The time is now right for firms to invest in the Big Five of East Africa

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The time has never been more perfect to invest in East Africa's "Big five" economies. Although the wider East and Horn of Africa region can be said to comprise 11 countries, five economies; Kenya, Uganda, Tanzania, Rwanda and Ethiopia are the most developed, controlling over 80 per cent of GDP and providing the most promising opportunities for growth. World Bank data shows that the combined growth rate for these countries was 5.9 percent in 2012 and was projected to grow by 6.3 percent in 2013 and 6.7 per cent in 2014 based on an analysis of the IMF 2013 World Economic Outlook report. This projected growth rate is higher than that of other emerging economies in Latin America, the Middle East and North Africa. The past In the 1990s, the Big Five underwent economic stagnation and decline as a result of double-digit inflation, economic ^mismanagement, tax revenue leakages, an extremely large and wasteful civil service and limited democratic space. How- ever, strong commitment to sound macroeconomic management by regional governments has led to relative stability. The overall effect of these reforms is the improvement of the investment climate leading to both increased foreign direct investment (FDI) flows and domestic investment as new .competitors and new industries emerge. This has resulted in significant job creation. According to Unctad's World Investment Report 2012, FDI flows increased from $2.5 billion in 2002 to $6.6 billion in 2012. The main beneficiaries of the inflows have been the following sectors: Mining; agriculture; infrastructure (roads, energy); retail and wholesale services; real estate; manufacturing; financial services and communications, Kenya is the financial and, technological hub of the region with a GDP of $40.7 billion, a population of 43.2 million as at 2012 and the largest number of trained professionals in the region.

It is strategically located as a regional financial, communications and transportation hub due to more developed roads, Internet and communications infrastructure. Ethiopia has the largest economy in the region with a GDP of $41.6 billion and a population of ^91.7 million people as at 2012. It has the fastest growing economy, which is partly propelled by the massive energy projects it is undertaking. However, the "Country has the lowest mobile penetration rate in the region. Tanzania had a GDP of $28.2 billion and a population of 47.8 million people as at 2012. The country is mineral rich with tanzanite, diamond, various gemstones, phosphates, iron ore, natural gas, tin, hydropower and coal. Uganda is ranked 38th in the world for proven oil reserves with estimated oil reserves at over 2.5 billion barrels. It has a GDP of $19.9 billion and a population of 36.4 million people as at 2012. It is the third fastest growing economy in the region, averaging 7.1 per cent growth over the past decade. Rwanda is the third easiest economy to do business in sub-Saharan Africa with a GDP of $7.1 billion as at 2012. Its population was 11.4 million people in 2012 and it is the second fastest growing economy in the region, averaging 7.9 per cent in the past decade. Ernst and Young in its Africa by the Numbers Report 2012, ranked Rwanda fourth in the country risk profile in the lower risk category. East Africa has a competitive edge thanks to diversified economies. The investments made in the past decade and the adoption and implementation of free market economies has led to an emergent diversification of these economies from a past where the agriculture, mining or tour- ism sectors were the key components of economic growth. A study by UNIDO in 2012 based on 2009 data titled Economic diversification strategies: A key driver in Africa's new industrial revolution identified Kenya and Tanzania as "early stage diversifiers." The future belongs to countries that enable further development of their diversified economies to reduce the impact arising from risks of overexposure to one particular sector.

According to the Bank of Tanzania 2011/2012 Annual Report, the main contributors to Tanzania's GDP for 2012 were trade and repairs 18.2 per cent; transport and communication 13.8 per cent; agriculture 12.6 per cent; manufacturing 11.8 per cent; real estate 10.3 per cent and construction 9.8 per cent. Mining was at 2.2 percent and tourism at 8 per cent. The future growth of the country's service industry will be positively impacted by additional investment in the mining sector. Rwanda's current strategic economic reform plan aims at making the country a service oriented economy in the next decade. Uganda's future growth prospects are mainly predicted on large scale oil production after the discovery of oil by Tullow Oil. Ethiopia is focusing on weaning its economy off agriculture, which contributed 46 percent of GDP in 2011.

The government is focused on massive industrial and infrastructure projects in energy, road and rail expansion with the goal of becoming a manufacturing hub. Ethiopia's success in achieving this goal is pegged on completion of the current energy projects that are expected to boost generating capacity from 2.000MW to 10,0OOMW within the next three to five years, much of it coming from the 6.000MW Grand Renaissance Dam under construction on the Blue Nile and slated for completion in 2017. Growing middle class all this envisaged future growth is not possible without consumers. A major factor that has made East Africa attractive to many investors is the population demographics. The region's total population in 2011 was at 218 million second only to West Africa on the continent. The population is relatively young and economically active. About 82 per cent of the population is aged 15-64. This is higher than most regions. The potential for growth of the region's middle class is enormous. This growth will be a result of increased opportunities and jobs from the expected investments in the region's natural resources and the continued expansion of the other sectors that add to a diversified economy. The region's business and social environments are also improving as a result of government efforts. Cultural assimilation. An interesting aspect of the region's population is that it is more culturally assimilated and homogeneous than for ex ample West Africa. Several ethnic groups reside in more than one country. As a result of the cultural similarities, it becomes easier in some instances to sell products or expand companies within the region. It is also easier to export labour within these five countries. Easier assimilation has also accelerated the implementation of the objectives of the region's trading blocs with the aim of integrating the economies. The revival of the East African Com- munity in 1996 has led to enhanced trade among the member countries. According to the EAC in its fourth Development Strategy 2011-2016, intra-EAC trade grew by 40 percent between 2005 and 2009. All focus countries are also part of the Common Market for Eastern and Southern Africa (Comesa), which has created a free trading zone among its member countries by removing tariff and non- tariff barriers. The current integration goals and anticipated economic growth are also likely to be met as a result of the political progress noted in the region over the past two decades. Though political risk is still high, the region has developed and improved its conflict resolution mechanisms through various inter-governmental bodies, which have been proactive in resolving differences.

It is important to note that the economic reform and growth in East Africa in the past decade has been largely unchecked even though minor conflicts have been noted. Andia Chakava is co-founder and CEO of Alpha Africa Asset Managers, while Dennis Maranga is an investment analyst COMMENTARY ANDIA CHAKAVA AND DENNIS MARANG A "The projected growth rate of the "big five' Eastern African countries is higher than that of Latin America, the Middle East or North Africa." According to the Unctad's World Investment Report 2012, the region's FDI flows increased from$2.5b in 2002 to $6.6b in 2012."