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<tr>
<td>AGOA</td>
<td>African Growth Opportunity Act</td>
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<tr>
<td>APSEA</td>
<td>Association of Professional Societies in East Africa</td>
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<td>ATGEA</td>
<td>Association of Tea Growers of East Africa.</td>
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<tr>
<td>BDS</td>
<td>Business Development Services</td>
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<tr>
<td>BEST</td>
<td>Best Environment Strengthening programme for Tanzania</td>
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<tr>
<td>CBI</td>
<td>Cross-border investment</td>
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<tr>
<td>CDSC</td>
<td>Central Depository and Settlement Corporation</td>
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<tr>
<td>CEOs</td>
<td>Chief Executive Officers</td>
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<tr>
<td>CET</td>
<td>Common External Tariff</td>
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<td>CISO</td>
<td>Confederation of Informal Sector Organizations</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>CMDC</td>
<td>Capital Markets Development Committee</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<tr>
<td>CPI</td>
<td>Corruption Perception Index</td>
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<tr>
<td>CU</td>
<td>Customs Union</td>
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<tr>
<td>EABC</td>
<td>East African Business Council</td>
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<td>EABS</td>
<td>East Africa Business Summit</td>
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<td>EAC</td>
<td>East Africa Community</td>
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<td>EACA</td>
<td>East African Competition Authority</td>
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<td>EACJ</td>
<td>East Africa Courts of Justice</td>
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<td>EADB</td>
<td>East African Development Bank</td>
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<tr>
<td>EALA</td>
<td>East African Legislative Assembly</td>
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<td>EAIPB</td>
<td>East African Investment Promotion Board</td>
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<td>EAR</td>
<td>East African Railways</td>
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<tr>
<td>EASRA</td>
<td>East African Member States Regulatory Authorities</td>
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<td>EATC</td>
<td>East African Tourism Council</td>
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<tr>
<td>EBA</td>
<td>Everything But Arms</td>
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<tr>
<td>EIA</td>
<td>Environmental impact assessment</td>
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<tr>
<td>ERS</td>
<td>Economic Recovery Strategy</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FASERT</td>
<td>Foundation for the Assistance of Small Enterprises and Rural Technology</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GTZ</td>
<td>Deutsche Gesellschaft fur Technische Zusammenarbeit</td>
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<tr>
<td>HIV/AIDS</td>
<td>Human Immuno Virus/ Acquired Immune Deficiency Syndrome</td>
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<td>HRD</td>
<td>Human Resource Development</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IPA</td>
<td>Investment Promotion Agencies</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>IPTL</td>
<td>Intellectual Property Technology Law</td>
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<td>KEPSA</td>
<td>Kenya Private Sector Alliance</td>
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<tr>
<td>KwH</td>
<td>Kilowatt Hour</td>
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<tr>
<td>LVBD</td>
<td>Lake Victoria Basin Development</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MAC</td>
<td>Monetary Affairs Committee</td>
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<tr>
<td>MSETTP</td>
<td>Micro and Small Enterprise Training and Technology</td>
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<td>MSME</td>
<td>Micro, Small and Medium Enterprise</td>
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<td>MTCS</td>
<td>Medium Term Competitive Strategy</td>
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<td>MW</td>
<td>Megawatts</td>
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<td>NGO</td>
<td>Non-Government Organizations</td>
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<tr>
<td>NTBs</td>
<td>Non-trade barriers</td>
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<td>PAC</td>
<td>Public Awareness Campaign</td>
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<tr>
<td>PEAP</td>
<td>Poverty Eradication Action Plan</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>PRSPs</td>
<td>Poverty Reduction Strategy Papers</td>
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<td>PSD</td>
<td>Private Sector Development</td>
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<td>PSDS</td>
<td>Private Sector Development Strategy</td>
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<td>PSFU</td>
<td>Private Sector Foundation Uganda.</td>
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<td>PWC</td>
<td>PriceWaterhouse Coopers</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>SACCOs</td>
<td>Saving and Credit Cooperatives</td>
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<tr>
<td>SADC</td>
<td>Southern Africa Development Community</td>
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<tr>
<td>SAPs</td>
<td>Structural Adjustment Programmes</td>
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<tr>
<td>SIDA</td>
<td>Swedish International Development Agency</td>
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<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>S&amp;T</td>
<td>Science and Technology</td>
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<tr>
<td>TC</td>
<td>Technical Committees</td>
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<td>TI</td>
<td>Transparency International</td>
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<td>TIC</td>
<td>Trade Information Centres</td>
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<tr>
<td>TNBC</td>
<td>Tanzania National Business Council</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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1.0 BACKGROUND AND CONTEXT

Many modern and successful economies have relied on the private sector to achieve sustainable economic development. The private sector is driven by the profit motive and requires enabling policies conducive to enhancing opportunity for attractive returns to investment. The challenge facing countries that have adopted private sector-led growth has been that of putting in place a strategy and incentive framework, which can facilitate and promote the private sector in a direction that is consistent with the overall development strategy. In the context of the East Africa region, private sector development (PSD) must be able to accelerate growth, reduce poverty and improve the quality of life of the people of East Africa.

A critical assessment of the EAC countries indicates that the region is characterized by pervasive poverty, demonstrated by low per capita incomes, low level of human development, low productivity, undiversified economic structures dominated by agriculture, modest growth rates and a host of other challenges and constraints. The region has endorsed the adoption of a market economy with the private sector being the engine of growth. However, the regional economy is handicapped by absence of a common approach to encouraging the private sector. The lack of coordination in private sector development (PSD) reflects the divergent economic and social paths pursued by the three East African countries in the past. Kenya pursued capitalist development from the day of independence, while Tanzania followed a socialist path in which private sector development had little space. The direction followed by Uganda is less clearly discernible, having started with a slant towards socialism as expressed in the Common Man’s Charter, a path that was later disrupted by political upheavals that prevailed until law and order were finally restored in 1986. The three countries thus did not have a common approach, vision and strategy for PSD. However, in their recent policy statements, the three countries have expressed commitment towards private sector led development.

To address these issues, a Treaty to establish the East African Community (EAC) was signed by the Heads of the three Partner States in November 1999. The new EAC is a revival of regional cooperation which had ended with the demise of the former EAC in 1977. Regional cooperation which had started from the early 20th Century when the three countries were under colonial rule transformed into an EAC in 1967 and collapsed 10 years later. Factors which contributed to the collapse of EAC in 1977 include differences in approaches to development, perceptions about unequal distribution of gains and shortfalls in adequately involving stakeholders in shaping the regional cooperation. Twenty years later EAC was revived as East African Cooperation in 1997 and a new Treaty for the East African Community (EAC) was signed in 1999. In the new EAC Treaty (1999) it has been acknowledged that one of the major shortcomings of the former EAC was that did not give sufficient space for the private sector to influence developments in the region’s economic integration process. One consequence of that experience is that the new EAC Treaty places private sector developing high on its agenda. The agreement signed by the Partner States aims at fostering regional development that is private sector driven, internationally competitive and people-cantered in utilizing the region’s resources. The new
EAC is consistent with recent shifts in the approaches to regional integration in two respects. First, the new wave regional integration arrangements is more outward-looking consistent with a more open model of regionalism. Second, it has been recognized that in addition to reducing tariffs and quotas deepening integration is accompanied by the removal of a wide range of non-trade barriers. The new developments in regional integration have occurred against the backdrop of globalization driven by new technologies, liberalization and competition.

The aim of economic integration in the EAC region is to tap opportunities of economies of scale arising from a larger market and investment area in order to accelerate growth and wealth creation in the region and develop the capacity to compete more meaningfully in the global economy. The premise is that larger markets, more competition and improved policies will increase the incentive for both domestic and foreign direct investment and so raise incomes. In this process the private sector will play a leading role consistent with the provision of the Treaty in respect of private sector driven and people-centred integration. The PSD strategy aims to provide the necessary space and conditions for the private sector to effectively play this leading role.

The PSD strategy is structured as follows: Chapter 2 examines the current status of the regional economy and the position of the private sector in particular. It proceeds to address the situation in two keys sectors: agriculture and natural resources; and industrial, commercial and services sectors. Chapter 3 addresses constraints and challenges, which faced the private sector in the region. Chapter 4 presents the goals and objectives of the strategy to be proposed in chapter 5. The chapter presents the PSD strategy covering both cross cutting and priority sector-specific strategies. Chapter 6 presents the implementation strategy and programme of action.
2.0 GOALS AND OBJECTIVES

2.1 Vision Statement
A strong and globally competitive regional private sector for wealth creation through investment and trade.

2.2 Mission Statement
To create a conducive business environment that facilitates private sector competitiveness and growth for increased investment, productivity and trade.

2.3 Goals and Objectives
At the national levels, all three East African countries have adopted long-term development visions and poverty reduction strategies, in which they have all shown determination to improve the quality of life of the people and to reduce poverty considerably along the lines of the Millennium Development Goals. In their Poverty Reduction Strategy Papers (PRSPs), the three countries have placed high priority on accelerating broad based growth by developing the sectors where the majority of the poor are found and with the highest growth potentials due to comparative advantage. In this context, PSD in export-oriented sectors, agriculture and SME sector, including informal sector activities, are supposed to receive special attention. Regional economic integration is expected to facilitate the realization of the national visions, notably, the key objectives of economic growth, poverty reduction and attainment of competitiveness in the world economy. The proposed EAC PSD strategy will help to attain these development goals.

The EAC Treaty of 1999 places PSD at the heart of its strategy for accelerating regional growth, creating wealth and reducing poverty. The vision of regional economic integration and development is to achieve a strengthened regional market, create wealth in the region, and enhance international competitiveness. This vision can only be realized through improved business environment, institutional and human capacity building leading to increased trade and investment, and production and productivity of private sector firms in the region. In the revived Community regional integration and development are now expected to be ‘private sector driven’ and ‘people-centered’ in the context of globalization and a competitive world economy.

The concept of people-centred development underscores three dimensions of PSD. First, the participatory nature of the new EAC permits greater participation of the people in the affairs of the Community. The second dimension relates to appreciating and capturing the diversity that currently exists within the private sector recognizing more explicitly the heterogeneity of the private sector. This implies that the process leading to the formulation of the strategy and the proposed recommendations take into account the diversity and heterogeneity of the private sector in the region and include various stakeholders in terms of size (large, medium and small enterprises), forms of organization (formal and informal) and ownership and control (foreign and local, African and non-African). This implies that
special attention will need to be given to disadvantaged groups and exploring ways in which these
groups can be empowered on a national as well as a regional basis. The third dimension relates to the
sharing of benefits from regional economic integration that can bring broad gains to the people of East
Africa.

Private sector driven regional economic integration implies a higher level of private sector participation
in development of the regional economy. It is recognized that private sector operations are increasing
in scope, following the redefinition of the role of government to reduce their role in direct business
operations. Privatization initiatives and public sector reforms bear testimony to the changing roles of
government on the one hand and the private sector on the other. The implication of these observations
is that the private sector strategy to be proposed must take into account the widening space for the
private sector in economic activities.

The PSD Strategy would make a major contribution to the regional development goals of accelerating
economic growth for poverty reduction and wealth and job creation and strengthening markets and
enhancing the region’s international competitiveness. PSD strategy is being formulated in the context
of a changing public sector role designed to give more space and opportunities to private sector
initiative. The proposed strategy for PSD is designed to be consistent with this vision for the region.

The formulation of the PSD strategy has taken into account existing policy documents in the EAC
Secretariat (the Treaty (1999) and the Development Strategy (2001-2005), in Uganda (Vision 2020,
PEAP and the Medium Term Competitive Strategy), in Tanzania (Vision 2025, PRSP, SME Policy,
BEST Programme) and in Kenya (PRSP and Economic Recovery Strategy for Wealth and
Employment Creation). These policy documents have provided information on the latest positions on
the adopted development strategies and the position of the private sector in the development of the
respective economies.

to good governance and rule of law, rehabilitation and expansion of infrastructure, improving the
environment for investment and doing business and investment in human capital for the poor. It places
emphasis on developing SMEs focusing on employment creation and formalization of informal
activities.

The BEST programme in Tanzania (2003) which has yet to be implemented is a five-year multi-donor
supported programme with five components: Achieving Better Regulation, Improving Commercial
Dispute Resolution, Strengthening the TIC, Changing the Culture of Government and Empowering
Private Sector Advocacy.

The Medium Term Competitive Strategy in Uganda (2000) presents a broad strategy to support private
sector development. The strategy covers broad thematic areas, notably, access to infrastructure and
finance as key constraints and legal and regulatory framework as main factor raising the cost of
business, institutional reform, trade policy and development in particular export development and the business environment for MSMEs. Previous attempts to implement the strategy were not fruitful. In response, a new approach is being developed with greater private sector participation. A representative Management Committee and a Steering Committee has been established with members from government, development partners and the private sector. A special unit has been established within the Ministry of Finance and Planning to coordinate implementation.

All the policy documents and programmes have expressed the intention to support private sector development by removing obstacles and burdens which otherwise raise the cost of doing business and by building the capacity to administer, regulate and provide infrastructure and supportive services more efficiently.

It occurs that all the three EA countries are getting ready to implement their programme which contains important elements of private sector development. The formulation of this PSD strategy has taken into account the national level concerns as a basis for identifying regional level issues which arise from or are consistent with the national level concerns.

The objectives of the PSD Strategy are to:

- **Increase space of the private sector in development of the regional economy.** This is envisaged to be done by striking an appropriate balance between the functions of government (in their redefined and refocused manner) and the private sector in a complementary way. In this context public policy interventions and direct support to the private sector are designed to unleash private initiatives and make private markets the engine of productivity growth and create employment and incomes while providing basic services to the people of East Africa.

- **Focus on removing regional level constraints and tap economies of a larger regional market**
  The focus is placed on market linkages within the region and between the region and the rest of the global economy and identify the regional level issues pertinent to PSD. The regional approach is to be mainstreamed to enlarge economic space, lock in policy reforms to enhance their credibility, and tap economies of scale in infrastructure investments and other cross-border investments. Ensure consistency with principles of private sector-driven development and market-based policies. The implication here is that the strategy will need to define how to make markets work better where they are not and to create them where markets are missing. The strategy will help to create an institutional framework and institutional capacities which are consistent with efficient functioning of markets. Formulate strategies for key actors such as apex organizations such as EABC, public sector organizations and public-private sector partnerships to complement and support their efforts in promoting the private sector.

- **Ensure that the strategy is consistent with people-centred and private sector driven approach.**
  Consistent with this principle, priority will be given to ensuring that a broad range of actors
participate in bringing about high growth and in sharing the benefits generated by accelerated growth are shared broadly in the region.

- **Promote competitiveness by focusing on areas of comparative advantage, and develop competitive advantages over time.** Consideration should be given to the efficient use resource endowments based on dynamic comparative advantage and developing appropriate market linkages. This strategy should enable the regional economy to develop the capacity to seize opportunities offered by the globalization process, while withstanding its threats.

- **Identify priority sectors** which reflect potential sources of growth, export and diversification in the EA region. They are also being appropriate candidates for fast-tract economic integration of the region.

- **Ensure implementation.** This is done by putting in place an implementation strategy which specifies the role and mechanism for the participation of the private sector and private sector institutions in the implementation and monitoring and evaluation of the PSD strategy. In this context, the role of country-specific and regional institutions is defined with provisions of measures and interventions for capacity building and building of networks and linkages between these institutions in a regional setting.
3.0 CURRENT STATUS

This chapter presents the status of the regional economy and that of the private sector whose characteristics are captured in section 3.1. It takes two key sectors, agriculture and natural resources in section 3.2 and industrial, commercial and services sectors in section 3.3.

3.1 Regional Economy and Status of the Private Sector

In year 2004 the three East African countries had a combined population of about 94.8 million people and a Gross Domestic Product (GDP) of US$ 34.2 billion, comprising US$ 16.1 billion for Kenya, US$ 10.3 billion for Tanzania and US$ 7.8 billion for Uganda (World Bank, 2003). Although Kenya has had the strongest economy in the past, the gap has been closing due to the higher growth rates achieved by Tanzania and Uganda in the last ten years. However, the structure of the economies still gives Kenya an edge over the other two partners in terms of a more developed industrial structure, hence the decision to permit the levying of an internal tariff for the products from Kenya under the customs union.

The structure of the East African economy is still dominated by agriculture, having accounted in 2002 for around 19 per cent of GDP in Kenya, 44.4 per cent in Tanzania, and 31 per cent in Uganda.

There have been effort to create convergence of key macro-economic variables as part of policy reforms, and the EAC treaty provides for institutional mechanisms to ensure continuing harmonisation of policies. Regional policies to promote the private sector have also been moving in a similar direction of convergence, although at a slow pace. In order to counterbalance short-term adverse effects of structural adjustment programmes (SAPs), all EA governments attempted some kind of social dimensions of adjustment. However, in more recent years these have given way to the second generation of reforms addressing institutional reforms and longer term development concerns. Poverty Reduction Strategy Papers (PRSPs) have been adopted as more comprehensive economic policy and strategy statements representing a longer-term development strategy. PRSPs have addressed development issues such as creating rural employment opportunities, improving infrastructure services, accelerating institutional, regulatory and legal reforms, and boosting standards of health and education.

Generally, however, there has been little regional co-ordination of these strategies. The capacity to coordinate macroeconomic policies and reforms is still weak. Each country is to a large extent pursuing policy reforms according to unilateral negotiations carried out with the Bretton Wood Institutions. Time has come to move to the next stage of negotiating policy reforms as a regional bloc.

The three EAC partner states, relative to other African countries sampled, are associated with low levels of competitiveness (Harvard Competitiveness Report, 2002). The East African countries are ranked in the lower half of the 24 African countries. However, the relative position of the region had
improved in the previous three years, especially Tanzania and Uganda, but Kenya’s position has not improved due to factors explained in the country’s economic recovery blueprint. The share of East African trade (exports and imports in the three partner countries) in world trade (exports and imports of all countries in the world) has declined from 0.10% in 1995 to 0.08% in year 2000. This trend suggests that in terms of participation in world trade the East African region has become more marginalize over time. The declining shares of trade are an indicator of low level of competitiveness of the region in the global economy.

Total trade between the three countries is low, but has been increasing, reaching $602.9 million in 2002. Kenya supplies 43 per cent of Uganda’s imports, and Uganda is Kenya’s third most important export destination. In 2002, Uganda and Tanzania imports from Kenya reached $312.9 and $184.1 million respectively. Imports of Kenya from Uganda and Tanzania amounted to $8.6 million and 10.4 million in 2002 respectively. The total value of trade between Tanzania and Uganda is relatively small standing at only $13.3 million in 2002 (EAC Statistics, 2003). A wide range of commodities and services is traded within East Africa, COMESA and SADC. The survey of 2002 found that a large proportion of the firms in the region are active in regional export and import markets. About 28% of the firms surveyed export their goods or services to the EAC region, with the majority of exporting firms consisting of manufacturing (35.6%), agriculture and natural resources (26.7%), and services sector (35.6%). However, intra-regional trade (within East Africa) is still low in the region of 8-10%. Non-tariff barriers are still a problem to be reckoned with in the region. These are some of the problems that are being addressed in the customs union. In recognition of this problem the EAC has undertaken to commission a study on mechanisms of monitoring of non-tariff barriers to cross-border trade.

Cross-border investment (CBI) has also been taking place, principally in Tanzania and Uganda, including joint ventures between East African and foreign firms, and also between different East African firms. Uganda receives the highest number of cross-border investments, as joint ventures either between EA investors and others, or between EA and Ugandans. The majority of firms engaging in cross-border investment are those which are also in joint ventures with foreign firms. Sectoral distribution of investment flows shows a substantial spread among three main destination sectors, namely, manufacturing (40-50%), services (30-40%) and agriculture and natural resources (10%).

Foreign direct investment (FDI) can act as a powerful impetus to private domestic investment if it can stimulate improvements in technology, management and knowledge of and access to markets. Following policy reforms, FDI has picked up significantly in Tanzania and Uganda, though not yet in Kenya. In year 2000, FDI amounted to $254 million in Uganda, $194 million in Tanzania and $60 million in Kenya. FDI in 2001 was $372 million into Tanzania, 144 million into Uganda and $50 million into Kenya. Investment promotion authorities in the region have stepped up their efforts to attract FDI. However, relatively little attention has been directed towards promoting domestic investors. Yet the majority of investors are domestic investors. The relationship between FDI and domestic investment has not been as complementary to each other as they should have been.
The private sector accounts for over 80 per cent of GDP in the three Partner States. Most of the investments are by the private sector. However, private sector investment has not been sufficient to guarantee rapid private sector growth. Gross capital formation is low at 12.8% of GDP in Kenya, 17% in Tanzania and 20% in Uganda. These levels are low compared to figures of over 30% in East Asia. The low level of investment is partly accounted for by the low level of savings in the region. During 1999-2004, gross domestic savings as a share of GDP averaged 8.38% in Kenya, 13.15% in Tanzania and 15.22% in Uganda.

The private sector in the region is diverse consisting of large-scale enterprises either as subsidiaries of multinationals or as parastatals. There are also some large scales local or joint venture enterprises in the region. The presence of multinationals is strongest in Kenya. The presence of parastatals has been significant in all the three countries with their presence most pronounced in Tanzania. However, with recent policy initiatives towards restructuring and privatization parastatals are giving way to private enterprises. The structure of the private sector in the EAC region is dominated by micro, small and medium size enterprise (MSMEs). These micro, small and medium size enterprises are a very significant part of the private sector in terms of number of enterprises and the number of jobs they create. It has been estimated that micro-enterprises (engaging 1-10 persons) account for 87% of all enterprises in the region (EABS, 2003). On average MSMEs contribute more than 70% of non-agricultural employment in the region. This suggests that a people centred development strategy will need to give ample space for the development of the MSMEs in the region.

The current status of the private sector in the region has been influenced by two historical facts. First, colonial policies deliberately favoured the promotion and development of groups other than indigenous Africans in many categories of private sector activity; some of these biases against micro and small enterprises and the informal economy in general have persisted in less direct ways. The MSMEs face additional difficulties in accessing finance and in having their property rights recognized and respected. Second, since independence, the three EAC countries have expressed concern about the political economy associated with domination of alien groups in the economy. In response, they have pursued different strategies for countering this non-African domination of their economies. Kenya adopted the approach of Africanisation in the context of capitalism; Tanzania approached the challenge through nationalization of what were viewed as major means of production and distribution while Idi Amin’s Uganda approached the challenge by forcefully expelling Asians from Uganda. The approaches that were adopted have all fallen below expectations in their achievement in addressing the political economy challenge. The outcome suggests that there is need for formulating a common approach towards addressing this political economy challenge in the new context of EAC. Such an approach will entail aligning MSME policies with action on the ground in the context of market driven and private sector led development in the region. In particular, there is recognition of the need to align the governments’ policy statements on domestic investment with the practice on the ground.
3.2 Agricultural and Natural Resources

Agriculture and natural resources are dominant economic activities in the region and they have a significant presence of private sector activity. The major producers of most agricultural commodities are smallholder farmers. Large scale farming is more established in Kenya and to a lesser extent in parts of Tanzania. It is much less established in Uganda.

The relative importance of large-scale public sector producers in agriculture has declined as a result of restructuring and privatisation initiatives in the region. Most crop processing is now in private hands, following substantial privatisation of this activity, especially in Tanzania and Uganda. Marketing of food crops is also largely in the private sector, although there is still substantial public sector involvement in marketing of maize and wheat in Kenya. Virtually all livestock processing and marketing in the region is now in the private sector. Governments have also reduced their roles in import and distribution of farm inputs and machinery, and in research and development activities.

Privatization and restructuring initiatives in the region have resulted in a reduced role of the public organizations in agriculture. However, the evidence on the ground reveals gaps in marketing of inputs and products and investments in infrastructure and technology.

Agribusiness has a large potential but little has been done to promote value addition of the sector. The sector has remained largely in traditional commodity markets. There has been a shortfall in two other areas: insufficient demand-driven public-private partnership and little effort in identifying new value adding products and tapping new market opportunities.

The region has rich fishery resources both offshore marine fish resources in the Indian Ocean and in the region’s lakes and rivers. The main exploitation of fishery resources takes place within the lakes, with Lake Victoria accounting for about 95% of landed fish catches. Fishing is primarily a private sector activity in the region. Private sector engagement in fishing ranges from small operators using rudimentary and inefficient and often destructive technology to large-scale trawlers largely operated by foreign companies. In recent years several fish processing factories have been established, mainly around Lake Victoria, for processing fish for export. Private entrepreneurs have good opportunities in the fishery system. However, the low capacity for policing, controlling, and actually enforcing the regulations has not helped to develop private sector activity in a sustainable manner. The initiatives through the Lake Victoria Fisheries Organization are expected to improve coordination of fishing activities in the region. A wide range of opportunities exists for private sector activity.

Forestry activities are also predominantly private sector and present immense opportunities for further private sector development. Forestry resources are exploited not only for timber and furniture, but also for the fuel needs of the low-income populations, often to the detriment of the environment. Wood is used for fuel for rural areas and for the majority of the low-income urban population. Production of timber and timber products is mainly in the hands of the private sector, ranging from the informal
private sector involved in small-scale timber processing and manufacture of furniture to the formal sector in the larger-scale saw milling and wood products manufacturing plants. The capacity for management and regulation of private sector activity in the exploitation of forestry resources is still inadequate in the region.

The region is rich in minerals, which have not been fully mapped or quantified. A considerable part of the present mining activity is small-scale and informal. Recent foreign mining investments, largely in Tanzania, have considerably increased large-scale mining in the region. However, they have also raised the challenge of ensuring that foreign investment makes a significant contribution to the regional economy and in particular to the development rather than displacement of the local small scale miners. The establishment of large-scale mining operations through FDI raises challenges of developing complementarities and building forward and backward linkages and networks between large-scale and small-scale operations.

Current electricity generating capacity is some 2,300 megawatts (MW), including 1,600 MW of hydropower. The public sector is still dominant in the generation and distribution of electric power. However, with restructuring under way there is now greater potential for private sector participation (PPP). Private initiatives have been taken in power generation (such as the IPTL in Tanzania) and as restructuring and privatization takes effect space for private sector participation is increasing. Other regional resources include natural gas, coal, solar energy, power alcohol and biogas, all offering opportunities to the private sector. Another area which has potential for private sector participation in energy development is investments in petroleum exploration and development especially hydrocarbon of the rift basins of East Africa.

There are several major lakes and rivers in the region, the largest of which is Lake Victoria. Water, however, is increasingly becoming a scarce natural resource. The initiatives that are being taken in the context of coordination of Lake Victoria Basin Development are giving attention to water management. The private sector actors are engaged in water resource development as suppliers, and as consultants and contractors for water supply and sanitation services projects. Initiatives that are being taken to restructure and privatise water supply and management systems especially in urban areas are giving greater space to private sector participation in this sector.

The initiatives that are being coordinated under the Lake Victoria Basin Development in the areas of fishing, safety of navigation on the lake, rehabilitation and development of the port infrastructure, land management and land restoration programme, revitalization of farmers and producers extension services and other economic activities for improving livelihoods and food security. These initiatives offer opportunities for private sector participation in their design and implementation development programmes in the basin.

3.3 Industrial, Commercial and Services Sectors
In all three countries the modern industrial and commercial sectors, together with small and medium enterprises (SMEs), are heavily dominated by the private sector, in part due to extensive privatisation of public enterprises in the last decade. The formal industrial sectors of the three states are generally uncompetitive in international terms, both because of the small size of the national markets and because they were originally created under import substitution regimes involving high levels of domestic protection.

The informal economy private sector activity accommodates the majority of the people in the region, especially the poor. Micro enterprises and activities in the informal economy represent the most important interface between the private sector and the poor. These include own-account work, home-based (contract work), street vending, etc. Statistically, informal economic activities have come to be regarded as a group of production units which fall under the household sector as unincorporated enterprises owned by households. These unincorporated enterprises owned by households are usually not constituted as separate legal entities independently of households which own them and no complete set of accounts are available to distinguish enterprise activities from other activities of their owners.

Two main components or segments of informal economic activities have been distinguished: the family enterprises as own-account informal enterprises without permanent employees and the micro-enterprises as informal employers with permanent employees. Employment in the informal economic activities constitutes 60-70% of total non-agricultural employment in the region.

The activities in the informal economy are characterised by small scale, self-employment, easy entry, high proportion of family workers and apprentices, little capital and low technology, low level of skills and of organization and lack of access to organized markets for key resources (financial markets, education and training) and lack of access to supporting services. Most of these activities are legal but to a large extent they do not comply with official and administrative regulations and other requirements.

Several circumstances have prompted the importance of micro enterprises and informal economy activities in providing livelihood in the region. First, economic restructuring which has been implemented in the region has resulted in loss of jobs in the formal economy forcing many to seek refuge in the informal economy. Second, rural-urban migration has exceeded absorptive capacity of the formal urban economy forcing many new migrants to engage themselves in the informal economy. Third, forces of globalization and competition have caused many jobs to be lost in industries which cannot compete and the people who have lost their jobs on those activities have resorted to the informal economy. Fourth, the youth, both educated and uneducated are engaging in the informal economy because they are not being integrated into the formal economy and opportunities for decent self-employment are narrow. In this context, linkages between informal and formal economy activities are complex and substantial.
The informal economy is regarded constituting survivalist entities operated by retirees, retrenches or people supplementing their low incomes from formal jobs. It functions as a fall back position. This outlook of the informal activities has not helped to develop them into dynamic private sector activities.

New investments in industrial, commercial and services sectors are more competitive than the old investments largely because they have been set up under a competitive environment in which trade liberalization is prevalent in the region. Most of the new investments have come from far East, Europe and South Africa. The sectors which have attracted most new investments are mining, tourism, horticulture, textiles and clothing, fish products and investments in information and communication technologies such as mobile telephones and computers. Each of the EAC countries has a list of a few “entry points” or selected sectors with the highest growth potentials. For example: textile and garment (AGOA as an opportunity), horticulture (flowers, veggies to EU market), tourism, coffee/tea, etc.

Wildlife and tourism resources of East Africa are internationally renowned, with most hotel and travel facilities owned and operated by the private sector. Or in public-private partnership (PPP). The potentials in environmentally based tourism and community tourism have not been fully developed to stimulate potential growth areas for rural development and for developing communities and small-scale business activities in the respective communities. A collective and coordinated approach to the promotion of investments and markets in the tourism sector is in the process of being developed.

The institutional arrangements allow ample space for private sector participation. In this respect, the East African Tourism Council (EATC) has been formed comprising public and private sector representatives with a mandate to coordinate regional activities relating to tourism promotion and marketing in the region. A panel of experts is working on EAC criteria for standardization and classification of the identified facilities (e.g. hotels, restaurants) in the tourism industry. It has also been decided that a survey of all existing government training institutions is to be undertaken, assess training needs and recommend how national capacities could be reinforced and how they could best be shared in the region.
4.0 CHALLENGES AND CONSTRAINTS

This chapter presents the main challenges and constraints facing private sector development in the region. Five categories of constraints have been identified as follows: policies at macro-economic and sector-specific levels; institutional framework and governance; access to key resources; infrastructure; and supportive services.

4.1 Policy-Related Constraints

Policy-related constraints have reference to macro-economic policies, trade and tax policies, the legal and regulatory frameworks, and investment policies. Cross-border trade and investments based on joint ventures have been riddled with unharmonised and uncoordinated policies, bureaucratic hurdles and unsupportive legal and regulatory frameworks. The principal factors constraining economic performance include:

(i) *Tight monetary and financial policies* Overall, the East African states have achieved reasonable stability in key macroeconomic variables including inflation, growth and exchange rates. Considerable progress has been made in both economic and political liberalization, resulting in improvements in macroeconomic stability and governance in the region. However, concern has been raised over the tight and constraining monetary and financial policies coupled with incomplete and shallow financial sector reforms;

(ii) *Trade policies especially tariff and non-tariff barriers* to cross-border investment and trade have been identified as a major constraint. In a recent survey, more than 85% of the respondents indicated that tariff and non-tariff barriers constrain their business operations. About 65% of all business associations which were interviewed identified trade policies and the relating to tariff and non-tariff barriers as an important constraint. About 70% of the public institutions interviewed identified trade policies as a constraint to private sector operations. These concerns are being addressed within framework of the customs union.

(iii) *Disincentive effects of existing tax regimes* relating to levels, multiplicity of taxes and tax administration have been identified as a constraint to private sector development. In the survey in 2002, more than 94% of the firms interviewed indicated that the tax regime is a constraint to their business operations. Some 46% of the public institutions and 54% of the business associations identified the tax regime as being unconducive to private sector development in the region. The situation in agriculture and agribusiness adds a further dimension in that local taxes are being enforced rather arbitrarily and are not harmonized with national level taxes. There has been a concern on the absence of a coherent and coordinated approach to harmonization of tax policies and of tax incidence. However, the Fiscal Affairs Committee is addressing this concern and progress is being made in harmonization of corporation taxes and in harmonizing the tax incidence under the customs union.
(iv) *Absence of a legal framework to ensure free movement of labour, services, goods and capital;* The legal framework does not facilitate the free movement of private entrepreneurs, professionals and other skilled people who are engaged in investment and trade in the region. Labour market policies are not harmonised in the region. The existing policies inhibit cross border investment and trade to the extent they do not facilitate free movement of labour and professionals. The issuance of work permits is costly and cumbersome.

(v) *A restrictive regulatory and administrative regime* has been associated with three concerns by the private sector. First, they raise the cost of doing business by invoking unnecessary hassles and other costs of either following the regulations or having to find ways of going round the regulations. Second, they act as a barrier to development by keeping a large proportion of the private sector actors out of the formal economy. Third, they offer incentives to remain small and informal depriving the enterprises of the opportunity to adopt forms of organizations which are more consistent with development in a competitive environment.

(vi) *Inadequate and ambiguous competition policies* have raised concern in the private sector. Good progress has been made to finalise the regional competition policy. Final steps are being taken to have it enacted. This should be followed by completing the on-going process of developing national competition policies.

(vii) *Inadequate investment codes or incentives.* About 20% of the business associations expressed concern that the investment incentives and investment codes are not adequate for their business activities in the region. In addition, the private sector is concerned that investors in the region face unharmonised investment policies and codes. These concerns are being addressed by developing an EAC model of investment code based on best practices and will function as a guiding instrument to the national investment codes.

(viii)

4.2 **Institutional Framework and Governance**

A market economy requires appropriate institutions to make markets work efficiently and in the desired direction. Institutions facilitate information about market conditions, they determine and enforce property rights and they influence competition in markets. The situation on the ground indicates that there are many cases where the existing institutions in the region are not effective in facilitating markets to work efficiently with a view to promoting private investments for growth and employment creation. The effectiveness of the existing institutions is hindered by the lack of complementary institutions (missing institutions) and deficiencies in existing institutions in terms of capacity and orientation. The absence of strong governance institutions and structures at the level of government as well as the private sector continues to be of serious concern.
The institutional framework for PSD comprises of a wide variety of private sector organizations and public sector organizations operating at national level and at the regional level. Governance concerns cover both the public and the private sector.

(a) Private Sector Organizations

The region has a wide range of apex and non-apex organizations, which can be used as vehicles for private sector participation in the regional economic integration process. The capacities of business associations at national level as well as those at regional level are inadequate to perform the functions they are supposed to perform and to provide the services they are supposed to provide to their members.

(i) National Level Business Associations

Private sector organizations in the form of business associations have emerged as important players in recent years. Some business associations are organised on sectoral lines while others are more crosscutting. In recent years, initiatives have been taken to establish apex private associations such as, in Kenya there is Kenya Private Sector Alliance (KEPSA), in Tanzania there is the Private Sector Foundation and the Tanzania National Business Council (TNBC) and in Uganda there is the Private Sector Foundation (PSFU). These apex organizations are meant to address cross-sectoral private sector concerns and facilitate the private sector to speak with one voice.

Out of the 48 business associations which were covered in this survey, 55% indicated that they had mandates on EAC regional integration: The key mandates were: to represent their members in the EAC and East African Business Council meetings; to participate in Treaty and Customs Union negotiations; to serve as national focal point/hubs for regional partnerships; to sensitize members on EAC development and to do marketing.

The five most commonly provided services that private sector organizations offer to their members are: organizing dialogue fora and training programmes; collecting, organizing and disseminating information to members; lobbying on behalf of members; marketing services; and addressing any other issues affecting members.

A field survey (2002) indicated that only 30% of the respondents rated the quality of services rendered by their business associations as “very good”. The majority rated the quality of those services as either “fair” or “poor”. These findings suggest the need for capacity building in most business associations. The business associations themselves have expressed the need for capacity building for improved quality of programs; improved information distribution systems; better computerization; improved public relations; and training of chief officers and leaders.
As regards the effectiveness of representation in regional matters, the situation is not satisfactory. More than half of the members have expressed the view that the ability of their business organisations to represent them in regional economic issues is insufficient. With regard to formulation of regional policies, only 15% rated the participation of apex organizations as ‘high’. This means that 85% rated the participation of apex organizations as “fair” (30%), “low” (31%) and “not effective” (24%). Roles in which business associations rated the apex bodies particularly low include articulating policy proposals at the regional level, influencing decision-making at regional level, mobilizing members for regional development and promoting sector interests at regional level. It would therefore seem that there is need to address means and ways to enhance capacity of the existing business associations and reorient them towards addressing regional level concerns.

The informal economy private sector operators are the least organized. National level associations such as Vibindo in Tanzania, Foundation for the Assistance of Small Enterprises and Rural Technology (FASERT) in Uganda and CISO (K) and other Jua Kali groups in Kenya are emerging. The apex organization, the East African Confederation of Informal Sector Organizations (CISO) was established and registered as a regional level body in 1994. It is an apex of informal sector organizations at the regional level consisting of national federations. At the national level, associations and other organizations representing informal economy workers at grassroots level are still very weak. Their capacities will need to be built.

CISO is an apex organization of informal sector actors. The East African Jua Kali Exhibition has been organized by CISO and has been taking place annually since 1999. The East African CISO has decided to adopt a strategy of marketing the products of MSMEs through regular and sustainable exhibitions. This also helps to create an impact on the image of the sector. In 2003 the exhibition was held in Dar es Salaam and it attracted 500 exhibitors up from 400 in 2002. CISO, however, has yet to reach the majority of the informal sector operators in the region. Its capacity is low compared to the mandate it has to fulfil. CISO has expressed interest in being accorded observer status in the Community and the EAC Secretariat has advised that it needs to make a formal application to that effect.

(ii) Regional Level Business Associations

The East African Business Council (EABC) is a formal apex body of business associations in the region. Established in 1997 it has 19 members comprising business associations and public organizations providing services to the private sector. The EABC endeavours to represent interests of the private sector in the region and promote international competitiveness of the business community. Following the decision to grant full membership to private corporations operating in East Africa several companies have applied for membership.

In evaluating the effectiveness of EABC in promoting private sector participation in regional integration, more than 70% of the members who were surveyed recently (2002) felt that there was inadequate capacity at the secretariat and national chapters or focal points, and that economic
integration had not been fully marketed or popularised in the three countries. However, since capacities where strengthened under the programme funded by GTZ EABC started a number of policy initiatives that received wide press coverage and positive feedback from members and stakeholders. Some of these initiatives are described in chapter 5 where the PSD strategy is presented.

Despite the financial support provided by donors EABC is still financially weak and the understaffed with limited capacity to handle the wide range of issues related to private sector development. The private sector has however developed alternative channels to lobbying. The East Africa Business Summit (EABS) is one such channel, which is organized by six convener companies in the region. It is becoming an important conference event for mobilizing the private sector and providing a forum for discussion of challenges facing the private sector and the regional economy in general. It held two meetings. At its first meeting, it came up with ‘Agenda East Africa’, in which it endeavored to evolve concrete measures to remove obstacles to business enterprise, regional trade and all round economic growth in the region; and Vision 2020 in which the EABS expressed commitment to achieve tangible targets of income generation, employment, investment; and regional trade by the year 2020. At its second meeting, the EABS focused on integrating the reconstruction through the private-public partnership; reviewed the progress made on the action plans, (which were proposed in last year’s Summit); and made further plans in the various working committees. However, since the EABS is not an institution and has no permanent secretariat, EABC has made a commitment to give support to the working groups in terms of coordination, information dissemination and lobbying of policy topics.

It should be noted that in some key sectors representation is still very limited. For instance, while agriculture is the dominant private sector activity in the region, farmers in the three Partner States do not have effective organized producer organizations to enable them bargain effectively with the buyers. Their weak bargaining power in the market does not help in influencing prices and incentives to invest in purchased yield-enhancing inputs. There is no overall agribusiness association, which could handle general issues relevant to all private agribusiness entrepreneurs, and which could be the spokesperson of the entire agribusiness sector in the region. However, within agriculture, the sectors which are dominated by a few large actors, seem to be better organized in their representation. For instance, in the tea sector, the estates sector has a strong apex institution, the Association of Tea Growers of East Africa.

(b) Public Sector Organizations

Public sector organizations are supposed to carry out the following support functions for PSD: providing an enabling environment for private sector growth; facilitating trade and investment; disseminating information/ facilitating communication; streamlining administrative procedures for efficient service delivery and providing public investment.

About 68% of the institutions studied indicated they had some role or mandate on East African regional integration (Field Survey, 2002). Some of the roles which came out in the interviews included,
regional policy formulation and coordination, promotion of regional trade and services, harmonization of tariffs and other trade issues, lobbying for conducive business environment, promotion of regional development, regulatory and licensing activities, provision of various infrastructure services, facilitation of private investment and promotion of sustainable regional utilization and management of in East Africa.

The assessment undertaken as part of the PSD Strategy study in 2002, the performance of public sector organizations is mixed. While certain bodies, including trade and finance ministries and investment promotion institutions, received good ratings, much poorer assessments were made for organisations such as parastatals, utility regulators, energy and agricultural ministries, and privatisation agencies. (Field Survey, 2002). In general, these institutions were found to perform more successfully at national, than at regional, levels. Poor achievement of regional objectives was attributed to several factors, including inadequate funding and human resources, lack of a legal mandate, and delays in completion of multilateral agreements.

As regards the effectiveness of the EAC Secretariat it does not have the necessary capacity to coordinate and monitor private sector development activities. In addition, there is as yet no clarity about the way the ministries and the corresponding Technical Committees involve the private sector organizations.

(c) Public–Private Sector Partnership

Public-private sector partnership has grown considerably in recent years. Almost 80% of the business associations interviewed said that they cooperated closely with public sector organizations in policy dialogue, advocacy and participation in consultations and conferences. The situation is improving continuously.

While Public-Private sector Partnership (PPP) in terms of policy dialogue has been institutionalized at national level in the three countries, PPP in terms of investments has not made much progress. In terms of broad policy statements, PPP has been endorsed in all the three EAC countries but the requisite rules and procedures for procurement and definition of the respective roles of the public and private sector have yet to be put in place unambiguously. The capacity of regulatory mechanisms is still inadequate to manage PPP investments efficiently. The private sector in the region has shown interest and commitment in the promotion of PPP. What has yet to be developed fully is a clear framework for implementation of PPP. Relatively good progress has been made in telecommunications with private investments in mobile phone networks. The experience in telecommunications could offer useful lessons to PPP in other forms of infrastructures and other investments.

(d) Good Governance
The private sector expressed concern that the system of governance in the region is still tainted with corrupt practices. According to the Transparency International’s annual Corruption Perception Index (CPI) for 2002, out of the 102 countries that were surveyed, the East African countries ranked quite high in levels of corruption. The rankings were 96 for Kenya (with a CPI score of 1.7 out of 10), 93 for Uganda (with a CPI score of 2.1 and 71 for Tanzania (with a CPI score of 2.7).

In all the three countries, efforts are being made to curb corruption. Systems are being put in place to encourage more transparency and to apply the rule of law in government operations. However, a recent PWC report has suggested that the war on corruption in East Africa is being lost because of lack of political will. Inadequate funding and ill equipping of anti-corruption institutions has impacted on the fight against. Further, the legal framework is inappropriate since most of the bureaucrats who are charged with the responsibility of fighting corruption are themselves corrupt.

According to Transparency International, increasing evidence has emerged about the central role of the private sector in corruption in East Africa. Surveys and prominent cases suggest that considerable bribes are paid regularly both by East African and multinational businesses. A KPMG survey of more than 400 CEOs and chief financial officers, released in June 2002, suggested that fraud and corruption in business was on the increase in East Africa (Transparency International, 2003).

There are also deficiencies in corporate governance whereby many private enterprises are not transparent in the handling of their accounts, roles of boards and treatment of stakeholders.

### 4.3 Infrastructure & Public Utilities

There have been serious problems in ensuring access to reliable and affordable infrastructure in the region. In particular, the costs (thus affordability rather than availability) of power, telecommunications, and water services are major concerns. The cost of electric power is 0.8 US cents per KwH in Tanzania, 0.70 cents in Kenya and 0.46 cents in Uganda. In comparison power costs in South Africa is 0.18 US cents per KwH and in Egypt is 0.25 cents per KwH. This situation undermines the relative competitive position of the private sector in the region. The question is whether the EAC Partner States tariff levels are at the least cost levels for the region. There are indications that with appropriate investments in the context of public-private participation, it is possible to achieve lower costs of power and other infrastructural services. Following restructuring the power sector offers tremendous potential for private sector participation. The Power Master Plan demonstrates the potential of private sector participation in this area. The three countries have developed Integrated Policies on Rural Electrification and reached an agreement to harmonize the national rural electrification policies.

In the area of transport, the region’s road network is poorly developed and inadequately maintained, with severe disruption during the rainy seasons, and with the maintenance problem being exacerbated
by overloading of vehicles. The EAC countries have resolved to prioritise the development of the roads infrastructure as a key catalyst sector for the development of the other sectors.

Much of the rail network require rehabilitation which the railway corporations cannot afford, and locomotives and rolling stock are also often in poor condition. A study on “The Assessment of Restructuring Process of the East African Railways: A Case for Harmonization” has been completed and is being reviewed for implementation.

Usage of Lake Victoria for transport amongst the countries is grossly underutilized. The transport network on the lake has not been developed to cope with the envisaged growth of economic.

The telecommunications sector in the region is facing problems of congestion due to insufficient number of direct channels between Partner States, high tariffs and high costs of international data traffic, high cost of accessing internet services, slow speed of connections regional interconnection. Efforts are being made to focus on EAC cooperation in telecommunications by adopting common policies, improving and maintaining inter-connectivity, harmonizing tariffs, cooperating in training and exchange of human resources and adoption of common frequency management and monitoring scheme.

On-going telecommunications projects are expected to involve private sector participation. For instance, the East African Digital Transmission project that involves laying down of a fibre optic cable linking the three capitals previously stalled but has been revived and is under serious consideration by the Partner States. The EAC Telecommunications Trunking project is targeting the private sector as the driving force or some public-private sector partnership arrangement. However, a harmonized regime will have to be in place to facilitate implementation. The Regional Telecommunications Network will consist of three networks: Land Based Trunk Network, East African Submarine Cable Network and Lake Victoria backbone Ring Network. The cross-border connectivity project to facilitate direct links between border towns in the region is in progress and should facilitate interactions across borders. There is also a project to build infrastructure to establish a regional carrier that can lease out services to other operators. Private sector participation in this and related projects should be facilitated with the expiry of the exclusivity contract in 2005.

The three governments are now taking steps to improve quality and reduce cost of infrastructure services by privatising or restructuring state-owned utilities and establishing autonomous regulatory agencies. However, the privatization and restructuring initiatives in the three countries are slow and not coordinated.

The introduction of players from the private sector implies that robust regulatory machinery has to be in place. Building autonomous, efficient and effective regulatory agencies is a daunting task where capacity building needs are significant.
In order to enhance rapid access to infrastructure and ancillary services, it is clear that the EAC countries need to evolve coordinated, harmonized and complementary transport and communications policies and also improve and expand the existing transport and communication links and establish new ones.

4.4 Access to Requisite Resources

4.4.1 Access to Investment Finance

Investment finance is of great importance to private sector development in the region, both as a key resource for private enterprise development and as an area of opportunity for private sector participation.

The financial sector in the region has been undergoing reforms. Some positive economic growth effects have been experienced from the sector reforms. The financial sector remains largely shallow and narrow in terms of the financial products it offers. In aggregate terms domestic credit provided by the banking sector is only 10.1% in Tanzania and Uganda and 45.6% of the GDP in Kenya. These figures are low when compared with the average of 47.2 in Sub-Saharan Africa and 120.4% in East Asia. The private sector is concerned about the limited scope of financial products that can be accessed by the private sector and the wide spread between the high interest rates charged on loans and the low interest rates offered on deposits.

The financial sector has remained ineffective in mobilising savings and facilitating PSD. This is due to limited banking networks, non-performing loans, the low level of monetization of the EA economy and weaknesses of corporate governance in public sector banks coupled with the challenges of supervision and enforcement of prudential guidelines by the Central Banks. In short, the financial markets remain largely shallow, narrow and inefficient. As a consequence, there are glaring gaps for development finance.

Development finance has been eroded during the financial sector reforms in the region. There is a shortage of development finance, a problem which is relatively more acute for small and medium size enterprises and for agriculture.

The East African Development Bank (EADB), formed by the three Partner States and ten development and financial institutions, is mandated to foster the economic and social development of the EA region. Its core business lies in medium and long-term lending, with short-term finance and working capital as supplementary products. However, the size of its operations has not been large enough to satisfy the immense needs in the region. It needs recapitalization and restructuring to cope with current demands in the region.
Access to agricultural credit in particular, constitutes a serious constraint in all Partner States, since agriculture is regarded as a risky activity by banks. During the period of policy reforms there has been retrogression on two fronts: first, agricultural development banks have either been restructured or disbanded and their lending activities rolled back; second, the restructuring of cooperatives has had a disruptive effect on lending to agriculture, especially for inputs. In particular, smallholder farmers find it extremely difficult to acquire institutional credit because of lack of collateral and dependence on irregular climatic conditions. Other forms of credit such as producer and marketing cooperative loans have declined with the reorganization of marketing cooperatives in the region. The emerging attention towards purely financial cooperatives known as Saving and Credit Cooperatives (SACCOs) and credit unions is promising but it has a long way to go.

The micro finance sub-sector is still underdeveloped especially in Tanzania and Uganda. Kenya’s micro-finance industry is reputed to be one of the strongest in the continent and can form a good basis for a regional brand’s replication. For the region as a whole, while some micro finance activities are being administered as government initiated programmes and others under NGO initiatives, most of these programmes are rather ad hoc and their reach is still small compared to the needs of micro enterprises and SMES. Microfinance has been introduced in a number of places to enhance access to finance by the small businesses. Its effectiveness has been limited by narrow coverage and a weak and not always appropriate regulatory system.

The region’s capital markets are very illiquid and poorly developed. The recent establishment of various bodies - including the Capital Markets Development Committee (CMDC), the East African Member States Regulatory Authorities (EASRA) and the Central Depository and Settlement Corporation (CDSC) - represent some progress towards development of regional capital and securities markets, and towards harmonisation of laws, regulations and standards. These bodies, however, have not to date exercised the necessary level of co-operation between them.

Mechanisms and institutional frameworks for harmonising and enforcing government banking codes are weak. Lack of uniform regional recognition of banking qualifications acts as an impediment to free movement of labour and development of a regional financial sector. While ICT is growing fast in banking operations, transaction promotion and transfer payment systems have yet to be harmonised in the region. There is still lack of adequate mechanisms for determining risk within markets by rating financial institutions, their products and their clients.

4.4.2 Human Resources

The region has low levels of educational attainment compared to other regions. The development experience of many countries in recent years has shown that a high level of general education is a major factor behind success in development. Total secondary enrolment in the region is of 30% in Kenya, 13% in Uganda and 5% in Tanzania (Global Coalition for Africa, 2003). This is low compared with 33% for the whole of Africa and 63% for East Asia. Tertiary education is also still low although
encouraging efforts have been made recently to expand it and to invite private sector participation. Major concerns in this area include: (i) legal and administrative restrictions on the free movement of labour within the region; (ii) inadequate structure of educational and training systems in the region and lack of close links between the needs of the industry and curriculum development (supply-driven approach) leading to the coexistence of critical skill gaps and unemployment of the educated in other fields; (iii) lack of cooperation and coordination between education and training institutions across the board; (iv) insufficient remuneration levels contributing to a brain drain to other regions of Africa and elsewhere in the world; and (v) the adverse impact and implications of HIV/AIDS on human resources for private sector development (e.g. loss of productivity and knowledge, increased costs, erosion of markets).

4.4.3 Land

While some agricultural land is underutilized, other areas are too fragmented to be economically farmed. This fragmentation has led also to land degradation. Land property rights are found to be ambiguous both at national and regional level. It was observed that the legal and regulatory framework does not make it easy for farmer investors to acquire and own land in other countries in the EAC. Even within one country it is not easy for one community to access land and own part of communal land in another community especially if it is a different ethnic group. The inadequate status of land property rights has tended to limit investment in land. Although land tenure reforms have recently taken place in Uganda and Tanzania, constraints to free movement of investors still exists and it is worse for cross-border agricultural investment. The next step of sorting out land property rights is to allow investors to move freely within East Africa has yet to be addressed adequately. As a prerequisite to freeing land tenure in the region, land property rights at national level will have to be sorted out first.

Access to land is also a constraint on non-agricultural investment, with non-availability of appropriate business premises being particularly acute for micro and small enterprises. As regards, serviced land for investment, ownership rights, leasing, etc there is much room for improvement.

4.5 Access to Support Services

The development of competitive markets requires the existence of supporting market institutions and adequate provision of essential public goods and services. Enterprises require technological and information services, marketing services and capacity building through training if they are to improve performance. The status of technological extension services is particularly in bad shape in the region.

Government programmes for the provision of support services for enterprises have not been effective and have often run into budgetary constraints. Many of these programmes have been more supply-driven than demand driven. Private provision of support services has not been encouraged and promoted through demand-driven approaches that facilitate the development of markets for private providers of these services. Weaknesses of the public sector institutions are further exacerbated by a
lack of private sector firms providing services in the area of marketing, networking and information concerning potential market opportunities.

Often assistance has been offered in isolation without adequate coordination. In some cases, training is offered but finance is not offered at the same time. At other times finance is accessed but training which should complement the finance is not offered. Comprehensive packages are not offered taking account of complementarities.

Supportive services such as standardization and quality control have been associated with controls and inhibition of movement of goods in the region rather than supporting enterprise development. For the export-oriented firms (especially in agro-processing and horticulture) compliance with technical and non-technical standards and norms is of particular concern, as it severely constraints their export potentials. Technical barriers to trade have hindered exports partly because of the underdeveloped laboratories for quality control and quality enhancement mechanisms. National bureaux of standards are being harmonized in the EAC and certificates of quality issued by one national bureau of standards are now recognized by their counterparts in the region. However, according to actors in the field, the situation on the ground is different. Enforcement of East African standards at national level has not been effective. In addition, there is a shortage of internationally accredited laboratories in the region.

Further, there is a big gap in the area of provision (both in terms of quality as well as quantity) of such services as accounting, legal advise, investment/business planning, ICT, etc.

Different types of enterprises have different capacities and different requirements for supportive services and other resources. For instance, it has been demonstrated that requirements for technology extension services differed between medium, small and micro enterprises and enterprises owned by women. It has been demonstrated that small and medium size enterprises. The concept of differential requirements has not been sufficiently adopted in development programmes. The case in point is the gender dimension of business activities. It is recognized that activities undertaken by men and women are partly socially constructed. For instance, in differential access to agricultural technology between men and women has been demonstrated in a recent study in Kenya. Responsibilities, roles, rights and mobility of men and women are shaped by social relations, which are formalized through custom, legislation, organizational cultures and contextually specific norms. For instance, it has been demonstrated that various practices in institutions and in industry discourage women from studying engineering and some of these societal beliefs and practices seem to be entrenched. The differential requirements of the diversity of enterprises in the region will need to be recognised more explicitly in the private sector development strategy.
5.0 THE STRATEGY

Private sector development in the region will be driven by domestic investments in the region with high priority accorded to promoting the participation of SMEs in cross-border investments and trade, while FDI will play a catalytic and complementary role in terms of bringing in capital, technology and new management approaches and techniques. Increasing competitiveness is pivotal to the private sector development strategy considering its centrality in raising the underlying rate of growth of the economy and raising the standards of living. Achieving competitiveness will require taking those actions which increase productivity by innovatively deploying human, financial and natural resources in the region. Priority will be given to actions which contribute to: -

(i) Removing the impediments to investment and trade in the region.
(ii) Promoting investment in people, skills and new ideas.
(iii) Improving the efficiency with which resources are deployed in the region.

The strategy will focus on creating conditions that will enable enterprises use their existing capacities more effectively and foster new private investments. Highest priority will be accorded to: -

(i) Improving the business environment in which firms operate;
(ii) Evolving an institutional framework and good governance that is consistent with efficient workings and development of markets; and
(iii) Competitiveness and diversification of the economy of the region.

Towards the end of the last century several publications emerged worldwide expressing rethinking of development in Africa with particular reference to revisiting longer term development issues. One of these publications poses a very pertinent question “Can Africa Claim the 21st Century?”. It has suggested that Africa has a chance in claiming the 21st Century if action is taken on four fronts: (i) improving governance and resolving conflicts; investing in people; (iii) increasing competitiveness and diversifying the economies; and (iv) reducing aid dependence and strengthening partnerships. Consistent with these key messages the PSD strategy proposed here aims to help the region improve its position in the global economy, increase its share of exports in the traditional markets and facilitate diversification into new markets and new lines of business.

The approach that has been adopted in formulating the PSD strategy has essentially been that of proceeding in two stages. In the first stage challenges and constraints to private sector development have been identified. In the second stage a priority set of policies and actions has been identified. These actions are meant to put in place a business environment which facilitates enterprises to respond to opportunities and improve their competitiveness (reducing cost of doing business and utilizing resources more efficiently) and facilitating enterprises to develop their capacities to compete (by
increasing skills training, technological innovation, information technology, infrastructure) and by improving coordination and efficient management of linkages and networks (supply chains).

There are two sets of actions that are contained in the PSD strategy. The first set of actions is those meant to ensure a strong private sector investment, facilitate enterprises to respond to existing and new opportunities and achieve greater efficiency in the allocation of resources. These include improving the policy environment and the efficiency of markets. The second set of actions are those which have direct bearing on the competitiveness of the private sector enterprises and creating conditions that reduce the cost of doing business spur efficiency through capacity building, competition and ensure a level playing field. Key to this second set of actions is enhancing the capacity to deliver infrastructure and business support services more efficiently.

The strategy recognizes the diversity of the private sector in the region. Dimensions such as large-small, gender, rural-urban, male-female, indigenous-alien deserve appropriate attention. It is in this context that the strategy of empowerment is addressed.

The proposed PSD Strategy has identified priority cross cutting areas (in sections 5.1-5.7) and priority sectors in section 5.8 based on the need to address the constraints and challenges which were identified in chapter 3 and bearing in mind the need to achieve the goals and objectives identified in chapter 4.

5.1 Priority Cross-Cutting Areas

Strategies to make the private sector an engine of growth in the region should seek to facilitate improvements in the following areas:

(i) Business environment with a view to reducing the cost of doing business.
(ii) Building the capacity of market support institutions and promoting good governance.
(iii) Access, availability and quality of basic infrastructure services to facilitate investment and trade.
(iv) Access to requisite resources needed for private sector development.
(v) Access, availability and quality of support services vital to building firms’ capacity to compete regionally and internationally.
(vi) Economic empowerment of vulnerable groups in the private sector.

5.2 Improving the Business Environment: Reducing the Cost of Doing Business
The business environment will be improved by enhancing policy coordination and policy integration with a view to putting in place conditions for reducing the cost of doing business in the region. Cooperation in designing and implementing policies will be directed towards supporting markets to develop efficiently and facilitate enterprises to invest and trade more freely in the region.

Priority will be accorded to completing the process of harmonization of policies, laws and regulations so that investors can access similar incentives and benefits in the region.

The business climate and the harmonization of the policy, legal and regulatory framework must aim to create a single East African market and investment area.

Initiatives are required in the following areas:

(i) Macro-economic policies: There should be harmonisation of macroeconomic policies in the region with a view to locking in the policies on a regional basis and realizing accelerated growth in the region. The central banks would agree on variation limits through the Monetary Affairs Committee (MAC), allowing for collaborative intervention in the event of undesirable policy divergences in a Partner State.

(ii) Trade and tax policy strategies: The EA governments will continue to develop a harmonised and coordinated fiscal policy and tax administration systems consistent with the spirit of the customs union. There should be a drive at regional level to rationalise and broaden the tax system, and a general improvement in government-private sector dialogue on trade and tax matters policy and administration.

(iii) Legal and regulatory framework policies: Harmonization of the legal and regulatory framework will focus on the creation of a single East African market and investment area. The objective is to ensure freer movement of goods, services, people and capital within the region. The following actions may be taken:

- Laws to be increasingly enacted on a regional basis and drafted to reflect a unified ‘East African’ identity. The legal framework in each partner state to be adapted to provide for the category of East Africans separate from foreigners and specifically encourage the development of cross border investment and trade in the region;
- Arrangements be made to permit lawyers (and other professionals) to practise more freely throughout the region;
- Arrangements be made to develop procedures to harmonise laws promoting regional integration especially in the areas of movement of goods, services, people and capital.

In this respect, lessons will be drawn systematically from the European Union (EU) experience;
the capacity for managing competition and regulation in the region be built in with a view to channelling private initiative towards productive activity in socially useful directions; and

- Particular attention be paid to putting in place a regulatory framework, which may facilitate the transition of informal sector operators and micro-enterprises to established SMEs. The regulatory system to offer incentives to small and informal enterprises to adopt forms of organizations, which are more consistent with development in a competitive environment.

(iv) Improvement of investment climate: Enhancing the investment climate includes evolving a governance system that eliminates harassment of enterprises, respects contracts and property rights and curbs corruption. Improving the business climate is about better public policy for the private sector and its supporting institutions to develop and function efficiently and effectively. The Partner States are developing a model East African Investment Code that will focus on a one-stop centre concept and simplification of procedures. Actions that may need to be taken to improve the investment climate include:

- putting in place governance systems that allows firms and farms to pursue production and to respect contracts and property rights;

- building the capacity for implementing coordinated competition and regulatory policies that also channels private initiative in socially useful directions, notably, poverty reduction and the widespread distribution of benefits for the people of East Africa;

- Ensuring a level playing field for FDI as well as domestic investment. FDI should complement domestic investment and that the latter will receive the same set of incentives accorded to foreign investment;

- Enabling the EAC model investment code to be a guiding instrument in the development of the national investment codes. The provisions of the EAC model code will be adapted into the national investment policies or enacted in the national investment laws;

- commissioning a study on Joint Promotion of Exports outside EAC and attraction of FDI into the region;

- putting in place policies to encourage and promote business linkages and networking between domestic and FDI;
o harmonising approaches to environmental impact assessment (EIA) and the EIA regulations and procedures in the region so that all investors face similar environmental impact assessment requirements;

o promoting joint ventures in the region with special effort put into supporting MSMEs as domestic investment;

o Improving information flow and access to it by MSMEs in the region. Mechanisms of managing CBI promotion and facilitation will be put in place to provide information needed by businesses and even about potential partners in business;

o Conducting systematic investment climate surveys and assessments. Investment climate surveys and assessment with the help of local institutions (local think tanks, universities, consulting firms, private sector organizations) in order to build their capacities and enhance ownership;

- capacity building initiatives will be implemented to reduce obstacles and secure property rights; and

- other issues:
  - removal of the entry requirement that serve as barriers for enterprises investment;
  - facilitate contracting and enforcement of rights;
  - mapping of enterprises in urban and rural areas;
  - strengthening cadastration, business registries and valuation capabilities; and
  - Facilitating work permits for directors of companies and some key positions in companies in the region to facilitate CBI.

(v) **Labour market policies**: Harmonisation of these policies is an important goal. The EAC Secretariat has already commissioned a study on labour and employment policies, which should act as a guide for the future. In particular, labour market policies should facilitate free movement of labour and professionals. Fees for work permits for EAC citizens should be eliminated.

(vi) **Promotion of Kiswahili language for business**: In order to promote interaction among business people in the region it is important to promote Kiswahili as the language of business since it is the most widely spoken language in the region.
5.3 Market Supporting Institutions and Governance

Institutional capacity building is necessary to support and facilitate the efficient working of the markets. Institutions channel information about markets (conditions, goods and participants), define and enforce property rights including rights of the private sector in relation to governments and institutions influence the intensity and direction/pattern of competition in markets. Therefore institutions influence the distribution of assets, incomes and costs as well as the incentives for actors in markets and the efficiency of markets. The strategy is to evolve well functioning institutions, which are capable of effectively facilitating markets to work efficiently with a view to promoting private investment for growth and employment creation. The effectiveness of the existing institutions will be enhanced by filling gaps in missing institutions to ensure the necessary complementary institutions and redress the deficiencies in existing institutions in terms of capacity building and appropriate orientation. Good governance on the part of government as well as the private sector will be promoted in order to make sure that the institutional framework delivers according to expectations. These institutions can be categorized into public institutions, the private sector organizations and public-private partnerships (PPP).

5.3.1 Public Institutions

The strategy entails capacity building of public institutions and refocusing them with a view to making them more supportive of PSD. The public institutions are to ensure that their role is to improve the business environment, making markets work more efficiently and reducing risk (actual and perceived), by doing at least four things: (i) create confidence that the policies will remain stable based on legitimacy and predictability; (ii) ensure transparency and clarity of their roles, put systems in place to deter that public officials from arbitrary action on their part; (iii) ensure that a judicial framework for monitoring and enforcing private-to-private contracts is in place and that it complements the existing private mechanisms for dispute resolution; and finally (iv) ensure that public institutions develop the capacity to deliver public goods and services to the private sector with a high degree of reliability and efficiency.

Main strategies and actions would include the following actions:

(i) Enabling regulatory framework to support markets to work: An enabling regulatory environment should be created through the following actions:

- Deregulation and removal of regulatory constraints including those preventing or discouraging small enterprises from developing practices and forms of organization that are more consistent with efficient operations and effective participation in the formal economy.
- Putting in place a mechanism for assessing progress towards harmonization of national regulatory frameworks in the region,
(ii) **Develop the capacity to implement a regional competition policy and law governing the regional market.** This will help to harmonize the way actors in the market are to function. Action will be taken to establish the East African Competition Authority, which will coordinate and harmonise the design and implementation of competition policy and law at the regional level.

(iii) **Developing the capacity for efficient provision of public goods and services to the private sector: Actions that will be taken include:**

   a. Developing the capacity to supply efficiently the necessary public goods and services that the private sector needs (demand-driven) to function efficiently and competitively.
   
   b. Tailoring provision of public services to the requirements of the MSMEs in the region. Given that the region has adopted key poverty reduction strategies, this will be an opportunity to make sure that markets are assisted to work efficiently in general as well as for the broad-based SME and the informal sectors, which provide employment and incomes to many people and produce goods and services for the poor.

(iv) **Changing and refocusing attitudes of public institutions:** The attitude of public servants should be consistent with the overriding policy objective that the private sector is the cornerstone of economic and social development. The strategy to change attitudes of public servants should contribute to removing major administrative barriers to private investment and private sector operations in general. Actions to improve the attitudes of public servants could include:

   a. strengthening public-private dialogue mechanisms,
   
   b. Promoting reorientation through educational programs and public awareness campaigns.

(v) **Capacity building:** Public institutions at the regional level need to be strengthened, and the capacity built or oriented towards implementation requirements of the private sector. Strengthening is required of the regional institutions including the EAC Secretariat, the East African Legislative Assembly, Courts of Justice and EABC. Actions required should include:

   a. undertaking capacity needs assessments;
   
   b. On the basis of capacity building assessments, designing and implementing capacity building programs of the respective institutions so that they can fulfil their mandate efficiently and effectively. In determining their role and functions the view/expectations of the private sector should be taken into account.
   
   c. ensuring that there are no overlapping functions and the functions are clearly defined.
d. Specifically undertake to build the capacity of EAC secretariat to enable it cope with the demands for implementation of the PSD strategy. This will be done taking action to:
   i. Establish a special unit for implementing the PSD strategy.
   ii. Establish a separate permanent sectoral committee for private sector development. This committee may form relevant working groups to handle specific tasks under the PSD strategy.

5.3.2 Private Sector Organizations and Firms

The strategy for promoting private sector participation in regional economic development will be driven by five.

- (i) Build capacity for regional issues. The strategy will ensure capacity building of the business associations and apex bodies to enable them to perform effectively and according to their mandates and private sector requirements.
  o Where the mandate is not clear about regional dimensions of their work, action will be taken ensure that the scope of the mandate of such business associations is extended to enable them to engage effectively in regional issues. Business associations should be structured so that they can act on a regional scale, with EABC playing a leading role in promoting regional integration.
  o Private sector organizations at all levels (local, national, regional) require an effective mechanism to ensure coordination of their activities and working relationships which ensure that various interests at all levels are reflected and accommodated in the stance and operations at the level of apex bodies at national and regional level.
  o Measures will be taken to facilitate business associations to carry out more publicity and promotion of regional issues.

- (ii) Promote participation in regional development. The strategy should enhance the participation of the private sector in regional development by promoting the participation of enterprises, business associations and apex organizations, and in particular of the East African Business Council.

- (iii) Establish a code of ethics to guide private sector operations. While the private sector is advocating improved governance on the part of the public sector institutions, the strategy will be directed to improving governance within the private sector. In this respect, action will be taken to develop a code of ethics, which will guide private sector operations with clear mechanisms for monitoring performance.

- (iv) Develop the capacity of firms to compete. It is important to develop the capacity of firms to compete. In the final analysis, it is firms rather than regions, nations or business associations that compete in the regional and global markets. The strategy will need to support firms to
acquire the capacity to compete. The private sector players will be more effective in achieving economic growth and social equity if private firms are facilitated to build the capacity to formulate effective strategies, develop effective organizational structures to support those strategies, and develop competence in production and marketing. To assist firms in achieving these goals, effective support services comprising training, consultancy and advisory services, marketing services, technological services, information dissemination and promotion of business linkages are critical. The main reason for using supportive services is to build the capacity of enterprises by fostering learning processes. The learning processes may occur through private learning mechanisms, for instance by hiring experts, through in-house training, or through in-house R&D activities. The learning processes may also be facilitated by collective technical support services that could be supplied as ‘public goods’ by NGOs, government, donors or business associations.

The private sector development strategy will target demand-driven capacity building firms. In this regard, the capacity for technological innovations and technological upgrading will receive top priority. Technological innovation and upgrading of technologies in use has come to occupy central position in determining the capacity to compete. Technological innovation and upgrading comes from any of the following three sources (or their combination): developing new technologies in-house by investing in R&D; acquiring new technologies from sources outside the firm within the country, region or globally or relying on the natural process of technology diffusion. The strategy to be adopted is that of taking policy actions that leverage these modes of technological innovation and upgrading by enterprises. The strategy to be adopted will be two pronged. The first element is to remove obstacles to learning processes by enterprises. This can be done by taking actions such as relaxing restrictive practices that inhibit the flow of information from the rest of the world to the region. The second element is to actively take the initiative to support learning processes by enterprises. The following specific actions will be undertaken:

- Introducing coordinated mechanisms for matching grants to foster learning by individual enterprises (e.g. tax deductibility and partial refund of costs incurred on training and business travelling). This will entail formulating and coordinating tax incentives on expenditures on R&D and training as well as policies towards matching grants and loan schemes for encouraging firms to engage in R&D and training.
- Formulating and coordinating public programmes for removing information asymmetries that prevent firms (especially small firms) from identifying opportunities for technological upgrading.
- Developing regional level technology extension and demonstration centres which will offer mentoring and consultations on new technologies and their application to technological upgrading in the enterprises.
- Promoting learning through study tours and trade fairs whereby enterprises learn from the experience of others. More specifically, action should be taken to organize trade
fairs, conferences and professional meetings on a regional basis and involve as many individual firms as possible, with regular rotation of venues between Partner States.

- Developing regional level techno-parks and incubators and to intervene in supporting protection of intellectual property rights with a view to stimulating innovative activity.

- **(v) Undertake capacity building of the EABC.** The EABC’s strategic plan (2002-4) contains the following work priorities: institutional strengthening of the EABC secretariat and its national focal points; awareness-building on regional integration issues; member services (lobby work & overseas business cooperation) and resource mobilization through recruitment of new members and fundraising. The following actions are envisaged:

  - **Strengthen personnel to deliver the planned programme.** Under the support programme funded by GTZ an advisor has been placed at the EABC secretariat. EABC also received support to finance the post of a Trade Economist. GTZ will finance training, and technical consultancies.

  - **Improve representativeness of the business interests in the region.** Action will be taken to ensure that EABC represents all private sector interests, including smallholders and the informal sector, and that its representation can be adapted to changing private sector structure over time.

  - **Develop capacity for ICT infrastructure.** Measures will be taken to enhance communication between EABC and its target groups. In 2003 EABC also stepped up communication dissemination holding two regional and 6 national level press conferences and sending out newsletters to the business community on a regular basis. These efforts will be consolidated through ICT.

  - **Establish networks and linkages with relevant counterparts.** Another focus of the GTZ-funded programme is cooperation with the German apex body of Chambers of Commerce allowing for the exchange of trade missions and the marketing of East Africa in Germany. EABC has also set up an agreement with the Swedish Council of Industries. Under Funding from SIDA the programme will allow for the development of a marketing plan for East Africa in preparation of trade missions.

  - **Step up lobbying campaigns to sensitize on customs union and reduction of non-trade barriers**. In 2003 EABC has successfully launched lobbying campaigns on the Common External Tariff and on Non-trade barriers. EABC has published a business manifest highlighting the key obstacles to private sector development in East Africa. This document will be presented and discussed at the highest policy making level in the partner states.

  - **Enhance the capacity to service relevant working groups.** Apart from operating three working groups on the Customs Union, Non-Tariff barriers and labor issues EABC made a commitment to take over coordination of the working groups created by the East African Business Summit. Action will be taken to build the capacity for undertaking these responsibilities.
Put in place a supportive legal framework. Action will be taken to ensure that the legal framework facilitates regional linkage of national apex bodies.

The strategy for supporting firms to attain the capacity to respond to markets should be designed in ways that are consistent with market forces. This means that appropriate mechanisms for cost sharing should be designed in close consultation with the respective stakeholders. The strategy of supporting the development of services for business development is directed towards four main areas. These are: networking and forging linkages; business development services; information and communication technologies; and development of professional services.

5.3.3 Public-Private Partnership

Public-private partnerships will be promoted and developed in two main areas: policy dialogue and consultations; and in investments.

(i) Public-private partnership in policy dialogue and consultations will be promoted. The PSD strategy will promote public-private consultative mechanisms by adopting best practice. Action will be taken in the following areas:
  • Marshalling political will.
  • Ensuring credibility of commitments.
  • Defining their objectives clearly and in very specific terms.
  • Adopting transparent and participatory internal processes and procedures.
  • Building the capacity of independent and well-financed secretariats.
  • Ensuring appropriate representation.
  • Putting in place mechanisms for follow-up and monitoring of agreements.

(ii) Promoting Public-private partnerships (PPP) in investments. This has now accepted as essential vehicles for producing socially essential goods and services whose marginal costs may exceed marginal revenues. Such goods and services may help existing markets to work better or missing markets to emerge. The following actions will be taken to promote PPP investments in the region:
  • Prepare a Work Plan for enhancing PPP at the regional level, with high priority given to investments in infrastructure, social service delivery, technology and delivery of financial services.
  • Develop the capacity to promote and regulate PPP activities in the region. Action will be taken to build the capacity to effectively supervise the private sector to deliver efficiently and according to approved standards.
  • Establish an appropriate framework for private participation. Action will be taken to harmonize the establishment of an appropriate legal and regulatory regime with clearly defined public procurement rules.
  • Put in place mechanisms for scanning emerging best practice and to arranging for their appropriate transfer to the region.
5.3.4 Good Governance

Improved systems of governance in the region would reduce the cost of doing business. Proposed actions include:

- Promotion of financial discipline,
- Coordination in curbing corruption in the region by coordinated action to put in place transparent rule of law and procedures.
- Improving corporate governance by:
  - Encouraging private sector associations to develop a code of ethics
  - Encouraging disclosure and transparency, rights of shareholders and their treatment, treatment of stakeholders and ensuring clarity of duties of board members.
  - Promoting democratic leadership and cohesion in business associations

5.4 Access to Basic Infrastructure

The strategy for improving access to infrastructure services sufficient mobilise resources for rehabilitation and new investments in infrastructure. The strategy is to consider the region as one and facilitate investments on regional rather than national basis. Infrastructure development will link the region very well making more effective use of resources that are found in the region such as natural gas, coal, and hydropower. Investments in infrastructure should be channelled towards removing barriers to entry by private enterprises as well as enhance access to reliable and efficient infrastructure for the region’s people as a whole and for the poor in particular.

Two strategies for resource mobilisation for investments in infrastructure will be adopted.
- First, governments will mobilise additional resources, especially for large regional infrastructure projects, from their own budgets, development partners and EADB (after revamping it through recapitalisation). These public investments will be channelled into areas, which are conducive to attracting by complementing (crowding in) private investment and will.
- Second, considering that investments in infrastructure have a long gestation period policy certainty is absolutely necessary for private sector participation. Governments will promote and create conditions for the development of public-private partnership in investment in infrastructure.

The strategies will be implemented by taking the following actions:
- facilitate competition;
- build appropriate regulatory capacity;
- put in place appropriate regulatory and procurement regulations are required to promote private participation in investment in infrastructure and social services;
- the private sector will be enabled to provide infrastructure and social services on its own or in partnership with the public sector;
- harmonise and coordinate policies and establish a common approach towards regulation of infrastructure development;
• Coordinating and harmonizing restructuring and privatization processes. Action will be taken to formulate and implement a regional infrastructure policy with private sector participation. This strategy will define coordinated approach to prioritisation, sequencing and putting in place common rules of the game in the region; and
• Cost of infrastructure services be monitored over time and mechanisms for addressing the identified problems will be put in place.

5.5 Requisite Resources

In order to ensure efficient utilization of capital, labour and land, measures are required in the fields of finance, human resource development and land.

5.5.1 Finance

The thrust of the strategy and actions here is to ensure that financial markets work. Measures should be taken to evolve a sound financial sector that enables enterprises to enter the market and operate effectively as well as help to restructure firms to operate efficiently in competitive regional and global markets.

The strategy will focus on two areas: reducing the risks associated with lending; and providing incentives for financial institutions to diversify financial products.

In pursuit of these two areas of focus, the following actions will be taken:

• To build capacity to meet the requirements of banks and access loans, especially for the MSMEs. Appropriate investment in education and training will be undertaken to enable needy private enterprises access credit;
• To build the capacity to come up with fundable/bankable projects. Advice on feasibility studies and project writer-up is needed in order to reduce the gap between banks and private enterprises;
• Encourage banks to improve their service to MSMEs by syndicating small loans with a view to promoting CBI. The flow of such funds can be pooled regionally;
• to introduce and develop guarantee schemes whereby business associations would guarantee some loans to the private businesses which are deemed credible;
• To promote the East African Development Bank (EADB) together with other development banks to spearhead regional investment financing. Action will be taken to restructure and recapitalise the regional bank EADB to enable firms to make cross-border investments such as acquiring firms in the other partner states. EADB recapitalization and restructuring should start immediately;
• To put in place a solid financial infrastructure (including credible information collecting and sharing mechanism) and adequate human capacity (for example in risk assessment, credit appraisal, due diligence, etc.);
• to establish and promote venture capital funds more widely so as to enable new businesses especially by the educated youth to be started and developed;
• to develop capital markets and non-bank financial institutions;
• To establish a regional institutional framework as the lynchpin of the action plan in the financial sector. On the this component, existing working committees in monetary affairs, capital markets and investment promotion will adopt a more assertive harmonisation policy, with significantly increased private sector representation. Policy measures in this area include:
  o developing a regional policy framework and strategy to attract foreign investment,
  o adopting a regional approach to broaden financial intermediation to underserved market segments, including the informal sector,
  o Strengthening of the regional institutional framework through harmonisation and empowerment,
  o Establishment of a regional financial services association.

5.5.2 Human Resource Development (HRD)

The quality of labour and the mix of skills must be improved if they are to help create a competitive regional economy. Four sets of actions will need to be taken.

(i) **Promote PPP in investment in education and training.** The strategy is to encourage both governments and the private sector to play an active and coordinated role in developing human resources in the region. The division of responsibilities between government and the private sector will entail governments concentrating on education and longer-term training, and the private sector being provided with incentives to invest in short-term courses and on-the-job training. Actions will be taken to:
  i. to create a conducive environment and opportunities for intensifying training to prepare new labour force with new skills, continually upgrading skills and enhancing understanding of regional and global business dynamics;
  ii. to design incentives to encourage the private sector to invest in business training, export marketing and training in quality assurance. The strategy will build on the skill development tradition within SME production sector and make it more systematic and vibrant so that it addresses skills deficit in the competitive environment; and
  iii. to conduct public awareness campaign to raise the level of awareness regarding the value of investing in education and training. Human resource development and HR management has been downplayed as a profession. It needs to be built up in the region at all levels.

(ii) **Coordination and harmonise training in entrepreneurship and business management.**
Thrust will be on training of job creators taking a coordinated regional perspective. Action will be taken to:
i. design programmes which will facilitate the educated elite to venture more aggressively into business and actually own and run private enterprises;
ii. make education and training systems more practical and management oriented as this is important in preparing trainees for self-employment and entrepreneurship rather than for being employed only;
iii. Entrepreneurship spirit will be instilled in the young people of East Africa. The following actions will be taken:
   1. arouse in young people hope for the future by clearly articulating a vision for the region and the place of the private sector in the regional economy;
   2. stimulate creativity and encourage the spirit of trying out new ways of doing things;
   3. instil the determination to take risks in business;
   4. train young people in the region on how to think and plan for a new business, acquire inputs, building new products, advertise and market.
   5. facilitate the starting and development of small businesses which can be an engine of growth of the regional economy;
   6. identify centres of excellence within the region and arrange with them to develop programmes for entrepreneurship development; and
   7. Promote networking between such centres in the region and corresponding institutions in the more mature market economies.

(iii) Harmonise the legal and regulatory regime to permit free regional movement of labour and recognition of education certificates within the region. Action will be taken to undertake a study of national institutions with a view to identifying and developing Centres of Excellence in different areas in the Partner States collaborating with the national institutions.

(iii) Prepare the private sector to fight HIV/AIDS. The private sector should be prepared to make their contribution in fighting the HIV/AIDS pandemic in their respective work places. Action will be taken to:
   i. raise awareness in the private sector
   ii. Establish the linkage between education and HIV/AIDS strategies in a more systematic manner.
   iii. Coordinate approaches to fighting HIV/AIDS based on lessons from best practices in the region (especially successes in Uganda).
   iv. Harmonise efforts to manufacture affordable drugs.

5.5.3 Land

Special attention must be paid to land tenure, land use and availability of land for business purposes. In order to encourage greater use of presently underutilized agricultural land, action should be taken in four areas.
Promoting free movement of investors. Action needs to be taken to permit freedom of movement of farmers and other investors on the land in the region. Action will be taken to harmonise land property rights in the region to allow investors move freely within East Africa.

(ii) Invest in cross-border infrastructure. Action needs to be taken to facilitate construction of the necessary cross-border infrastructure, including roads, water, and telecommunications.

(iii) Enable land to be used as an instrument of economic empowerment. Action needs to be taken to ensure that land is available as an instrument for negotiating shares in land-owning companies, and as collateral in accessing loans in a harmonized way in the region.

(iv) Make available land for business premises especially for MSMEs.

5.6 Supportive Services

The role of support services is to complement sound macroeconomic policies and an improved investment climate by ensuring that enterprises can supply their markets competitively. Such services may embrace training, consultancy, marketing, technology, information dissemination, networking and promotion of business linkages. The strategy will entail promoting direct support to enterprises especially SMEs and entrepreneurs in the formal as well as in informal settings designed to complement improvements in the investment climate with a view to unleashing private initiative and supply response.

(i) Build the capacity of support institutions to provide these support services.

(ii) Provide incentives to the private sector enterprises to use the public support effectively. The strategy to ensure that this happens is to align the provision of support services with market forces. Cost sharing arrangements and subsidies will be transparently targeted at capacity building justified on grounds of externalities. Five main areas of interest are: networking, development/strengthening of backward and forward linkages, business development services (BDS), information and communication technologies, market information and professional services.

(iii) Promote partnerships and networks. Brokering arrangements may be used to promote partnerships between small and large, foreign and domestic enterprises with a view to offering benefits to both parties and in particular giving opportunities for enhancing the technological capabilities of SMEs. Networking services will be provided to enable groups of small companies to co-operate to their mutual benefit in purchasing, use of equipment, marketing and training activities.

(iv) Supporting BDS facilitators. Action will be taken to nurture emerging BDS providers by helping them to develop new products, promoting good practices and enhance capacity building. Such facilitators will remain in any particular field as long as is necessary for a sound regional capacity to be established.
(v) Adopt best practices in upgrading skills. The experience of the Micro and Small Enterprise Training and Technology (MSETTP) in upgrading artisan and MSE production in Kenya has shown that there are positive market sustainability effects, including willingness to pay market prices by trainees and willingness by providers to adjust courses and prices to meet the available demand. The justification for the use of vouchers rather than other demand-driven instruments is based on their capacity to manage mass training at low cost.

(vi) Provide assistance and technological extension services to help MSMEs to upgrade technology. In order for private enterprises to compete they will be assisted to upgrade the technologies they use especially the MSMEs. Production and packaging technologies will be improved through collaboration and strategic partnerships.

(vii) Promoting and supporting ICT. Information and communication technologies are becoming more crucial ingredient of modern business activity as the knowledge economy develops. Action will be taken to:
   a. Implement a fibre-optic marine cable for the Eastern Africa seaboard;
   b. Promote digitalisation of government activities;
   c. Identify ICT human resource capacity and professional training needs.

(viii) Provide market information and Monitor market changes. Markets are changing fast and the capacity to cope with this change is limited. Action will be taken to build the capacity to continuously search and advise on new markets as they emerge. Information on new markets will enable the private sector in the region to take advantage of those markets.

(ix) Promoting free movement of professionals and other service providers within the region. Steps will be taken to:
   a. Promote regional integration of professional services as a first step in capacity building to meet global competition.
   b. To restructure the existing Association of Professional Societies in East Africa (APSEA) to become a fully representative regional umbrella organization. Promotion of regional integration in professional services could include the creation of one East African Federation of Professional Service Providers with national chapters.

5.7 Economic Empowerment

Taking into consideration sensitive political economy concerns in the region, the strategy should recognize the special position of small firms run by men and women (most of which are owned by indigenous people of East Africa) and take action to build their capacity to compete. The special position of women will be recognised in the formulation and implementation of the strategies for intervention.

The strategies for economic empowerment will entail the following:
(i) **Raise the profile of linkages between SMEs and large firms.** The region is dominated by micro-and small enterprises many of them operating in the informal economy. New thinking about small enterprise development has been influenced by recent developments in thinking about the relationship between poverty and growth and in the shift in the way work is organized against the backdrop of globalization and the emphasis on smaller economic units and informalization as a means of flexibilization. The importance of thinking about flexible production systems has led to a growing concern with the enterprise as a part of a nexus of relationship and structures. These developments have raised the profile of linkages between SMEs and large firms, geographical and sectoral clusters of enterprises and the importance of institutions and business environments. PSD strategy envisages extending the reach of markets to create entrepreneurial opportunity and employment and incomes in the SME and informal economy activities where the majority of the poor people can be helped to realize their potential. The challenge is to empower the majority of the private sector operators and develop the missing middle.

(ii) **Harness the power of the stronger groups to develop the capacity of the weaker groups to their mutual benefit.** The strategy is to harness the strength the private sector groups which are in a more privileged position to enhance the competitive position of the weaker groups through constructive linkages and networking for their mutual benefit. The strategy must seek to harness the energy of strong elements of the private sector to enhance the capacity of the weak, while also empowering the weak to compete or effectively collaborate with the strong through business linkages and networking. The resilience of foreign direct investment and Asian businesses in Kenya, Tanzania and Uganda over the past forty years has been remarkable. It is essential to ensure in future that these active and dynamic businesses are harnessed to become a source of strength to the regional economy through appropriate linkages to the SMEs. These dynamic groups will be harnessed to support the micro and small enterprises and the development of indigenous entrepreneurial capacity as a centrepiece of people-centred economic integration. Modern growth theory recognizes that knowledge is central to fostering productivity and growth. Knowledge is effectively transferred through appropriate networks and linkages. Regional integration can be harnessed to encourage clustering of firms by increasing market size and allowing more effective exploitation of links and networks between firms in the region. Large companies should adopt a strategy of put priority on buying East African goods and services, increasing sub-contracting with SMEs in the region and assisting them to attain quality requirements where necessary and establishment of seed capital fund to assist the SMEs.

(ii) **Facilitate transition from unstable informal activities to more dynamic creators of wealth.** It is recognised that the informal economy is an integral part of private sector development. Measures need to be taken to change the status of unstable informal or formal activities towards creation of dynamic activities as integral to private sector development and specifically as an important way of creating and accumulating wealth and exploiting more efficiently the existing potentials for wealth creation. The strategy is to provide an enabling
environment for the majority of entrepreneurs to graduate from unstable activities into growth and specialization oriented enterprises.

(iii) **Mainstream gender in enterprise development.** The strategy recognizes that responsibilities, roles, rights and mobility of men and women are shaped by social relations, which are formalized through custom, legislation, organizational cultures and contextually specific norms. All these contribute to creating differential barriers and opportunities differently for men and women. The strategy recognizes the special position of women in business and gender mainstreaming is adopted in the strategy. The EAC Development Strategy, 2001-05, already states, “Emphasis is placed on the empowerment, effective integration and participation of women at all levels of socio-economic development”. Women must be given real choices with regard to economic opportunities, especially through removal of existing constraints regarding ownership of land, access to loans and training in business skills. It is necessary also to ensure that gender-sensitive outlooks are incorporated into the value frameworks and policies, and also into the working practices, of all public and private sector organizations.

(iv) **Empower vulnerable rural groups.** Vulnerable groups in the rural areas are often neglected yet they form the majority of the population in the region. Possibilities of forming linkages and networking with them e.g. through contract farming, agri-business and marketing will be explored and encouraged. Facilitation of access to extension services and research results should enable small farmers to access technology improvements and productivity increase. Institutions which used to provide support services to agriculture and other rural activities have largely deteriorated or even collapsed so they need to be revived in a different form taking into account changing circumstances.

The strategy for empowerment of small businesses will require action in five priority areas:

(ii) **Taking a regional inventory of the status of these vulnerable groups within the private sector.** The inventory will form the basis of designing a common approach of how to develop the SMEs in the region.

(iii) **Establishing mechanisms for information dissemination.** Information flow can be promoted by taking action to have the governments collaborate with private business associations in setting up information bureaux to dispense well packaged information and advice to small businesses.

(iv) **Developing entrepreneurial skills.** Action will be taken to facilitate collaboration between private and public sector institutions, donors and NGOs to jointly develop and implement management and vocational training, networking and linkages, re-orienting educational curricula to promote agriculture as a commercial rather than subsistence activity, and to stimulate confidence in African entrepreneurial capacity.

(v) **Enhancing access to financial services.** Action will be taken to:
a. institute mechanisms to improve financial services including supporting the establishment credit rating bureaux;
b. to promote financial discipline and good business ethics with regard to loans;
c. to promote and develop SACCOS so they can spearhead savings mobilisation and effectively provide the linkage borrowers and higher-level financial institutions; and
d. Facilitate small businesses to form consortia, which can help to guarantee their members to access credit. Business associations will develop the capacity to undertake this function.

(vi) Giving small businesses a voice in society. For small businesses to have a more effective voice they will need to be more effectively institutionalised and special effort should be devoted to capacity building for business associations. Interventions could also include building the capacity of business associations and corporatisation of investment groups to spread the shareholding culture to wide sections of the population.

5.8 Priority Sectors

Priority sectors selected on the basis of potential poverty reduction and their amenability to intra-regional trade and private sector investment include agriculture and agri-business, natural resources, manufacturing, tourism, and information and communications technology (ICT).

5.8.1 Agriculture and Agri-Business

Agriculture is largely backward and undercapitalized. PSD strategy aims to promote investments in agriculture and agri-business by improving incentives, infrastructure and technology and building institutional and human capacities. Public-private partnerships in agricultural research and extension taking on a regional approach, investing in infrastructure and widening access to markets within the region and outside the region should go a long way to increase productivity and incomes in agriculture.

The PSD strategy for agriculture will aim to raise productivity in areas with high potential for poverty reduction; develop competitive advantage in areas having comparative advantage; and capitalise on value added and productivity increase through agri-business activities including input supply, transport, storage, and processing and marketing of agricultural products.

Agriculture is dominant in the regional economy but its productivity is low largely because of low levels of technology in use. Priority should be accorded to science and technology and R&D in particular to meet the needs of the majority of the East Africans who are deriving their livelihoods from agriculture and related rural activities. Efforts should be made to close the current gap between the activities of R&D institutions and the farming community who should be the users of those results. PSD strategy aims to support and encourage private participation in investment in infrastructure, research and extension in marketing.
In the area of agriculture and food security, the three East African countries have made decisions to give greater space for cross-border investments and trade activities by the private sector. The Partner States have adopted a scheme for rationalization of agricultural production with a view to promoting complementarity and specialization. The main objectives include attaining food self-sufficiency and increase output and the level of competitiveness for domestic consumption as well as inputs into agro-based industries and exports outside the Community. It has been agreed that cross-border trade in agricultural products will be promoted and that a monitoring system that allows reaction to disturbances will be established. A joint project for the control of cross-border livestock diseases will be undertaken in order to facilitate safe cross-border investment and trade in livestock and livestock products. These developments present an opportunity for private sector investments and in agriculture and livestock.

Recapitalisation of agriculture and rural development will be driven by public-private partnerships in making investments in agriculture (inputs, soil improvements, irrigation, and technology), agro-industry (plant and equipment, skills and management) and investments in market development. Investments will also be required to reverse degradation of natural resources and the environment.

The strategy should aim to make agribusiness market centric and based on demand-driven public-private partnership, expand employment and entrepreneurial opportunities, increase processing of primary products, reduce the cost of food to the poor, and provide linkages between farmers, identify new markets and new products with a view to maximizing value addition and tapping new opportunities for supply chains in the region. It should also remove restrictions on cross-border movement of produce, reduce and rationalise agricultural tax burdens, and reduce transport costs through investment in infrastructure. The legal framework should promote free movement of agricultural labour and capital, promote cross-border investments and measures should be taken to encourage co-operation between large and small farmers, and between agriculture and the industrial and service sectors. Priority should be given to horticulture; increasing productivity and value added in traditional commodity exports (tea, coffee, cotton, sisal, cashew nuts and pyrethrum); food products especially cereals; livestock; game farming; and fisheries and aquaculture.

An incentive framework is needed for rural savings to be mobilized in the form of in-kind investments in land improvements, irrigation and drainage, reforestation and building various needed facilities (and as education, health and storage). Financial savings can also be mobilized if appropriate opportunities are made available close to the villages and settlements. This process will be facilitated by higher productivity and incomes in agriculture and related economic activities. This should be facilitated by adopting a regional approach in investment and trade in agriculture and agri-businesses. Producers must be facilitated to access larger regional and global markets for diversified products from agriculture and agro-industry and for inputs.

Opportunities for public private partnerships should be tapped taking a regional approach. A regional approach in undertaking large infrastructure investments, border area infrastructure investments, bulk
production and purchase of products and inputs, preventions and containment of livestock disease, and in research and technology development.

The regional strategy should entail the following:

(i) Co-ordinate measures and develop institutions appropriate to regional level initiatives.
(ii) Compile and disseminate information on measures at national level.
(iii) Coordinate the development of research and technology development for a more productive agriculture.
(iv) Formulate a regional strategy for adding value in the supply chain based on regional complementarities and market integration. Care should be taken to make sure that the new trade agreements such as EBA and AGOA do not undermine cross-border trade and ensure that they facilitate investments in value addition and production of high value products.
(v) Co-ordinate regional marketing strategies and developing a regional approach to the multilateral trade agenda. Promotion of intra-regional trade should be supported by a common trade policy which would prevent free food from displacing food that is grown and traded in the region.
(vi) Seek assistance of development partners in addressing issue of common interest to the Partner States.
(vii) Access to finance for agriculture should be accorded high priority. Considering the high risk of financing activities in the sector, insurance arrangements should be considered for agriculture e.g. crop insurance to encourage banks to lend to agriculture.

5.8.2 Natural Resources

Natural resources such as natural gas, coal, solar energy, power alcohol and biogas, all offering opportunities to the private sector. New and renewable sources of energy (e.g. solar, biomass, biogas, mini and micro hydropower, wind, geothermal and municipal waste) are great potentials, which need to be exploited. Another area which has potential for private sector participation in energy development is investments in petroleum exploration and development especially hydrocarbon of the rift basins of East Africa. Action in this area will start with coordination in taking a regional inventory of current and potential these resources and energy sources and technologies in particular. On the basis of the inventory in the region, private investments will be encouraged and the potential for public-private sector partnership will be exploited for natural resource development.

5.8.3 Wildlife and Tourism
Many wildlife resources spread across borders making them ideal for coordinated regional action. Yet there has been no regional approach to wildlife in East Africa.

Regionally coordinated action is required with respect to:

(i) Involvement of communities in wildlife conservation and management;
(ii) Encouragement of wildlife farming;
(iii) Development of infrastructure such as roads and power in national parks and game reserves;
(iv) Arranging access to soft loan facilities to be provided by EADB;
(v) A common approach to control of poaching; and
(vi) Much greater co-operation between the Partner States in developing and marketing an integrated East African tourist circuit.

The tourist component of PSDS should be based on an ongoing tourism study for East Africa. The focus of cooperation in this sector will be to develop a collective and coordinated approach to the promotion and marketing of quality tourism into and within the Community. This strategy should define the place of the private sector in the implementation of the marketing plan and strategy. Measures, which should be part of the strategy, will include:

(i) Developing a regional approach to the development of regional tourism and promotion of East Africa as a single destination;
(ii) Harmonization of tax regimes, immigration especially facilitation of free movement across the region and tax procedures;
(iii) Establishment of a regional marketing body and a regional tourism master plan on the basis of which marketing of tourism in the region will be implemented as coordinated single tourist destination;
(iv) Emphasizing exploitation and development of the potentials in environmentally based tourism and community tourism with a view to stimulating potential growth areas for rural development and for developing communities and small-scale business activities in the respective communities;
(v) Achieving open skies policy in the regional market;
(vi) Attaining common standards for classification of accommodation including enforcement mechanisms;
Undertake a survey of all existing government-training institutions, assess training needs and recommend how national capacities could be reinforced and how they could best be shared in the region. The outcome should lead to co-operation in training of tourist industry staff to ensure complementarities and competence development and harmonisation of certification;

involvement of local populations in tourism development;

formulation of coordinated programs of community based tourism and design joint activities in neighbouring communities across borders; and

Promotion of indigenous entrepreneurial capacity in tourism.

5.8.4 Manufacturing

A common industrial strategy has been developed for the region in which areas of comparative advantages have been identified. The regional industrial strategy provides a reference tool and guide for action by the private sector and other stakeholders. The strategy aims to create an enabling business environment for the establishment of an internationally competitive single market and investment area and to serve stakeholders in the region as a blueprint for future industrialization in the region.

High priority will be attached to improving the policy environment. Essential elements of the policy will include:

Reducing the cost of doing business throughout the region;

Facilitating new investment in equipment especially cross-border investments;

Ensuring good infrastructure by ensuring connectivity of national grids and promoting collaboration in cross-border infrastructure investments;

Defining, implementing and enforcing regionally agreed quality standards for goods and services;

Improving market information by establishing a regional information observatory and putting in place mechanisms for exchanging and sharing information between national sector associations;

Coordinating and harmonizing training and certification of industrial skills and specializations;

Promoting better technology through R&D;

Fostering business linkages and networking; and

Establishing a good and transparent regional business dispute settlement and arbitration mechanism.
5.8.5 Information and Communications Technology (ICT)

ICT can be a major stimulant to improved economic performance. Within ICT it should be specified that e-commerce will be promoted as a priority activity. The strategy should contain the following actions:

(i) Joint EAC participation in the ongoing effort to install a new fibre-optic marine cable;
(ii) Coordinated initiative to digitalize key government agencies and activities so that the standards and software are compatible allowing for cross-country exchange of information;
(iii) Identifying ICT training needs and organization (with donors assistance) of regional training initiative; and
(iv) Opening national markets to regional competition.
6.0 IMPLEMENTATION FRAMEWORK

6.1 Overview

Implementation of the proposed strategy will involve a number of stakeholders: EAC Secretariat, regional level institutions, national level government departments and public sector organizations, private sector organizations and enterprises. In order to coordinate and ensure effectiveness of the proposed reforms it is recommended that Implementation Committees for the PSD strategy be established at the EAC level. This implementation committee must ensure adequate participation by the private sector through a strengthened EABC. The implementation committee should have representation from private sector coordinating government departments in the representative countries and from investment promotion authorities. The implementation programme and plan of action is presented in Annex I in the form of a policy action matrix indicating the goal or objective, type of intervention or activity to be undertaken, the implementing agents and timing.

6.2 Public Awareness Campaign

During the Private Sector Strategy Study, it was found that ordinary citizens of the Partner States were not well equipped to understand the new EAC integration issues, or to appreciate the benefits of economic integration. Most people appeared not to understand how regional co-operation would empower them or increase regional cross-border trade and investment. Since the break-up of the first EAC in 1977, the media in the three countries have tended to provide news and information on a national rather than regional basis. There has therefore been a clear need for the Public Awareness Campaign (PAC) which has proceeded as an integral part of the study.

The following key stakeholders were identified as being crucial to the campaign: Government and public institutions, Private sector organizations and firms, Religious organisations, schools and NGOs, Civil society, Diplomatic missions and development partners, and Local government. Further, the PAC should be designed to also include the informal sector.

Three prime objectives of the campaign are to:

(i) reduce information gaps within the EAC framework, and empower stakeholders through a people-centred campaign to enhance the spirit of regional co-operation;
(ii) significantly improve EAC’s public image, through capacity building of the Secretariat as the first target audience, and working towards improved dissemination of information to stakeholders and the general public; and finally
(iii) Create widespread understanding and support for EAC institutions by highlighting opportunities and addressing constraints affecting performance in various sectors.

The following actions are recommended for the continuing PAC as part of implementing the PSDS:
(i) The EAC Secretariat should internalise the campaign to design an appropriate communication strategy addressing current information gaps and involving stakeholders in the PSDS;

(ii) The Secretariat should initiate information publications in both English and Kiswahili;

(iii) The Secretariat should consult regularly with stakeholders and involve them in the creation of public awareness activities;

(iv) National and regional newspapers, television and radio should be used to market programmes and encourage dialogue on regional integration issues;

(v) The EAC Secretariat should establish a modern information agency with bureaus in each country to implement and co-ordinate the PAC; and

(vi) An effective campaign will require adequate human and financial resources over a period of three years. Therefore, the EAC Secretariat should initiate an evaluation of training needs at the regional and national level and facilitate provision of training.

6.3 Implementation Matrix

The presentation here is in the form of a matrix that indicate the issues that need mitigation, the type of interventions or activities to be undertaken, the implementing agents, timing and the cost implications. It is realized that implementation of the PSD strategy will involve a number of stakeholders: EAC Secretariat, regional level institutions, national level government departments and public sector organizations, private sector organizations and enterprises. Among these stakeholders it is recognized that the participation and involvement of the private sector is pivotal to the whole implementation programme.

### Implementation Matrix and Action Plan

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action To Be Taken/Intervention</th>
<th>Implementing Agent/ By Whom</th>
<th>When/ Time-Table</th>
<th>Cost Implications US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>High cost of doing business</td>
<td>Establish a regional level regulatory unit</td>
<td>Governments, EAC, EABC</td>
<td>December 2007</td>
<td>550000</td>
</tr>
<tr>
<td></td>
<td>Strengthen policy coordination of macro and sectoral policies</td>
<td>Governments, EAC</td>
<td>Continuous</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>Strengthen public-private sector policy dialogue and consultations</td>
<td>EABC, business associations, governments, EAC</td>
<td>Continuous</td>
<td>100000</td>
</tr>
<tr>
<td></td>
<td>Harmonize and coordinate business regulatory agencies and procedures in the region</td>
<td>Governments, Regulatory Agencies EAC, EABC</td>
<td>Continuous</td>
<td>500000</td>
</tr>
<tr>
<td></td>
<td>Complete formulation of a regional competition policy</td>
<td>Governments, EAC</td>
<td>March 2007</td>
<td>Na</td>
</tr>
<tr>
<td>Issue</td>
<td>Action To Be Taken/Intervention</td>
<td>Implementing Agent/ By Whom</td>
<td>When/ Time-Table</td>
<td>Cost Implications US Dollars</td>
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</tr>
<tr>
<td></td>
<td>• Build the capacity to manage competition in the regional economy</td>
<td>EAC, Governments, EABC</td>
<td>Continuous</td>
<td>60000</td>
</tr>
<tr>
<td></td>
<td>• Establish EA Competition Authority</td>
<td>EAC, Governments</td>
<td>December 2007</td>
<td>520000</td>
</tr>
<tr>
<td></td>
<td>• Harmonization and coordination of investment policies.</td>
<td>Governments, Investment Promotion Agencies, EABC, Private Sector Associations</td>
<td>Continuous June 2007</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Finalise a model East African investment code.</td>
<td>Governments, Investment Promotion Agencies, EABC, Private Sector Associations</td>
<td>Continuous June 2007</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Conducting regular business climate surveys</td>
<td>EABC, business associations, consulting firms, IPA</td>
<td>Continuous</td>
<td>200000</td>
</tr>
<tr>
<td></td>
<td>• Establish a code of conduct to guide business operations</td>
<td>Government, EABC, Business Associations</td>
<td>December 2007</td>
<td>40000</td>
</tr>
<tr>
<td></td>
<td>• Coordinate initiatives to fight corruption</td>
<td>Governments, business association</td>
<td>Continuous</td>
<td>30000</td>
</tr>
<tr>
<td>Inefficient legal regime that is non supportive of private sector.</td>
<td>• Coordinate the reform of commercial courts to make them serve all business in a timely manner.</td>
<td>Governments, EABC</td>
<td>Continuous</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Review the current procedure for harmonizing laws and make it more efficient</td>
<td>Governments, EABC, EAC, EALA</td>
<td>Continuous</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Revisit the legal provisions to ensure facilitation of transition from informal small enterprises to larger corporatized enterprises</td>
<td>Governments, EALA, EABC, Apex Private Sector Organizations, EAC</td>
<td>Continuous</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Harmonise and coordinate reform of commercial laws and registries to ensure that they are supportive of private sector development</td>
<td>Governments, EALA, EACJ, EABC,EAC, Business Associations</td>
<td>Continuous</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Liberalize the legal profession to ensure free movement of professionals.</td>
<td>Governments, EABC, EALA,EAC</td>
<td>December 2010</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Redefine the mandates of business associations to ensure adequate legal provision for them to undertake regional level issues and responsibilities.</td>
<td>EABC, Business Associations,</td>
<td>December 2007</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>• Build capacity for commercial lawyers</td>
<td>Governments, Associations of Lawyers, EALA</td>
<td>Continuous</td>
<td>50000</td>
</tr>
<tr>
<td></td>
<td>• Review laws to make relevant parts “East African” to enable East African private sector to develop regionally.</td>
<td>Governments, EABC, EACJ EALA, EAC</td>
<td>June 2008</td>
<td>Na</td>
</tr>
<tr>
<td>Inefficient public sector institutions</td>
<td>• Reorient the attitudes of the public officials towards serving the private sector development.</td>
<td>EAC, Governments, EABC, Educational and Training Institutions</td>
<td>Continuous</td>
<td>70000</td>
</tr>
<tr>
<td>Issue</td>
<td>Action To Be Taken/Intervention</td>
<td>Implementing Agent/ By Whom</td>
<td>When/ Time- Table</td>
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<tr>
<td>Non-inclusive representation in EABC</td>
<td>o Widen representation in the EABC.</td>
<td>EABC, Business Associations,</td>
<td>June 2007</td>
<td>40000</td>
</tr>
<tr>
<td>Lack of resources to implement EABC Strategic Plans</td>
<td>o Mobilize resources for the implementation of the EABC Strategic Plans</td>
<td>EABC, Business Associations</td>
<td>Continuous</td>
<td>1000000</td>
</tr>
<tr>
<td>Weak capacity of EAC Level Institutions for private sector development.</td>
<td>o Identify capacity needs of EAC Secretariat, o Create a special unit for coordinating the implementation of PSDS o Establish a Special Sectoral Committee for PSD</td>
<td>EAC, Governments</td>
<td>June 2007</td>
<td>300000</td>
</tr>
<tr>
<td>Lack of Public – Private Partnership (PPP) at Regional level.</td>
<td>o Prepare a work plan for enhancing PPP o Form a committee for implementing the work plan. o Institutionalise PPP.</td>
<td>Governments, EAC, business associations EABC</td>
<td>June 2007</td>
<td>Na</td>
</tr>
<tr>
<td>Weak human resource development</td>
<td>o Explore the most appropriate incentives for private sector to invest in human development.</td>
<td>Government EABC, business associations</td>
<td>Continuous</td>
<td>50000</td>
</tr>
<tr>
<td></td>
<td>o Harmonize approaches to private sector participation in investment in human resource development in the region</td>
<td>Government EABC, business associations</td>
<td>Continuous</td>
<td>20000</td>
</tr>
<tr>
<td></td>
<td>o Develop HR for S &amp; T especially ICT.</td>
<td>Governments, EAC, IUCEA EABC, Training Institutions</td>
<td>Continuous</td>
<td>300000</td>
</tr>
<tr>
<td></td>
<td>o Harmonize and coordinate restructuring of education and training systems to meet needs of entrepreneurship development</td>
<td>Governments, EABC, EAC, IUCEA, Training Institutions</td>
<td>June 2008</td>
<td>30000</td>
</tr>
<tr>
<td></td>
<td>o Coordinate and harmonize certification, qualifications and accreditation of professionals</td>
<td>Governments, Professional Associations and EABC</td>
<td>June 2008</td>
<td>20000</td>
</tr>
<tr>
<td></td>
<td>o Regularize and formalize free movement of labour including professionals in the region.</td>
<td>Governments, EAC, EABC, EALA, EACJ</td>
<td>June 2010</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>o Eliminate payment of fees for work permits for East Africans</td>
<td>Governments</td>
<td>June 2007</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>o Eliminate requirement of work permits for skills within the region</td>
<td>Governments</td>
<td>June 2010</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>o Complete harmonization and coordination of labour market policies including laws and regulations.</td>
<td>Governments, EABC, EAC, EALA</td>
<td>June 2010</td>
<td>Na</td>
</tr>
<tr>
<td>Under utilised arable land in the region</td>
<td>o Land tenure reform. o Provide incentives to investors to encourage them to invest in these regions.</td>
<td>Governments, EALA, EACJ, EABC, IPA</td>
<td>June 2008</td>
<td>Na</td>
</tr>
<tr>
<td>Limited use of land for economic empowerment</td>
<td>o Coordinate and harmonize initiatives using land as collateral and to acquire shares in companies.</td>
<td>Governments, EABC</td>
<td>Continuous</td>
<td>40000</td>
</tr>
<tr>
<td>Issue</td>
<td>Action To Be Taken/Intervention</td>
<td>Implementing Agent/By Whom</td>
<td>When/Time-Table</td>
<td>Cost Implications US Dollars</td>
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<tr>
<td>Lack of land for investment</td>
<td>o Coordinate and harmonize approaches to provision/allocation of land for business premises including small businesses</td>
<td>Governments, EABC</td>
<td>Continuous</td>
<td>40000</td>
</tr>
</tbody>
</table>
| Weak support services to private sector development                 | o Take stock of existing capacities for providing business development services and other business support services and identify their capacity needs  
  o Build capacity of BDA service provider.  
  o Harmonize and coordinate initiatives and approaches towards promoting provision of business supportive services | EAC, Governments, EABC                         | June 2007        | 70000                        |
| Inefficient suppliers                                               | o Formulate incentive systems to encourage large enterprises to upgrade the quality of products and services from SMEs                                                                                                           | Governments, EABC                               | Dec 2007        | 30000                        |
| o Put in place modalities of collaboration between large and small enterprises |                                                                                             |                                                 | September 2007 | 50000                        |
| Weak and inadequate ICT for private sector development               | o Install an appropriate fibre-optic marine cable for Eastern Africa                                                                             | EABC, EAC, Governments                          | June 2008        | Na                           |
| o Digitize public sector operations that are of service to the private sector.  
  o Promote e-commerce in the region  
  o Develop ICT infrastructure |                                                                                             | EABC, Public sector                            | Continuous       | 60000                        |
| Weak and inadequate financial sector policy for private sector development | o Harmonize key laws  
  ▪ Banking Laws  
  ▪ Capital Markets Laws  
  ▪ Pension Legislation  
  ▪ Insurance laws  
  ▪ Reform pension and social security scheme | EAC Secretariat, Member State Ministries of Finance & Parliaments, East African Legislative Assembly | December 2007 | Na                           |
<p>| o Strengthen Existing Regional Protocols in Finance                  |                                                                                             | EAC Secretariat, Partner States, Ministries of Finance, Partner States Central Banks. | Continuous       | Na                           |
| o Establish a regional financial services association                 | EAC, EABC, EASRA, Central Banks                                                               |                                                 | June 2007        | 100000                       |
| o Agree on a regional approach to broaden financial intermediation to underserved market segments. |                                                                                             | EAC Secretariat, Governments, Central Banks, Capital Market Authorities | June 2007        | Na                           |
| o Harmonize approaches to economic empowerment                        | EAC Secretariat, Governments                                                                   |                                                 | Dec. 2007        | 30000                        |</p>
<table>
<thead>
<tr>
<th>Issue</th>
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</thead>
<tbody>
<tr>
<td>Inadequate Capacity of EADB</td>
<td>o Recapitalize EADB to make capital adequate for development and reconstruction rather than the earlier mandate of correcting imbalances. o Build capacity of its management and operations to cope with the new mandate</td>
<td>Governments, EADB</td>
<td>Continuous</td>
<td>Na 50000</td>
</tr>
<tr>
<td>Lack of regional investment promotion mechanism</td>
<td>o Put in place a regional framework for attracting FDI</td>
<td>EAC, EABC, Investment Promotion Agencies</td>
<td>June 2007</td>
<td>50000</td>
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<tr>
<td></td>
<td>o Form a regional investment promotion body (EAIPB)</td>
<td>EAC Secretariat, EABC, EAPAs, CMDC, EALA</td>
<td>Dec. 2007</td>
<td>100000</td>
</tr>
<tr>
<td></td>
<td>o Integrate infrastructure sectors for regional efficiency and as potential markets for FPI and FDI investments</td>
<td>EAC Secretariat, EAIPB, CMDC, Governments.</td>
<td>2006</td>
<td>Na</td>
</tr>
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<td></td>
<td>o Strengthen existing regional protocols in investments</td>
<td></td>
<td></td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>o Promote investments in tourism</td>
<td>Governments, EABC, EAC, EAT</td>
<td>December 2007</td>
<td>50000</td>
</tr>
<tr>
<td>Lack of access to capital for investment especially in agriculture and rural activities</td>
<td>o Liberalize investment flows in the region o Privatize and harmonize issuance of securities o Review company laws to enhance access to capital markets o Establish regional credit rating agencies</td>
<td>Governments, Central Banks, Capital markets Authorities, EABC</td>
<td>June 2007</td>
<td>30000</td>
</tr>
<tr>
<td>Uncoordinated regional infrastructure policy</td>
<td>o Carry out a study to look into harmonization of approaches to regional infrastructure policy including infrastructure, restructuring and privatisation o The formulation and implementation regional infrastructure policy o Build capacity to regulate investments in infrastructure</td>
<td>EAC, Governments, EABC, business associations</td>
<td>Dec. 2007</td>
<td>100000</td>
</tr>
<tr>
<td>Inadequate capacity of SMEs contractors at the various regional and district.</td>
<td>o Coordinate decentralization approaches in infrastructure building. o Enhance capacity of SME contractors</td>
<td>Governments, EABC</td>
<td>Continuous</td>
<td>50000</td>
</tr>
<tr>
<td>Lack of access to contracts and linkages between SMEs and Large corporations</td>
<td>o Study to define the appropriate approach to networking between large enterprises and SMEs. o Improve access to contractors.</td>
<td>Governments, EABC</td>
<td>Dec. 2007</td>
<td>70000</td>
</tr>
<tr>
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<tr>
<td>Cumbersome immigration and trade facilitation procedures</td>
<td>o Take stock of the obstacles which inhibit free movement of goods and people at borders</td>
<td>EAC, Governments</td>
<td>continuous</td>
<td>Na</td>
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<tr>
<td></td>
<td>o Simplify travel requirements and immigration and trade facilitation procedures at border points to facilitate easy movement.</td>
<td></td>
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<tr>
<td>Weak small and medium size enterprises</td>
<td>o Set up and coordinate regional information bureaus to empower business associations with information flow</td>
<td>Governments, EABC, Business Associations, EAC, Training Institutions</td>
<td>Continuous</td>
<td>100000</td>
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<td></td>
<td>o Coordinate the building of entrepreneurial skills through training in management, networking and fostering linkages</td>
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<td></td>
<td>o Coordinate the Promotion of discipline and business ethics relating to loan repayment</td>
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<td></td>
<td>o Coordinate the Institutionalization of advocacy and capacity building of business associations.</td>
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<tr>
<td>Low productivity in Agriculture</td>
<td>o Coordinate and harmonize agricultural policies and approaches towards agribusiness development on a regional level</td>
<td>Governments, EABC, EAC</td>
<td>Continuous</td>
<td>50000</td>
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<tr>
<td></td>
<td>o Coordinate the approaches to be used to rationalize central and local government taxes</td>
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<td></td>
<td>o Coordinate approaches towards identification of comparative and competitive advantages and value chain analysis in agribusiness.</td>
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<td></td>
<td>o Coordinate the formalization of linkages between large and small farmers and other investors in agribusiness.</td>
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<tr>
<td>Lack of value addition in primary products.</td>
<td>o Formulate policies to encourage value addition</td>
<td>Governments, EAC, EABC, Business association.</td>
<td>Continuous</td>
<td>90000</td>
</tr>
<tr>
<td></td>
<td>o Develop incentives for value addition</td>
<td></td>
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<tr>
<td>Weak conformity to standards so as to promote global trade</td>
<td>o Strengthen private sector capacity to meet international standards</td>
<td>EAC, Government, standards agencies</td>
<td>2007</td>
<td>Na</td>
</tr>
<tr>
<td></td>
<td>o Strengthen inspection and surveillance mechanism</td>
<td></td>
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<tr>
<td>Inadequate public awareness campaign of the EAC</td>
<td>o Production of EAC initiatives documentary film to promote regional cooperation, once every year plus air time costs.</td>
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<td>100000</td>
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<td></td>
<td>o Bi-monthly press briefing to Journalists by the management of the EAC Secretariat.</td>
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<td>40000</td>
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<tr>
<td></td>
<td>o Sponsorship of regional sport associations, regional competitions, awards and prizes to winners linked to EAC programmes/ initiatives.</td>
<td></td>
<td>200000</td>
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<tr>
<td></td>
<td>o Hiring consultants: Firm and</td>
<td></td>
<td>500000</td>
<td></td>
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<tr>
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<td></td>
<td>specialized individual fees on yearly basis.</td>
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<tr>
<td></td>
<td>o Purchase of equipment, transport costs, perdiem/accommodation for consultants, etc.</td>
<td></td>
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<td>300000</td>
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<tr>
<td>Monitoring and evaluation</td>
<td>o Media monitoring by a specialized firm for three years.</td>
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<td>200000</td>
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<td></td>
<td>o Public awareness evaluation meeting, workshops</td>
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<td></td>
<td>o Opinion survey/research, once per year to capture lessons learned and adjustment.</td>
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</table>

### 6.4 Monitoring and Evaluation

Monitoring and evaluation (M&E) will comprise an essential component of a successfully implemented PSDS. For effective monitoring of the PSD program, the following monitoring mechanisms and guidelines for evaluation are suggested:

Before M&E, a few selected, quantifiable and clearly defined monitoring indicators are to be identified. These will need to be specified as follows:

1. **Work plans.** These should provide detailed information on delivery of inputs, activities to be conducted, and the expected results. The plan should clearly indicate schedules and the persons or institutions responsible for providing the inputs and producing the results. The work plans form the basis for monitoring progress of project implementation.

2. **Monitoring Work Sheets and Analysis of Information.**

3. **Guidelines for producing monitoring reports.**

4. **Guidelines for Evaluation.** These may include evaluation questions and guidelines for preparation of the National Evaluation Report. In evaluating the PSDS project it will be necessary to involve stakeholders, those organizations which have a stake in implementation of the strategy.

5. **Information and data bank needs for implementing the PSDS should be built preferably by contracting it out to a reputable entity in the region but it should be located in the EAC with adequate arrangements for access by the stakeholders in the region. An East African statistical base should be built for PSDS implementation.**

The following actions are recommended:
(i) **Preparation of a Monitoring Evaluation Tool**, which should consist of the following elements: Work plan for the monitoring process; Identification of monitoring indicators based on the main issues of the PSDS project; Monitoring work sheets and analysis of information; Guidelines for producing monitoring reports; and Evaluation questions and guidelines for preparation of National Evaluation Reports.

(ii) **Capacity building** of those staff who will be involved in the actual monitoring and evaluation process. The monitoring and evaluation team will be drawn from a multidisciplinary and multi-sectoral task force for monitoring and evaluation. This will include the preparation and organization of capacity building workshops, whose primary objectives will be to ensure that participants have a thorough and clear understanding of the Monitoring and Evaluation Tool (i.e., how to use it, interpret the information collected, and how it should be synthesized into a national report); that they understand the operational mechanism whereby the monitoring and evaluation program will be implemented; and that they will be fully familiar with the PSDS project so that they are aware of the different areas requiring focus in the monitoring and evaluation process.

(iii) **PSDS project report analysis** at the regional level. National monitoring and evaluation reports will be submitted to the EAC Secretariat each year. A Technical Steering or Monitoring Committee will review the national reports with a view to analyzing progress made and constraints experienced, and will then prepare a regional report.