Direction Générale du Trésor

MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DE L'INDUSTRIE
Liberté Égalité Fraternité

EXECUTIVE SUMMARY
ECONOMIC LETTER OF EAST AFRICA AND THE INDIAN OCEAN (EAIO)

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Structure of economies in EAIO

Regional Perspective

By the Regional Economic Department of Nairobi

Key numbers

- On average, the **EAIO GDP per capita in purchasing power parity** (PPP) (USD 7,745/capita) is significantly higher than that of sub-Saharan Africa (USD 4,836/capita). This average is boosted by the high GDP levels of Mauritius and Seychelles
- Overall, **the industrial sector** accounts for just 24 % of the regional value-add, compared to 31 % in sub-Saharan Africa
- Within the EAIO, 80 % of jobs **are outside the formal sector**

In summary...

The economies of East Africa and the Indian Ocean (EAIO) display varied levels of wealth and economic structures, yet they share common challenges in terms of diversification and development. While wealthier countries, such as Mauritius and Seychelles, rely on robust service sectors, poorer nations, like Burundi and Somalia, depend on low-productivity primary sectors. Agriculture, although low in productivity, remains crucial in the region, employing a significant portion of the population and making a strong contribution to exports in countries like Kenya, Ethiopia, and Madagascar. The services sector, which accounts for 48% of the EAIO's GDP, stands out for its dynamism, particularly in tourism and digital sectors. Industrial development remains limited, with several countries focused on extractive industries, making them vulnerable to commodity price volatility. Furthermore, widespread informality and high-income inequality reflect ongoing development challenges, as does the reliance on remittances in some economies. Although diversification is a priority across the EAIO, progress is uneven, hindered by armed conflicts and political instability affecting several countries, as well as infrastructure deficits and limited fiscal space.

In detail…

Despite their highly heterogeneous wealth levels and economic structures, EAIO economies share common challenges in terms of diversification and development

The economies of East Africa and the Indian Ocean (EAIO) are markedly heterogeneous, both in terms of wealth levels and economic structure. While some countries, such as Mauritius and the Seychelles, with a high GDP per capita, rely on a well-developed service sector, for example in tourism and financial services, others, such as Burundi and Somalia, among the poorest in the region, remain heavily dependent on primary sectors that are not very productive. On average, the region's GDP per capita in purchasing power parity (PPP) is significantly higher than that of sub-Saharan Africa (USD 7,745/capita, versus USD 4,836/capita in sub-Saharan Africa). Nevertheless, this average mask significant disparities (see graph 1), reflecting different development trajectories.

The services sector (48 % of EAIO's GDP, compared with 50 % for sub-Saharan Africa as a whole) **plays a growing and dynamic role in the regional economy** (see graph 2). The digital sector (ICT) is a particular illustration of this dynamism: in Kenya, initiatives such as M-Pesa have turned *mobile payment* services into a lever for financial inclusion, while Mauritius and Rwanda are relying on this sector to further diversify their economies. Tourism, the mainstay of the economies of Seychelles, Mauritius, Kenya, Rwanda and Tanzania, strongly supports service exports and employment, but makes these countries vulnerable to external shocks, such as the covid-19 crisis. Djibouti, for its part, is taking advantage of its geostrategic position to position itself as a regional logistics hub, with a strong focus on trade with Ethiopia. Although Djibouti has invested heavily in port infrastructure and free zones, and continues to do so, the diversification of its economy beyond port services remains a challenge.

Overall, the industrial sector remains underdeveloped in the majority of EAIO countries, accounting for just 24 % of regional value-add, compared with 31 % in sub-Saharan Africa). In several countries in the region, such as Uganda, South Sudan, Sudan, Tanzania and Eritrea, industry is largely dominated by the extractive sector, with a strong concentration on oil and mining resources. Tanzania and Eritrea, for example, mine mainly gold and copper, while Sudan is a major gold producer (undoubtedly one of the largest in Africa). South Sudan can rely on its oil reserves, which are also being developed by Uganda, with production due to start up in 2026. However, this specialization exposes the region's economies to the volatility of commodity prices, as well as to the geopolitical environment (Sudan, South Sudan…). Weak governance, corruption and deficient infrastructure also hinder the development of higher value-added manufacturing industries in the region, accentuating dependence on imports of manufactured goods.

The high level of informality in the AEOI region, with around 80 % of jobs outside the formal sector (an average equivalent to that of Sub-Saharan Africa), **reflects persistent challenges in terms of economic development and the creation of structured jobs.** This widespread informality (with the exception of Seychelles and Mauritius) is accompanied for some economies by a dependence on remittances from the diaspora, which represent significant shares of GDP in Somalia (15 %), and to a lesser extent in Burundi (4.5 %), Ethiopia (3.6 %) and Kenya (3.8 %), where they directly support private consumption. At the same time, income inequality is high, as indicated by the Gini index, with a regional average of 0.40 (0.41 average for sub-Saharan Africa) and peaks in countries such as Comoros (0.45), Rwanda (0.44) and Uganda (0.43).

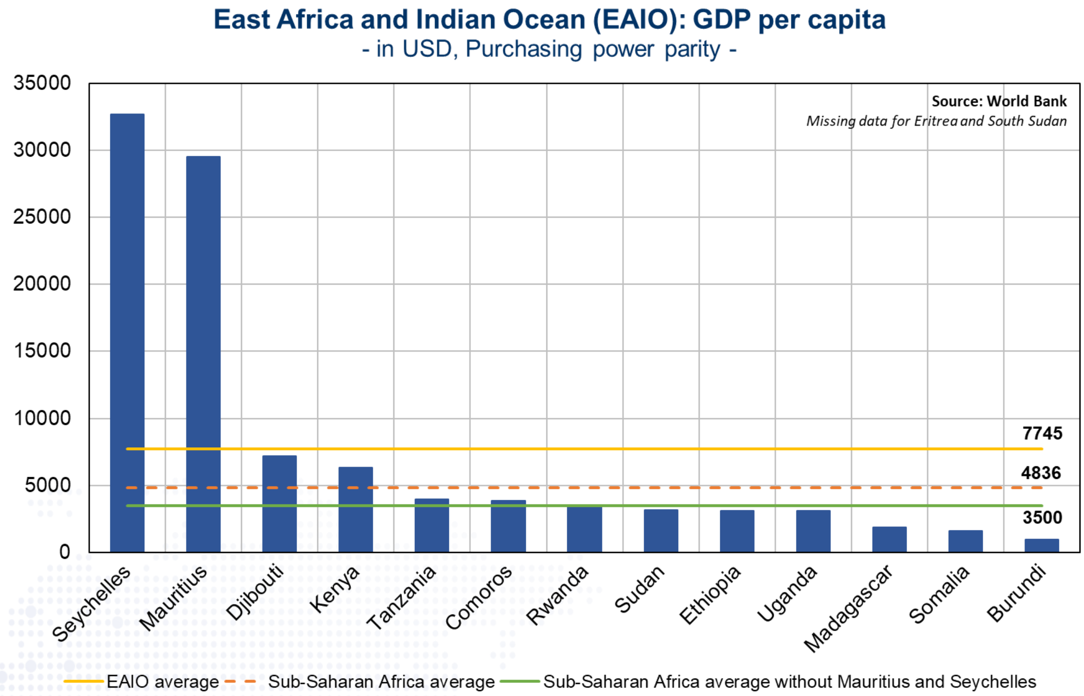
Heterogeneous political will and diversification efforts, with disparate results

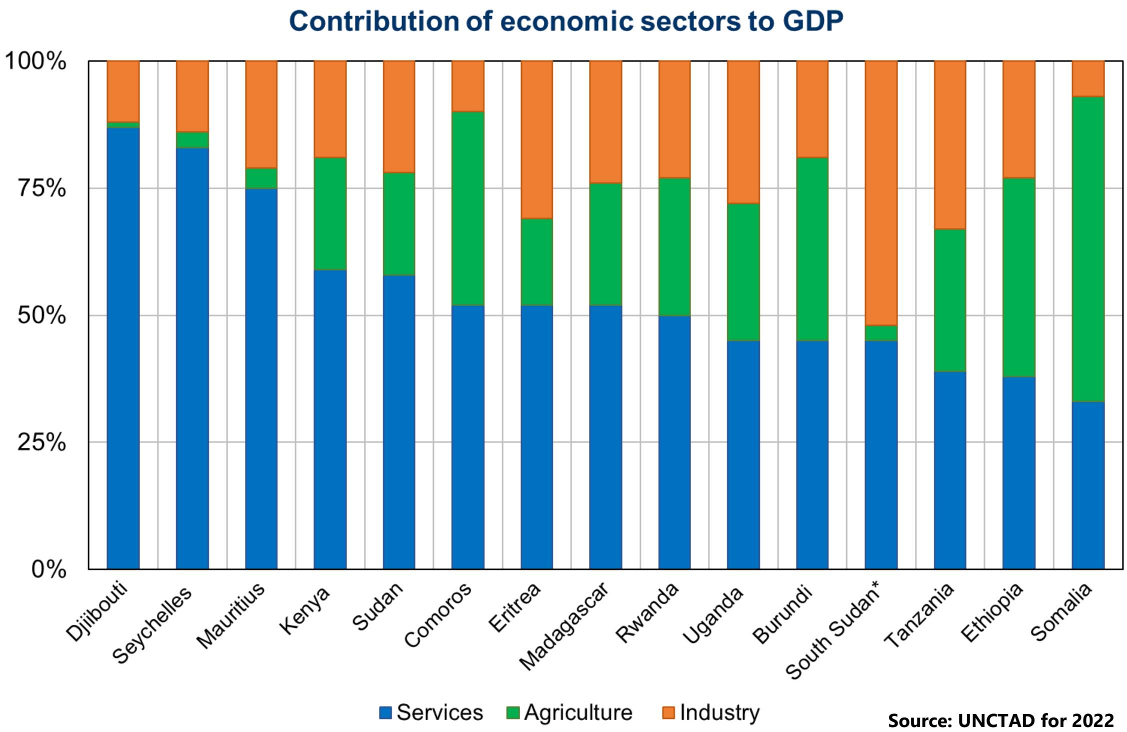
To strengthen their economic stability, EAIO countries have every interest in diversifying their activities, thereby reducing their dependence on a limited number of key areas and better protecting themselves against external shocks and climatic risks. With this in mind, diversification strategies differ from country to country, depending on their specific resources and national priorities. In island economies such as Mauritius and the Seychelles, diversification has focused mainly on tourism, financial services and digital technology. Mauritius, which has long depended on agriculture, has been able to develop a more diversified economy, with sectors such as textiles and financial services becoming important growth drivers. Madagascar, for its part, is banking on its natural resources to diversify its exports, notably in the extractive industries and the production of cash crops such as vanilla, while seeking to strengthen local processing.

Some EAIO countries, such as Rwanda, stand out for their proactive economic transformation policies, which include promoting industrialization and attracting foreign investment. Rwanda has implemented reforms to improve the business environment and combat corruption, enabling it to attract foreign capital and diversify its exports. This strategy contrasts with that of Ethiopia, which, while ambitious, faces structural obstacles such as currency shortages and high logistical costs, limiting the impact of its efforts. Addis Ababa, despite structural challenges, is striving to develop its economy beyond agriculture, notably by encouraging the establishment of thematic industrial parks for the textile and manufacturing sectors. In Tanzania, the diversification strategy focuses on industrialization, particularly in the agri-food and manufacturing industries, in order to reduce dependence on raw materials and increase the added value of exports. Uganda, meanwhile, has attracted significant foreign direct investment in the oil sector (TotalEnergies), with potentially significant knock-on effects. The Burundian authorities, for their part, are striving to diversify the economy by investing in the mining sector and improving infrastructure to stimulate trade and industrialization. However, these efforts come up against a complicated reality: access to electricity is still insufficient to develop an extractive sector, budgetary room for manoeuvre is limited, and the country is landlocked.

EAIO's heavy reliance on traditional sectors also reflects common structural challenges that hinder diversification. Armed conflict (Sudan, Ethiopia), political instability (particularly in Somalia and South Sudan), political and economic isolation (Eritrea), institutional weaknesses (as in Madagascar) and a lack of infrastructure (particularly in the Comoros and Burundi) all limit the diversification of the region's sources of growth. In addition, the preponderance of the informal sector throughout the region makes the transition to a more structured and resilient economy difficult.

While economic diversification is seen as a common goal in EAIO, progress remains uneven from one country to the next. For the region as a whole, strengthening institutions, improving the business climate and investing in infrastructure must remain priorities to ensure effective and sustainable economic diversification. However, limited budgetary leeway often limits countries' ability to finance these structural reforms and develop strategic sectors.





Source: UNCTAD for 2022

* Data from the African Development Bank

CONTACT:

Olive NASIBWONDI KABISA
Sectoral Assistant
olive.nasibwondikabisa@dgtresor.gouv.fr
+254 715 277 789 / 020 207 605 573