in 2016. The import of sensitive goods from EAC Partner States decreased by 20.2 percent, to US\$73.4 million in 2016. The major sensitive goods imported from non-EAC Partner States included wheat and muslin, motor vehicles, sugar, worn clothing and rice while the EAC Partner states mainly provided cement, rice beer and cigarettes.

3.7.3 Excisable Goods

Burundi

Burundi's value of imported excisable goods decreased by 32.9 percent to US\$173.9 million, from US\$258.8 million in 2015, mainly due to the decrease of imports of cars and petroleum products which represented 89.1 percent of the value of imported excisable goods in 2016.

Kenya

The value of imported excisable goods decreased by 9.4 percent, to US\$2.6 billion in 2016, from US\$2.9 billion in 2015. This was mainly on account of 15.0 percent decrease in import of petroleum products to US\$1.8 billion in 2016, from US\$ 2.2 billion in 2015.

Rwanda

In 2016 Rwanda's value of imported excisable goods increased by 3.7 per cent, to US\$197.4 million from US\$190.5 million in 2015. The increase was attributed to the new valuation of motor cars and other Motor vehicles for the transportation of persons, with the value of US\$136.9 million in 2016, from US\$118.6 million in 2015. This represented 69.3 percent of the value of imported excisable goods in 2016.

Tanzania

In 2016, the value of imported goods that attracted excise duty decreased by 35.0 percent to US\$ 753.3 million, from US\$1.2 billion in 2015. The decrease was mainly due to the reduction of imports of petroleum products, mineral fuels, tobacco and plastic items.

Uganda

In 2016, Uganda's import of excisable products decreased to US\$918.3 million, from US\$1.1 billion in 2015. The major products that attracted excise duty were petroleum products (US\$ 887.4 million), sugar and sugar confectionary (US\$99.4 million) and beverages (US\$ 61.9million). These commodities constituted the major excisable products in the year, jointly accounting for over 91.5 percent of the total value of excisable products.

3.7.4 Tariff Bands

Table 3:16 EAC-Value of Imports by Tariff Band, 2012-2016 (US\$ million)

Partner State	Tariff Band	2012	2013	2014	2015	2016	% Change			
							2013	2014	2015	2016
Kenya	0	10,600.2	10,430.4	11,995.2	9,652.3	8,121.9	(1.6)	15.0	(19.5)	(15.9)
	10	2,028.9	2,197.5	2,352.9	2,248.2	2,035.7	8.3	7.1	(4.4)	(9.5)
	25	2,702.9	2,938.5	3,137.5	3,257.2	3,137.1	8.7	6.8	3.8	(3.7)
	>25	894.8	844.6	920.6	842.7	810.3	(5.6)	9.0	(8.5)	(3.8)
	Total	16,226.8	16,411.0	18,406.2	16,000.4	14,105.0	1.1	12.2	(13.1)	(11.8)
Tanzania	0	6,937.6	7,303.3	7,539.0	5,862.3	4,184.1	5.3	3.2	(22.2)	(28.6)
	10	2,292.7	2,257.1	2,309.8	2,072.0	1,531.9	(1.6)	2.3	(10.3)	(26.1)
	25	2,228.2	2,697.1	2,663.1	2,373.4	1,852.5	21.0	(1.3)	(10.9)	(21.9)
	> 25	257.3	267.5	255.3	237.8	267.2	4.0	(4.6)	(6.8)	12.4
	Total	11,715.7	12,525.0	12,767.3	10,545.5	7,835.7	6.9	1.9	(17.4)	(25.7)
Uganda	0%	4,554.1	4,150.9	4,258.6	3,992.2	3,323.1	(8.9)	2.6	(6.3)	(16.8)
	2%	-	-	-	-	-	-	-	1.0	2.0
	4%	2.4	2.6	2.5	0.1	0.8	6.3	(2.9)	(95.5)	625.9
	6%	32.7	35.1	38.3	11.5	17.0	7.2	9.1	(69.9)	47.1
	10%	373.2	547.8	650.6	561.7	556.4	46.8	18.8	(13.7)	(0.9)
	25%	864.2	861.7	883.7	754.1	712.9	(0.3)	2.5	(14.7)	(5.5)
	>25%	216.2	219.4	239.9	208.5	219.3	1.5	9.3	(13.1)	5.2
	Total	6,042.8	5,817.5	6,073.5	5,528.1	4,829.5	(3.7)	4.4	(9.0)	(12.6)
Rwanda	0%	980.1	1,073.3	1,267.4	949.2	824.6	9.5	18.1	(25.1)	(13.1)
	5%	311.2	176.3	73.6	-	-	(43.4)	(58.3)	(100.0)	#DIV/0!
	10%	174.2	184.3	118.5	241.9	209.7	5.8	(35.7)	104.1	(13.3)
	15%	-	-	-	-	-	-	-	1.0	2.0
	25%	147.2	169.7	203.2	717.8	679.8	15.3	19.7	253.3	(5.3)
	>25%	33.1	53.4	41.7	73.9	66.2	61.4	(21.9)	77.0	(10.4)
	Total	1,645.9	1,657.0	1,704.4	1,982.8	1,780.2	0.7	2.9	16.3	(10.2)
Burundi	0%	531.1	649.8	597.8	619.8	468.0	22.3	(8.0)	3.7	(24.5)
	10%	223.1	199.6	57.5	58.1	42.8	(10.5)	(71.2)	1.2	(26.4)
	25%	139.2	132.8	116.2	102.8	103.8	(4.6)	(12.5)	(11.6)	1.0
	>25%	52.7	23.3	10.5	12.2	13.6	(55.9)	(55.1)	16.7	11.5
	Total	946.1	1,005.4	781.9	792.8	628.2	6.3	(22.2)	1.4	(20.8)

Source: Partner States Revenue Authorities

Burundi

Burundi's import of goods under 0 percent tariff band decreased by 24.5 per cent, to US\$468.0 million in 2016, from US\$619.8 million in 2015. Goods under the 0 percent tariff accounted for 74.5 percent of the total value of imports including exemptions. Imports under the 10 percent tariff band accounted for 6.8 percent of total imports. In 2016 the value of goods imported under the 10 percent band decreased by 26.4 percent, to US\$42.8 million from US\$58.1 million. Goods under the 25 percent tariff band accounted for 16.5 per cent of the total imports. Over the year 2016, the value of goods imported under the 25 percent tariff increased by 1.01 per cent, to US\$103.8 million in 2016 from US\$102.8 million in 2015.

Kenya

The proportion of goods imported under zero percent tariff band decreased from 60.3 percent in 2015 to 57.6 percent in 2016. Similarly, the value of goods imported under the zero percent tariff band decreased to US\$8.1 billion in 2016 from US\$9.7 billion in 2015. The share of goods imported under 10 percent, 25 percent and over 25 percent tariff bands increased to 14.4 percent, 22.2 percent and 5.7 percent, respectively in 2016.

Rwanda

Rwanda's imports of goods under zero percent tariff band decreased by 13.13 percent to US\$ 824.6 million in 2016 from US\$949.2 million in 2015, and accounted for 46.3 per cent of the total value of imports (including exemptions). Imports under the 10 percent tariff band accounted for 11.8 percent of total imports and decreased by 13.3 percent to US\$209.7 million in 2016 from US\$241.9 million in 2015, while imports under the 25 percent tariff band accounted for 38.2 percent of the total imports and decreased by 5.29 percent, to US\$679.8 million in 2016 from US\$73.9 million in 2015.

Tanzania

During 2016, merchandise imports under the zero tariff band declined to US\$4.2 billion from US\$5.9 billion recorded in 2015, which accounted for 61 percent decline of the total imports. Similarly, the value of imports under 10 percent tariff band decreased to US\$1.5 billion from US\$ 2.1 billion recorded in 2015. Likewise, the value of goods imported under the 25 percent tariff band decreased by 7.7 percent to US\$1.9 billion in 2016, from US\$2.4 billion in 2015. On the other hand, the value of goods imported under the tariff bands above 25 percent increased by 12.4 percent to US\$267.2 million in 2016, from US\$237.8 million registered in 2015.

Uganda

In 2016, the value of goods imported under the zero percent tariff band accounted for 68.8 percent of total imports. This was a decrease of 16.8 percent to US\$3.3 billion from US\$4.0 billion recorded in 2015. The major imports under the zero percent tariff band included crude palm oil, mineral fuels and oils, machinery and appliances, electrical equipment, pharmaceutical products and iron and steel. During the same period, imports under the 10 percent tariff band

decreased by 1.0 percent to US\$512.9 million. The main products under 10 percent band included wheat, vehicles for the transport of goods, new pneumatic tyres, bituminous mixtures and vehicles parts and accessories, The value of imports under the 25 percent tariff band decreased by 5.5 percent to US\$712.9 million in 2016 from US\$754.1 million in 2015. However, the share of this category of imports to total imports increased by 1.2 percent in 2016 to 14.8 percent. Goods imported under the 25 percent tariff band mainly included vehicles, palm olein and footwear.

3.7.5 Customs Revenue Performance

Table 3:17 Customs Revenue Collected by EAC Partner States, 2012-2016 (US\$ million)

Partner state	Tax head	2012		2013		2014		2015		2016		Performance Rate				% change			
		Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	2013	2014	2015	2016	2013	2014	2015	2016
Kenya	Import Duty	726.0	652.9	738.9	676.9	920.5	777.6	827.8	805.7	798.9	885.8	91.6	84.5	99.2	110.9	3.7	14.9	13.9	9.9
	Excise Duty	523.6	505.6	527.6	506.8	621.3	603.8	651.5	638.5	746.5	769.2	96.0	97.2	116.9	103.0	0.2	19.1	27.4	20.5
	VAT Imports	1277.2	1110.7	1237.1	1166.7	1699.5	1484.7	1577.9	1398.4	1283.6	1594.4	94.3	87.4	91.8	124.2	5.0	27.3	7.4	14.0
	Other	720.6	721.0	847.2	812.5	931.8	1019.4	422.7	539.2	1141.3	1555.0	95.9	109.4	211.7	136.3	12.7	25.5	52.5	188.4
	Total Customs Revenue	3247.4	2990.1	3350.9	3163.0	4173.1	3885.4	4048.9	3838.6	3970.3	4804.5	94.4	93.1	103.4	121.0	5.8	22.8	23.7	25.2
	Total Revenue	9434.9	8851.2	10017.6	9597.5	12371.1	11514.7	12170.6	11362.3	12539.8	13322.7	95.8	93.1	110.4	106.2	8.4	20.0	15.7	17.3
	% age of Customs Revenue to Total Revenue		33.8		33.0		33.7		33.8		36.1								
Burundi	Import Duty	34.3	39.5	24.2	20.8	30.5	28.7	32.8	28.1	21.3	21.4	85.9	94.1	75.9	100.4	-47.4	38.0	-25.3	-23.8
	Excise Duty	67.7	59.7	6.2	7.2	11.2	12.8	97.3	71.7	15.2	21.0	116.4	114.0	21.2	137.8	-87.9	76.3	64.4	-70.7
	VAT	127.1	159.7	74.6	83.8	95.3	95.7	177.5	86.2	81.5	81.3	112.4	100.4	94.5	99.7	-47.5	14.2	-15.0	-5.7
	Other	3.8	5.2	8.7	13.0	4.4	10.3	5.3	4.6	17.3	26.9	149.2	235.9	376.4	155.1	148.2	-20.3	160.1	483.8
	Total Customs Revenue	233.0	264.1	113.7	124.8	141.4	147.5	312.8	190.7	135.4	150.6	109.8	104.3	71.0	111.2	-52.8	18.2	2.1	-21.0
	Total Tax Revenue	375.9	365.1	352.5	359.9	419.8	423.9	469.1	375.8	335.0	353.3	102.1	101.0	89.2	105.5	-1.4	17.8	-16.7	-6.0
	% age of Customs Revenue to Total Revenue		72.4		34.7		34.8		50.7		42.6								
Rwanda	Import	52.2	61.0	82.0	71.8	86.0	80.7	82.0	96.9	86.2	91.5	87.6	93.9	89.0	106.1	17.8	12.4	13.3	-5.6
	Excise Duty	74.5	73.7	79.0	74.0	84.0	82.7	93.3	87.0	81.5	87.4	93.7	98.5	93.6	107.2	0.4	11.8	5.6	0.4
	VAT Imports	103.6	112.0	147.8	124.8	160.7	138.8	137.0	146.8	144.8	150.3	84.4	86.4	98.6	103.8	11.4	11.2	8.3	2.4
	Other	24.5	54.7	28.2	40.2	19.8	40.4	37.9	38.6	59.3	53.6	142.6	204.2	153.5	90.4	-26.5	0.7	32.6	38.8
	Total Customs Revenue	254.8	301.4	337.0	310.8	350.4	342.70	350.2	369.4	371.8	382.8	92.2	97.8	100.7	102.9	3.1	10.3	11.7	3.6
	Total Revenue	846.0	935.2	1,092.6	1,109.3	1,232.1	1,194.2	1,235.0	1,278.8	1,274.1	1,302.1	101.5	96.9	99.6	102.2	18.6	7.7	9.0	1.8
	% age of Customs Revenue to Total Revenue		32.2		28.0		28.7		28.9		29.4								
Tanzania	Import Duty	368.0	367.3	444.0	407.5	530.5	502.3	430.1	398.5	580.1	649.7	91.8	94.7	145.6	112.0	10.9	23.3	29.4	63.1
	Excise Duty	442.4	398.7	518.8	476.5	577.4	486.7	477.0	562.4	547.8	628.5	91.8	84.3	97.4	114.7	19.5	2.1	29.1	11.7
	VAT	803.7	751.7	878.9	796.5	945.9	857.7	909.3	801.9	963.4	820.2	90.6	90.7	120.1	85.1	6.0	7.7	-4.4	2.3
	Other	283.4	282.7	439.9	428.4	518.9	468.7	594.6	575.5	587.7	561.7	97.4	90.3	102.1	95.6	51.5	9.4	19.8	-2.4
	Total Customs Revenue	1,897.5	1,800.5	2,281.7	2,108.8	2,572.7	2,315.3	2,410.9	2,338.3	2,678.9	2,660.1	92.4	90.0	114.6	99.3	17.1	9.8	14.9	13.8
	Total Revenue	4,691.7	4,787.7	5,999.9	5,517.6	6,903.1	6,384.5	6,340	5,939	6,716	6,491	92.0	92.5	113.1	96.7	15.2	15.7	1.7	9.3
	% age of Customs Revenue to Total Revenue		37.6		38.0		36.3		39.4		41.0								
Uganda	Import	220.7	221.0	245.1	269.9	306.4	301.0	287.8	282.3	306.7	287.3	110.1	98.2	108.6	93.7	22.1	11.5	-4.6	1.8
	Excise Duty	439.4	392.0	435.8	401.0	482.5	477.5	455.9	480.3	481.7	504.6	92.0	99.0	100.3	104.7	2.3	19.1	5.7	5.0
	VAT Imports	530.6	475.1	541.3	522.0	591.2	614.4	581.6	603.0	623.8	560.9	96.4	103.9	103.4	89.9	9.9	17.7	-8.7	-7.0
	Other	98.8	100.5	123.7	93.0	131.6	113.1	105.9	121.1	160.6	110.3	75.1	85.9	132.6	68.7	-7.5	21.6	-2.4	-8.9
	Total Customs Revenue	1,289.5	1,188.7	1,346.0	1,285.9	1,511.7	1,505.9	1,431.3	1,486.8	1,572.9	1,463.1	95.5	99.6	105.8	93.0	8.2	17.1	-2.8	-1.6
	Total Revenue	2,853.4	2,808.2	3,159.8	3,022.5	3,634.1	3,512.2	3,402.0	3,435.3	3,568.5	3,459.3	95.7	96.6	103.9	96.9	7.6	16.2	-1.5	0.7
	% age of Customs Revenue to Total Revenue		42.3		42.5		42.9		43.3		42.3								

Source: EAC Partner States Revenue Authorities, 2017

Burundi

In 2016, Burundi's total customs revenue decreased to US\$150.6 million, from US\$190.7 million in 2015. This would be linked to the decline in major imports such as petroleum products and vehicles that generated taxes. The share of total customs revenue to total tax revenue decreased to 42.6 percent in 2016 from 50.7 percent in 2015. VAT on imports accounted for 54.0 percent of the total customs revenue and decreased by 5.7 percent in 2016. The performance rate for VAT and import duty increased to a performance rate of 100.4 percent and 99.7 percent from 48.6 percent and 85.7 percent in 2015, respectively.

Kenya

Total customs revenue increased to US\$4.8 billion in 2016 from US\$3.8 billion in 2015, resulting into a performance rate of 121.0 percent of the set target of US\$4.0 billion. The share of total customs revenue to the total revenue, increased to 36.1 percent in 2016 from 33.8 percent in 2015. VAT on imports accounted for 33.2 percent of the total customs revenue increasing by 14.0 percent to US\$1.6 billion in 2016 from US\$1.4 billion in 2015. VAT and import duty performance rates increased from 88.6 percent and 97.3 percent in 2015, to 124.2 percent and 110.9 percent in 2016, respectively.

Rwanda

Rwanda's total tax revenues increased slightly by 1.83 percent, to US\$1.3 billion in 2016 amounting to an overall performance rate of 102.2 per cent against the 2016 target. Customs revenue collections increased by 3.6 percent to US\$382.8 million in 2016 from US\$369.4 million in 2015. The customs performance rate was 103.0 percent against a target of US\$371.8 million. Excise duty recorded an increase of 0.4 per cent, while VAT on imports increased by 2.4 per cent. However, import duty decreased by 5.6 per cent and accounted for 23.9 percent of the total customs revenue.

Tanzania

Tanzania's total revenue collected in 2016 increased by 9.3 percent to US\$6.5 billion, from US\$ 5.9 billion in 2015. Similarly, customs revenue increased by 13.8 percent to US\$2.7 billion in 2016, from US\$2.3 billion in 2015. The share of customs revenue to total revenue amounted to 41.0 percent in 2016 compared to 39.0 percent in 2015. The increase is partly explained by

enhanced measures on tax collection. VAT on imports increased to US\$820.2 million from US\$ 801.9 million in 2015. Import duty and excise duty performed at 112.0 percent and 114.7 percent of the set targets of US\$580.1 million and US\$547.8 million, respectively.

Uganda

In 2016 total customs revenue declined by 1.6 percent to US\$1.5 billion in 2016. This performance was 93.02 percent of the set target of US\$1.6 billion. VAT on imports accounted for 38.3 percent of the total customs revenue with Excise duty contributing 34.5 percent. When compared to their respective targets for the year, excise duty registered the highest performance of 104.7 percent, followed by import duty with a performance rate of 93.7 percent and VAT on imports duty with 89.9 percent and other taxes (environmental tax and withholding tax) with 68.7 percent. The key taxable imports included fuel, vehicles parts, electrical machinery, sugar, beverages, machinery, iron and steel and animal and vegetable fats and oil. The proportion of customs revenue to total revenue increased marginally to 42.3 in 2016 from 43.3 percent in 2015.

3.8 Challenges to Trade Development in the EAC

The analysis reveals that trade among EAC partner states has not grown much despite the elimination of duties on trade among Partner States. At the same time, the total export of EAC as a region, is not substantial. Total EAC merchandize trade amounted to US\$44.6 billion in 2016 but only accounted for only 0.3 percent of the global merchandize trade (UNCTAD 2017). At the same time, total intra-EAC exports constituted only 5.9 percent of total EAC trade. The main reasons for this low level of merchandize trade development in the EAC are outlined below:

i. Lack of product diversification and value addition

The EAC Member States produce and export similar commodities which constitute mainly agricultural products or mineral ores, with little value addition and import finished goods and products. The key agricultural products include coffee, cotton, maize, while the ores include gold, limestone and copper. This makes it difficult to export these commodities to Partner States in sizeable volumes.

While the region has made progress in industrial production in the manufacture of iron and steel, cement and beverages, there is no specialization, implying that the same products are also manufactured in the other Partner States. In addition, there is little intra- regional trade in

products that are not manufactured in the EAC like textiles, motor vehicles and petroleum products but imported. While these products constitute a large proportion of Partner States' imports, there is little scope for intra-regional trade in these products because most of the re-exportable products are already imports of the respective Partner States.

ii. Low global prices of export commodities

In 2016 the global economy performed poorly with economy only growing by 1.2 percent. This impacted on the prices of global products, some of which are exported by Partner States in the EAC. For example, UNCTAD (2017) reveals that global prices of commodities fell by 8.7 percent in 2016. At the same time, the global price of most agricultural products fell during the year. For example, the Report shows that the prices of tea, maize, hides and skins decreased by 15.7 percent, 4.1 percent and 18.8 percent in 2016 respectively, while the prices of coffee had not recovered from the huge price fall of 2015 and only grew by only 2.1 percent in 2016. Similarly, prices of manufactured goods fell by 1.3 percent in 2016. These price falls affected the values that EAC countries received from exports of some of these commodities.

iii. Incomplete regional integration process

While the EAC as a region has set up legislation that ensures a level playing ground for Partner States, there is a large disparity between the legal provisions and actual practice characterized by non-tariff barriers and restrictive Rules of Origin provisions. This has hampered intra-regional trade in the region by restricting the sale of certain commodities that are produced in the region.

iv. Export promotion schemes that restrict trade

While the region as a whole adopted export promotion schemes to attract trade, some of the schemes have tended to constrain the capacity of manufacturers to access the market. For example, the duty remission schemes restrict sale within the EAC of commodities produced from raw materials that benefitted from exemptions to only 20 percent of production.

3.9 Prospects for Merchandize Trade

It is encouraging that the region has identified some of the causes that inhibit intra-trade within EAC, especially those caused through the application of the current CET and Rules of Origin. The EAC plans the revision of the CET with a view to having Rules of Origin and CET that are facilitative of EAC intra-trade and encourage investment and industrialization. EAC has initiated

EAC NTB monitoring framework in order to eliminate and discourage imposition of new NTBs in the region.

The construction of the Standard Gauge Railway as part of the Northern Corridor Project from Mombasa, extending to Uganda and South Sudan as well as the railway from Dar es Salaam to Kigali, is expected to reduce the cost and time of transportation of cargo to and from other Partner States served by the ports of Mombasa and Dar es Salaam. Partner States will need to fast track the Common Market Protocol and other trade agreements under EPAs and AGOA to enable enhanced movement of goods and factors of production within the region. This will increase the potential for increased industrial development and skilled labour.

4 CHAPTER 4: INVESTMENT CLIMATE AND FLOWS IN THE EAC

4.1 Global Investment Trends

Global investment flows experienced slower growth despite impressive performance in 2015 and optimistic predictions for 2016. Foreign Direct Investment (FDI) inflows decreased by 2 percent to US\$1.75 trillion in 2016 from US\$ 1.8 billion in 2015 (figure 4.1). The decrease was attributed to weak economic growth, persistent low global crude oil prices and weak manufacturing sector output over the previous years (UNCTAD 2017). The services sector continued to contribute the bulk of global investment flows in 2016, accounting for about 68 percent of global investment flows while the manufacturing and primary sectors accounted for 26 percent and 6 percent of global flows, respectively. FDI in the manufacturing sector was dominated by chemical products, foods and beverages while the primary sector was dominated by extractives and export of agricultural commodities.

Foreign Direct Investment inflows to the developed economies increased by 5 percent to US\$1.0 trillion and represented about 58.9 percent of global investment flows mainly in the form of equity investment through Mergers and Acquisitions. Mergers and Acquisitions in developed economies grew by 21 percent to US\$794 billion in 2016. Investment flows into North America grew by 8.9 percent to US\$425 billion, from US\$ 390 billion in 2015, while FDI into Europe fell by 5.8 percent to US\$533 billion in 2016 from US\$566 billion in 2015.

FDI to transition economies grew by 78.9 percent to US\$68 billion in 2016 in part due to increased privatization of formerly government owned investments as well as investments in exploration activities for future mining operations in the Russian Federation and other Eastern European countries (UNCTAD 2017).

Flows to developing countries declined by 14 percent to US\$646 billion in 2016. While the value of Greenfield investments increased to US\$16 billion, FDI in the form of cross border mergers and acquisitions declined in aggregate value. Flows to Asia declined by 15 percent to US\$443 billion, while flows to Africa declined by 3 percent to US\$59 billion. The decline was mainly due to weak commodity prices and sluggish economic growth which affected investor decisions.

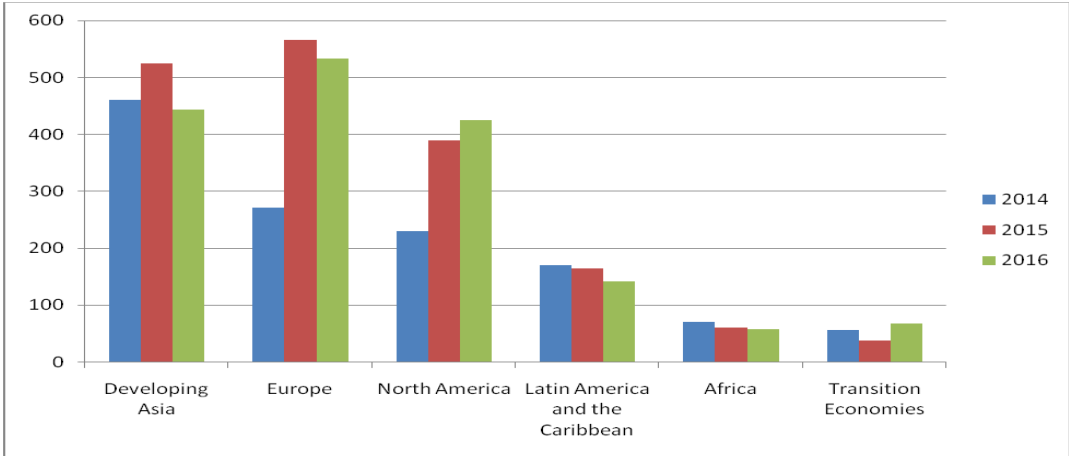
Similarly, inflows to Latin America and the Caribbean declined by 14 percent to US\$142 billion in 2015, as a result of economic recession and weak commodity prices.

Overall, FDI inflows into Europe, North America and developing Asia constituted 30.5 percent, 24.3 percent and 25.3 percent of total FDI inflows during 2016 (Table 4.1), respectively. The United States remained the largest recipient of FDI, attracting US\$391 billion in inflows, followed by the United Kingdom with US\$254 billion, mainly driven by cross border mergers and acquisitions, while China was the third largest recipient with US\$134 billion, up from US\$132.8 billion in 2015.

Outward FDI from developed economies continued to fall, declining by 11 percent to US\$1.0 trillion in 2016. Similarly, FDI outflows from most regions fell, apart from Asia. FDI outflows from Europe fell by 22.7 percent to US\$515 billion in 2016, down from US\$666 billion in 2015, mainly driven by significant reduction in investments from European multinational companies. FDI outflows from North America fell by 1.4 percent to US\$365 billion in 2016.

FDI outflows from developing and transition economies also fell by 1.5 percent and 21.9 percent, respectively in 2016. Among developing economies, FDI from Africa remained stagnant at US\$18 billion in 2016. However, FDI outflows from Asia increased by 7.1 percent to US\$ 363 billion in 2016.

Figure 4:1 FDI Inflows by Region, 2014-2016 (US\$ billion)



Source: UNCTAD, FDI/MNE Data Base 2017

Table 4:1 FDI Flows by Region, 2014-2016 (billions of dollars and percentage of total)

Economic Group or region	FDI Inflows			FDI Outflows		
	2014	2015	2016	2014	2015	2016
Global Level	1324	1774	1746	1253	1594	1452
Developed Economies	563	984	1032	708	1173	1044
Europe	272	566	563	221	666	515
North America	231	390	425	353	370	365
Developing Economies	704	752	646	473	389	383
Africa	71	61	59	28	18	18
Asia	460	524	443	412	339	363
Latin America & the Caribbean	170	165	142	31	31	1
Oceania	2	2	2	1	1	1
Transition Economies	57	38	68	73	32	25
Percentage Share in Global Flows						
Developed Economies	42.6	55.5	59.1	56.5	73.6	71.9
Europe	20.6	31.9	30.5	17.7	41.8	35.5
North America	17.4	22	24.3	28.1	23.2	25.2
Developing Economies	53.2	42.4	37	37.7	24.4	26.4
Africa	5.4	3.5	3.4	2.3	1.1	1.3
Asia	34.8	29.5	25.3	32.9	21.2	25
Latin America & the Caribbean	12.8	9.3	8.1	2.5	2	0.1
Oceania	0.2	0.1	0.1	0.1	0.1	0.1
Transition Economies	4.3	2.1	3.9	5.8	2	1.7

Source: UNCTAD, FDI/MNE Data Base 2017

4.2 Investment Flows in Africa

Total FDI into Africa fell by 3 percent to US\$59 billion in 2016, representing 3.4 percent of the global FDI inflows in 2016 (UNCTAD 2017). This fall in FDI flows, masked marked differences across countries in the region. FDI inflows into North Africa grew by over 11 percent to US\$14.5 billion, mainly on account of increased FDI inflows to Egypt as a result of Shell's discovery of gas reserves. FDI to West Africa increased by 12 percent to US\$11.4 billion, mainly on account of increased FDI inflows to Nigeria which grew by 45 percent to US\$4.4 billion in 2016. However, FDI inflows to Sub-Saharan Africa dropped as a result of reduced investor

interest in the region. FDI to Southern Africa contracted by 18.0 percent to US\$21.2 billion. FDI inflows into Eastern Africa including Ethiopia, Mauritius and Madagascar grew by 13.0 percent to US\$7.1 billion in 2016 with investments in infrastructure and manufacturing contributing over 45.1 percent of the total inflows to Eastern Africa.

Prior to 2016, the largest percentage of FDI inflows to Africa originated from developed economies. However, in 2016 this trend was reversed with FDI increasingly originating from developing countries, especially Asia. In 2016, US\$2.0 billion worth of investment held by companies from developed economies were divested to firms from developing economies. China tops the list of developing countries investing in Africa, followed by South Africa, India, Singapore and Malaysia (UNCTAD 2017).

Outflows from Africa remained stagnant at US\$18 billion in 2016, similar to the 2015 FDI outflows (Table 4.1). The stagnation of investment outflows was attributed to weak commodity prices and higher cost of capital. Within Africa, FDI outflows from most countries declined with the exception of Angola. Outflows from Angola mainly consisting of investments in the oil and gas sector by state owned oil and gas company- Sonangol, increased by 45 percent to US\$10.7 billion in 2016. Other outflows were in form of intra-Africa investments dominated by South Africa and Morocco (Table 4.2).

Table 4:2 Outflows in Africa Economies 2016 (billions of dollars and percentage change)

Country	Value (Billions of dollars)	Percent Change
Angola	\$10.7	+34.7%
South Africa	\$3.4	-41.1%
Nigeria	\$1.3	-9.1%
Morocco	\$0.6	-2.2%
Botswana	\$0.6	+244.5%

Source: UNCTAD. World Investment Report 2017

4.3 Determinants of Foreign Direct Investment Inflows

Literature reveals that some countries and regions are more suited to attracting FDI than others. The suitability of some countries and regions in attracting FDI compared to others can be attributed to three key factors:

Economic Development

Economic development as measured by the Gross Domestic Product is key to attracting investment. The ability of the population to consume locally produced goods is an incentive for investors to relocate in the particular region. Therefore, investors critically examine per capita income in prospective investment destinations to assess the viability of markets for their products.

Access to Market for Raw Materials, Factors of Production and Finished Goods

Access to regional and international markets for raw materials, factors of production and finished goods is critical in making decisions on investment in a particular country. The availability of not only raw materials but also cheap skilled labour, coupled with easy access to regional and international markets, influences investment decisions. Other considerations include serviced land, capital and infrastructure.

Conducive Business Environment

Countries with conducive legal regimes and policies that can create a business climate that is attractive to Foreign Direct Investment. Investors require stability so that they make long term decisions with regard to investment, but also require that the legal regimes are robust enough to resolve conflicts that arise in the course of manufacturing.

4.4 Prospects for Improved Investment Flows into Africa

FDI inflows into Africa are expected to rise by 10 percent, to US\$65 billion in 2017, especially against the backdrop of increasing crude oil prices as well as increases in non-oil related FDI. Rising crude oil prices will stimulate capital investment in oil exploration and production activities in developing resource-rich African economies. Already, a number of International Oil Companies (IOCs) have expressed interest in oil activities in Africa. Oil giant Total has

expressed interest to purchase Tullow's oil interests in Uganda, as well as other interests in Kenya. The Africa Finance Corporation and South Africa's Harith General Partners have launched a US\$3.3 billion joint venture to pursue investments in Energy.

In spite of the low commodity prices, there are prospects for investments in infrastructure, real estate and automotive. Most of the inflows are expected from China and the United Arab Emirates. However, this will require putting in place conducive policies that serve to complement FDI inflows with domestic capacity enhancements.

Increasingly, there are prospects for inter and intra-regional investment prospects through potential economic partnership agreements between Europe and African economic blocs. These include the EAC-EU EPA agreement and finalization and ratification of the EAC-COMESA - SADC tripartite as well as the African Union brokered Continental Free Trade Area. It is anticipated that these regional arrangements, once operationalized, could present further prospects for international inflows as well as intra-Africa investment expansion.

4.5 EAC Investment Outlook

The EAC has been seen as a potential growth centre in Africa with fast growing GDP and increasing population. In order to attract more investments, the EAC developed a conducive business environment as well as investment promotion initiatives. However, the level of FDI into the region was low. While FDI to Burundi, Uganda and Tanzania increased, FDI to Kenya and Rwanda fell during the year.

Over the year, investment inflows to EAC were mainly concentrated in the services and industrial sector, specifically in manufacturing. The investment is mainly driven by potential markets in the European Union and the US, based on existing export promotion arrangements signed between the two regions and the EA. In addition, investments in the services sector especially tourism and communications, increased in 2016.

Investments in the extractives sector slowed down in 2016 in part due to the slow progress in finalizing some of the investment decisions around oil and gas exploration in Uganda and partly due to the falling crude oil process that dampened the appetite for investment in this sector. With

crude oil prices rebounding and production agreements finalized in Uganda, there is optimism for FDI in this sector.

4.6 Importance of FDI in EAC

Foreign Direct Investments have increasingly been seen as a source of value addition, employment, income generation and economic development and technology transfer. Stable incremental FDI represents an addition to the stock of domestic accumulation, implying increasing production capabilities. FDI inflows result in technology transfer and leads to new markets which have potential spill over effects on the rest of the regional economies. The potential FDI has increased the investment in public infrastructure in the five partner states. This included the upgrade of the ports of Mombasa and Dar es Salaam, a new Standard Gauge railway and road construction.

4.7 Investment Opportunities in the EAC

The EAC region has vast investment opportunities in all sectors of the economy, mainly agriculture, tourism, manufacturing, mining, extraction, ICT, energy, and oil & gas. Other emerging sectors are building and construction, real estate development, transport and logistics, banking, finance and insurance. To harness EAC investment potential, the EAC Custom Union Protocol provides for the establishment of Export Promotion Schemes and Special Economic Zones (SEZs). These initiatives provide specific incentives to attract FDI and Cross-Border Investments (CBI) while the Common Market Protocol provides a window for deeper integration by free movement of goods, services and people. However, the EAC Partner States need to fast track full implementation of the Customs Union and Common Market Protocols in order to develop the region as a Common Investment Area with similar laws and policies favourable to FDI and growth of local investments.

EAC Partner States also continue to implement the components of the Cooperation Agreement between EAC and the World Bank on Investment Climate Program, signed in March 2012. The region is negotiating with US on an enhanced EAC-US trade and investment partnership cooperation grounded on four pillars; i.e. Regional Investment Treaty, Trade Facilitation,

Commercial Dialogue and Capacity Building. The EAC-EU Economic Partnership Agreements (EPAs) have been concluded and awaiting signature, while the EAC-COMESA-SADC Tripartite FTA was launched in Egypt in September 2015 and EAC Partners States are all beneficiaries of the AGOA regime. The regional Agreements will make the EAC a more favourable investment destination in Sub-Saharan Africa.

4.8 Investment Climate in the EAC

In 2016, the Global Competitiveness Report ranked the EAC Partner States as shown in Table 4.2. All EAC countries improved their global competitiveness rankings. Rwanda continued its upward movement on the rankings, moving up six places to 52nd from 58th position and improving in seven out of the 12 pillars on the rankings. Rwanda improved in business sophistication and financial markets. It also benefitted from the existence of strong public and private institutions. Tanzania's rankings rose to 116th in 2016 from 120th in 2015 while Burundi and Uganda improved marginally in 2016 to 135th from 136th and to 113th from 115th, respectively.

Table 4:3 EAC- global Competitiveness Ranking 2014/15-2016/17

Country	Global Ranking			Change
	2014/15	2015/16	2016/17	2014/15 - 2015/16
Burundi	139	136	135	1
Kenya	90	99	96	3
Rwanda	62	58	52	6
Tanzania	121	120	116	4
Uganda	122	115	113	2

Source: Global Competitiveness Index Report 2016/16 (World Economic Forum)

According to the World Bank 'Doing Business Report', trading across economies is important for global economic growth. The World Bank's 'Ease of Doing Business' (2017) Report ranked EAC countries on the basis of 10 points. According to the Report, Rwanda performed well in doing business and was ranked 56 out of 190 countries. Kenya moved 21 positions to be ranked

92nd, Uganda is ranked 115th from last year's 122nd position, while Tanzania moved to position 132 from 144, and Burundi is ranked 157.

The Report concludes that while East African economies have undertaken reforms including the construction of OSBP to reduce time and cost of crossing borders, port improvements and access to credit, they are not performing well on the 'Ease of Doing Business' ranking. Specifically, Rwanda was ranked 56, Kenya 92, Uganda 115, while Tanzania was ranked 132 and Burundi at 157. The Report shows that while countries are reforming, (for example EAC has made trading across borders easier by introducing OSBP thus reducing the border compliance time for exporters), the countries still face changes in providing infrastructure, resolving insolvency and providing electricity. Also the cost of doing business is still high especially with high interest rates across the region.

4.9 EAC Investment Flows

In 2016, East Africa saw its FDI inflows increase by a modest 4.2 percent to US\$7.5 billion, from US\$7.2 billion in 2015. This was largely driven by increase in FDI inflows into Burundi, the United Republic of Tanzania and Uganda but the growth in FDI inflows into Kenya and Rwanda was negative. Inflows to Burundi increased more than 10 times due to cessation in the conflict in the country that allowed business to resume (Table 4.4). Inflows to the United Republic of Tanzania reflected continued investments in the extractives sector, specifically in gas production. Similarly, increased investment in Uganda was related to infrastructure investments to the extractives sector. FDI inflows into Kenya were mainly driven by infrastructure, manufacturing, information communications and technology, transport and logistics.

Overall, investment inflows in the region were concentrated in the manufacturing and construction sectors. FDI into construction and manufacturing amounted to US\$843 million and US\$722 million, respectively. In terms of employment creation, investments in the manufacturing and finance sectors contributed about 20,439 and 8,809 jobs, respectively. Other notable contributors to employment creation were investments in construction, and wholesale

and retail that contributed about 5,782 and 4,118 jobs, respectively. During the year, the majority of investment inflows came from China with total investment amounting to US\$991.9 million in 2016, down from US\$1.3 billion in 2015.

Table 4:4 FDI Inflows into EAC Region 2012-2016 (US\$ million)

Country	2012	2013	2014	2015	2016	Percentage Growth 2015/2016
Burundi	1	7	3.2	1.8	14.59	80956
Kenya	259	514	874.1	2,187.4	1,820.2	-16
Rwanda	160	111	359.2	1,065.3	600.1	-43.7
Uganda	1,205	1,146	1,755	517	1,524.6	194.9
Tanzania	1,800	1,872	5,502.9	3,449.7	3,568.8	3.5

Source: EAC Investment Promotion Agencies 2017

Table 4:5 Number of Jobs Created through Foreign Direct Investment 2012-2016

Country	2012	2013	2014	2015	2016	% Change 2016
Kenya	3,898	18,896	6,702	10,851	13,645	25.7
Tanzania	35,879	43,098	57,706	38,153	18,187	(52.3)
Uganda	14,103	16,235	28,980	16,343	23,759	45.4
Rwanda	17,311	3,845	5,169	6,921	8,033	16.1
Burundi	0	0	956	51	710	1,292.2
Total EAC	16,465	32,570	11,758	72,319	64,334	(11.0)

Source: EAC Investment Promotion Agencies 2017

4.10 Intra-EAC Investment Flows

Total value of intra-EAC investment is represented in Table 4.5. The table shows that the value of intra-EAC investment increased by 6.9 percent to US\$254.1 million in 2016, from US\$237.8 million in 2015. Also, the number of projects registered increased by 50.9 percent to 86 projects in 2016, from 57 projects in 2015. Burundi attracted 33.7 percent of all projects in 2016, while

Uganda, Tanzania and Rwanda attracted 29.1 percent, 17.4 percent and 11.6 percent of all projects registered, respectively.

Table 4:6 : Intra-EAC Investment Flows, 2012-2016

Partner State	Source	2012		2013		2014		2015		2016		Year to Year Growth 2016/ 2015	
		No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values			No of Projects	Values
Burundi	Tanzania	4.00	1.86	4.00	19.97	-	-	-	-	9.00	0.50	-	-
	Uganda	-	-	1.00	1.03	-	-	-	-	8.00	0.15	-	-
	Kenya	-	-	1.00	5.79	-	-	-	-	15.00	1.73	-	-
	Rwanda	3.0	2.3	5.0	4.2	2.0	1.4	0.0	0.0	7.0	0.2	250.0	-
	Rest of World	15.0	75.8	11.0	37.7	8.0	149.6	1.0	1.8	77.0	12.0	862.5	569.3
	Total	22.0	80.0	22.0	68.7	10.0	151.0	1.0	1.8	116.0	14.6	1,060.0	710.6
Kenya	Tanzania	1.0	25.1	2.0	66.5	-	-	3.0	12.3	2.0	0.2	-33.3	-98.4
	Uganda	1.0	6.4	0.0	0.0	2.0	0.9	7.0	7.2	4.0	5.3	100.0	-27.1
	Rwanda	0.0	0.0	0.0	0.0	0.0	0.0	4.0	112.4	1.0	0.2	-75.0	-99.8
	Burundi	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.0	-100.0	-100.0
	Rest of World	68.0	549.6	61.0	857.7	122.0	873.2	236.0	2,055.1	225.0	1814.5	84.4	-11.7
	Total	70.0	581.2	63.0	924.2	124.0	874.1	251.0	2,187.2	232.0	1820.2	87.1	-16.8
Rwanda	Tanzania	1.0	0.6	2.0	2.5	1.0	1.7	2.0	5.8	3.0	6.2	200.0	6.9
	Uganda	1.0	1.0	3.0	1.0	2.0	19.1	3.0	3.2	3.0	76.4	50.0	2287.5
	Kenya	3.0	6.6	5.0	9.1	4.0	5.4	4.0	21.5	1.0	1.5	-75.0	-93.0
	Burundi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	36.1	-	-
	Rest of World	71.0	466.8	51.0	632.3	104.0	495.0	73.0	815.1	38.0	479.9	-63.5	-41.1
	Total	76.0	474.9	61.0	644.9	111.0	521.2	82.0	845.6	48.0	600.1	-56.8	-29.0
Tanzania	Kenya	23.0	82.2	27.0	57.0	32.0	83.6	14.0	33.4	6.0	2.4	-81.3	-92.9
	Uganda	2.0	10.9	0.0	0.0	3.0	10.4	3.0	10.6	2.0	3.1	-33.3	-70.2
	Rwanda	1.0	3.7	1.0	1.8	1.0	0.0	3.0	11.3	0.0	0.0	-100.0	-100.0
	Burundi	1.0	3.5			1.0	10.1	0.0	0.0	0.0	0.0	-100.0	-
	Rest of World	274.0	1889.4	276.0	2783.6	386.0	5398.8	285.0	3394.4	126.0	3563.3	-67.4	5.0
	Total	301.0	1989.8	304.0	2842.4	423.0	5502.9	305.0	3449.7	134.0	3568.8	-68.3	3.5
Uganda	Tanzania	2.0	1.3	2.0	0.7	4.0	7.6	1.0	1.6	3.0	2.9	-25.0	83.5
	Kenya	14.0	71.8	14.0	64.8	16.0	67.5	11.0	17.9	21.0	109.8	31.3	512.2
	Rwanda		0.0	2.0	1.8	0.0	0.0	1.0	0.3	1.0	2.9	0.0	806.3
	Burundi			1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	-	-
	Rest of World	208.0	725.5	322.0	1248.5	399.0	2041.0	232.0	496.9	287.0	699.5	-28.1	40.8
	Total	224.0	798.6	341.0	1316.2	419.0	2116.1	245.0	516.7	312.0	815.1	-25.5	57.7

Source: Partner States Investment Promotion Agencies

4.11 Country Specific Analysis

4.11.1 Burundi

Intra-EAC Investment Flows

Total investment flows into Burundi amounted to US\$37.0 million in 2016, of which domestic investment amounted to US\$34.6 million and FDI inflows amounted to US\$2.3 million, accounting for about 6.88 percent of total investment. The bulk of the domestic investment by Burundi was in the services sector, amounting to US\$14.8 million. Other sectors that received domestic investment were manufacturing, agriculture and construction, amounting to US\$8.6

million, US\$3.3 million and US\$2.4 million, respectively. Kenya's investment in Burundi amounted to US\$1.3 and accounted for 56.9 percent of all FDI inflows and was mainly targeted in construction and services. The other notable investment inflows were from Tanzania, amounting to US\$0.6 million mainly in the services and manufacturing sectors.

Table 4:7 Domestic and Intra –EAC Investment Flows to Burundi, 2016 (US\$ million)

Activity	Burundi	Kenya	Uganda	Rwanda	Tanzania	TOTAL
Agriculture	3.3	-	-	-		3.3
Construction	2.4	0.5	-	0.1		3.0
Energy	-	-	-		-	
Manufacturing	8.6	-	-		0.1	8.7
Mining	1.9	-	-	0.04	-	1.9
Services	14.8	0.2	0.1	0.01	0.4	15.5
Others	3.6	0.6	0.1	0.04	0.1	4.4
TOTAL	34.6	1.3	0.2	0.2	0.6	37.0

Source: Burundi Investment Promotion Authority (API)

Burundi Investment Inflows

Burundi's investment flows are summarized in Table 4.6. The total inflows of investment in Burundi increased over eightfold to US\$14.6 million in 2016, from a meagre US\$1.8 million in 2015. Inflows from EAC contributed US\$2.3 million, while inflows from the rest of the world amounted to US\$12.3 million. Two factors contributed to increased FDI inflows: the cessation of the conflict in the country that allowed businesses to operate. The Burundi Investment Promotion Authority (API) also undertook ambitious investment promotion activities at the regional and international levels which attracted investors.

Table 4:8 Burundi-Foreign Direct Investment Flows, 2012-2016 (US\$ million and percent)

Country	Source	2012		2013		2014		2015		2016		Year to Year Growth 2016/ 2015	
		No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values
		Burundi	Tanzania	4.00	1.86	4.00	19.97	-	-	-	-	9.00	0.50
Uganda	-		-	1.00	1.03	-	-	-	-	8.00	0.15	-	-
Kenya	-		-	1.00	5.79	-	-	-	-	15.00	1.73	-	-
Rwanda	3.0		2.3	5.0	4.2	2.0	1.4	0.0	0.0	7.0	0.2	250.0	-
Rest of World	15.0		75.8	11.0	37.7	8.0	149.6	1.0	1.8	77.0	12.0	862.5	569.3
Total	22.0		80.0	22.0	68.7	10.0	151.0	1.0	1.8	116.0	14.6	1,060.0	710.6

Source: Burundi Investment Promotion Authority (API)

Mode of Market Entry

The majority of the Foreign Direct Investment inflows into Burundi were in the form of equity investment in green field projects. This was in relation to the projects from Kenya, China and India. Other flows were in the form of portfolio. The most modes of market entry in Burundi were in the form of Foreign Direct Investment (FDI), portfolio and other investments.

Sectoral Distribution of Foreign Investment

In 2016, Burundi registered 116 projects, up from only one project registered in 2015 (Table 4.9). The largest number of projects registered was finance, insurance and real estate sector with 36 projects, while 8 projects were registered in the manufacturing and the construction sectors. In terms of value, FDI in the manufacturing sector amounted to US\$ 5.1 million, representing 35.1 percent of total value of FDI, while FDI in the construction sector amounted to US\$1.5million, accounting for 10.4 percent of the total value of investments. Projects in the mining sector were valued at US\$1.4 million while those in the finance, insurance, real estate and service sectors were valued at US\$2.5 million and accounted for 17.4 percent of total FDI into the country.

Table 4:9 Burundi's Sectoral Distribution of Foreign Investment 2014-2016

Sector	2014			2015			2016		
	No. of projects	Amount (US\$ m)	Employment	No. of projects	Amount (US\$ m)	Employment	No. of projects	Amount (US\$ m)	Employment
Agriculture, fishing, forestry & hunting	0	0.0	0	0	0	0	2	0.4	15
Construction	2	9.7	149	0	0	0	8	1.5	75
Manufacturing	4	2.0	97	0	0	0	8	5.1	98
Mining & Quarrying	0	0.0	0	0	0	0	4	1.4	78
Finance, Insurance, Real estate & Business services	1	0.4	13	0	0	0	36	2.5	203
Community, Social & Personal services	0	0.0	0	1	1.8	51	2	0.6	25
Wholesale, retail trade, Tourism	1	2.7	148	0	0	0	50	2.6	178
Transport, Communication & Storage	2	136.1	549	0	0	0	4	0.3	28
Utilities (water & energy)	0	0.0	0	0	0	0	2	0.1	10
Others							0	0	0
TOTAL	10	151.0	956	1.0	1.8	51.0	116.0	14.6	710.0

Source: Burundi Investment Promotion Authority (API)

Burundi's Sources of Foreign Direct Investment

Burundi's major sources of investment inflows in 2016 are presented in Table 4.10. The table shows that the major sources of investment inflows were India, which registered 19 projects with a total value of US\$4.4 million, Kenya registered 15 projects worth US\$1.7 million while China registered 9 projects worth US\$1.0 million. Other inflows were from Turkey, Tanzania and Uganda worth US\$0.8 million, US\$0.5 million and US\$0.1 million, respectively.

Table 4:10 Burundi's Major Sources of Investment 2014-2016 (US\$ million)

Burundi	2014			Country	2015			Country	2016		
	Number of Projects	Employment	Value(US\$ MN)		Number of Projects	Employment	Value(US\$ MN)		Number of Projects	Employment	Value(US\$ MN)
USA	3	159	9.9	TURKEY	1	51	1.8	INDIA	19	104	4.4
BELGIUM	1	10	0.9					KENYA	15	81	1.7
SOUTH AFRICA	1	15	0.3					CHINA	9	127	1.0
VIETNAM	1	528	135.3					TURKEY	7	88	0.8
INDIA	1	148	2.7					TANZANIA	9	34	0.5
RWANDA	2	83	1.4					UGANDA	8	25	0.1
CANADA	1	13	0.4					RWANDA	7	15	0.2
TOTAL	10	956	151	TOTAL	1	51	1.8	TOTAL	74	474	8.7

Source: Burundi Investment Promotion Authority (API)

Employment Creation

Burundi's investment inflows contributed 8,768 direct jobs, compared to only 51 jobs created in 2015 as presented in **Table 4.11**. Domestic investments created 8,058 jobs while FDI inflows created 710 jobs. The majority of the jobs created through domestic investment in 2016 were in the agricultural sector while the large fraction of jobs created through FDI were in the finance, insurance and real estate sectors, amounting to 203 jobs. FDI inflows into the wholesale and retail sector created 178 jobs, while FDI in the manufacturing sector created 98 jobs.

Table 4:11: Employment Creation, 2012-2016 (percent)

Country	Year					% Change	% Change	% Change	% Change
	2012	2013	2014	2015	2016	2013	2014	2015	2016
Burundi	2,245	2,545	956	51	8,768	13.4	-62.4	-94.66	17092.2

Source: Burundi Investment Promotion Authority (API)

Burundi Initiatives to Catalyze Investment

The government embarked on a number of initiatives to enhance investment promotion in the country. The tax system for Small and Medium-sized Enterprises (SMEs) was streamlined and simplified to enable MSEs meet their statutory obligations. The legal and policy framework was improved by harmonizing commercial laws with the regional policies. The electricity sector was strengthened and streamlined through the public private sector approach while many of the EAC regional policies to enhance trade and customs clearance like the Electronic Single Window were adopted for customs border management. The government improved the business environment by providing tax and fiscal incentives for projects that were considered strategic for economic development and employment creation.

Prospects for Enhanced Foreign Direct Investment Inflows

The Government of Burundi established the Burundi Investment Promotion Agency to support investment promotion in the country. In 2016, the Agency organized investment missions as well as regional and international workshops and fairs to promote investment in the country. The Authority plans to step up the investment promotion drive in collaboration with other government and non-government agencies as well as Diplomatic Missions in targeted countries.

To ease the process of registering investors, the Authority developed an online electronic system for registering and monitoring investment in the country and support investors to improve the quality and standard of exports produced in the country.

4.11.2 Kenya

Intra-EAC Investment Flows

Intra-EAC investment flows into Kenya declined despite investment reforms and a supportive domestic environment. FDI inflows into Kenya dropped by 17 percent to US\$1.8 billion in 2016, from US\$2.2 billion in 2015. In 2016, the Kenya Investment Authority (KenInvest) registered two projects from Tanzania, four from Uganda, and one project from Rwanda. The total value of investment projects from EAC partner states dropped significantly by 95.7 percent to US\$ 5.7million in 2016, from US\$132.1 million in 2015. At the same time, Kenya attracted 225 projects from the rest of the world, down from 251 projects in 2015.

Table 4:12 Foreign Direct Investment Flows in EAC Region, 2012-2016 (US\$ million)

Country	Source	2012		2013		2014		2015		2016		Year to Year Growth 2016/ 2015	
		No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values
		Kenya	Tanzania	1.0	25.1	2.0	66.5	-	-	3.0	12.3	2.0	0.2
Uganda	1.0		6.4	0.0	0.0	2.0	0.9	7.0	7.2	4.0	5.3	100.0	-27.1
Rwanda	0.0		0.0	0.0	0.0	0.0	0.0	4.0	112.4	1.0	0.2	-75.0	-99.8
Burundi	0.0		0.0	0.0	0.0	0.0	0.0	1.0	0.2	0.0	0.0	-100.0	-100.0
Rest of World	68.0		549.6	61.0	857.7	122.0	873.2	236.0	2,055.1	225.0	1814.5	84.4	-11.7
Total	70.0		581.2	63.0	924.2	124.0	874.1	251.0	2,187.2	232.0	1820.2	-7.6	-16.8

Source: Kenya Investment Authority

Sectoral Distribution of FDI Inflows in EAC

The wholesale, retail, trade and tourism sectors registered the highest number of projects (87) in 2016, followed by manufacturing with 37 projects. However, FDI into the utilities (water and energy), transport, communications and storage and the wholesale, retail trade and tourism

sectors, registered the highest value of FDI with inflows amounting to US\$573, US\$443 and US\$ 343, respectively. These sectors accounted for 31.4 percent, 24.3 percent and 18.8 percent of the total investment projects registered in 2016, respectively. This was mainly a result of the massive expansion of electricity power connection under the Last Mile Project, a government of Kenya supported programme. FDI inflows into the construction, mining and quarry and retail trade and tourism, accounted for 60.4, 21.2 and 9.3 percent, respectively of the total FDI inflows in 2016.

Table 4:13 Kenya's Sectoral Distribution of Foreign Direct Investments, 2015-2016

Sector	2015			2016		
	No. of projects	Amount (US\$ m)	Employment	No. of projects	Amount (US\$ m)	Employment
Agriculture, fishing, forestry & hunting	9	23	878	8	17	973
Manufacturing	35	36	1,402	28	97	1,458
Utilities (water & energy)	5	19	78	12	154	4,049
Wholesale, retail trade, Tourism	95	204	5,311	26	114	2,486
Construction	16	1,320	1,025	37	79	1,578
Finance, Insurance, Real estate & Business services	37	39	686	1	1	25
Community, Social & Personal services	24	32	815	20	443	543
Transport, Communication & Storage	26	50	342	13	573	839
Mining & Quarrying	4	465	314	87	343	1,694
TOTAL	251	2,187	10,851	232.0	1,820.2	13,645

Source: Kenya Investment Authority

Kenya's Source of Investments, 2015-2016

In 2016, China, Japan and UK were the main source of investments, attracting 46.3 percent, 16.7 percent and 0.6 percent of the total FDI investments inflows into Kenya, respectively. UK investment into Kenya amounted to US\$843 million. Part of the investment was a cross border merger and acquisition, where the UK's private equity, Fund Helios, bought 70 percent of Telkom Kenya from Orange (France). France's investment flows amounted to US\$305 million while China invested US\$107 million in Kenya in 2016.

Table 4:14 Kenya's Major Sources of Foreign Direct Investment 2015-2016

Country	2015				2016		
	No. of projects	Employment	US \$ million		No. of projects	Employment	US \$ million
China	9	357	1,201	UK	23	4,711	843
Japan	2	76	463	France	5	456	305
UK	4	554	112	China	31	2,420	108
Turkey	7	1,243	72	India	24	508	107
South Africa	13	590	41	Denmark	5	171	81
Switzerland	24	1,043	33	Netherlands	8	263	81
Italy	1	35	29	Japan	4	167	58
USA	23	624	25	South Africa	9	2,099	56
Malaysia	12	313	20	Germany	4	95	51
Mauritius	16	322	14	Canada	4	173	36
Sub total	111	5,157	2,010	Sub total	117	11,063	1,726
Rest of world	140			Rest of the	115		
		5,694	178	World		2,582	94
Total	251	10,851	2,187	Grand Total	232	13,645	1,820

Source: Kenya Investment Authority

Mode of Entry of Investment into Kenya

As noted, the key investment flow in Kenya was in the form of a merger and acquisition by UK's Helios, while other investments were in the form of equity in Greenfield investments.

Employment Creation

The total number of jobs created in 2016 was 13, 645, compared to 10,851 created in 2015, signifying a 25.7 percent increase (Table 4.4). The largest percentage of the jobs created were in the construction sector (4,049 jobs), while the finance, insurance, real estate and business services, wholesale, retail and tourism and manufacturing sectors created 2,486,1,694 and 1,578 jobs in 2016, respectively.

Table 4:15 Number of Jobs Created through Foreign Direct Investment 2011-2016

Country						% Change
	2012	2013	2014	2015	2016	2016
Kenya	3,898	18,896	6,702	10,851	13,645	25.7

Source: Kenya Investment Authority

4.11.3 Rwanda

Intra-EAC Investment Flows

FDI inflows to Rwanda decreased by 29.03 percent to US\$600.1 million in 2016, from US\$ 845.6 million in 2015. The number of investment projects also decreased by 41.46 per cent from 82 projects to 48 projects over the same period. In 2016, the number of intra-EAC investment projects to Rwanda increased to 10 in 2016, from 9 projects in 2015 while the value increased by 294 percent to US\$120.2 million in 2016, from US\$30.50 million in 2015. Uganda, Burundi and Tanzania had shares of 63.56 percent, 30.03 percent and 5.16 percent in 2016, respectively.

Rwanda Investment Inflows

Rwanda's Foreign Direct Investment flows are summarized in Table 4.15. The total inflows to Rwanda decreased by 29.0 percent to US\$600.1 million in 2016, from US\$845.6 million in 2015. Inflows from the EAC contributed US\$204.3, accounting for 34 percent of the total inflows in 2016. Inflows from the rest of the world decreased by 41 percent, to US\$479.9 million, from US\$815.1 million in 2015.

Table 4:16 Foreign Direct Investment flows in EAC Region 2012-2016

Partner State	Source	2012		2013		2014		2015		2016	
		No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values	No of Projects	Values
Rwanda	Tanzania	1	1	2	3	1	2	2	6	3	6.2
	Uganda	1	1	3	1	2	19	3	3	3	76.4
	Kenya	3	7	5	9	4	5	4	22	1	1.5
	Burundi	0	0	0	0	0	0	0	0	3	36.1
	Total	5	8	10	13	7	26	9	30.5	10.0	120.2
	RoW	71	466.79	51	632.30	47	333.41	73	815.1	38	479.9
	Total	76	474.90	61	644.85	54	359.61	82	845.6	48	600.1

Source: Rwanda Development Board

Mode of FDI entry into the Economy Market Entry

The most modes of market entry in Rwanda are in the form of Foreign Direct Investment (FDI), portfolio and other investments.

Sectoral Distribution of FDI Inflows

In 2016, the total number of projects registered dropped drastically to 48 from 144 projects registered in 2015, with 37.5 percent of all projects registered in the manufacturing sector

amounting to 18 projects. A total of 7 projects were registered in the construction and the community, social and personal sectors. The majority of projects were registered in the manufacturing sector, amounting to 18 projects.

FDI inflows to the utilities (water and energy) sector amounted to US\$227 million, accounting for 37.8 percent of total investment. Inflows to the manufacturing sector amounted to US\$141 million, accounting for 23.5 percent of total investment while investment flows to the construction sector amounted to US\$64 million in 2016.

Table 4:17 Sectoral Distribution of Foreign Direct Investment 2015-2016

Sector	2015			2016		
	No. of projects	Amount (US\$ m)	Employment	No. of projects	Amount (US\$ m)	Employment
Agriculture, fishing, forestry & hunting	24	71	3,440	3	39	2,432
Construction	5	28	296	7	64	634
Manufacturing	35	48	1,439	18	141	1,455
Mining & Quarrying	9	49	611	2	33	573
Finance, Insurance, Real estate & Business services	20	149	665	2	14	266
Community, Social & Personal services	18	340	2,878	7	50	756
Wholesale, retail trade, Tourism	19	58	785	1	1	214
Transport, Communication & Storage	7	92	372	3	31	299
Utilities (water & energy)	7	230	519	5	227	1,404
TOTAL	144	1,065	11,005	48	600.1	8,033

Rwanda's Major Sources of Foreign Direct Investment

Rwanda's major sources of investment inflows are summarized in Table 4.16. The major source of investment inflows to the country in 2016 came from the United Kingdom (US\$181.1 million) while Uganda, China and Portugal's investments in Rwanda amounted to US\$76.4 million, US\$44.9 million and US\$44.0 million, respectively.

Table 4:18 Major Sources of Foreign Direct Investment

Country	2014			Country	2015			Country	2016		
	Number of Projects	Employment	Value (Million US\$)		Number of Projects	Employment	Value (Million US\$)		Number of Projects	Employment	Value (Million US\$)
Turkey	9	978	166.7	United States of America	14	1,304	218.9	United Kingdom	2	734	181.1
South Korea	1	80	56.9	German	2	77	108.8	Uganda	3	64	76.4
South Africa	9	417	27.8	Mauritius	3	476	97.6	China	6	959	44.9
USA	2	179	19.1	Saudi Arabia	1	60	72.9	Portugal	1	15	44.0
India	6	2,324	22.5	Sweden	2	33	56.8	United States of America	3	591	42.8
Canada (Rda Diaspora)	1	36	5.7	Netherlands	1	230	41.7	Burundi	3	381	36.1
Kenya	2	160	6.0	India	11	815	40.4	Canada	2	2,690	33.3
Madagascar	1	-	9.5	Oman	1	219	40.4	Singapore	2	346	31.1
UK	1	-	9.5	China	9	406	36.4	Syria	1	173	29.8
Singapore	2	364	5.8	British Virgin Island	1	100	17.7	India	8	780	29.8
Subtotal	34	4,538	329.5	Subtotal	45	3,720	731.5	Subtotal	31	6,733	549.2
Other countries (incl. Rda)	77	4,376	191.7	Other countries (incl. Rda)	99	7,285	333.8	Other countries (incl. Rda)	80	6,544	610.6
Total	111	8,914	521.2	Total	144	11,005	1,065.3	Total	111	13,277	1,160

Source: Rwanda Development Board

Employment Creation

The total jobs created through FDI in 2016 were 8,033. Majority of the jobs were created in the agriculture sector, totalling 2,432 and accounting for 30.2 percent of all jobs created in the economy. Investment flows to the manufacturing sector created 1,455 jobs, while the investment flows to the utilities sector created 1,404 jobs and accounted for 17.5 percent of all jobs created by FDI in Rwanda.

Table 4:19 Number of jobs Created by Foreign Direct Investment, 2012-2016

Country	2012	2013	2014	2015	2016
	Rwanda	17,311	3,845	5,169	6,921

Prospects

Rwanda has a fully functioning electronic portal managed by the Rwanda Development Board that combines company registration, information on tax obligations and duties, and value added tax registration. The facility saves entrepreneurs on an average of two days and eliminating unnecessary back and forth exchanges with government officials. A number of reforms are being done in a bid to improve the doing business environment in Rwanda. The following are the recent reforms registered in Rwanda which continue to place the country on a competitive edge dealing with construction permits, registering a company, enforcing contracts and paying taxes. Rwanda has also made trading across borders easier by removing the mandatory pre-shipment inspection for imported products.

4.11.4 Tanzania

Intra-EAC Investment Flows

Total Investment flows into Tanzania amounted to US\$1.01 billion in 2016, of which domestic investment by the United Republic of Tanzania amounted to US\$1.1 billion and covered about all main economic activities. FDI flows from the other EAC Partner States amounted to US\$9.8 million. Kenya's investment in Tanzania amounted to US\$6.5 million and was mainly concentrated in the transport sector in which investments amounted to US\$3.2 million. Other EAC countries with notable investment flows were Uganda with investments amounting to US\$3.1 million, mainly in the manufacturing and construction sectors, while Rwanda's investment amounted to US\$0.2 million in the finance, insurance, real estate and business services sectors. The manufacturing activities that attracted investors include gold processing (lapidary), building materials such as cement concrete slabs, tiles and paving blocks, plastic products, and processing of fruits. Activities of construction were on real estate for residential apartments, and cold storage facility. Finance activities were electronic payment systems, and insurance. Transportation was for cargo haulage, tourism and hotel business.

Table 4:20 Intra - EAC Investment Inflows to Tanzania, 2016 (US\$ Million)

Activity	Burundi	Kenya	Rwanda	South Sudan	Uganda	Total
Agriculture	-	-	-	-	-	0.0
Construction	-	0.4	-	-	2.0	2.4
Energy	-	-	-	-	-	0.0
Finance	-	1.1	0.2	-	-	1.3
Human Resources	-	-	-	-	-	0.0
Manufacturing	-	1.1	-	-	1.2	2.3
Natural Resources	-	-	-	-	-	0.0
Services	-	0.5	-	-	-	0.5
Telecom	-	-	-	-	-	0.0
Tourism	-	0.1	-	-	-	0.1
Transportation	-	3.2	-	-	-	3.2
TOTAL	0.0	6.5	0.2	-	3.2	9.9

Source: Tanzania Investment Centre (TIC)

Tanzania's Investment Inflows

The total investment flows for Tanzania increased by 39.8 percent to US\$4.8 billion in 2016, from US\$3.4 billion in 2015. Inflows from the EAC contributed a meagre 0.2 percent of the total investment flows, amounting to US\$10.0 million, while investment flows from the rest of the world amounted to US\$4.8 billion. Kenya's FDI inflows to Tanzania fell by 80.7 percent to US\$6.5 million in 2016, from US\$33.4 million in 2015. Similarly, investment flows from Rwanda and Uganda also decreased by 96 percent and 70 percent, respectively. However, the investment inflows from the rest of the world increased by 41.8 percent.

Table 4:21: Tanzania's Foreign Direct Investment Flows, 2015-2016

Partner State	Source	2015		2016		Change, (2016 over 2016)	
		No of Projects	Values	No of Projects	Values	No of Projects	Values
Tanzania	Kenya	14.0	33.4	12.0	6.5	-14.3%	-80.68%
	Uganda	3.0	10.6	2.0	3.1	-33%	-70%
	Rwanda	3.0	11.3	1.0	0.4	-67%	-96%
	Burundi	0.0	0.0	-	-	0.0	0.0
	South Sudan	0.0	0.0	-	-	0.0	0.0
	Rest of World	285.0	3,394.4	136.0	4,812.3	52.28%	41.77%
	Total	305.0	3,449.7	151.0	4,822.3	-50%	39.80%

Source: Tanzania Investment Centre

Mode of Market Entry

Sectoral Distribution of FDI Inflows

In 2016, Tanzania registered a total of 243 projects as depicted in Table 4.22. The majority of the projects were registered in the manufacturing sector, totalling 109 projects, while investments into wholesale, retail and tourism; agriculture, fishing, forestry, and hunting sectors, registered 39, 25 and 22 projects, respectively. Investment flows in the utilities sector amounted to US\$2.4 billion while investment flows into the finance, insurance, real estate and business services and agricultural sectors amounted to US\$855.5 million and US\$522.5 million, respectively. Other FDI flows were concentrated in the manufacturing and transport, communications and storage sectors, amounting to US\$407.0 million and US\$323.7 million, respectively.

Table 4:22 Sectoral Distribution Foreign Direct Investment, 2015–2016 (US\$ Million)

Sector	2015			2016		
	No. of projects	Amount (US\$ m)	Employment	No. of projects	Amount (US\$ m)	Employment
Agriculture, fishing, forestry & hunting	24	115.16	2,869	22	522.51	4,403
Construction	1	304.00	570	4	69.70	667
Manufacturing	136	440.12	15,289	109	407.06	6,384
Mining & Quarrying	-	-	-	-	-	-
Finance, Insurance, Real estate & Business services	45	1,267.02	6,936	39	855.45	2,979
Community, Social & Personal services	6	23.78	1,555	20	40.24	761
Wholesale, retail trade, Tourism	43	177.24	3,930	25	96.19	1,493
Transport, Communication & Storage	35	114.43	2,384	17	323.71	1,337
Utilities (water & energy)	8	1,007.94	4,620	7	2,424.65	163
TOTAL	305	3,449.70	38,153	243	4,739.52	18,187

Source: Tanzania Investment Centre (TIC)

Tanzania's Major Sources of Foreign Direct Investment

The major sources of Foreign Direct Investment flows to Tanzania are summarized in Table 4.23. The major source of FDI into Tanzania was from Mauritius, followed by China, United Kingdom and Iran. Investment flows from Mauritius amounted to US\$2.4 billion and established 6 projects, while the investments flows from China amounted to US\$650 million, established 17 projects and created 4,598 jobs in 2016. Investment flows from the United Kingdom amounted to US\$375.6 million, accounted for about 7.9 percent of total FDI inflows into Tanzania and created 4,508 jobs in 2016.

Table 4:23: Tanzania: Major Sources of Foreign Direct Investments, 2015-2016

Country	2015				2016			
	Country	Number of Projects	Employment	Value (Million US\$)	Country	Number of Projects	Employment	Value (Million US\$)
Mauritius	USA	16	1,823	1,271.30	Mauritius	6	235	2,405.12
UK	China	105	6,232	1,146.83	China	17	4,598	650.11
China	Dutch	5	401	306.42	United Kingdom	1	4,508	375.64
Luxembourg	UK	43	2,151	142.63	Iran	59	1,600	313.15
India	India	22	873	73.08	Congolese	34	680	300.00
Netherlands	Mauritius	4	1,094	60.00	Libyan	3	115	238.32
Kenya	Botswana	1	921	53.90	Indian	2	1,008	110.26
Norwegian	Libyan	1	20	50.99	British Virgin Isl	2	771	64.06
Sweden	Kenya	14	1,224	33.43	USA	1	224	30.86
SA	UAE	3	102	33.39	United Arab Em	4	28	25.01
Subtotal	Subtotal	214	14,840	3,171.98	Sub Total	129	13,767	4,512.53
Other Countries	Other Countries	91	23314	277.73	Other Countries	114	4421	227.00
Total	Total	305	38,153	3,449.71	Total	243	18,187	4,739.53

Source: Tanzania Investment Centre

Employment Creation

The total number of jobs created in 2016 was 18,187, compared to 38,187 created in 2015, signifying a 52.3 percent decline (Table 4.23). The largest percentage of the jobs created were in the manufacturing sector (6,384) while the agriculture and wholesale, retail and tourism, sectors created 4,403 and 1493 jobs in 2016, respectively.

Table 4:24: Tanzania - Number of Jobs Created by Foreign Direct Investment, 2012-2016

Country	2012	2013	2014	2015	2016	% change
Tanzania	35,879	43,098	57,706	38,153	18,187	(52.3)

Source: Tanzania Investment Centre

Prospects

The country maintains good relations with all countries around the world. Apart from Diplomatic Embassies, Tanzania has signed a number of bilateral investment agreements with various countries to facilitate investment promotion. Also, Tanzania is a member of various international organizations, including UN group, Commonwealth, African Union, East Africa Community and Southern Africa Development Community.

Tanzania's long-term development ideal is enshrined in the Vision 2025, which is implemented through Five-Year Development Plans (FYDP). The ongoing FYDP II envisages transforming Tanzania into a Semi-industrialized, Middle Income Country, leapfrogging from a 7 percent growth to 10 percent in four years to come. FYDP II objectives include fostering development of sustainable productive and export capacities; take advantage of Tanzania's strategic geographical location and positioning the country as a regional production, trade and logistic hub and promoting availability of requisite industrial skills and skills for other production and service delivery.

To realize that ambition of transforming Tanzania into Middle-Income country, the government is committed to infrastructure development. The key infrastructure that are targeted include; upgrading of the central railway to Standard Gauge Railway (SGR), enhancing capacities of the ports, expanding and modernizing the airports, connecting all key production areas with bitumen roads, developing the feeder roads, enhancing power generation and transmission lines, investing in incubation programs to create industrial base, and further improving information and communication infrastructure.

The United Republic of Tanzania has two investment regimes: one for the mainland and the other for Zanzibar. They determine the mode of entry depending on the intended location of the

investment to be undertaken. The country therefore has two investment policies (the *National Investment Promotion Policy* and the *Zanzibar Investment Policy*), two Regulatory Frameworks, two Export Processing Zones and two Investment Promotion agencies, both of which are semi-autonomous, established by laws of the two regimes. Investment policy in Tanzania creates favourable environment for private sector engagement and creates mechanism for open dialogue with the government through Tanzania National Business Council (TNBC).

Doing Business in Tanzania is also improving. The government has continued to enhance investment climate by strengthening macro-economic stability, fighting corruption, and minimizing the red tape by making decisions on time; promoting peace and security; and ensuring availability of improved infrastructure and services; including access to reliable energy. There are indications of improvements as the World Bank Doing Business Report of 2017 ranks Tanzania at 132, compared to 144 position in the previous year, an improvement of 12 positions upward. Moreover, Quantum Global Research Lab Report on Africa Investment Index of 2016, rated Tanzania as the most attractive investment destination in East Africa and the 8th in Africa, 11 positions up from 19th in 2015.

4.11.5 Uganda

Intra-EAC Investment Inflows

In 2016, investment inflows into Uganda increased both in value and in number of projects. Total investment flows in the country increased by 36.3 percent to US\$1.5 billion in 2016, of which US\$705 or 46.4 percent was domestic investment (Table 4.24). Investment inflows from EAC Partner States amounted to US\$115.6 and created 153 projects. Kenya's investment in Uganda amounted to US\$109 million and created 21 projects, while investment flows from Tanzania and Rwanda together amounted to US\$5.8 million. Investment flows from the rest of the world increased by 40.8 percent to US\$699.5 million in 2016, from US\$496.9 million. With regard to employment creation, investment flows from Kenya created 2,342 jobs, while investments from Tanzania and Rwanda created 223 jobs and 76 jobs, respectively.

Table 4:25 Foreign Direct Investment Flows in EAC Region, 2012-2016

Partner State	Source	2012		2013		2014		2015		2016		Percent Change, (2016 over 2015)	
		No of Projects	Values US\$ m	No of Projects	Values US\$ m	No of Projects	Values US\$ m	No of Projects	Values US\$ m	No of Projects	Values US\$ m	No of Projects	Values US\$ m
	Uganda	110.0	940.0	107.0	470.0	101.0	348.0	107.0	602.0	126.0	705.0		
Uganda	Tanzania	2.0	1.3	2.0	0.7	4.0	7.6	1.0	1.6	3.0	2.9	200.0	83.5
	Kenya	14.0	71.8	14.0	64.8	13.0	52.8	11.0	17.9	21.0	109.8	90.9	512.2
	Rwanda	1.0	0.5	2.0	1.8	-	-	1.0	0.3	1.0	2.9	0.0	-
	S. Sudan					1.00	0.50			0.0	0.0		
	Burundi			1.0	0.5	-	-	-	-	0.0	0.0	-	-
	sub total							120.00	621.84	153.0	115.6		
	Rest of World	208.0	725.5	322.0	1248.5	298.0	2116.2	232.0	496.9	287.0	699.5	23.7	40.8
Total	225.0	799.1	341.0	1316.2	316.0	2177.1	352.0	1118.7	440.0	1520.1	25.0	35.9	

Uganda Investment Authority

Uganda Investment Inflows

Uganda's investment flows are summarized in table 4.25. Total inflows increased by 29.2 percent to US\$767.6 million in 2016, from US\$593.9 million in 2015, while the number of projects increased to 148 from 120 in 2015. However, the number of jobs created decreased to 24,804 in 2016, from 30,904 in 2015. This could be attributed to reduced recorded investment in manufacturing but also improvement in the technologies to be employed in investment.

Sectoral Distribution of Foreign Direct Investment

Investment inflows into Uganda registered 148 projects in 2016 (Table 4.25). The agricultural sector investment flows amounted to US\$281.3million and registered 40 projects. However, the number of jobs created in the sector declined by 13 percent to 9,212 jobs in 2016. Investments in agriculture, forestry and hunting were mainly dominated by domestic investors with 35 projects, while investment flows from Kenya created 5 projects.

Investment inflows into the construction sector decreased to US\$137.4 million in 2016, from US\$212.9 in 2015. The sector registered 5 projects and created 357 jobs in 2016. The fall in investment inflows into the construction sector could be attributed to the general decline in the performance of the economy as a result of the 2016 General Elections. This sector was dominated by domestic investments with four projects.

The manufacturing sector also recorded a downward trend in investment by value and number of projects registered. The value of investment inflows into the manufacturing sector decreased by 12.2 percent to US\$164.8 million in 2016, from US\$187.7 million in 2015. The investment inflows registered 48 projects, down from 52 projects registered in 2015.

Table 4:26 Sectoral Distribution of EAC Investments, 2015-2016 (US\$ million)

Sector	2015			2016		
	No. of projects	Amount (US\$)	Employment	No. of projects	Amount (US\$)	Employment
Agric, Hunt, Forest & Fish	28	44.1	10,588	40	281.3	9212
Community & Social Services	6	31.8	5,975	5	22.4	601
Construction	7	212.9	781	5	137.4	357
Electricity, Gas & Water	1	82.9	522	3	1.6	116
Fin, Ins, Real Est & Biz Svs	15	12.4	1,436	29	86.4	2869
Manufacturing	52	187.7	10,455	48	164.8	10924
Mining & Quarrying	6	17.7	929	2	6.4	70
Transport, Storage & Comm	4	4.2	159	8	39.5	116
Wh & Ret, Cat & Accom Svs	1	0.2	59	8	27.8	539
TOTAL	120	593.9	30,904	148	767.6	24804

Source: Uganda Investment Authority

Uganda's Sources of Foreign Direct Investment

The major sources of investment flows to Uganda were China, with investments amounting to US\$188 million, Kenya's investments amounted to US\$110 million and represented 6.7 percent of total investment inflows, while South Korea's investments in Uganda amounted to US\$100 million. Other investments inflows were from India, amounting to US\$99 and Sudan with Investments amounting to US\$78 million in 2016. The investment from China and India reveal a shift in China and India from labour intensive investments to capital intensive investments as well as the wage increase.

Table 4:27 Uganda: Source of Foreign Direct Investment, 2015-2016 (US\$ million)

Country	2014			Country	2015			Country	2016		
	No. of Projects	Amount (US\$m)	Employment		No. of Projects	Amount (US\$m)	Employment		No. of Projects	Amount (US\$m)	Employment
China	55	701	10,591	China	58	111	5,432	China	76	188	4411
Cayman Islands	1	620	214	Nigeria	3	58	538	Kenya	21	110	2342
Italy	5	85	434	India	58	43	2,966	South Korea	2	100	64
India	102	75	6,783	Sri Lanka	5	42	670	India	87	99	5171
Kenya	13	53	683	United Kingdom	13	28	371	Sudan	3	78	227
South Africa	5	35	506	United States	7	26	658	Norway	2	67	563
Germany	1	25	130	Mauritius	5	21	185	Bermuda	1	39	69
Belgium	1	20	302	France	2	20	98	United Kingdom	12	23	864
Sri Lanka	2	17	112	Spain	1	19	13	Egypt	4	19	220
United States	13	15	548	South Africa	5	18	470	Lebanon	4	16	631
Sub Total	198	1,646	20,303	Sub Total	157	385	11,401	Sub Total	212	739	14562
Rest of the World	117	108	8,677	Rest of the World	88	132	4,942	Rest of the World	103	211	9197
Total	315	1,755	28,980	Total	245	517	16,343	Total	315	950	23759

Source: Uganda Investment Authority

Mode of Market Entry

Uganda in 2016 recorded an increase in terms FDI attraction of about 40.8 percent by value, and 23.7 percent by number of projects. Most of these investments were mainly Greenfield and a few joint ventures. The investments are mainly by both equity and borrowings from foreign affiliates. The major recipient sectors of FDI were manufacturing at 32 percent, and construction at 9 percent.

Employment Creation by the Foreign Direct Investment

Foreign Direct inflows into Uganda generated 23,759 jobs in 2016, compared to 16,343 jobs in 2015. The majority of the jobs were generated by investments in the manufacturing, agricultural and the finance, real estate and business sectors, amounting to 10,924, 9212 and 2869 jobs, respectively.

Table 4:28: Uganda-Number of Jobs Created by Foreign Direct Investment, 2012 - 2016

Country	Year					% Change 2016
	2012	2013	2014	2015	2016	
Uganda	46,285	63,583	28,980	30,887	25,922	-16.1

Source: Uganda Investment Authority

Uganda's Prospects for Investment Promotion

Uganda enjoys a unique location at the heart of Sub-Saharan Africa within the East African region and lies astride the Equator. The country is bordered by Sudan in the north, Kenya in the east, Tanzania in the south, Rwanda in the southwest and the Democratic Republic of Congo in the west. This land locked position, gives the country a strategic commanding base to be a regional hub for trade and investment. Uganda enjoys pivotal trade partnerships that create a viable market for business. A potential investor considering investing in Uganda, will find a well-regulated, highly liberalized economy in which all sectors are open for investment and there is a free movement of capital to and from the country.

The 2016 Index of Economic Freedom ranked Uganda better than some of its regional neighbours at 59.3 compared to Kenya (57.7) and Tanzania at (58.5). This implies that in Uganda, investors have freedom to work, produce, consume, invest in anyway, and can be protected rather than constrained by the state. The business operating environment in Uganda allows the full repatriation of profits after the mandatory taxes have been paid, as well as 100 percent foreign ownership of private investments. The incentive regime is structurally embedded in the country's tax laws, making them non-discriminatory and accessible to both domestic and foreign investment, depending on the sector and level of investment. The minimum capital investment required for a foreign investor to be eligible to invest in the country in virtually any sector, is US\$100,000.

Uganda's labour is highly trainable, English speaking and the cost compares favourably in Africa. Return on investment is about 5 percent and is projected to increase to about 7 percent as a result of ongoing and planned infrastructural (roads, railway, energy) development that will ensue from the developments in the oil sector (refinery and crude oil export). Uganda's GDP is between US\$25 billion and US\$26 billion, with stable economic growth averaging 5 to 7 percent. Inflation in 2016 was 5.2 percent after the global economic downturn against which the Ugandan economy was resilient and had the potential to attract foreign direct investment during the period.

In order to provide a conducive environment for doing business in Uganda, the government has created a One Stop Centre (OSC) for business registration and licensing at the Uganda Investment Authority as well as a Presidential Investors Round Table (PIRT) chaired by the President. The PIRT coordinated by the Uganda Investment Authority in collaboration with the Office of the Prime Minister is a high level meeting aimed at advising the President and the Government of Uganda in general, on how best to improve the investment climate. Many reforms have come through and continue to come through the PIRT that has informed Cabinet agenda and decisions. Further, Uganda also established free zones to boost the country's capacity to create jobs. A free zone is an area within a country where licensed manufacturers and or traders' imported goods can be stored or processed without being subject to import or export duty. The zones will among others, provide a comprehensive package of incentives for holders of free zone developer, operator or manager licenses.

4.12 Challenges to Investment Growth in EAC

The level of Foreign Direct Investment inflows grew by 3.3 percent to US\$9.5 billion in 2016, from US\$9.2 billion in 2015. This has been a result of improved investment promotion policies and initiatives among Partner States and at the EAC Secretariat. Nevertheless, the Region as a whole has been unable to attract the critical investment flows to ensure rapid economic growth and development. FDI inflows into EAC account for a meagre 0.5 percent of global flows and about 16 percent of Africa investment inflows. The low levels of FDI can be attributed to a number of factors:

- i. The region suffers from restrictions on the movement of capital and location of business due to incomplete implementation of the Common Market Protocol. The Protocol was supposed to liberalize the free movement of factors of production including capital. Inadequate movement of capital has curtailed investment promotion in the region.
- ii. The economies of East Africa are still small, characterized by a low level of per capita income, mainly caused by low share of exports to GDP. High per capita income denotes a large market for goods and services but currently East Africa cannot guarantee a market, a big factor in making decisions.
- iii. Although the region undertook an aggressive infrastructure development, the quality of infrastructure is poor and acts as a barrier to investment promotion. According to the

World Economic Forum, the quality of infrastructure in EAC is poor and ranks 97th among 144 countries. Also, the cost of doing business is still high especially the high cost of electricity and serviceable land that act as a dis-incentive for investors.

- iv. Legal framework on the EPZ is restrictive on how much you can sell on the domestic market, this has discouraged investors.

PART III: CONCLUSIONS AND POLICY RECOMMENDATIONS

5 CHAPTER 5: CONCLUSIONS

The 2016 Trade and Investment Report was aimed at providing a detailed analysis of the trade and investment trends for the year and to synthesise the challenges to and prospects for enhanced trade and investment in the region. The aim of the Report was to provide a platform for stakeholders, academics and policy makers to review the status of trade and investment, interrogate challenges and take steps to address the challenges for increased trade in the region.

Policy making on the enhancement of trade and investment in the context of liberalization and regional integration is becoming more complicated and characterized by uncertainty. This calls for a different approach to decisions on how to enhance trade and attract Foreign Direct Investment. Developing countries, especially the EAC Partner States, therefore need to embrace a mind-set change in order to achieve these objectives. The slowdown of the global economy over the last two years, affected the prices of commodities that are exported by the countries in the EAC. At the same time, it has become more difficult to attract investment despite the progress in creating a conducive environment.

The findings of the Report show that EAC developed a comprehensive strategy to increase trade and investment through signing of cooperation and investment promotion agreements with other countries or trading blocs. However, most of these agreements have not been finalized and this has affected the implementation. The economies of the five EAC countries grew but only modestly during the year. The EAC as a region grew by about 5.3 percent but this growth masked stark differences in the economic performance of the Partner States. Further, the currencies of EAC Partner States depreciated against the major currencies and inflation increased in most of the countries during the year, further exerting pressure on the monetary policy of the Partner States and constraining the macroeconomic outlook of the EAC countries.

The trade statistics show that total trade in the EAC fell for a second year, mainly due to falling prices and dwindling demand for exports from the region as a result of the unfavourable global economic environment. Overall, the EAC trade deficit decreased in 2016, partly due to a fall in

the imports into the region. Intra-regional trade fell for a second consecutive year but is also low as a share of total trade in the region, despite the implementation of regional integration that provides for removal of internal tariffs.

The 2016 Trade and Investment Report identifies a number of challenges that account for the low intra-regional and total trade in the region. Specifically, the Report concludes that the trading regime, lack of product diversification and non-tariff barriers in the region affected intra-regional trade while falling commodity prices may have reduced the level of exports.

Foreign Direct Investment into the EAC grew modestly due to increased investment inflows into Tanzania and Uganda during the year. However, the level of FDI into EAC is still low as a percentage of global FDI inflows despite progress in creation of more conducive investment climate in the Partner States. The Report concludes that the low level of FDI inflows was mainly attributed to the lack of effective markets due to low per capita income as well as structural and institutional challenges that make the EAC less attractive to investors. The EAC global competitiveness as well as 'Doing Business' Report, show that there is a lot required in order to improve the business environment.

However, there are prospects for enhanced trade and FDI inflows into the region given its comparative advantage. The region has plans to develop regional infrastructure to enhance trade and attract investors. Also, there is a review of the legal and institutional framework for trade and investment that will improve the business environment. Partner States are also optimistic about increased FDI as a result of the discovery of viable quantities of minerals, and oil and gas in the region.

6 CHAPTER 6: POLICY RECOMMENDATIONS

Expansion of trade and FDI inflows into the EAC region has long been the strategy of the EAC Partner States. Increase in the volume of intra-and extra regional trade, as well as attracting more investment into the region will provide the necessary resources, employment creation and economic development that will raise the standard of living of citizens in the region. While Partner States have been active in promoting export trade and attracting FDI, the level of intra-regional trade, exports and FDI is still low and the region experienced trade deficits over the last three years. To tackle this challenge, the report proposes the following policy recommendations:

- i. Undertake Strategic partnerships with high profile multinational to strengthen value chain production and enable our products entry into the international market as intermediate goods.
- ii. Review the CET and the exemption regimes with a view to enable goods produced in the region to access the EAC market with little restrictions. Specifically, the region should consider reviewing restrictive policies on the sale of goods produced under the exemptions and remission schemes as well as restrictions on intra -regional trade arising from application of the Rules of Origin.
- iii. Speed up the process of integration by concluding the negotiations for bilateral and regional agreements that will enable EAC goods to enter other regional and international markets. Fully fledged customs integration will also eliminate non-tariff barriers and increase free movement of goods.
- iv. Fast track the completion of infrastructure projects in order to improve the movement of goods across the region and which will help link the region to the rest of the world. The critical infrastructure including upgrade of the Ports of Mombasa and Dar es Salaam, the Standard Gauge Railway and regional highways will help lower transport costs, reduce delivery times, and improve productivity. Specifically, the two railroads will shorten freight times that will help integrate East Africa into the global supply chains.
- v. Create a credible rules-based regional investment regime that enhances predictability for investment policies and laws with mechanisms to resolve trade disputes and enhance awareness about- and promotion of the EAC region as a single destination for FDI.

- vi. Improve the free movement of capital as well as factors of production through the operationalization of the provisions on the Common Market to enable capital and other factors of production to move freely into/ from one Partner State to another with ease.
- vii. Improve Information and Communication Technology (ICT) in order to remove impediments to trade and investment in the region. Improvements in the harmonization of integrated customs management procedures and policies will enhance collection analysis and dissemination of trade statistics for improved planning and monitoring.