



SID

Society for International Development

STATE OF EAST AFRICA REPORT

CONSOLIDATING MISERY?

THE POLITICAL ECONOMY OF INEQUALITIES IN EAST AFRICA

A PUBLICATION OF THE SOCIETY FOR INTERNATIONAL DEVELOPMENT

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Society for International Development
P.O. Box 2404-00100
Nairobi, Kenya
E-Mail: sidea@sidint.org
URL: www.sidint.net
Twitter: @SIDEastAfrica

The Society for International Development

The Society for International Development (SID) is an international network of individuals and organizations founded in 1957 to promote social justice and foster democratic participation in the development process. Through locally-driven programmes and activities, SID strengthens collective empowerment, facilitates dialogue and knowledge-sharing on people-centered development strategies, and promotes policy change towards inclusiveness, equity and sustainability. SID has over 30 chapters, and 3,000 members in more than 50 countries.

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Design and layout by:
Susanna Altea / Bustepack S.A.S.

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Arthur Muliro and Stefano Prato
Society for International Development

NB: The views and opinions expressed in this report are those of the authors and do not necessarily reflect the official policy or position of TradeMark East Africa.

OVERVIEW



AN OVERVIEW OF THIS REPORT

This report is structured into three sections as follows:

Part 1: Conceptual Overview of the Political Economy of Inequalities in East Africa (Why do inequalities matter?)

This is the introductory section of the report and it basically lays out the argument for tackling inequality, going beyond conventional analyses and rhetoric. It exposes the structural foundations of inequality in the EA Community and sketches some broad policy prescriptions that might be considered. This section should allow the reader to understand our take on inequality and our theory of political economy as applied to this publication.

Part 2: Exploring Inequalities in East Africa

In this section, we introduce our analytical framework that involves two fundamental instruments (normative and fiscal) and how they are applied (decisions and resource allocations) in nine sector examples spread across three pillars (an economic pillar, a social pillar and a political pillar) to try and understand the political economy as it plays out first at the national level and secondly, how they impact regional integration.

It will also explore – albeit in broad strokes – the ethical foundations for equity: what are the challenges of ethics in public life and how this might be contributing to the persistence of inequality in the region?

Finally, and as a way to wrap up this section, we introduce a longitudinal aspect to the subject matter by exploring the inter-generational context of inequality today. In other words, to what extent are the decisions taken today likely to impact future generations? To what extent are we setting these future generations up for success (or failure)?

Part 3: Data and Statistics

This section offers a collection of relevant statistics on the region. Beyond being able to give the reader a clear description of East Africa today in numbers, the data we offer also seeks to bolster the arguments made in the preceding section. The data presented aims to give the reader a decent snapshot of the region in terms of its present capabilities and future prospects.

Online Bonus

This section available of the State of East Africa Report website contains six essays by distinguished East African researchers reflecting on different aspects of the East African political economy. Together, they offer the reader a broad overview of the issues involved and why an adjustment in the political economy narrative can no longer be put off.

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

The past few years have seen the economies of the EAC member states grow by leaps and bounds, with the regional averaging some 6% annual GDP growth in the period since 2011. This is good news. Expanding economies in principle mean that there is growing economic activity taking place, an increased exchange in the volume and value of goods and services traded. These growth rates have been heralded as the proof that the region has finally made a structural shift in its economies, and have been held out as a harbinger of greater things to come. This optimism has been further buoyed by the potential emerging from the recent hydrocarbon discoveries and the extractive industries in general. The long-awaited renewal of dilapidated rail, road and port infrastructure and the race to construct new gas and oil pipelines to the region's ports has also given a signal that the region is no longer doing business as it used to. Indeed, the 'mix' of the region's economies suggests that there is a deeper and perhaps subtler set of changes taking place.

As the IMF remarked in its report:

'Both output and exports have become more diversified: the share of agriculture has fallen substantially; the gains in share have been broadly distributed, with the largest gains going to construction, transportation, and wholesale trade; manufacturing and mining posted modest gains. Rapid growth has thus not been driven by a narrow range of products (as might have been the case with natural resources in some other low-income developing countries). Moreover, the sophistication and quality of items exported by the EAC countries have improved over time, and more noticeably during the past decade than previously.'¹

But even as the economies of the EAC have been growing, this growth has been accompanied by a growth in inequality in virtually all countries. Put bluntly, not all citizens of East Africa have seen or felt the benefits of these stellar GDP growth figures. If anything, for a growing number of East Africans, life has become – in recent years – a much harsher and harder enterprise. The economic boom has not generated the jobs that it was expected to and there is a growing frustration that perhaps these jobs will never materialize. For all the progress made in recent years, the levels of poverty, hunger and malnutrition in our countries are still staggeringly high and serve to underline the adage 'you cannot eat GDP'.

The last State of East Africa Report highlighted the state of inequality in East Africa and sought to explore what future inequality might have in East Africa. Its title 'One People, One Destiny –

¹ Giginishvili, Nikoloz, Paolo Mauro and Ke Wang (2014) 'How Solid Is Economic Growth in the East African Community?', IMF Working Paper, August: 18.

The Future of Inequality in East Africa' interrogated the extent to which the fruits of economic growth were contributing to the stated vision of the EAC – that of 'One People, One Destiny'. The report surmised:

'Two powerful driving forces are shaping the future of inclusiveness and equity in East Africa. One is the inclusiveness of growth – a measure of how much the poorest East Africans are participating in generating economic growth. The second driving force is the degree of equity, which describes how the benefits of economic growth are shared among the region's citizens, and particularly the share of income and wealth that accrues to the poorest East Africans'.

This State of East Africa Report seeks to build on the previous report and seeks to take the conversation a step further: It aims to explore and offer for reflection, some of the challenges that the region will need to face up to if it is to be able to successfully transform its economies in order to drive up domestic demand, build and nurture local value-chains and improve the skills of its labour force in a virtuous process that reorganizes our institutions and processes to ensure that the majority of citizens have an active stake in change processes of the day.

WHY POLITICAL ECONOMY?

In focusing this report on examining the political economy of inequalities, we aim to shine a spotlight on the relationship between politics (domestic and regional) and inequality. To what extent are our political institutions linked to the persistence of poverty? What political factors affect the evolution of inequality and what are the effects of inequality on political choices and outcomes? Is there a relationship between our various identity formations and the manner in which public goods are provided? The report offers some hypotheses as to why inequalities persist and why efforts to address them (narrow the gap) are unlikely to be successful in the absence of a committed attempt to dismantle and recreate the institutions that distribute power and the networks that have emerged to extract benefits from them. It thus makes the argument that inequalities survive thanks to the structure of the institutions we have put in place and that it is only by reforming these institutions that we can truly address the challenges that inequalities generate.

As this report is about regional integration, the report also asks some questions as to whether the opportunities that this process presents will be helpful in supporting efforts to narrow present inequality gaps. The best answer we can give to this is a lukewarm 'it depends' – it depends on the choices that the leaders are willing to make; whether they are willing to take bold steps to reconfigure the institutional and power architecture to ensure that all citizens of the region benefit from integration as opposed to only a (small) section.

THE REPORT

This report analyzes nine sectors divided across three pillars: an economic pillar, a social pillar and a political pillar. In each of these sectors, the report asks questions that straddle an additional three domains:

- The **fiscal domain**: Where do we get our resources from and how do we spend them?
- The **normative domain**: What policy decisions are made (or not) and who benefits from these decisions?
- The **ethical domain**: Whose narrative prevails and what instruments are used to weaken the moral core of society?

THE ECONOMIC PILLAR

AGRICULTURE

In spite of the oft-repeated cliché that agriculture is the backbone of our economies, the stark reality today is that subsistence agriculture remains unable to guarantee reasonable income levels for those who practice it and further exacerbates food insecurity through a combination of low incomes which deplete the ability to purchase sufficient food on the market and low production levels.

Agriculture remains the single largest employer in the region, yet its contribution to the national GDP continues to slip further downwards. The sector continues to be neglected in comparison to other sectors, and in particular, the efforts put in place to support and sustain small family farmers have often failed to meet their mark. As such, agriculture remains an unattractive career option, with an increasingly ageing workforce that relies on rudimentary technologies and is increasingly vulnerable to climate change. Little wonder then that food insecurity abounds in the region.

In our analysis, we look at the impact that infrastructure and trade agreements have had on agriculture in the region. With respect to infrastructure, our interest is piqued by the fact that enabling farmers to take advantage of the value chains is dependent on a functional infrastructure network that connects producers to markets; that allows them not only to transport their goods, but also reduces spoilage during transit times. There is however a lack of consensus on the impact of these revamped corridors on the immediate fortunes of the smallholder farmers, and if anything, there is skepticism that these are ‘corridors of power’ rather than ‘corridors of plenty’ – that is, they favour a few at the expense of the majority. When it comes to trade, again, much as progress has been made, there still are a number of formal barriers that make it difficult for smaller traders to participate in the market and the consensus is that there the harmonization process is not only slow, but inefficient. Furthermore, in the search for

quality, current standards for intra-regional trade are higher than those for produce coming from outside the region. As such, smaller producers are penalized by these standards and are unable to take full advantage of available local markets.

WAGES AND WAGE POLICY

An examination of the Palma Ratio – a new measure introduced to replace the Gini Coefficient as a standard measure of the gap between the rich and the poor in a society indicates that the concentration of wealth in East Africa has, broadly speaking, remained unchanged over the years. If anything, the rich have been getting richer. If anything, the Palma Ratio indicates that the gap between the richest 10 % and the bottom 40 % of the population in our countries is amongst the widest in the world today. This gap clearly has significant implications on how decisions are made and play out once they are taken.

The Palma Ratio notwithstanding, and despite efforts in some East African countries to raise the level of earned income by setting minimum-wage legislation, East Africa has millions of ‘working poor’ – people whose jobs do not pay enough to keep them above the poverty line. Minimum wages in East Africa are quite variable and even though effort has been made to differentiate according to sector and job location, they generally tend to be quite low in comparison to the cost of living.

In our analysis, we examine Kenya’s floriculture industry to try and understand the wage structure of the workers in this sector. This sector, which in 2014 accounted for up to 1.52% of Kenya’s total GDP employs some 90,000 farm workers. The vast majority of the workers employed in this sector are paid above minimum wage salaries yet earn below living wages and most live in conditions of hardship. The gap between the legally enforceable ‘minimum wage’ and the morally required ‘living wage’ is made abundantly clear for this sector.

Recent public sector strikes by teachers and health workers have also brought into the spotlight the question of public sector wages and how these relate to a living wage. Whilst it is clear that the higher cadres of public sector workers are earning comfortable wages (in some instances far in excess of their private sector peers), those in the lower and mid-level cadres do not enjoy any such comfort.

Whilst the question of pay will forever remain an emotive issue, it is important that leaders take the moral high ground and push for living wages as opposed to minimum wages that are anchored to realities that no longer exist. This excursion into the question of worker pay and the issues it raises can also be applied to workers’ rights in general and how these are being watered down in the name of efficiency and competitiveness.

THE SOCIAL PILLAR

EDUCATION

So just how well has the region's educational sector been performing? East Africa's educational performance, in spite of the massive investments made in recent years, still has a long way to go to address quality concerns. A number of reports have decried the lack of literacy and numeracy skills amongst young students (at the basic schooling level), whilst at the tertiary level, it is estimated that more than half of East Africa's graduates lack the requisite basic and technical skills commensurate with their level of education – and hence make a poor fit for the job market.

The demographic pressure that the region faces means that a demand for schooling is all but guaranteed, and with virtually all governments rolling out free primary education, there needs to be a serious reflection on just what sort of graduates we need. The poor transfer of knowledge and the mismatch of skills is likely to create serious challenges going into the future and begs a deeper understanding of just what we are getting from the massive investments into the sector. To the extent that we are unable to get this equation right, it is unlikely that we will be able to take full advantage of the human potential of the region.

Indeed, with the public education system (broadly speaking) in crisis, it will create further incentives for private education providers to tap into the desire for quality education. Such is the demand for 'better' education and more often than not, the quality of education obtained is a function of the amount of money parents are able (or willing) to pay. If the availability of (quality) education is reduced to a question of wealth, then the state will find itself increasingly challenged to justify the billions it spends in underwriting the public education system.

HEALTH

As with education, massive investments have been made in the health sector in recent years, yet the outcomes still leave much room for improvement. Broadly speaking, health care facilities closer to urban centres tend to receive the lion's share of the health resources (although as in the case of Tanzania, this does not necessarily translate into better health care outcomes). In Kenya, a recent survey indicated that only 13 hospitals (out of 495) scored better than 1 (on a scale that ran from 0-3), and of these, 11 were privately-run facilities.

Weak regulation, particularly in rural areas and lack of quality controls have also resulted in poor quality health care services being offered to rural residents. As such, it is not unusual to hear of situations in which the health care offered has resulted in additional damage to

the patients. In such situations low confidence – in the health care systems and mechanisms for redress in case of malpractice – can often mean that a vicious cycle of ill health gets compounded.

Rapid urbanization, economic growth and freer markets have also resulted in changing diets and a growth in non-communicable diseases – a new scourge over and above the traditional infectious disease burden. Such is the spurt in the growth of non-communicable diseases that it is forecast that by 2030, they will be the leading cause of death in sub-Saharan Africa.

Furthermore, with the region dependent on external support to finance its public health systems, a situation that is not likely to change in the medium-term, the pernicious effects of dependence on aid and the further fragmentation of the health systems as donor money cherry-picks interests is also something that needs to be considered. And should donor money exit the scene, the impact on the poor segments of the population could be devastating. But by far the biggest story in the health sector is that a key driving force at play is the fact that the wealthier segments of the population have opted out of the public health care system. As such, there is a limited push (if hardly any at all) to further develop the public health system and the bifurcation of the health care system: private for the wealthier members of society; public for the rest. This dual system further cements social stratification and institutionalizes poor health outcomes which have (inevitably) an intergenerational impact.

HOUSING AND SHELTER

According to the UN Habitat's State of Africa's Cities Report, Eastern Africa is the world's least urbanized but fastest urbanizing sub-region. It is expected that by the end of the current decade the urban population will have increased by 50%, and the total number of urban dwellers in 2040 is expected to be five times that of 2010.

The biggest challenge by far that our cities face is that of providing affordable quality housing – a challenge which we are failing to meet. The result of this failure is that today, an average of 55% of East Africa's urban residents live in slum areas. Our cities are filled with dangerous, overcrowded structures whose sanitary conditions leave much to be desired. The stories of collapsing structures are legion in our cities, a function of poor regulation and oversight. The UN Habitat has stated that the lack of political will is the fundamental cause of urban underdevelopment.

Paradoxically, any visit to our cities and suburbs will reveal frenetic construction activity. The proliferation of high-rise accommodations is perhaps a response to the felt need for new dwellings for the ever growing number of city residents. It is here however that the mismatch

in the needs of the new residents and the construction becomes evident. The majority of the buildings being erected are targeted firmly at upper middle-class pockets. For those who are looking for outright purchase, the inflation in the housing prices has driven the dream of home ownership out of reach of most as mortgages are unaffordable, and the prices of construction materials continue to spiral out of reach. Rental prices remain prohibitively high and it is not unusual to find rentals being quoted in US Dollar prices that are equally out of reach for the average citizen.

The inelasticity of price in the housing market is an indicator that houses are not built to fulfill demand, but rather as a response to wealth impulses. The absence of active public policy on housing also favours illicit activities (shoddy housing, abuse of bylaws etc.) and normative processes such as land acquisition for investments for public infrastructure also tend to be biased in favour of the wealthier classes of society.

THE POLITICAL PILLAR

JUSTICE

Can the citizens of East Africa expect justice from their judicial systems? Who are the prime beneficiaries of the judicial systems in place and why? And how does this link to the perpetuation of inequality in the region? Even as judicial reforms are enacted, the public still views that judicial system with a healthy dose of suspicion and the average East African citizen (with the exception of Rwanda) is likely to believe that justice, in its truest form, can never be obtained via the courts of law which are biased in favour of the rich and powerful. Right or wrong, perceptions can be everything.

The lack of trust that the perceptions reveal is itself a powerful driver of injustice: it makes it easier for powerful individuals and entities to exploit the weak, knowing very well that they will hardly ever denounce them to the judicial authorities, and in the rare instance that they do so, they can comfortably exploit this lack of trust to further turn the system against them.

Looked at from an inequality perspective, the role of the law and how it is applied is central to tackling the challenge of inequalities that the region faces. Considering that the primary cause of inequalities in East Africa is the skewed access to productive resources, it is impossible to ignore the role that the legal system has played in perpetuating this state of affairs. The law has been used to dispossess traditional communities of their lands; to maintain patriarchy and to cancel claims of equity and access to resources. Traditions of judicial restraint have also ensured that it was only a few maverick judges who sent strong messages about the persistence of inequalities and challenged legislators and the executive to take remedial actions. Their

subsequent isolation by their colleagues underlined the message – the judiciary should only deal with matters of law, interpreting it within the confines that it provides and that it should not generate conflicts of power with the legislature and executive.

Still, there is room for guarded optimism: in Kenya, the inclusion of socio-economic rights in the Bill of Rights is a key plank in fighting inequalities. Emerging jurisprudence around these socio-economic rights and devolution processes are critical in this regard as are the growing access to information and struggles to undermine impunity all across the region.

SECURITY

Whose security matters in East Africa? That of the citizens? Or that of the state? This is far from being a rhetorical question. When ‘security’ is mentioned, more often than not, the interpretation that prevails is that of the physical security of property and of the state. Very rarely is security analyzed through the lens of what this means for individuals. Today, it is the threats to state security and associated responses that overshadow threats to individual security. We rarely, if ever, reflect as a society on what the security of the individual might mean, yet it is impossible to delink the two: The security of the individual now directly impacts the security of the state and vice versa.

In 2014, our governments spent close to \$2 billion on national security. To what extent have these expenditures translated into security for the citizens of East Africa? What is the link between the growing inequality in the region and the insecurity that is palpable in our countries? To the extent that there is a growing gap between the wealthy and the poorer sections of population, there are likely to be increased tensions that will undermine coexistence and threaten property. To the extent that our economies are unable to provide adequate jobs to absorb the new entrants to the job market, there will be a growing number of frustrated and desperate individuals for whom crime and violence might become enticing options. In recent years there has been increased talk of youth becoming ‘radicalized’ and choosing to affiliate themselves with vigilante or even terrorist groups. There is in many respects, a direct link between these choices and the growing inequality in the region.

It should therefore come as no surprise that the fastest growing employment opportunities are those to be found in the private security sector. In Kenya, private security providers are estimated to be a larger employer than the tourism industry whereas in Tanzania they are touted as the leading employer. Today, we have an interesting situation where the skewed concentrations of wealth and power are distorting the normal security functions of the state and focusing the attentions of the state to cater more towards protecting the assets of the wealthy, whilst at the same time reducing its attention to the poorer sections of its number and

often such attention tends towards an increased emphasis on repression (of potentially restive populations).

An insecure region is unlikely to integrate, and the challenge here is for the states to begin to rethink security in broader terms than 'offensive' and 'defensive' capabilities and consider the questions of individual (human) security much more broadly and also take into account the longer-term issues that are the cause of insecurity in the region.

DISCRIMINATION AND IDENTITIES

There are many 'identities' that inform resource politics today and in many respects, a number of them overlap. The more prominent amongst these include gender, religion and social class. But the power of ethnicity is by far the most powerful identity marker today. Ethnic affiliation has been used to justify resource allocation on the one hand, and to undermine policy on the other.

But just how exactly does the preponderance of ethnicity create outcomes that promote or facilitate the growth of inequality? To the extent that the national politics of any country is subject to the push and pull of ethnic power struggles, the institutions that are created will reflect this fact and it is more likely than not that these institutions will, of their nature, be more prone to promoting and perpetuating inequalities rather than tackling them. At the end of the day, the problem with ethnicity in our countries is not the presence of different ethnic groups per se, but rather, the manner in which ethnic identities have been coopted and instrumentalized for political purposes. In playing the 'us' versus 'them' game, elites successfully have used ethnic identities as vehicle to reinforce their privileges and justify exclusion of outsiders.

In addressing the identity question, we cannot ignore the gender question. The struggle for equal rights in all countries, and in particular the need to ensure women are not unfairly discriminated has been at the forefront of development discourses in the recent decades. In East Africa, the question of how women have fared cannot be divorced from any examination of identity within the political economy.

The problems that come with identity cannot be ignored, nor can they be magically transformed through a smart policy or two. Achieving a transformational change in the way identities inform our politics and resource allocation requires deep mindset shift – in the public and private spheres, particularly in the way rules are made and enforced; as well as giving greater voice, visibility and opportunity to the 'other' identities, and in particular women.

THE INTERGENERATIONAL CHALLENGE

The normal expectation that most parents have is that their children will live better lives than theirs. As such, parents make sacrifices and investments to ensure that their children are able to 'do better' than they did. What is the likelihood that the expectations of today's parents will be met? We live in a period of promise, a period of plenty but also one of widening and unsustainable gaps between those who have and who have not. The challenges that we face today that are likely to have a significant impact on future generations include climate change, unemployment, growing national debts and insecurity – to name but a few.

Of these challenges, climate change is likely to be the most significant game changer. The consequences of climate change are myriad and in any respects, they have a direct and lasting impact on future options. The reality is that climate change is happening faster and with more surprising outcomes than initially predicted. Climate scientists suggest that the damage may already be irreversible – even if we were to stop dumping greenhouse gases into the atmosphere today, the prevailing CO2 levels are already so high that we can be assured of significant global temperature increases and that disruptive climate changes are all but guaranteed in the years to come. For us in East Africa, climate change means significant disruption of livelihoods with a concomitant increase in social tensions. We can expect an unhappy convergence between climate change, poverty and violence. The most important impact of climate change is however that food supply will continue to be threatened and there is a risk that we are entering a period of 'permanent food supply crisis'. Such a crisis would inevitably result in various social – and ultimately political – consequences.

The period we live in is also one of 'jobless growth'. Economies have been growing, but the number of jobs created has not been in line with the expected growth. Rapid population growth means that there is a significant mismatch between the demand for jobs and their supply – a mismatch that can be expected to continue for the foreseeable future. This demand for jobs will continue to exert pressure on political leaders to create and deliver decent jobs.

Our countries have also been borrowing heavily in recent years to finance badly needed development projects. These debts were ostensibly to be serviced through improved economic gains derived from these projects as well as rents and income from extractive resources. However, as the region's currencies depreciate and export earnings decline, the pressure exerted by the debts could become unsustainable. Indeed, debt service is already consuming significant portions of our national budgets and the trade-off is that necessary investments in social infrastructure and developments will have to be put off, in addition to austerity measures being adopted with potentially devastating consequences to society for the medium and long-term.

The bottom line is that we do not know what the future holds for us. However, the current trends are worrying and point to a future that has been compromised for today's youth. The

decisions that have been taken to make us comfortable today will leave tomorrow's generations with much less room for adjustment and negotiation to enjoy similar levels of comfort and wellbeing. This is the essence of the intergenerational challenge that we must master. Obviously there is still some room to maneuver and to make changes, but the full impact of today's choices will not be felt immediately. Like a supertanker out at sea that has a turn radius of 25 km and takes 15 km to come to a full halt, we will need to factor in the time and distance gap between any choices and decisions we take today and their full impact being felt. As we make our choices today, we must be aware of the changes that these choices will influence, and the forces that will influence the changes.

EIGHT KEY MESSAGES

There are eight key messages this report would like to convey. Whilst the majority of the messages focus on changes that need to take place at the national level, it is impossible to divorce the needed changes from the regional integration question. When we come together at the regional level, we do so with our individual country strengths and weaknesses and this impacts the regional negotiations as well as the potential of the collective EAC. These messages are:

1. The biggest task facing the state in East Africa is perhaps not so much that of pursuing 'economic growth' at any cost, but that of creating the foundations for lasting human development in the region. By reinforcing the livelihoods of each individual citizen, the potential for national and regional growth will be multiplied several times over. Individual citizens should be seen as allies and catalysts; not as enemies or 'disruptive' elements.
2. There is massive potential in the region crying out to be unleashed – trade barriers, poor infrastructure, insecurity, unfair judicial systems, low wages, discrimination, weak regulation etc. are undermining the potential that could be reaped if the region were to genuinely reform its institutions to make them more equitable, predictable and inclusive.
3. Our institutional arrangements at the national level are skewed in favour of the rich and powerful. Cosmetic changes and 'make do' adjustments are only delaying an inevitable internal crisis. The time to rethink the structure of power and economy is now.
4. The implicit social contract that has accompanied our states since their formation and independence needs to be rethought and renegotiated with a view to ensuring that the majority of the citizens get a fair return out of this bargain. It cannot be taken for granted.
5. Massive spending on 'key' infrastructure projects needs to factor in the broader public good at the outset and not as an afterthought. Current infrastructure developments are fruit of export-led strategies. Local economy growth and empowerment should be the focus of infrastructure development.
6. If inequalities continue to be consolidated, there is a strong possibility that future generations of East Africans will live worse lives than the current generation of East Africans

– a 'catastrophic convergence' of politics, economy and environment does not bode well for the region. Any magnification of systemic challenges could overwhelm our response and resilience mechanisms. As such, there is an urgent need to invest in adaptation schemes that magnify potential gains from cooperation whilst minimizing conflicts.

7. East Africans need to undergo a thorough mindset shift to embrace the opportunities today that will enable them to survive in tomorrow's world. The social habits of trust, cooperation and becoming truly 'wananchi' is long overdue. Furthermore, we need to shift from linear problem solving approaches to systems thinking and collaborative problem solving. To do so successfully means we will need to reinforce those institutions necessary for this task.
8. We need to be able to unmask and tackle the political economies that are drivers of inequalities at the national level otherwise we will not be able to guarantee a regional integration process that is truly people centred and sustainable, one that is transformative for the lives and choices of East Africans.

CUI BONO? AN AGENDA FOR ACTIVE POLICY ENGAGEMENT

There are many entry points that could inform the policy process that seeks to address the imbalances caused by the existing political economy. Whereas the report has taken liberty to point out some areas of possible intervention, it does not point out specific policy cures. This would detract from the purpose of this publication as we would not have the space to explore the complexities that each individual intervention would likely have to address. Nonetheless, they are offered as a point of departure for policy conversations with a view that conversations building on these possible intervention areas would clarify not only the technical aspects involved, but also be more specific in identifying beneficiaries of these actions.

Agriculture	<ul style="list-style-type: none"> • Infrastructure developments should prioritize linking small-holders to the market, in order to break the vicious cycle of low production and low incomes • The linkage of local producers and local markets offers a series of opportunities across the value chain which can boost employment and incomes • Focus greater effort on improving production of staple crops given their potential to kick-start local economies, reduce poverty and reduce dependence on food imports • Speed up efforts to put in place an overall dynamic regulatory strategy to facilitate regional trade that is consistent with the common market system
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Wages and Wage Policy	<ul style="list-style-type: none"> Put in place a frameworks at the national level that guarantee a living wage in all sectors as opposed to minimum wage guidelines
Education	<ul style="list-style-type: none"> Greater allocations need to be made to primary and secondary education with a view to improving quality of outcomes at these levels, in particular guaranteeing minimum literacy and numeracy skills Review and rationalize expansion of private actors within the educational sector with a view to ensuring that they contribute to ensuring minimum quality standards and help balance out the structural inequities prevalent within the educational sector
Health	<ul style="list-style-type: none"> Need to search for and implement affordable and cost effective healthcare delivery methods in view of reduced resources available for healthcare spending Acknowledging and providing for the distortion in health care systems that has ignored rural areas at the expense of urban areas; the arrival of new, non-communicable diseases (NCDs) will further challenge provision of viable responses Providing incentives for private healthcare providers to expand to rural areas Improving quality of healthcare provision and outcomes; exploration of regional poles of excellence
Housing and Shelter	<ul style="list-style-type: none"> Improving quality of construction; enforcement of standards and planning codes Providing for low-income and lower-middle class housing which is where the greatest demand (and least supply) is to be found Weaken and remove interference in urban planning and management – go beyond acceptance of informality and distortions that allow ‘entrepreneurs’ to reap massive profits Explore ways and means of ensuring mortgage schemes are affordable
Justice	<ul style="list-style-type: none"> Restoring public faith and trust in judicial systems – a function of breaking down cartels that have undermined and captured judicial systems Educating citizens on their rights and how to demand for them Reviewing property rights, and in particular their impact on women’s rights

Security	<ul style="list-style-type: none"> Root causes of insecurity need to be clearly mapped out and addressed as opposed to simply reacting to events Security policy needs to focus on maintaining social cohesion and ensuring that livelihoods of all citizens are facilitated within the remit of the law
Discrimination and Identities	<ul style="list-style-type: none"> The question of rethinking the social contract and its role in facilitating development State needs to establish itself as the only institution providing/facilitating development, safety/security otherwise it risks being supplanted and undermined by alternative institutions to whom citizens have greater loyalty.

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INTRODUCTION



INTRODUCTION

ARE WE CONSOLIDATING THE FOUNDATIONS FOR FUTURE MISERY?

This issue of the State of East Africa Report, the eighth in the series thus far, builds on the previous report on inequality. In this last report, we undertook to try and map out exactly what the state of inequality was in the region. Now, much has been made of the phenomenal economic growth rates that the economies of the East African Community countries have recorded in recent years. With an average growth rate of some 5.8% over the last three years¹, the region has given notice that it could yet become a continental powerhouse. Furthermore, recent natural resource discoveries have boosted the prospects of such growth even more. The governments of the region have embarked on ambitious plans to renew the dilapidated infrastructure - highways and airports, railways and harbours have all received more attention in the last five years than ever before. For many policymakers, pundits and investors, East Africa's time is now.

The last SoEA² report revealed that these growth rates masked over a rather precarious situation. Yes, there was growth, but its outcomes were not trickling down as fast as might have been expected. Indeed, the report concluded that the future of EA is shaped by the extent of progress in two dimensions:

'One is the inclusiveness of growth - a measure of how much the poorest East Africans are participating in generating economic growth. The second is the degree of equity, which describes how the benefits of economic growth are shared among the region's citizens, and particularly the share of income and wealth that accrues to the poorest East Africans'. [cite]

Today many pundits and policymakers will point to the growth rates as evidence that the region is on the right track and that patience is in order as not everything that remained undone over the past decades could be righted overnight. There is a point to be conceded here. But it is also critical to note that to a large extent this growth is not creating new jobs – indeed the most recent African Economic Outlook decried this fact and cautioned on the potential negative consequences if this trend continued to be ignored³, particularly considering the bulk of youthful aspirants to the job markets and the ongoing transitions away from the rural areas (and an agricultural sector in crisis) towards the cities. Consequently, what needs to be acknowledged is that it is the quality and the distribution of this growth that is causing greater inequality. And

¹ African Development Bank, African Economic Outlook 2015
http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/PDF_Chapters/Overview_AEO2015_EN-web.pdf

² The State of East Africa is abbreviated henceforth as the 'SoEA Report'.

³ The East African 'Social distress due to joblessness, inequality hurting EA's economic progress
<http://www.theeastafrican.co.ke/news/Danger-in-East-Africa-s-unequal-growth-patterns/-/2558/2746762/-/uqy5xn/-/index.html>

as greater wealth (and power) are concentrated within the hands of a rather small elite, one cannot discard the possibility that this has deep ramifications on the performance of politics and economy. Indeed, it is actually possible that the structure of power could eventually be that of an oligarchy camouflaging itself as an enlightened democracy.

In the previous EA report on inequalities, three possible scenarios for the future of the region were outlined:

- A world in which the poor continued to be excluded from the gains and scrambled to collect the few crumbs scattered their way ('**Winner Takes All**');
- An illusory future in which debt-fueled social welfare handouts gave the poorer segments of the population the impression that they too were beneficiaries of the growth, yet the fundamental structural challenges were ignored. The rich-poor gap continued to expand apace and there was little hope that it would ever narrow ('**Social Bribery**') and finally;
- An aspirational scenario in which the region, on the back of a crisis, undertakes significant transformational efforts to drive up domestic demand, build and nurture local value-chains and improve the skills of its labour force. This scenario is appropriately titled '**Transformation**'.

All of these three scenarios co-existing side-by-side in East Africa today and it is uncertain that any single one will prevail. Nonetheless, the challenge is that of trying to understand how to build on the forces that would promote the expansion of the transformation scenario whilst containing or undermining the forces that favour the other two scenarios.

The regional integration process is a critical component in understanding the future of inequality in East Africa. As the region begins to draw back the curtains of suspicion and reticence that were the hallmark of previous years of cooperation, the potential that is embedded within the region is becoming more evident for all to see. Increased trade, competition and value-addition have unleashed an unstoppable vortex that is generating and liberating greater resources for investment in the region, aimed at improving badly needed infrastructure but also harmonizing the rules of the game. How the region is able to engage with its social challenge will eventually determine whether the fruits of this integration contribute to a harmonious, peaceful region or merely grease the cracks that could in the medium- and longer-term undermine its progress.

This report will aim to explore and offer for reflection, some of the challenges that the region will need to face up to if it is to be able to successfully embark on a transformation scenario. In choosing to address the 'Political Economy of Inequality in East Africa', this report will seek to examine and offer some hypotheses as to why inequality persists and why efforts to address it (narrow the gap) are unlikely to be successful in the absence of a committed attempt to dismantle and recreate the institutions that distribute power and the networks that have emerged to extract benefits from them.

In his editorial, Stefano Prato wrote:

‘It is evident that the persistence and even increase of current inequalities is the manifestation of significant democratic deficits maintained through ossified power structures. This is the reason why the inequality question is **fundamentally a governance issue rather than one of economic and social policy as it requires an overarching policy inclination to build more egalitarian and equitable societies and economies, which will then percolate down to multiple policy domains...** Indeed, inequalities impose an analytical framework that exposes the close nexus between poverty and prosperity and highlights how the current pattern of growth thrives on marginalization and inequitable inclusion. When assessing the political economy of exclusion, government and intergovernmental agencies are often significantly constrained by formal and informal mechanisms that award wins to existing power structures... Even when government action is legitimate and deliberate in addressing the transformative question, there is a serious limitation of policy space under the existing framework of hegemonic economic globalization and liberalization. This is particularly evident in the African context, where it is therefore hardly possible to discuss socio-economic transformation of the region without addressing the drivers that reproduce global inequalities and relegate Africa to the provider of primary commodities and minerals’⁴

WHY POLITICAL ECONOMY?

The problem of the persistence of inequality in the region requires us to take a deeper look at what its structural origins are. Like any disease, treating visible symptoms that present themselves does not necessarily mean that the underlying causes of the malady will disappear. In our case, having waged a struggle against poverty, hunger and disease in the region for the last half-century, perhaps it is time to take stock of what results have been achieved and why the problems that we set out to conquer at the turn of independence persist today. As stated above, the region is today recording phenomenal (economic) growth rates and with this growth, comes a package of promises and expectations. But what, if anything at all, will change?

‘Growth’ whilst desirable, cannot be seen as neutral good – one that spreads its warmth equally on all. It is the quality of the growth that matters perhaps even much more than its quantity. In their book⁵, Jan Drèze and Amartya Sen remarked that whilst (economic) reforms that boosted growth were important, they were not sufficient to improve the living conditions of the poorest, or supplant some of the structural impediments that continued to hold them back. Sustaining fast and participatory economic growth requires a significant amount of social

⁴ Prato, Stefano (2014) ‘Editorial: The Struggle for Equity: Rights, food sovereignty and the rethinking of modernity’, *Development* 57:3-4 Inequalities, pp. 314. Emphasis ours.

⁵ Drèze, Jan and Amartya Sen (1995) *India: Economic development and social opportunity*. Oxford: Clarendon Press: 16.

transformation, and these changes are not necessarily part and parcel of the package of changes that liberalization and economic incentives seek to address.

In many words, Drèze and Sen were challenging the prevailing political economy in India and its contribution to perpetuating inequality, particularly the inability of the said economic growth to undo the caste system and gender hierarchies, improve the living conditions of the poorest and generate employment. It is clear that growth does not trickle down, and if it does, it simply consolidates the status quo as opposed to changing it. Yet the media – in a posture not too dissimilar from that in the East Africa – continues to trumpet the ‘success’ of the growth miracle, ‘deeply indifferent to poverty and inequality, and reflexively intolerant of any remedial action by the government, produce ‘an unreal picture of the lives of Indians in general’ by celebrating the fame and wealth of billionaires and cricket and Bollywood stars.’⁶

The parallels between India and East Africa cannot be ignored. Indeed, any honest investigation into the causes of persistent and expanding inequality in the region cannot avoid to take a deep look at the way our institutions have been structured, and how they have performed. We cannot avoid to examine the nature of the decision-making process, the actors involved and the choice of priorities to be attended to. Broadly speaking, it is a question of ‘political economy’ - an examination of the balance of political power in society and the institutions that this balance of power has given rise to. Whilst human diversity is, and remains a fact of life, the current extent of inequality and the inequity it is spawning cannot be written off as a natural phenomenon. Rather its persistence is an outcome of the manner in which assets are distributed in a given society; the rate of returns on the assets and the government policy that has guided (or not) this process. In other words, the current extent of inequality is an outcome of political choices.

In focusing this report on examining the political economy of inequality, we aim to shine a spotlight on the relationship between politics (domestic and regional) and inequality. To what extent are our political institutions linked to the persistence of poverty? What political factors affect the evolution of inequality and what are the effects of inequality on political choices and outcomes? Is there a relationship between our various identity formations and the manner in which public goods are provided? More importantly, and going beyond the data that we will examine, we will explore the challenges and possibilities around rethinking our national institutions and reframing political economy so that it contributes to genuinely narrow the inequality gap. This report will not aim to split hairs about the accuracy of the data on inequality presented. Available data, whilst in many instances incomplete or of questionable accuracy, in and of itself is also a function of the prevailing inequalities that we are trying to unpack. Thus, in some instances, the data presented will be much more anecdotal as opposed to hard, statistical data. As Alex Cobham aptly put it:

⁶ Mishra, Pankaj (2013) ‘Which India Matters?’, *New York Review of Books* – November 21.

'People and groups go uncounted for reasons of power: those without power are further marginalized by their exclusion from statistics, while elites and criminals resist the counting of their incomes and wealth. As a result, the pattern of counting can both reflect and exacerbate existing inequalities...

...[t]he term 'uncounted' is used to describe a politically motivated failure to count. This takes two main forms. First, there may be people and groups at the bottom of distributions (e.g., income) whose 'uncounting' adds another level to their marginalization, for example, where they are absent from statistics that inform policy prioritization. Second, there may be people and groups at the top of distributions who are further empowered by being able to go uncounted – not least by hiding income and wealth from taxation and regulation.

In either case, the phenomenon is not a random or arbitrary one. Being uncounted is not generally a matter of coincidence, but reflects power: the lack of it, or its excess. As such, the term 'data revolution' is most appropriate. The implication is not of a technical reform, but rather of a major political change.⁷

It however seeks to challenge the normative framework that considers inequality inevitable – or even legitimate.

The bigger question though is why we should be bothered about inequality within the context of growing regional integration at all.

According to Josef Yap:

'Addressing inequality is important because of the threat to long-term economic growth. Rising inequality erodes the middle class, which is the backbone of society; adversely affects incentives and motivation of workers in sectors that fall behind, thereby lowering labor productivity; hampers investment in human capital because lower income classes do not have access to credit; and, in general, undermines social cohesion... Regional integration in East Asia has made a significant impact on inequality particularly the spatial component as it has been anchored on regional production networks. Participation in these regional production networks has allowed several countries in Southeast Asia to narrow the development gap with Japan, Korea, and Taiwan.'⁸

The objectives of the East African Community call *inter alia* for the establishment of 'balanced, harmonious and equitable development' (Article 5 of the EAC Treaty). It also espouses a

⁷ Cobham, Alex (2014) 'Uncounted: Power, inequalities and the post-2015 data revolution', *Development* 57(3-4): 320-321.

⁸ Yap, Josef T. (2014) 'Addressing Inequality in Southeast Asia through Regional Economic Integration' in Naomi Hattori and Ikuo Kuroiwa (eds.) *Inclusive Development in the Era of Economic Integration: Policy Implications for LDCs*, Bangkok: Bangkok Research Center, IDE-JETRO.

series of values under the 'Fundamental Principles' of the treaty (Article 6) which cannot be discounted. In order to attain these goals and uphold its values, the regional integration process needs to ensure that it is a vehicle to advance rights and justice. In the long run therefore, the persistence of inequalities thus fundamentally undermines the regional integration process.

Thus, the question for East Africa is to what extent the regional integration process can contribute positively to reduce the deepening of inequality in the region and to enable its citizens to enjoy the promised fruits of the process – expanding peace and development.

In the absence of structural transformation, the scope for real, sustained changes is limited and the inequalities gap can only become larger and eventually unsustainable. The challenge therefore is for our governments to sustain policy efforts aimed at transforming East Africa into regional community that is people-centered and which facilitates a harmonious, balanced, sustainable and equitable development process. In this respect, it is worth reflecting on the words of the 'Accra Political Statement on Inequalities in the Context of Structural Transformation':

'We all urge a legitimate and capable developmental state to drive this policy renewal to tackle inequalities and promote such people-centered transformation of our societies and economies. In this context, new fair and effective taxation regimes, measures to curb illicit capital flows and combat corruption can generate the resources for the necessary public investments and accountable development financing strategies. At the same time, the need for evidence-based policies require significant investment in independent and publicly accountable statistical capacities to ensure that real social and economic needs and dynamics are located and addressed and progress (or lack of it) can be adequately tracked over time'. 'However, the agenda for inclusion and equity requires a much broader agency than the State alone. It involves a fundamental change in power relations and the democratic negotiation of a new social contract between citizens and accountable and developmental democratic institutions. We therefore welcome the diversity of actors in the conference as a solid base on which to build the necessary harmonious and participatory interaction for the full legitimacy of decision-making within our societies.'⁹

The scope and context of this report is to interrogate and contribute to the process of regional integration. As such, the report will pose some questions as to whether the opportunities that this process presents will be helpful in supporting efforts to narrow present inequality gaps. The best answer we can give to this is a lukewarm 'it depends' - it depends on the choices that the leaders are willing to make; whether they are willing to take bold steps to reconfigure

⁹ Political declaration endorsed by the Africa-wide Conference on 'Inequalities in the context of Structural Transformation', convened by the Government of Ghana in collaboration with many African and international partner organizations. The conference was held in Accra, Ghana, on 28th–30th April 2014. The full statement was published in SID's *Development Journal on Inequalities* (Vol. 57:3-4) and can also be found online at: <http://bit.ly/1ZIk5Ia>

the institutional and power architecture to ensure that all citizens of the region benefit from integration as opposed to only a (small) section.

1.1 WHY INEQUALITY MATTERS: AN OVERVIEW OF THE POLITICAL ECONOMY

‘Too many have had to suffer at the hands of a political economic elite who have shaped decisions and never had to account for mistakes or to suffer from injustice. When unemployment prevails, they never stand in line looking for a job. When deprivation results from a confused and bewildering welfare system, they never do without food or clothing or a place to sleep. When the public schools are inferior or torn by strife, their children go to exclusive private schools. ... An unfair tax structure serves their needs. And tight secrecy always seems to prevent reform.’¹⁰

Vincent Mosco defined political economy as:

‘The study of control and survival in social life. Control refers specifically to the internal organization of individual and group members, while survival takes up the means by which they produce what is needed to reproduce themselves. Control processes are broadly political in that they involve the social organization of relationships within a community. Survival processes are fundamentally economic because they concern the production of what a society needs to reproduce itself.’¹¹

Early definitions of economics indeed made a close reference to politics – perhaps much more than today, there was a greater acknowledgement of the relationship and interplay between economics and politics. Fundamentally, any study of political economy has to straddle disciplines as it is an attempt to explore reality and provide an analysis of how winners and losers in any process are produced (and reproduced). To return to Mosco’s definition above, it explores and tries to explain how control is captured and exerted.

The reality of production and distribution in East Africa today is that it is a function of long-established patterns and traditions of elite capture that have for the larger part marginalized the majority of citizens. Whilst positive developments over the years have been made in democracy, in provision of social services and economic opportunities, the playing field is still skewed heavily in favour of ‘those who have’ and the affinity of and cohabitation within politics and economics of these elites should not surprise anyone. The factors of production have remained largely controlled by the same groups and alliances. Indeed, the zero-sum nature of politics is an indication of the earnest with which ‘control and survival’ are practiced.

¹⁰ Acceptance Speech by Jimmy Carter - Presidential Nomination at the Democratic National Convention in New York City, 15 July 1976, http://www.jimmycarterlibrary.gov/documents/speeches/acceptance_speech.pdf

¹¹ Mosco, Vincent (2009) *The Political Economy of Communication*, London: Sage, pp. 25. Original emphasis.

The role of the state in leading and shaping the context in which political economy plays out is important and cannot be downplayed. The evolution of the modern African state today has encapsulated these tensions within it and as such remains hostage to the forces that control it and is thus captured. By capture, we refer to the process by which state power is directed at the consolidation of that same power by a select group of elites and their acolytes. This self-referential process is not necessarily concerned with issues of justice for the masses as this would mean a relinquishing of the grip on power. The effects of this capture can be seen much more clearly when the performance of the state is analyzed across three metrics: its normative role; the redistributive role and its ethical guardian role. The manner (and efficacy) in which the state performs its role in these three domains is critical for its continued legitimacy and we examine them briefly below:

- a) Its **normative** role – in this function, the state needs to create the basis for policy decisions to be taken (or not). The manner in which the traditional ‘balance of power’ between the executive, legislature and judiciary is worked out and maintained is critical to this normative function. It can be argued that this space is largely the one that lays the foundations for how (limited) resources will eventually be distributed and which priorities will be addressed.
- b) Its **redistributive** role – this plays out at two levels – how resources are obtained and subsequently how they are used. Theoretically, in this function, the state oversees resource collection and ensures that the manner in which resources are distributed (and expended) responds to the priorities it has set and that it is able to respond to legitimate needs through efficient assessments and redistribution as needed, in a manner that respects and upholds the dignity of the citizens whom it serves.
- c) Its **ethical** guardian role – the moral basis on which a state operates, the moral high ground and integrity that are needed in order to execute the previous two functions cannot be understated. Indeed, in the absence of these moral boundaries, and a cogent set of laws that bind its operators, it is likely that conflicts of interest will begin to multiply and eventually undermine the states normative and redistributive roles, weakening its functioning and even setting the stage for social conflicts.

More often than not, we do not give much thought to the interplay between these three roles, but they are critical in establishing the foundations for performance of the state and other economic actors, and eventually the outcomes that will be obtained.

How do we observe capture? The normative function of the state is largely at the service of powerful interests who can count on favorable policy decisions that allow them to consolidate ever more wealth and power - for instance, much has been made of tax flight and capital evasion, or white collar crime. Yet, policies and laws aimed at addressing these ills remain weak and culprits are rarely pursued aggressively. This is perhaps not by chance. Contrast this with

the efforts made to rein in informal traders for not meeting their tax or licensing obligations. Furthermore, in an effort to meet growing budget deficits, emphasis is placed on widening the tax base, which means an inevitable rise in the cost of goods and services, a cost that is disproportionately borne by the poorer segments of society.

Whilst there might be a broader consensus on the first two, there is greater contention on its ethical role. However, there is in all East African countries, a growing tendency to celebrate elites and their wealth, regardless of how such wealth might have been obtained. This reification of wealth probably has a functional purpose in reinforcing the distance between the (wealthy) leadership and ordinary citizens. It also pollutes – at least unconsciously – the notions of ethical propriety in acquisition of wealth and hypnotizes society into acceptance of the capture of the state and how it performs its role.

Yet clearly, there needs to be a minimum set of agreed upon behavior otherwise there can be no basis for further evolution of the state – at least not in a direction that provides succor and benefits for a majority, if not all its citizens.

As Kyle Chan puts it:

‘...What is at stake here is more than just access to luxuries. What is at stake is whether a portion of society is denied access to the basics such as healthcare, food, and housing... The well-being or continued suffering of millions of people depends on our ability to address this issue, as does the characterization of our society as a fair and just one’.¹²

“**The rich man in the village is the head of the village; the poor man is the head of the burial ground.**
Saying from Andhra Pradesh, India”

Whether or not we are able to address this issue of fairness in access to basics is perhaps at the heart of the ethical guardian role.

Much of the debate around how to address inequality has also rotated around ‘rights’ and ‘needs’. Today’s modern state subscribes to a body of law and universal jurisprudence that is supposed to guarantee a number of rights for all human beings. This places it in contrast to feudal regimes where rights, if any, are arbitrary and have no space for recourse when infringed. Rights – however they may be framed – demand action and accountability. Thus, when a country, for instance, enshrines a ‘Right to Food’ in its constitution, citizens are entitled to demand for the government to perform in meeting this right, and to hold someone accountable if this right is infringed upon. Needs, on the other hand, introduce an element of option. Authorities are under no obligation to respond

¹² Chan, Kyle – Does Income Inequality Matter? <http://www.theeuropean-magazine.com/kyle-chan-2/6386-the-economics-of-social-cohesion>

to, or to provide for needs and any provision that facilitates access to needs can be considered a function of their charity.

The social contract – an implicit bargain between citizens and their rulers – has usually been interpreted as the lens through which many of the issues considered within the inequality framework ought to be addressed. The role of government within the social contract has been broadly given as a set of responsibilities to its citizens: the responsibility to protect citizens – from foreign attack and from each other; the responsibility to protect the natural resource base for future generations. The government is also supposed to provide the environment that would allow for its citizens to thrive and be productive.

Thus, when inequality is expanding and many citizens are evidently on the losing side of the bargain, it is possible to call into question the continued validity of this social contract. In his book *State Legitimacy and Development in Africa*, Pierre Englebert argued that the failure of post-colonial states in Africa to deliver development is largely due to their ‘lack of legitimacy’. State legitimacy, in his view ‘addresses both the legitimacy of the right to and the agreement as to what constitutes the political society, the policy and the community of participants in the social contract’.¹³ States that lack the foundations of social and power relations have sought to legitimize themselves by resorting to policies that are based on clientelism, regionalism, factionalism, nepotism and corruption – all of which are elements of that distort the role of the state and its function in fulfilling its ethical, normative and redistributive role. Thus how the social contract has been formulated and is upheld is also fundamental to our understanding of the prevailing political economy and its contribution to inequality in the region.

To the extent that we, as citizens, are able to take up our civic responsibilities and to interrogate the quality and efficiency of public spending, we can contribute immensely to helping to shape the manner in which public resources (garnered through taxes) are spent and thus also help to strengthen the social contract that binds us together. By ensuring greater transparency and accountability in public spending, it is possible to have different conversations about what exactly our spending priorities should be and how we should therefore allocate our resources. Yet, and as can be evinced from the tenor of this publication, there is – broadly speaking – little evidence that resource allocations aim to tackle the high levels of inequality prevalent in the region.

Granted, the complexity of government budgets and the relative lack of interest and/or capacity amongst citizens (or legislators for that matter) to get to grips with this complexity means that it is unlikely that there will be in the short- or medium-term, a significant change in the state of matters. Thus it is highly probable that the social contract – and accountability – will continue to suffer. On the other hand, it is equally highly improbable that there will be significant efforts

¹³ Englebert, Pierre (2000) *State Legitimacy and Development in Africa*, Boulder and London: Lynne Rienner Publishers: pp. 175.

to make public budgets more transparent, thereby reducing the transaction costs of monitoring fiscal conditions for a public subject to fiscal illusion.¹⁴

But we need not be eternally pessimistic – there are opportunities for change that could be harnessed to transform what is a vicious cycle into a virtuous cycle. Three suggestions:

Pursuing tax justice

Tax justice simply means that fairer systems for taxation are put in place, so that each pays according to their means. It will require that governments seal the loopholes that allow large corporations to avoid taxes due locally by moving them abroad. It will require that tax evaders be pursued to the fullest extent of the law without recourse to legal artifices that allow them to get off scot free.

Why is this critical? Low tax revenues mean that our governments struggle to maintain the most basic of social services at a minimum level of decency. Increased tax revenue (accompanied by a different spending ethic) should unlock possibilities for improved education, healthcare, infrastructure and other social safety nets. Furthermore, increased tax revenue should lead to decreased donor dependence and allow for greater citizen accountability.

Reinforcing rights framework

A human rights-based approach is a conceptual framework for the process of human development that is normatively based on international human rights standards and operationally directed to promoting and protecting human rights. It seeks to analyze inequalities which lie at the heart of development problems and redress discriminatory practices and unjust distributions of power that impede development progress¹⁵.

Considering that the basis of the potential of East Africa is her citizens, reinforcing a rights-based approach to development means investing in her citizens as ‘rights-holders’ and allowing for their voices to be heard as well as enabling them to play an active role in the development of their communities and countries.

Pursuing a counter-narrative

If East Africa is to become a different, perhaps more egalitarian society, it will also be because we decide to construct and pursue counter-narratives to what exists at present. A counter-narrative, at its simplest, is simply a different story, one that challenges the privileged position of the current prevailing narrative and promotes alternative strategies.

¹⁴ Fiscal illusion is the concept that governments find it easy to raise tax revenues because of consumer ignorance about the way the tax system works.

¹⁵ See also http://www.unicef.org/policyanalysis/rights/index_62012.html

What should preoccupy our time and energy? What are the pursuits we must engage in as a community? Are we really living up to and upholding the values that are expressed in our various national constitutions and in the EAC treaty? How do we treat each other? Do the individuals we exalt in our societies really deserve their veneration? Do our institutions and the way they work reflect the society we believe in?

A counter-narrative would attempt to offer a different take on these themes and subjects and would offer society a ‘mirror’ through which it could explore alternative pathways and establish much deeper meaning and understanding of its purpose and pursuits – and how these could contribute to different outcomes with respect to the prevailing inequalities.

1.2 WHAT WE SPEND AND WHO BENEFITS...

Any analysis of the political economy of inequalities in the region needs to begin with a look at its key domains as presented below:

Domain	Description	Illustrative Examples
Ethical	The promotion of moral justification for privilege	<ul style="list-style-type: none"> The ‘mafia boss’ as social hero Identity politics Culture of impunity: ‘Dodging is smart!’
Normative	The use of legislative and policy instruments to consolidate the power of the elite	<ul style="list-style-type: none"> Use of property rights to dispossess land Corporatization of seeds Hierarchy between investors’ rights and human rights
Fiscal	The use of both taxation and resource allocation to protect privilege	<ul style="list-style-type: none"> Regressive tax policies Tax-driven formalization of the informal sector while promoting corporate tax privilege Huge infrastructure spending to consolidate export-led strategies of commodities and minerals

Table 1: Key domains for analysis of political economy of inequalities

Within the each of these domains, we can ask two key questions:

Ethical	Normative	Fiscal
<ul style="list-style-type: none"> Whose narrative prevails? What instruments are used to blunt the moral core of society? 	<ul style="list-style-type: none"> Where do we get our resources from? How do we spend our resources? 	<ul style="list-style-type: none"> What policy decisions are made (or not)? Who benefits from these decisions?

Table 2: Key questions for domains

In exploring how these domains play out, we have chosen to explore a number of sectors with a view to highlighting the impact of the political economy on the outcomes that we see today. In our journey, we will try to provide you, the reader, with a synthesized overview of how the various forces have interacted and continue to interact. To what extent have they been shaped and constrained by these forces? If we desire different outcomes, what are the best points of leverage on which we should act?

The nine sectors we will explore straddle three pillars – the economic, the social and the political:

Economic Pillar	Social Pillar	Political Pillar
Agriculture <i>Who benefits from the policy process and the investments? (This sector is a proxy for sector policies e.g. services, manufacturing).</i>	Education <i>What is the real story behind the investments in education? Quantity or quality? Private vs. public? What are the outcomes to date?</i>	Justice <i>How does the justice mechanism work? How does it respond to the weak and poor? What explains impunity?</i>
Infrastructure <i>Where are the investments being made? Who are the beneficiaries?</i>	Health <i>Is the health system based on a dated health profiles? How responsive is to emerging needs? Private vs. public? How financed?</i>	Security <i>The fastest growing sector? Why? Who benefits from this surge in demand for protection? What does it tell about us?</i>
Wages and Wage Policy <i>To what extent do these reflect the benefits of growth? Also, do they reflect a commitment to social protection? Should they?</i>	Housing and Shelter <i>Lots of construction activity in EA. Housing for whom? How does this contrast with the situation in our slums?</i>	Discrimination and Identities <i>How do identities, particularly and ethnicity, gender inform the political economy? What is changing?</i>

Table 3: Key Pillars

Why these nine sectors in particular? Through these sectors, we would like to explore the outcomes that policy choices made have had, and whether the benefit(s) have accrued to the majority within the polity, or have been circumscribed to a narrower group. Have these outcomes contributed to empowering communities, strengthening society and the public good?

In choosing these sectors, we try to depict the reach that the political economy has in influencing the outcomes in various sectors and in touching the lives of virtually all citizens – for better or for worse. Thus, as a structural driving force, it shapes and conditions the choices that are made at various levels. Understanding the structural forces that are at play gives us the possibility to better understand the options that we have to make better decisions – obviously, assuming here that the search for ‘better’ is informed by the need to operate in the greater public – as opposed to private – interest. Decisions normally tend to have ripple effects, with consequences that spill over to other sectors. Policy processes, however, tend to minimize, or worse, ignore these effects and the fact that our world is in essence, a network of interrelated systems.

In picking these nine sectorial entry points, we will be trying to achieve the following:

First, to enable us – citizens and users – to appreciate the structures that create the reality that we interact with. Decisions do not necessarily emerge from the blue. Understanding what

forces are at play enables us to appreciate what constraints and opportunities to action we are confronted with. It enables us to apply more efficient and economical approaches to creating the change we would like to see, but allowing us to focus on those spaces and places where we might be able to exert a higher leverage.

Second, to allow us to begin to build networks and connections that can support change processes. By taking a step back and beginning to map out systems and structures, we can identify improbable allies and reach out to them to work together to make the changes that are needed.

Third, understand what capacities and capabilities are needed for the journey. The changes that need to be brought to the political economy cannot be put in place overnight. Rather, acknowledging that there are changes to be made also needs to come with the acknowledgement of the time and learning curve that the change process will need to embody. Leaders in these change processes will need to ensure that they are able to tap on reservoirs of capacity and capabilities that can accompany the journey.

Finally, and perhaps most important, unraveling the structure should allow us to have honest conversations with respect to what outcomes we would like to create and what approaches we would like to use to do so. Co-creation, and sharing of the responsibility for the outcomes we would like to see can be a powerful enabler for action and hence, it is incumbent on leadership to understand how to tap on the resources within their midst to enable them to shape a future that offers better guarantees of different outcomes which are shared by the majority.

EAST AFRICA TODAY



EAST AFRICA TODAY – THE PICTURE OF NOW

DEMOGRAPHICS AT A GLANCE

East Africa is young and urbanizing rapidly. This is not necessarily all bad news. It is a function of how we respond to the developments and take advantage of opportunities where they exist as well as create new ones where necessary or possible.

The reality is that the demographic trajectory will place significant pressure on leadership to anticipate changes and to come up with appropriate responses. A deeper analysis of the significance of the demographic situation in the EAC is to be found in Section 3 [East Africa's Population]

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Population, total (millions)	10.5	45.5	12.1	50.8	38.8
Dependency ratio, old age (65 and older) (per 100 people ages 15-64)	4.5	5	4.5	6.2	4.9
Dependency ratio, young age (0-14) (per 100 people ages 15-64)	85.3	75.4	74.1	85.9	96.6
Population, ages 65 and older (millions)	0.2	1.2	0.3	1.6	0.9
Median age (years)	17.6	19	18.4	17.6	15.9
Population, under age 5 (%)	19	16	16	17	19
Population, urban (%)	11.8	25.2	20	28.1	16.8

Table 4: Data: UNDP 2015 HDR Country Profiles

HEALTH INDICATORS AT A GLANCE

Basic health indicators taken globally, indicate that progress is being made albeit slowly. A comparison of similar indicators a decade ago provides a clear indication of just what has been achieved. Nonetheless, these indicators mask broad disparities within countries and indeed, any investigation will indicate the extent to which appropriate health care still remains a luxury for many East Africans. The section on Health [page ...] provides a deeper insight into the structural challenges that impede adequate and appropriate health care access for all East Africans.

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Life expectancy at birth	56.7	61.6	64.2	65	58.5
Deaths due to malaria (per 100,000 people)	63.7	49.6	33.2	50.5	57.9
Deaths due to tuberculosis (per 100,000 people)	18	22	10	13	13
HIV prevalence, adult (% ages 15-49), total	1	6	2.9	5	7.4
Infant mortality rate (per 1,000 live births)	54.8	47.5	37.1	36.4	43.8
Infants lacking immunization, DTP (% of one-year-olds)	2	18	1	1	11
Infants lacking immunization, measles (% of one-year-olds)	2	7	3	1	18
Public health expenditure (% of GDP)	8	4.5	11.1	7.3	9.8
Under-five mortality rate (per 1,000 live births)	82.9	70.7	52	51.8	66.1

Table 5: Data: UNDP 2015 HDR Country Profiles

KEY EDUCATION INDICATORS

As with the health sector, the education sector has seen significant positive developments in the last decade. The advent of universal primary education has ensured that hundreds of thousands of children who would have otherwise have missed out on an education now have access. This notwithstanding, the devil – as always – is in the details. The section on education exposes significant challenges which cannot be addressed without a commitment to total reform of the sector and an insistence on world-class quality standards. Achieving these goals will clearly take some time, but success is not impossible unless change begins soon – otherwise there is a significant risk that the investments of the past years will be lost.

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Expected Years of Schooling (years)	10.1	11	10.3	9.2	9.8
Adult literacy rate (% ages 15 and older)	86.9	72.2	65.9	67.8	73.2
Gross enrolment ratio: pre-primary (% of preschool-age children)	8.8	60	13.6	32.9	10.8

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Gross enrolment ratio, primary (% of primary school-age population)	134.1	114.4	133.8	89.5	107.3
Gross enrolment ratio, secondary (% of secondary school-age population)	33.1	67	32.6	33	26.9
Gross enrolment ratio, tertiary (% of tertiary school-age population)	3.2	4	6.9	3.9	4.4
Mean years of schooling (years)	2.7	6.3	3.7	5.1	5.4
Population with at least some secondary education (% aged 25 and above)	6.7	28.6	8.4	7.5	28.8
Primary school dropout rate (% of primary school cohort)	52.5	22.4	65.3	33.3	75.2
Primary school teachers trained to teach	95	96.8	95.6	99	94.8
Public expenditure on education (% of GDP)	5.8	6.6	5.1	6.2	3.3
Pupil-teacher ratio, primary school (number of pupils per teacher)	44.8	56.6	59.8	43.4	45.6

Table 6: Data: UNDP 2015 HDR Country Profiles

KEY ECONOMIC PERFORMANCE DATA

The economies of the region are growing – this can be seen from the steady growth of the per-capita GDP figures (see figure below). East Africa is trading more with itself and the world. Overall, this is a good thing. As trade barriers are progressively dismantled and new opportunities and corridors opened, the region is able to extract more value from its produce.

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP per capita, PPP (constant 2011 international \$)	734	2,818	1,584	2,421	1,689
Exports and Imports (% of GDP)	41.6	50.9	45.4	49.5	50.7
Foreign direct investment, net inflows (% of GDP)	0.3	0.9	1.5	4.3	4.8
Net official development assistance received (% of GNI)	20.1	5.9	14.6	7.9	7
Private capital flows (% of GDP)	n.a.	-0.5	-1.5	-5.7	-5.5
Remittances, inflows (% of GDP)	1.8	2.4	2.3	0.1	3.8
Population, urban (%)	11.8	25.2	20	28.1	16.8

Table 7: Data: UNDP 2015 HDR Country Profiles; World Development Indicators

The good news is that there is even greater potential in the region – a potential that can be obtained with a greater commitment to structural transformation of our economies. This means pursuing economic growth paths that promote inclusiveness and narrow inequalities. The region's growth is still heavily dominated by exports of primary commodities. Any element of transformation of the region's economy will need to increase the proportion of value addition and manufacturing. The agricultural sector is key in this regard. As Bartholomew Armah said:

'A key element of structural transformation is an increasing share of manufacturing in the GDP. In Africa this can be achieved through a commodity-based industrialization strategy that actively promotes the processing of raw materials. By linking raw material producers to factory workers, transport providers, financial institutions, wholesalers and retailers, agro-processing creates a value chain of livelihoods for a broad spectrum of the society.'¹⁶

¹⁶ Armah, Bartholomew (2013) 'Making Sense of Africa's Priorities for the Post 2015 Development Agenda', *Development* 56(1): 114-122.

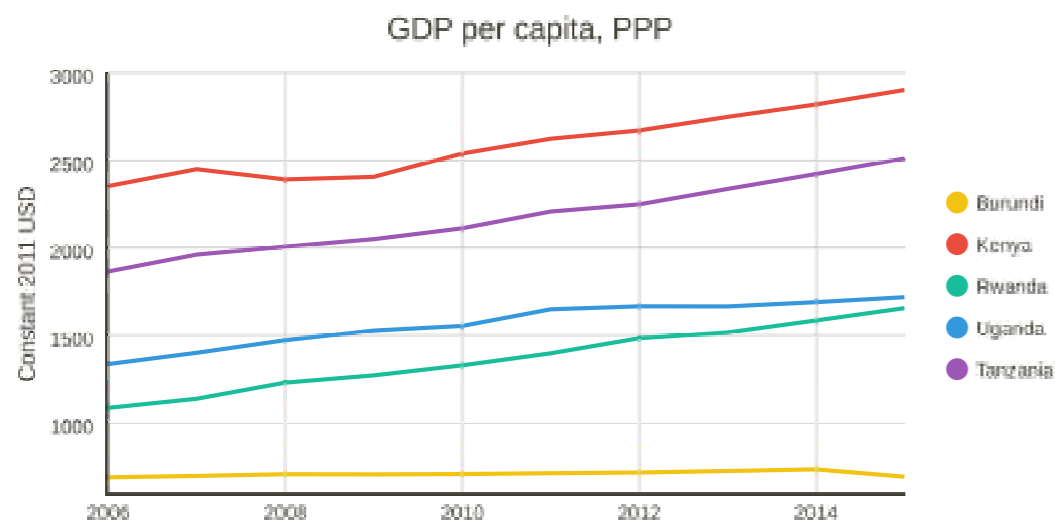


Figure 1: Data: World Development Indicators

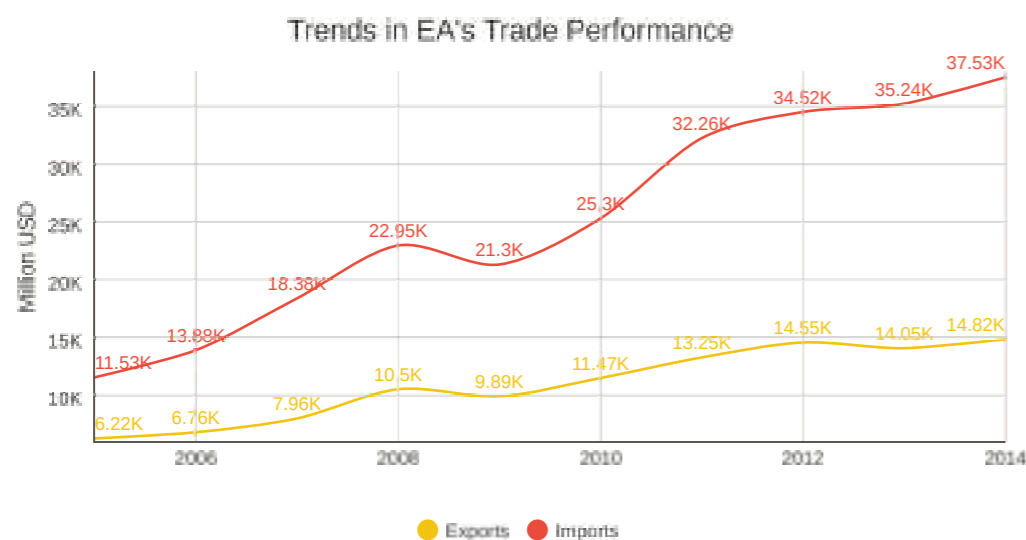


Figure 2: Source: EAC Facts and Figures (2015)

The East African region expanded its total trade by 6% to \$52.4 billion in 2014 from the previous year. Imports continue to dominate the regions trade increasing by 7% between 2013 and 2014. The value of exports increased by 5.5% to \$14.8 billion between 2013 and 2014.

Beverages such as tea, coffee and beer were East Africa's leading export commodities for 2014. They add up to about \$2 billion worth of the \$7 billion export revenue. Gold, alone in Tanzania brings in about \$1.2 billion revenue.

Petroleum products, pharmaceutical products, industrial goods, construction materials and cars continue to dominate East Africa's imports. It is worthy to note that the \$13 billion value of the region's top five imports exceeds its \$6 billion exports value by a large margin. This was the similar case in 2012 and 2013 with an \$11 billion and \$7 billion disparity, respectively between the two values. Given, the regions fuel import bill valued at about \$8 billion in 2014/2015, it is clear that the region's most important export earners cannot pay for the regions fuel consumption.

KEY INEQUALITY DATA

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Inequality-adjusted HDI (IHDI)	0.269	0.377	0.33	0.379	0.337
Coefficient of human inequality	31.5	31.1	31.6	27.2	30.2
Income inequality, Gini coefficient	33.3	47.7	50.8	37.8	44.6
Income inequality, Palma ratio	1.3	2.8	3.2	1.7	2.4
Income inequality, Quintile ratio	4.8	11	11	6.2	8.8
Inequality in education (%)	36.9	26	29.4	28.5	29.4
Inequality in income (%)	14.1	36	35.2	22.7	27.3
Inequality in life expectancy (%)	43.6	31.5	30.2	30.4	33.8
Inequality-adjusted education index	0.234	0.38	0.289	0.304	0.319
Inequality-adjusted income index	0.263	0.321	0.262	0.372	0.305
Inequality-adjusted life expectancy index	0.318	0.439	0.475	0.482	0.392
Overall loss in HDI due to inequality (%)	32.6	31.3	31.6	27.3	30.5

Table 8: Data: UNDP 2015 HDR Country Profiles