



EAST AFRICAN COMMUNITY SECRETARIAT

ACTION PLAN FOR IMPLEMENTATION OF THE EAC INDUSTRIALIZATION POLICY AND STRATEGY

2012 - 2017

THEME

**TRANSFORMATION OF THE MANUFACTURING SECTOR THROUGH HIGH VALUE ADDITION
AND PRODUCT DIVERSIFICATION BASED ON COMPARATIVE AND COMPETITIVE
ADVANTAGES OF THE REGION**

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ACRONYMS AND ABBREVIATIONS

ADB	Africa Development Bank
AFD	L'Agence Française de Development
AIDA	Accelerated Industrial Development in Africa
ASEAN	Association of South East Asian Nations
BADEA	Arab Bank for Economic Development in Africa
BIF	Burundi Franc
BRIC	Brazil, Russia, India and China
CDM	Clean Development Mechanisms
CDSRI	Centre for the Development of Strategic Regional Industries
CGFT - MSME	Credit Guarantee Fund Trust for Small and Medium Enterprises
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
EABC	East African Business Council
EAC	East African Community
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GoK	Government of Kenya
GVCS	Global Value Chains
JICA	Japanese International Cooperation Agency
Ksh	Kenya Shillings
ICT	Information Communication and Technology
IDD	Industrial Development Department
IMF	International Monetary Fund
IPAs	Investment Promotion Agencies
IPRs	Intellectual Property Rights
ISIC	International Standard for Industrial Classification
LDCs	Least Development Countries

MDI	Micro Deposit-taking Institutions
MFI	Micro Finance Institutions
MSMES	Micro Small and Medium Enterprises
NAFTA	North American Free Trade Agreement
PanAAC	Pan African Agribusiness and Agro-industry Consortium
PPP	Public Private Partnership
RECP	Resource Efficient and Cleaner Production
REPAS	Regional Enterprise (Industry) Promotion and Award Scheme
RIDF	Regional Industrial Development Fund
R&D	Research and Development
RFW	Rwandan Francs
RTO	Research and Technology Organizations
SIDA	Swedish International Development Agency
MSME	Micro Small and Medium Enterprises
STI	Science, Technology and Innovation
TZS	Tanzanian Shillings
UGX	Uganda Shillings
UNDESA	United Nations Department for Economic and Social Affairs
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
US \$	United States Dollar
WBG	World Bank Group
WEF	World Economic Forum
WTO	World Trade Organization

DEFINITION OF KEY TERMS

Action Plan: A sequence of steps that must be taken, or activities that must be performed well, for a strategy to succeed. An action plan has three major elements (i) Specific tasks: what will be done and by whom? (ii) Time horizon: when will it be done? and (iii) Resource allocation: what specific funds are available for specific activities?

Industry: In this document the term “industry” refers to the manufacturing activities classified under the ISIC rev. 3 Category “D”, and covers all activities identified from ISIC Code 15111 to 39999. However, based on the UN classification of economic activities, the term industry normally comprise manufacturing, utility services (energy generation), construction activities, and mining & quarrying. The United Nations Department of Economic and Social Affairs (DESA) defines manufacturing as the physical or chemical transformation of materials, substances or components into new products. Materials, substances or components transformed are raw materials that are products of agriculture, forestry, fishing, mining, quarrying or products of other manufacturing activities. Substantial alteration, renovation or reconstruction of goods is generally considered to be manufacturing (UNIDO, 2011).

Strategic Regional Industries: Are defined for the purposes of this Action Plan, as innovative industries to be promoted based on comparative and competitive advantages of the region and which contribute to attainment of at least four of the following (i) fostering of complementarities or enhancing collaborative production in the region, (ii) large investments which may require pooling of resources to ensure that economies of scale are achieved, (iii) contributing to realisation of backward and forward linkages in the value chains with regional dimensions, (iv) contributing to employment generation in the region; and (v) having presence in at least more than one Partner State and contributing to backward and forward linkages in the region. Such industries are considered important for industrial development in the region since they generate economic benefits which extend across the region through value chains.

A Policy: Principles to guide decisions to be taken to achieve rational outcomes.

A Strategy: Plan of action to achieve a particular goal.

Value Added: In economics, Value Added is the difference between the sale price of a product and the cost of materials used to produce it. From a national perspective, Value Added refers to the contribution of the factors of production (land, labour, and capital goods) to the value of a product. The national value added is shared between capital and labour, as the factors of production

Value Chain: This describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.

SUMMARY

This Action Plan delineates eighteen programmes that will guide implementation of the EAC Industrialization Policy and Strategy (2012 - 2032) during the period 2012 - 2017. The Strategic Theme of the Action Plan is *“Transformation of the Manufacturing Sector through Value Addition and Product Diversification, based on Comparative and Competitive Advantages of the Region”*

The eighteen programmes of the Action Plan are premised on the six specific policy targets the Industrialization Policy and Strategy aim to achieve by 2032. The policy targets and programmes are;

- i. **Specific Policy Target One:** Diversifying the manufacturing base and raising local value add from 8.62 percent to at least 40 percent in 2032
 - o **Programme One:** Promoting the Development and Investment in Strategic Regional Industries within sectors in which the region has potential comparative advantage
- ii. **Specific Policy Target Two:** Strengthening Institutional Capacity for Industrial Policy Design, Management and Implementation
 - o **Programme One:** Strengthen and establish an effective Regional framework for Industrial Policy Design, Management and Implementation
 - o **Programme Two:** Capacity Building for Industrial Policy Design, Management and Implementation
 - o **Programme Three:** Strengthen National and Regional Institutional Capacities for Industrial Information Management
 - o **Programme Four:** Enhancement of Industrial and Technical Skills Development
 - o **Programme Five:** Enhance Access to Affordable Finance for Industrialization (Financing and Resource Mobilization for Industrial Development)
- iii. **Specific Policy Target Three:** Strengthening Research and Development; Technology and Innovation as well as Sustainable Industrial Development
 - o **Programme One:** Enhance the capabilities and capacity of national Research and Development institutions to meet the needs of science and technology in the manufacturing sector
 - o **Programme Two:** Enhance National and regional awareness on the importance of innovation, science and technology and R&D in the operations of the private sector enhanced
 - o **Programme Three:** Promotion of Sustainable Industrialization and Environment Management
- iv. **Specific Policy Target Four:** Promoting Equitable Industrial Development and Gender Equity

Promoting Equitable Industrial Development

- o **Programme One:** Improve access to factor conditions, including agricultural raw materials, infrastructure and labour productivity, among others

- **Programme Two:** Sustain efforts to improve business climate in the region, including policy environment, institutions, public administration, and the availability of support services

Promoting Gender Equity

- **Programme One:** Enhance the role and contribution of women entrepreneurs in the development of the industrial sector, at both national and regional level
- v. **Specific Policy Target Five:** Transforming Micro Small and Medium Enterprises capable of contributing up to 50 percent of manufacturing GDP from 20 percent base rate.
- **Programme One:** Support the establishment of, and the expansion of incubation facilities at Partner State level to encourage entrepreneurship and growth of start-ups
 - **Programme Two:** Formulation of a Regional MSME Policy including SME Charter. The Charter will ensure that Partner States adopts policy and regulatory best practices for the promotion of MSMEs thus ensuring coherency and proper coordination of the development of the sector
 - **Programme Three:** Develop an EAC MSME Business information Portal to facilitate web-based marketing of MSME products and access to a wide range of business information
 - **Programme Four:** Formulate and implement an Industrial Upgrading and Modernization Programme to support the growth and competitiveness of MSMEs
- vi. **Specific Policy Target Six:** Increasing the contribution of (i) intra regional manufacturing exports from 5 percent to about at least 25 percent by 2032 and (ii) increasing the share of manufactured exports to at least 60 percent from an average of 20 percent.
- **Programme One:** Strengthen business and regulatory environment for industrialization, to increase the competitiveness of manufactured products within the region and international markets
 - **Programme Two:** Enhance Access to Markets for trade in manufactures

Under each programme, the Action Plan outlines a number of activities, whose adequate implementation will be crucial in realizing the overall goal of the EAC Industrialization Policy and Strategy. The activities outlined under each programme have been assigned institutional responsibility for effective implementation.

The lead Institution is the Industrial Development Department, EAC Secretariat, supported by Partner States' Ministries charged with Industry, Finance, Education, East Africa Community Affairs and Gender, among others. Selected Private Sector Organizations, including the East African Business Council MSME Associations and Civil Society actors are also proposed as support institutions in implementing some of the activities.

The EAC Sectoral Council and Sectoral Committee on Industry will provide an oversight and advocacy role to the Industrial Development Department, to complement its coordination roles. The Sectoral Council and Sectoral Committee will also provide guidance and direction on industrial development within the region. The Sectoral Council will be supported by the Sectoral Committee on Industry which will be responsible for technical matters and advising the Sectoral Council accordingly.

The new established Inter-Ministerial Coordinating Forum, which will be housed at the EAC Secretariat, will be charged with monitoring the implementation of complementary or

accompanying measures required for competitive promotion of industrial development. The inter-ministerial forum will meet regularly to discuss enabling factors for industrial development. .

The national industrial development coordination/consultative councils (committees) will monitor and oversee implementation of key complementary measures required for structural transformation and accelerated industrial development. The national coordination councils will prepare national visions for industrial development and ensure alignment of national visions with regional targets. The national councils will also hold various Ministries charged with Industrial Development accountable for failing to deliver the different responsibilities they have been assigned in implementing the Action Plan.

During the course of implementing the Action Plan, detailed annual work plans and budgets will be prepared for each programme.

The Action Plan will be monitored through continuous and systematic collection and analysis of information (data), in order to inform the Secretariat and key stakeholders the extent to which progress against stated goals and objectives has been achieved. Performance assessment reports will be compiled by the Industrial Development Department biannually (every six months).

A mid-term review will be conducted after two years of implementing the Action Plan, to assess progress in achieving programme objectives. A final evaluation will be conducted in 2017, at the end of implementing the Action Plan. The mid-term review and final evaluation will be undertaken by a team of independent consultants, with appropriate expertise in thematic areas of industrialization.

The total budget for implementing the Action Plan over the period 2012 - 2017 is US \$ 56.6 million. The main sources of financing the eighteen programmes of the Action Plan are;

- **Partner States:** it is proposed that Partner States increase their contribution to industrial development, including infrastructure development, to about 5 percent of their national budgets. Presently, Partner States' contribution to industrial development is estimated at about 1 percent of the national budgets. Through the Medium Term Expenditure Framework, which encourages cooperation across ministries and planning over a longer horizon, the programmes proposed in the Action Plan should be mainstreamed into national development strategies, including those that are targeted at poverty alleviation. Efforts should also be undertaken to tap into pension funds, to finance industrialization projects. Partner States can directly borrow from Pension Schemes, as is the case with Uganda, which has announced plans to borrow from country's sole statutory pension fund to finance infrastructure, including roads and railway networks. Another approach is for the Ministries charged with Industrial Development, to work closely with the Central Banks to issue an Industrialization Bond (preferably a 10-15 year bond), from which substantial amount of funds can be mobilized from Pension Schemes and other corporate enterprises, including banks, to fund industrialization projects.
- **Mobilizing Resources from Development Partners:** The Industrial Development Department, EAC Secretariat, supported by Ministries charged with Industrial Development, should work with the Resource Mobilization Office of the EAC Secretariat to mobilize funding from Development Partners. The Resource Mobilization Office reports to the Office of the Secretary General and is mandated to mobilise resources for EAC projects and programmes
- **Establishing an EAC Industrialization Development Fund, within the framework of the EAC Development Fund:** There is a need to establish an EAC Industrialization Development Fund to finance industrial and productive capacity development and infrastructure projects. Also, the Industrialization Development Fund will, through the issuance of loans, bridge the gap in the

conventional financial market place, which may hinder the growth of otherwise financially sound, employment generating MSMEs.

1.0 BACKGROUND AND CONTEXT

The EAC Industrialization Policy and Strategy (2012 - 2032) was approved by the Summit of Heads of States on 30th November 2011 in Bujumbura, Burundi. The Industrial Policy and Strategy delineate several policy measures and strategic interventions that will guide the EAC Secretariat towards attaining industrialized economic status by 2032, among other goals.

The EAC Industrialization Policy and Strategy also set ambitious targets, whose achievement will require sufficient commitment from the Five Partner States. The targets include diversifying the manufacturing base and raising value addition in the manufacturing sector; increasing technological and innovation capability in the region to aid structural transformation; and supporting MSMEs to contribute up to 50 percent to the manufacturing GDP of the region by 2032.

To effectively implement the Industrialization Policy and Strategy, it is important to first institute a framework that outlines necessary steps/actions, and the cost of implementing the steps/actions, to guide the EAC Secretariat towards achieving the targets of the Policy and Strategy.

It is in this regard that this Action Plan has been developed. The Action Plan will guide the Secretariat in implementing the Policy and Strategy during the next five years (2012 - 2017)¹. The Action Plan is presented as follows; Chapter Two presents the imperatives for industrialization in the region, focusing on the national and regional development situation. Chapter Three presents the challenges facing industrialization. Chapter Four presents Industrial and Structural Change at Global Level - Implications for Regional Industrialization. Chapter Five presents EAC's response to Industrialization. Chapter Six presents the Action Plan (2012 - 2017). Chapter Seven presents the Implementation and Coordination Arrangements for the Action Plan. Chapter Eight presents the Monitoring Evaluation Framework. Chapter Nine and Ten present the Schedule of Reporting and Action Plan Budget.

2.0 THE IMPERATIVES FOR INDUSTRIALIZATION IN THE REGION - ECONOMIC DEVELOPMENT

2.1 Overview of the Economic Development in the Five Partner States

The economic size and level of development vary among EAC Partner States. One Partner State - Burundi - is classified as low-income country, with a GNI per capita of US \$ 540 in 2010. Four Partner States - Kenya, Tanzania, Rwanda and Uganda - are classified as lower-middle income countries with a GNI per capita between US \$ 850 and US \$ 2,460 in the same year (World Bank Development Indicators; 2011).

In the Region, the economy of Kenya is the largest and most diversified, with a GDP of US \$ 17,097 million in 2009. The country has the most developed services industry in areas of finance, construction, communication, and education, among others.

The economies of Tanzania and Uganda are the second and third largest, with GDP estimated at US \$ 11,907 million and US \$ 9,809 in 2009. Rwanda's economy is the fourth largest, estimated at US \$ 3,852 million (less than a quarter of Kenya's) in the same year. Burundi's economy is the smallest, with a GDP of US \$ 866 million in 2009.

In spite of the recent global economic crisis, the economies of Tanzania, Rwanda and Uganda have been ranked among the top 20 fastest-growing in the world, with an annual average per capital growth of close to 4 percent over the past five years. Since 2000, Uganda has recorded the highest growth, at an annual average of 6.9 percent.

A review of literature on the financial sectors of the five Partner States shows that Kenya has the most developed financial sector: it has the highest market capitalization of listed companies as a

¹ In the subsequent years, (2017 - 2032) five year Action Plans will be prepared to guide the implementation of the Industrialization Policy and Strategy

percentage of GDP (31.6 percent in 2008), followed by Tanzania (6.3 percent) and Uganda (1.1 percent in 2005)².

From the above overview, it is clear that several inequalities exhibit within Partner States' levels of development. The EAC Industrialization Policy and Strategy (2012 - 2032) espouse for equitable growth, through industrialization, and it is envisaged that adequate implementation of this policy measure will lead to sustainable equitable regional economic expansion and integration of economic activities within the Community. In the sections below, a discussion of the economic outlook in the five Partner States is presented.

2.1.1 Kenya's Economic Outlook

After two decades of poor growth, the Kenyan economy finally started to expand in 2002³. From 2003-04, economic outcomes began to change for the better with the implementation of the Economic Strategy for Wealth and Employment Creation (2003 - 2007). Real GDP grew at a rate of 5.8 per cent in 2005, 6.1 percent in 2006 and nearly 7 percent in 2007, a steep recovery from the earlier period of economic stagnation.

This generally robust economic outlook was driven by three main factors:

- Trade, exchange rate, and interest rate liberalization;
- Macroeconomic stability based on reduced indebtedness and efficient domestic revenue mobilization; and
- The perception that political stability had improved after the 2002 elections. The reduction in political risk fuelled an improvement in sovereign creditworthiness and the private investment climate.

The post election violence at the end of 2007 violently disrupted the economy resulting in loss of confidence among investors, and also had a negative effect on the growth of the tourism industry. Inflation soared, reaching 26.6 percent year-on-year in April 2008—the highest rate since 1994. Potential damage to agriculture, a slowdown in the growth rate of private consumption, rising oil prices, and a global slowdown piled additional pressure on the economy.

Following the formation of a coalition government in early 2008, the economy started to show signs of recovery; a new constitution has been adopted and the political stability is commendable.

As a result, Real GDP growth rates have risen from 1.7 percent in 2008 to 2.6 percent in 2009. The growth in 2010 and 2011 was modest, at 4 percent and 5.5 percent. The Kenyan economy is forecast to grow by 5.5 percent in 2012 (African Economic Outlook; 2011). The services sector was largest contributor to GDP in 2010 at 28.9 percent, followed by the agriculture Sector at 23.2 percent. The manufacturing sector contributed 10.4 percent

Inflation rates have been modest since 2008, though in double digits, except for 2009 and 2010. In 2008 and 2009, inflation fluctuated between 10.6 percent and 10.5 percent. In 2010, there was a marked drop to 4.1 percent. By December 2011, however, the rates rose to 18.9 percent. The increase in inflation was mainly attributed to increases in fuel costs, as a result of unrest in the Middle East. The rise in cost of electricity and other cooking fuels contributed to an increase in inflation.

Since 2008, the Kenya Shilling has gradually deteriorated against the US dollar. The shilling traded at Ksh 81.9 against the US dollar in 2010, compared to Ksh 77.2 per US dollar in 2009 and Ksh 69.2 in 2008.

Interest rates have generally been modest by regional standards, falling from 14.8 percent in 2008, to 8.8 percent in 2009 and slightly rising to 9.8 percent in 2010. In 2011, however, the Central Bank

² World Bank (2009); Market capitalization in Rwanda and Burundi is insignificant.

³ Adapted from the World Bank (2008)

of Kenya raised its benchmark interest rate by 4 percentage points, signalling a monetary policy shift, aimed at combating inflation and rescuing the shilling.

2.1.2 Tanzania's Economic Outlook

The Tanzanian economy was in severe distress in the mid-1980s but has since been transformed. The International Monetary Fund (IMF) distinguishes three broad phases of this transformation: 1970-1985, which was characterised by *Ujamaa* (socialism) and economic decline; 1986-1995, a period of liberalization and partial reforms; and 1996-2006, marked by macroeconomic stabilization and structural reforms. These reforms have continued to the present.

Following fifteen years of *Ujamaa* policy, the economy was gradually liberalized from 1986 to 1995 to remove state domination in production and promote private enterprise. Thus, prices were allowed to adjust to market levels, interest rates and the exchange rate were freed, and restrictions on economic activities were phased out.

Reforms embarked upon in that period included: (a) restructuring the financial sector and licensing foreign banks thus expanding private access to finance for investment; (b) liberalizing trade, an initiative that triggered an export boom and restored the country's foreign exchange reserves; and (c) denying credit to poorly performing public corporations and subjecting public finance to greater scrutiny and discipline.

As a result, Tanzania has registered eight consecutive years of GDP growth in excess of 6 percent until the global economic downturn began to affect growth in 2009. The growth in 2009 was at 6 percent (African Economic Outlook; 2010). In 2010, Tanzania's real GDP growth recovered, and was estimated at 6.8 percent.

The Tanzanian economy depends heavily on agriculture. The agriculture sector was the largest contributor to GDP, at 28.8 percent of GDP in 2010. Industry accounts for 25 percent of GDP, of which 9.5 percent is contributed by the manufacturing sector.

The inflation rate, which had dropped to just below 5 percent during the early years of 2000, gradually started to rise in 2005, and kept on an upward trend to 12.1 percent by December 2009. This rise was due to drought-instigated food shortages in Tanzania and neighbouring countries; outages in electricity supply, which increased production costs as producers shifted to using generators; and increases in petroleum prices, which raised the import bill and production costs.

Tanzania, like Kenya, has witnessed a deteriorated exchange rate against the US dollar. From 2009 until 2011, the USD:TZS exchange rate averaged 1,460.71 reaching a historical high of 1,813.50 in October of 2011 from 1,277.90 in June of 2009. In 2008, the shilling traded at TZS 1,196.3 against the US dollar compared to TZS 1,244.1 in 2007.

The lending interest rates in Tanzania have generally been modest, at 14.55 percent in 2010 compared to 15.03 percent in 2009, and 14.98 percent in 2008 (World Bank; 2010).

2.1.3 Uganda's Economic Outlook

Through sound economic management and efficiency-enhancing reforms since the early 1990s, Uganda has achieved commendable sustained economic growth rates, averaging 7.7 per cent between 2002/3 and 2007/8. In 2008/9, GDP grew by 6.6 per cent, increasing from UGX 28.2 trillion (USD 13.8 billion) in 2008 to UGX 33.0 trillion (USD 16.1 billion)⁴. The 2008/9 growth rate was strong by regional and international standards, despite the global financial crisis, and among the fastest in the world, mainly as a result of prudent economic management and strong fundamentals⁵. In 2010 and 2011, GDP growth rates fluctuated between 5.2 percent and 5.6 percent.

⁴ Source: Uganda Bureau of Statistics, 2010

⁵ IMF (2010)

Uganda's strong economic growth has mainly been driven by: (a) a diversified services sector⁶, which has over the last 18 years replaced agriculture as the largest contributor to GDP, followed by the industrial sector. Nonetheless, the structure of the economy remains rural and agrarian, with over 75 percent of the population primarily employed in the agriculture sector.

During the last two decades, the government has maintained low inflation rates, averaging 5.0 percent per annum. More recently, however, the general price level has increased at a rate of 14.2 percent a year, driven by soaring food prices.

The real interest rate has fallen, dropping from 14.1 percent per annum in May 2007 to 4.5 percent in January 2009, before rising again to 6.9 percent in 2009⁷ and 10.9 percent in 2010. This upswing can be traced to growing corporate demand for locally available loan-able funds as companies which previously borrowed abroad switched to domestic bank resources. This shift was driven by the global financial crisis which made access to credit in the advanced countries difficult.

Like Kenya and Tanzania, Uganda has witnessed a deteriorated exchange rate against the US dollar. The shilling traded at UGX 2,300 in 2010, compared to UGX 2,175 in 2009 and UGX 1,600 in 2008.

2.1.4 Rwanda's Economic Outlook

Rwanda's remarkable macroeconomic stability and sustained robust growth have been well documented and widely acclaimed. The country has grown at an average real rate of 8.8 per cent per annum since 2004⁸. In 2008, the economy registered its first double-digit growth (11.2 per cent) since 2002, the highest among all East African Countries, mainly as result of prudent economic and social policies, and structural reforms. In subsequent years, however, the growth receded to 5.7 percent in 2009, 5.8 in 2010 and 5 percent in 2011.

The Rwandan economy is small, with real GDP at about USD 3.5 billion and is dominated by services (48 percent) and agriculture (36 percent). The manufacturing sector contributes 6.7 percent.

Inflation has been moderate, maintained at single digits during the last decade except for 2003 and 2004, and more recently in 2008. That year, inflation increased to 15.4 percent from 9.1 per cent in 2007 mainly as a result of increased food and fuel prices and monetization of the economy. In 2009 and 2010, the inflation rate declined to 10.4 percent and 2.05 respectively (Rwanda Chamber of Commerce; 2011).

Lending rates have been stable, though high, averaging 16 percent since 2002. With regard to exchange rates, the value of Rwandese Franc (RWF) against the US dollar depreciated by 2.5 percent from RWF 545.5 in December 2007 to RWF 558.9 in December 2008.

2.1.5 Burundi's Economic Outlook

Burundi's economy grew by 3.9 percent in 2010. Compared to previous years, this rate was below the government's target of 4.5 percent, mainly as a result of political uncertainty stemming from a series of elections in a politically fractionalised environment, as well as inclement weather. In 2011 the economy grew at 4.5 percent, and growth is expected to rise to 5.2 percent in 2012 (African Economic Outlook; 2011).

The agriculture sector was the largest contributor to GDP in 2010, at 43.9 percent, followed by the services sector (28.1 percent). The manufacturing sector contributed 7.1 percent.

Inflation in Burundi increased significantly in 2008, from an average of less than 15 percent in the previous years to 25.65 percent (IMF; 2010), driven by soaring food prices. By December 2009, however, inflation had declined to 4.6 percent.

⁶ Between 2002/3 and 2008/9, the services sector registered an average growth of 24.4% per annum, thus achieving the fastest steady growth over the period relative to other sectors of the economy (UBOS, 2009)

⁷ UBOS (2010).

⁸ Rwanda Development Board (2009)

The Burundi franc has over the last two years depreciated against the US dollar. In 2007, the franc depreciated by 9.6 percent from BIF 1,081.9 in 2007 to BIF 1,185.7 in 2008. In 2009, the franc traded at BIF 1,230.5 per US dollar. Lending rates have since 2008 fluctuated between 16 and 17 percent (IMF; 2010)

2.2 Transforming Partner States Economies through Industrialization - What Steps have been undertaken?

All Partner States are cognizant of the importance of transforming their economies through industrialization, with particular emphasis on manufacturing. The goal is to move from low productivity activities in agriculture, petty trade and skill-intensive services to new activities that are knowledge-intensive and exploit the advantages of inter-firm specialisation.

However, the contribution of manufacturing sector to GDP has been low in all Partner States ranging between 7 and 10 percent over the period 1995 to 2009. And yet, the Partner States have set ambitious targets for the contribution of this sector to GDP over the next 10 to 20 years. To illustrate;

- In Tanzania, the target is an average annual growth rate of 15 percent for the manufacturing sector. Between 2003 and 2008, the sector has registered commendable growth rates, ranging between 8.5 percent and 9.9 percent⁹
- In Uganda the target is to achieve 25 percent contribution of manufactured products to total GDP and 30 percent contribution of manufactured exports to total exports by 2015. It should, however, be noted that the contribution of manufactured products to GDP during the last five years has averaged 6.6 percent, and receded to 6.5 percent in 2010¹⁰. Exports growth has averaged 18 percent during the same period.
- In Kenya, the target is a sustained growth of the manufacturing sector, by at least 15 percent per annum by 2017. It should however be noted that the sector registered a decelerated growth of 2.0 per cent in 2009 against 3.6 per cent in 2008 (Kenya Industrial Policy; 2010).
- In Rwanda, the target is for the manufacturing sector to contribute 26 percent to GDP by 2020, national investment rate to reach 30 percent of GDP and non-farm employment to reach 3.2 million jobs. It is worth noting that the manufacturing share of GDP has declined from 20 percent in 1980 to 14 percent in 2011 (Rwanda Investment Board; 2012)
- Burundi is in advanced stages of developing a national industry and commercial development strategy, which will delineate a growth plan for the manufacturing sector, and a target at which the sector will contribute to the economic growth of the country, over the next five years. The development of a national industry and commercial development strategy (2013 - 2017) was embarked upon a year ago. A draft strategy has been prepared and is in the process of being validated by various stakeholders (public, private and development partners). The national industry and commercial development strategy will be officially launched before the end of the year.

Based on an assumed GDP growth rate of 6 percent, the manufacturing sector needs to grow at an annual rate of 11.7 percent, if the Partner States are to achieve a manufacturing GDP contribution of 25 percent within 20 years.

This goal is achievable provided there is sufficient commitment from the Partner States to adequately address the malfunctioning markets, including correcting for externalities and failures, enhancing the technology base and investing in human capital, and providing information and infrastructure needed by the private sector to become more competitive, through efficiency improvements and innovation.

⁹ Source: Integrated Industrial Development Strategy; 2011 - 2025

¹⁰ Source: Background to the Budget; 2011

2.3 Trends in Trade (the Region and the Rest of the World)

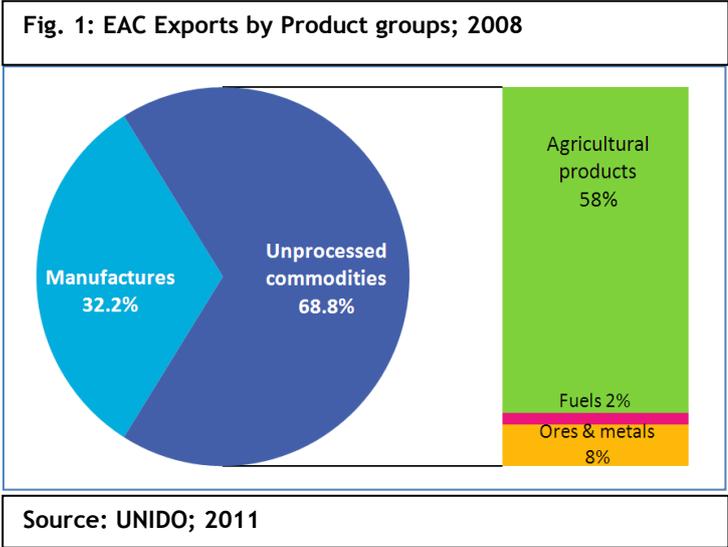
2.3.1 Intra Regional Trade

A review of national statistics shows that total Intra-EAC exports by the five Partner States in 2009 reached US \$ 2 billion representing an annual growth of 28 percent. At the same time, intra-regional imports grew to US \$ 1.5 billion in that year, representing an annual growth of 28.6 percent.

Overall, Kenya continued to dominate the EAC regional trade, accounting for 44.8 percent of total value of trade. Uganda and Tanzania accounted for 28.1 percent and 27.1 percent of the total intra-EAC trade respectively.

A review of 2008 trade statistics shows limited diversification of industrial exports across the region. For instance, there is a large prevalence of agricultural and other unprocessed goods in regions exports estimated at about 68 percent. Of this, 58 percent was contributed by agricultural exports only (see Fig. 1).

Manufacturing of primarily processed food-stuffs represent the second largest merchandise exported (32.2 percent).



A key characteristic of East Africa’s trade is that a large share of it is informal. In Uganda for instance, South Sudan, which intends to join the EAC Community in the near future, has been the single largest destination of the country’s exports, of which informal exports dominate. In 2008, formal exports from Uganda to South Sudan were worth \$246 million while, informal exports were estimated at \$ 389 million. In the subsequent years, the situation did not change much, with formal exports from Uganda still lower in value than informal exports.

The large informal trade suggests that formal trade can expand further, provided that barriers are reduced. Increasing the stock and quality of regional infrastructure would also encourage formal intraregional trade.

Further, incentives to formalize are crucial for fostering growth through innovation and technology adoption—key elements of knowledge-based economies—as firms operating in the informal sector find it more difficult to innovate and adopt new technology. This is partly the result of their limited access to capital.

2.3.2 EAC Trade with the Rest of the World

Total EAC trade with the rest of the world increased by 23.7 percent to US \$ 32.4 billion in 2008 compared to an increase of 26.8 percent in 2007. The increase partly reflects a 26.2 percent increase in exports on account of high commodity prices in international markets (EAC Secretariat; 2010). Total imports into the EAC region also grew by 22.7 percent from US\$ 18,403 million to US\$ 22,574 million due to a high import bill for oil. The deficit on the balance of trade therefore

widened from US\$ 10,609 million in 2007 to US\$ 12,741 million in 2008. Total imports accounted for about 70 percent of total EAC trade during 2008.

3.0 CHALLENGES FACING INDUSTRIALIZATION IN THE REGION

East Africa's industrialization efforts are restrained by a multitude of factors. Industrialization challenges include;

- a) **Gaps in the governance frameworks:** These are manifested by lack of viable strategies, policies, and systems of coherent laws and regulations, to guide the industrialisation efforts;
- b) **Institutional gaps:** These are manifested by inadequacies in institutional capabilities to provide support services, which are needed to backstop the process of industrialization;
- c) **Inadequate capacity to mobilize critical mass of essential resources:** This is a broad-based challenge, embracing gaps in financial resources (evidenced by the underdevelopment of domestic financial markets, lacking capacities to capitalise on and effectively use resources from diverse internal and external sources);
- d) **Shortages of essential industrial skills:** due to the underdevelopment of human capital, there are shortages of industrial sector similarly; industry is also challenged by weak work ethics, relatively low level of labour force regulation, poor skills mix and productivity. In addition critical masses of technological capacities, which are needed to catalyse sustainable development, are lacking. Lastly, a demand driven education system tailored to meet the Region's industrial needs is lacking;
- e) **Inadequate quality infrastructure:** Infrastructure challenges have significantly constrained accelerated development in all the EAC Partner States although the impact of these constraints has been varied across the States. The region's railway network is antiquated and unable to meet the demands of a 21st economy. While the state of the region's roads can be described as fair, specific road infrastructure constraints relate to inadequate investment in capacity and maintenance of existing roads, inadequate but improving regional legal and regulatory framework to enable coordination of roads development initiatives. The region also possesses huge energy production potential although most of this energy resource remains underdeveloped;
- f) **Inadequate Research and Development:** This is an area that is greatly under funded by the national governments. Research and development has not received adequate financial support from national governments and this has manifested in low technological readiness in the industrial sector;
- g) **Lack of access to affordable finance:** Access to finance remains one of the major factors constraining Micro, Small and Medium Enterprises (MSME) growth. In most enterprise surveys (World Bank, World Economic Forum) recently conducted within the Region, Small and Medium Enterprises (MSMEs) have consistently identified access to finance as one of their major business constraints;
- h) **A weak legal and regulatory Framework:** EAC Partner States have made some progress with regard to improvements in their respective regulatory environments. However, improvement in the quality of the business environment has been uneven with Rwanda making significant improvements while progress among other EAC Partner States remains modest. The 2011 Africa Competitiveness report shows that the Partner States still face significant challenges with regard to the quality of the business environment under which they operate, including ease of doing business (WEF, ADB, WBG, 2011).

It is also worth noting that the above challenges are compounded, at least in part, by small, fragmented, and underdeveloped markets (national, Regional). The EAC Industrialization Action

Plan (2012 - 2017) has been designed to address the above challenges, and scale-up industrialization in the region.

4.0 INDUSTRIAL STRUCTURAL CHANGE AT GLOBAL LEVEL; UNFOLDING OPPORTUNITIES AND IMPLICATIONS FOR REGIONAL INDUSTRIALIZATION

Industrialization in the EAC Region must be viewed in the context of current changes in global production, trade, and competition. Notable changes in the global economy include;

- i) The steady advance of Globalization, with lowering of tariffs and trade barriers, increased cross-border investment, and establishment of the World Trade Organization (WTO) as the global institution to develop rules to govern international trade and to oversee their implementation.
- ii) The emergence of new major industrial players, including (i) Japan (since the 1970s), which was ranked the second largest economy in the World after the United States and Korea (since the 1980s) and (ii) China, India, and Brazil, since the 1990s. A closer look at China shows that the country has meteorically risen as a global economic “super power”. For the past 20 years, China’s average annual GDP growth has been above 9 percent. In the last quarter of 2010, China surpassed Japan as the world’s second-largest economy. Japan’s nominal gross domestic product for the second quarter of 2010 was estimated at \$1.288 trillion, less than China’s US \$1.337 trillion.
- iii) The increasing dominance of the service sector, in relation to agriculture and industry, especially in the developed countries.
- iv) Technological changes such as the diffusion of information communication and telecommunication technologies (ICTs) and scientific breakthroughs such as genetic engineering and the development of biotechnologies;
- v) Institutional changes such as the emergence of major trading blocs such as North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian Nations (ASEAN), and the deepening of European integration and enlargement of the European Union (EU);
- vi) Social and demographic changes such as the dramatic population growth in many Least Developed Countries (LDCs), the growth of the middle class in major emerging nations, notably the BRIC (Brazil, Russia, India, and China) countries, and ageing of the population in developed countries.

All these changes continue to shape the industrial development agenda and hence the need for review and redefinition of industrial strategies and actions, at national, regional and international levels to make them dynamic.

The region is cognisant of the structural changes at the global level, and in response, developed the EAC Industrialization Policy and Strategy (2012 -2032), using internationally tested best practices - ‘from the bottom’ (local or regional), consulting with several stakeholders as opposed to a top-down approach.

The major hurdle that remains, in view of the above global changes, is the effective implementation of the Industrial Policy and Strategy, and the fact that the region constitutes emerging economies, where market failure is particularly common, and government action is required to form even the most basic market institutions, such as creating a national entrepreneurial class and encouraging the formation of business associations.

Altenburg (2011) notes that countries that have managed to catch up with the old industrialized and high-income countries are the ones whose governments proactively promoted structural change,

encouraged the search for new business models and markets, and channelled resources into promising and socially desirable new activities.

From a regional perspective therefore, the impetus is upon the Regional Blocs to urge Partner States to proactively embrace similar measures. Below are the best practices that the EAC should espouse, given its promising fast growth path which, if sustained, has the potential to steer the region to substantially higher levels of industrialization, which would in turn enable the region, to catch up with highly industrialized Blocs.

- Political leaders must endorse and maintain high levels of commitment, to undertake projects of productive transformation, aimed at diversifying their economies and developing new competitive advantages in higher-value activities.
- Projects aimed at transforming the regional economy through industrialization need to build on existing comparative advantages and define incremental upgrading pathways that are manageable and realistic. It will also be prudent to increase competition and apply non-market incentives in a way that induces the private sector to upgrade without overstraining its capacities and without creating unproductive rents.
- The economic transformation process should balance economic, social and environmental objectives. Low and lower-middle-income countries are typically characterised by deep and even widening productivity gaps. The lack of productive integration of large parts of the workforce perpetuates poverty and forgoes opportunities for inter-firm specialisation that would make the whole economy more competitive. Unless productive integration is proactively supported, competition on an uneven playing field typically crowds out large numbers of less efficient producers and destroys traditional jobs without being able to create a comparable number of employment opportunities in the emerging, more efficient, activities.
- Focus should shift from promoting established firms in traditional industries to supporting innovative ideas and encouraging experimentation in new sectors.
- Strengthening linkages between firms and segments of the business community is crucial. Most developing countries are typically characterised by segmented enterprise structures, with few linkages between different groups of enterprises, such as foreign invested firms, large national firms, and MSMEs. Large productivity gaps impede integration of the latter in specialised business networks. In order to exploit economies of specialisation and stimulate knowledge spill-overs, efforts are needed to integrate these groups through supplier development programmes, incentives for technology transfer, encouragement of joint ventures, franchising arrangements and the like.
- International trade and investment links should be gradually increased. Economies of scale are of great importance, and tend to reduce the competitiveness of firms operating in closed national markets. Creating larger markets is therefore particularly important for firms in low and lower-middle-income countries.

5.0 EAC RESPONSE TO INDUSTRIALIZATION AND ECONOMIC TRANSFORMATION CHALLENGES

Since the inauguration of the East African Community (EAC) in 1999, the community has undertaken substantial efforts towards transforming the regional economy through industrialisation. The region's commitment to economic structural transformation through industrialization is espoused by Article 79 & 80 of the EAC Treaty, common principles of the EAC Common Market Protocol, and the EAC Development Plan (2011-2016).

In 2009, the EAC Summit invigorated the need for a harmonized approach in industrializing the region, and directed the Secretariat to formulate the East Africa Industrialization and Investment Strategy, supported by an effective decision making framework, aimed at promoting equitable industrial development within the region.

In 2011, through consultations with key stakeholders in the five Partner States¹¹, including public and private sectors, and civil society organizations, the Secretariat finalized the development of the EAC Industrialization Policy and Strategy (2012 - 2032). The development of the Industrialization Policy and Strategy was anchored in the industrial strategies of the five Partner States, adopting, where appropriate, the strategic priorities of the Partner States themselves. The development of the Policy and Strategy was also informed by and aligned with the African Union Strategy for the implementation of the Plan of Action for the Accelerated Industrial Development of Africa (AIDA; 2008)

On 30th November 2011, the EAC Industrialization Policy and Strategy (2012 - 2032) was approved by the EAC Summit of Heads of States in Bujumbura, Burundi.

The overall objective of the Industrialization Policy and Strategy is to enhance industrial production and productivity and accelerate the structural transformation of the economies of the EAC Partner States, to, among others, enable sustainable wealth and employment creation, improved incomes and higher standards of living among East African Citizens. Presently, the contribution of the industrial base in East Africa is estimated at 19.2 percent of GDP, of which only 8.9 percent is generated from manufacturing. This level of contribution is low in relation to the average target of about 25 percent for all the five Partner States.

The Vision of the EAC Industrialization Policy and Strategy is ***“a globally competitive, environment-friendly and sustainable industrial sector, capable of significantly improving the living standards of the people of East Africa by 2032”***

The mission of the EAC Industrialization Policy and Strategy is ***“to create a market driven, regionally and internationally competitive industrial sector based on the comparative and competitive advantages of the EAC Region”***

The policy and strategy set out strategic policy targets to be attained within a 20 years (2012-2032) time span for the implementation of the regional industrialization policy framework. The specific targets include:

- i. Diversifying the manufacturing base and raising local value added content (LVAC) of manufactured exports to at least 40% from the currently estimated value of 8.62% by 2032;
- ii. Strengthening national and regional institutional capabilities for industrial policy design and management for effective strategy implementation;
- iii. Strengthening of R&D, technology and innovation capabilities to support structural transformation of the manufacturing sector
- iv. Expanding trade in manufactured products by:
 - a. increasing share of manufactured exports to the region relative to imports from the current 5% to about 25% ; and

¹¹The consultative process involved a review of the Industrialization Strategy/Policy documents at a workshop in Kampala from 10th - 14th October 2011; at the sectoral committee meeting in Arusha on 24th-26th October 2011; and at the Sectoral Council Meeting from 30th October to 3rd November 2011. The documents were duly approved by the Council of Ministers and the EAC Summit of Heads of State..

- b. growing the share of manufactured exports relative to total merchandise export to 60% from an average of 20%;
- v. Transforming micro, small and medium enterprises (MSMEs) into viable and sustainable business entities capable of contributing at least 50% of manufacturing GDP from 20% base rate.

To achieve the broad policy objectives and targets, the following key interventions identified in the regional industrialization policy framework forms the basis of projects and programmes elaborated in the Action Plan.

- (a) Promoting the development of strategic regional industries/value chains and value addition
- (b) Supporting the development of support infrastructure to enhance industrialisation along development corridors
- (c) Promoting equitable industrial development in EAC region
- (d) Strengthening national and regional institutional frameworks and capabilities for industrial policy design and implementation
- (e) Strengthening Industrial Information Management and Dissemination Systems
- (f) Facilitating the development of, and access to appropriate industrial skills and know-how
- (g) Enhancing access to financial and technical resources for industrialisation
- (h) Strengthening the capacity of industry and business support organisations to provide technical and advisory services to hence competitiveness of the industrial sector
- (i) Enhancing gender dimension in industrial development
- (j) Strengthening the business and regulatory climate
- (k) Expansion of trade and market access for manufactured products
- (l) Promoting regional collaboration and development of capability in industrial R&D, technology and innovation
- (m) Promoting sustainable industrialisation and environment management and
- (n) Facilitating MSME Development and Upgrading

Adequate implementation of the interventions will, in the short to medium term, address a number of challenges that have constrained sustainable industrialization within the region.

6.0 THE ACTION PLAN (2012 - 2017) FOR IMPLEMENTING THE EAC INDUSTRIALIZATION POLICY AND STRATEGY

In order to progressively attain the identified policy targets, the Action Plan outlines programmes/intervention areas for the first five years of implementing the EAC Industrialization Policy and Strategy (2012 - 2032).

During the five years of implementing the Plan, focus and attention will be dedicated to putting in place necessary institutional mechanisms for coherent and well coordinated industrial development in the region.

Further the Action Plan will pay special attention to the key ingredients for industrial transformation including: improving competitiveness; promoting diversification and value addition; strengthening skills and technology base; improving efficiency of strategic regional value chains; ; and improving the business environment for growth of small and medium enterprises. The identification and design of the programmes/interventions took into account the fundamental factors, which are crucial to structural transformation of the EAC economies; and the need to apply industrial policy as a tool for employment creation, poverty reduction, and trade expansion. The identified programmes/intervention areas have also been informed by priorities in Partner States national industrialization agenda as well as continental industrial development framework under accelerated Industrial development of Africa (AIDA).

Under each programme, the Action Plan outlines a number of activities whose adequate implementation will be crucial in realizing the overall goal of the EAC Industrialization Policy and Strategy. The activities outlined under each programme have been assigned institutional responsibility for effective implementation.

The EAC Secretariat (Department of Industrial Development) will take lead role in coordinating the implementation and will be supported by Ministries responsible for industrial development in each Partner States. . Selected Private Sector Organizations, including the East Africa Business Council (EABC) and national association of manufacturers are also proposed as support institutions in implementing some of the activities.

6.1 Overview of the Specific Policy Targets and the Programme/intervention areas

A The Action Plan identifies total of eighteen programmes areas to be implemented by EAC in order to progressively achieve the six specific policy targets set out in the EAC Industrialization Policy and Strategy.

6.1.1 SPECIFIC POLICY TARGET ONE: DIVERSIFICATION OF MANUFACTURING BASE AND INCREASING LOCAL VALUE ADDITION

The aim is to diversify the manufacturing base and raising local value add from 8.62 percent to at least 40 percent in 2032

Programme Area 1: Promoting the development and investment in strategic sectors in which the region has comparative advantage.

The development of strategic regional industries identified in the EAC industrialization policy is critical for gradual diversification of the manufacturing base, expansion of industrial out,

enhancement of cross-border industrial linkages, industrializing rural economy as well as addressing the intra and extra regional trade imbalances.

In the initial period of implementing the policy, priority will be given to interventions aimed at improving the competitiveness and unlocking value addition opportunities for the six strategic sectors identified in the policy namely: Fertilizer and agrochemicals; Agro-processing; Pharmaceuticals; Petro-chemical and gas processing; Iron ore and other mineral processing and Energy and bio-fuels.

Within these sectors, the EAC region has significant untapped resources, which underscore the region's comparative advantage to scale up industrialization through the development of these regional strategic sectors. To stimulate investment into these sectors, the policy provides for the establishment of a regional scheme and an institutional framework to ensure proper coordination and development of the sectors. Under the scheme to be established, investments which meet the following criteria will be classified as strategic regional industries (SRIs) and will be eligible to a wide range of policy support measures:

- Fostering of complementarities or enhancing collaborative production within the region;
- Large investments which may require pooling of resources to ensure that economies of scale are achieved;
- Contribute to the realization of backward and forward linkages in the value chains, with regional dimensions;
- Contribute to employment creation in the region; and
- Have a presence in at least more than one Partner State.

Programme Objective: The Programme aims at creating new industrial capacities, fostering a more advanced and competitive industrial structure, increasing local value addition and facilitating industrialization of rural economy.

Actions/Interventions:

To develop the Strategic Regional Industries and enable the industries generate multiplier effects, the following major activities will be undertaken:

- i) **Mapping¹² of the strategic regional value chains (value chain study)** to, among others, identify supply and demand gaps, bottlenecks and constraints facing the value chains, and assess technology, market access and investment needs and prepare investment promotion plans.
- ii) **Preparing of feasible and bankable investment projects** to be promoted within the framework of regional industry development programme. This will also entail developing appropriate investment marketing strategies and setting up mechanism to market and promote investment projects at national, regional and international levels. A public-private sector platform will be established to facilitate engagement with the private sector on modalities of financing large scale and capital intensive investment projects

¹² This exercise will, where applicable/necessary, build on existing work on value chains that have been undertaken by Partner States

- iii) ***Preparation of targeted programmes to facilitate linkage of priority regional enterprise*** and SMEs to global and sub-regional value chains. This will entail among others upgrading economic performance, the quality of processes and products, and improving the trading capacities of the strategic regional value chains to enable entry into relevant global value chains.

- iv) ***Establishment of center for the development of and investment promotion*** of regional industries (CDIRI). Baseline studies will be undertaken to assess feasibility and the structure of management of such a center. The study will in addition explore the scheme that should be introduced to attract investment into the selected regional value chains.

- v) ***Development of modalities/framework to govern investment and operations of the strategic regional industries.*** Due to the strategic importance of strategic regional industries to the development of the EAC economies, it will be crucial to put in place mechanisms to guide smooth operation and investment in such industries. The mechanism should address issues such as competition, taxation, tariff structures, fiscal and non-fiscal incentives, regulatory requirements, business incorporation, dispute resolutions arising from business partnerships, mergers & acquisitions etc. The modalities should aim at facilitating creation of a competitive business and regulatory environments in the region so as to increase cross-border investments, foreign direct investments and cross-border business partnership in strategic regional industries.

Implementation Arrangements: The IDD, EAC Secretariat, will lead the implementation of the programme, supported by Partner States' Ministries charged with Industry and Investment Promotion.

6.1.2 SPECIFIC POLICY TARGET TWO: STRENGTHENING OF INSTITUTIONAL CAPACITY FOR INDUSTRIAL POLICY DESIGN AND MANAGEMENT

Programme Area 1: Establishment of Industrial Governance and Coordination Frameworks for policy management and implementation.

An effective institutional decision making framework, at both national and regional level, is essential, if coherent and well coordinated industrial development is to be achieved within the region. Industrialization encompasses several cross cutting issues, whose scope and breadth, has in most cases, stretch beyond the mandate of the ministries charged with responsibility of managing industrial development. It is therefore crucial to establish a proper coordination and working arrangements at national and regional level to ensure streamlined decision making, on matters related to industrial development. Of particular importance, entails complementary factors to industrial development such as infrastructure, education, energy, macro-economic conditions, and the business environment, among others, which are essential in pursuit of industrialization but are not directly within the ambit of industrial development. The lack of appropriate coordination mechanisms for discussing and making decisions on implementation of complementary measures continues to hamper competitiveness of industries at national and regional level.

At regional level, the industrial development agenda has lagged for several years since the launch of EAC integration process primary due to absence of appropriate institutional decision making

structures to champion industrial development agenda, and facilitate interactions and more focussed discussions on industrial development. At national level, industrial development matters have in most cases been treated as sectoral issues within the purview of ministries responsible for industrial development, and yet, these matters should be viewed as national programmes.

Sound industrial governance framework is a pre-condition for EAC 's successful pursuit of industrial development as a tool for socio-economic transformation. The Programmes below aims at addressing the challenges of creating a coherent Industrial Policy governance Frameworks at national and regional levels.

Programme Objective: The aim of the programme is to address institutional coordination and governance weaknesses at national and regional level that constrains effective delivery and adequate implementation of industrial development programmes.

Actions/Interventions:

Major activities that will be undertaken will include instituting an appropriate and more effective avenue, in which industry matters at regional level will be accorded more time and cognizance to, among others, lay a firm foundation for the adequate implementation of the EAC Industrialization Strategy and Policy (2012 - 2032). The following interventions are to be implemented:

- i) ***The EAC Sectoral Council on Industrialization and the Sectoral Committee on Industry*** is to be established, to provide policy guidance and direction on industrial development within the region. The Sectoral Council will be supported by the Sectoral Committee on Industry which will be responsible for technical matters and advising the Sectoral Council accordingly. The Sectoral Council will also provide oversight and play advocacy role to ensure timely implementation of the EAC Industrialization Strategy and Policy.
- ii) ***An Inter-Ministerial Coordinating Forum (IMCF) Comprising ministry responsible for industrialization and key ministries responsible for policy matters on complimentary factors*** is to be established to provide a platform for dialogue, and joint planning and decision making on actions needed in support for industrial development goals. Complementary or accompanying measures to be discussed and monitored by the Inter-Ministerial Coordinating Forum will include;
 - Macro-economic factors (interest rates, exchange rates, taxation etc) and their impact on industrial development;
 - A conducive regulatory framework;
 - An efficient and effective standards, quality assurance, metrology and testing regime;
 - Building quality infrastructure (energy, road transport, communications, railways, airways and waterways);
 - Political stability and governance.
 - Special joint technical teams/working groups will be established to assist IMCF and carryout in-depth studies and analysis on the impact of these complementary measures and policies on the competitiveness of the EAC industrial sector; and make recommendations to the Inter-ministerial coordination Forum for appropriate decision making.

- iii) ***A regional steering committee on the Implementation of the EAC industrialization Action Plan*** will be established comprising of relevant stakeholders , and will be responsible for planning, mobilization of financial and non-financial resources needed for timely implementation of industrialization programmes and projects;
- iv) ***At national level, national industrial development coordination/consultative councils*** (committees) will be established to monitor and oversee implementation of key complementary measures required for structural transformation and accelerated industrial development. The national Industrial Development coordination councils (NIDCC) will prepare national visions for industrial development and ensure alignment of national visions with regional targets. The national councils will ensure that various Ministries whose policies and actions have impact on industrial development discharge their responsibilities as will be outlined in the national industrialization implementation Action Plan.

Programme Area 2: Capacity Building for effective industrial policy design, Management and implementation

Mounting an effective industrial policy in the context of global and regional environment where policy scope is continuously shrinking requires robust capacity to detect and assimilate emerging trends and policy best practices. In this context the state has to reposition itself as a facilitator of dynamic sources of growth through appropriate policy instruments and interventions to correct market failures and complement market successes. At the regional and national levels, there is dearth of the capacity for policy design and management and as a result, implementation of industry related policies and strategies has in some cases been inadequate, constrained by a number of factors, including poor governance and ineffective monitoring and evaluation mechanisms..

In view of re-emerging trend to use of industrial policy as a tool for socio-economic transformation, it is imperative that governments draw on lessons learned from successful peers and dynamic industrial locations, and indentify appropriate and new sources for industrial growth and their impact in terms of terms of employment, skills, wages and the environment, to ensure sustainable industrial development in the region. This however requires continuous capacity improvements through development of analytical skills, training, sharing of experiences, learning through peers, policy exchange programmes, awareness creation etc.

Programme Objective: The programme will aim to address challenges that have constrained effective industrial policy development/generation, policy performance monitoring and logic of policy hierarchies, at both national and regional level. Particularly, the programme will put in place mechanisms that will create awareness and enhance the technical and management capacities of national and regional public and private institutions charged with industrial development, to among others, equip them with skills that will allow for the efficient design, implementation and monitoring of industrial policies and programmes.

Actions/Interventions: Major activities/Interventions to be undertaken include:

- i) ***Stock taking of national and regional industrial policy design and management capacity*** needs and prepare a capacity building plan to enhance policy generation and implementation, at both national and regional level.
- ii) ***Conducting awareness raising seminars:*** Presently the importance of industrialization and the role of the EAC industrial development strategy and policy is still not widely understood, and neither has it been given due attention in relation to other regional policy priorities. Towards this end, seminars and conferences will be organized for high-level government

officials, Members of East Africa Legislative Assembly, Members of Parliaments at national level, and influential private sector representatives in the region to create awareness about the EAC Industrialization Policy and Strategy and facilitate internalization of required interventions and support measures, espoused within the documents. This initiative will not only enhance knowledge of stakeholders on the region's industrialization agenda, but also identify the right individuals for a "coalition of the willing" or "industrial development champions" that will jointly advocate for the industrial development to be accorded required priority.

- iii) **Conduct courses for civil servants and stakeholders** on industrial policy management at reputed universities and institutions. This will also entail introducing special courses on industrial development in University Curriculum.
- iv) **Designing and implementing industrial policy exchange programme in the context of South-South and North-South Frameworks.** This action will entail study tours for government representatives and industry stakeholders to selected dynamic industrial locations for understanding the effective policy and implementation mode.

Programme Area 3: Strengthening of National and Regional Industrial Data and Information Management Systems.

Creating a valid, authentic and reliable industrial database is a prerequisite for analyzing trends and advocating required policy responses. While many public and private institutions in EAC are involved in industrial data collection and monitoring, the data collection methodologies are not in harmony with one another and cannot evolve an appropriate database for integrated regional policy making and interventions. Constraints in the area of industrial statistics collection are compounded by the fact that a large segment of firms in the EAC industrial environment are in the informal sector.

The EAC Region lacks a systematic scheme for collecting, processing, storing and disseminating information on industry, largely because of insufficient institutional capacity. As a result, crucial policy choices are often flawed due to weak institutional capacity, the lack of information and insufficient private-public sector dialogue. As a consequence, governments are not able to develop realistic strategies based on thorough and objective analysis. In some cases, strategies cannot be implemented since the governments lack dedicated implementation teams staffed with skilled and committed technocrats.

To fill this gap, activities to generate strategic industrial data and intelligence and governance mechanism for policy design and implementation will be undertaken. This will involve generating data and information to support Partner States in the industrial policy making cycle, and undertaking capacity-building and facilitation activities. The programme will also train national and regional teams that design and implement policy and put in place national industrial intelligence functions including industrial observatories.

Programme Objective: The objective of the programme is to establish national and regional capacities for industrial competitiveness analysis and policy advisory services (industrial intelligence). A systematic scheme for collecting, processing, storing and disseminating information on industry, at both national and regional level will be instituted.

Actions/Interventions:

- i) **Establishment of Industrial Information Management and Dissemination Systems at national and regional levels** to facilitate creation of integrated and harmonized industrial

information systems. This will entail assessment of capacities at national and regional levels, as well as conducting baseline surveys to generate basic data for data management system.

- ii) ***'Setup regional and national industrial competitiveness assessment functions***, staffed with technical teams that act as think-tanks and industrial policy implementation advisers. The groups will play a crucial role in supporting the industrial policy process in EAC through the elaboration of several analytical outputs, including the Industrial Competitiveness report of the EAC, value chain reports of key strategic sectors, and technical notes/policy briefs, among others. The team will also monitor and evaluate the implementation of the EAC Industrialization Policy and Strategy as well as national industrial development policies and strategies.
- iii) ***Establishment of regional and national Industrial Observatory to monitor industrial development trends and micro-economic efficiency gains, constraints and prospects.*** This will involve setting up of an Industrial Observatory for the EAC region which will centrally monitor national and international industrial performance and capability indicators. Tracking systems will be put in place to ensure that industrial performance in the region and capability indicators are comparable to industrialized countries. The industrial observatory will undertake the following among others:
 - Monitor global and regional trends on industry and trade;
 - Benchmark regional and national performance at the macro and sectoral levels;
 - Benchmark the structural drivers for industrial competitiveness internationally and regionally;
 - Identify regional and country role models, immediate and future threats and assess their industrial path;
 - Monitor the impact of policy on the competitiveness of specific strategic sectors;
 - Assess the impact on other dimensions, including poverty and the environment

Implementation Arrangements for Programme Two and Three: The IDD, EAC Secretariat, will lead the implementation of the programme, supported by Partner States' Ministries charged with Industry and Investment Promotion, and national statistical bureaus.

Programme Area 4: Development of Industrial and Technical Skills Base.

To achieve resource-based industrialization specifically in the context of the identified strategic regional value chains, the current industrial skills shortage in the region needs to be addressed through key actions that lead to deliverable outcomes. The skill shortage is evident in two specific areas, namely soft skills and hard skills which are both essential for promoting sustainable industrialization in the region. All EAC Partner States are characterized by a large labour force of the age above 15 years; however, shortages of industrial and technical skill, especially in speciality industrial sectors are rampant. There is a general lack of industry specific skills, weak work ethics, low productivity and uncoordinated labour market regulations, and poor skills mix and productivity.

The Partner States are also faced with several challenges with regard to transferring knowledge and lessons learnt from one sector to another. Consequently, the Region cannot effectively compete internationally, particularly, in view of the constantly changing labour markets, technologies,

regulations and management practices. And yet public spending on human resource development within all the five Partner States is still inadequate, and the cost for skills development in tertiary institutions is very high. Collaboration with private sector through public and private partnership arrangement in skill development programme is vital.

Programme Objective: To improve the supply and quality of industrial skills in the manufacturing sector, and develop a pool of skilled individuals for the current and future needs of industry.

Actions/Interventions:

- i) **Diagnostic Analysis of Industry-Related Skills Gap**-At the national level, research and data collection on skills shortages will be undertaken especially in relation to industry-related skills gaps within the priority strategic regional industries. This **diagnostic analysis of industry** will guide curriculum development at the Higher Learning Institutions as well as the development of targeted training programmes intended to redress the skills shortage in the specific industry sectors.
- ii) **Revamping /Establishment of Institutions for Industry and Skills Development**-Regional and national training institutions will be identified and facilitated to align their skills training to the the needs of the priority strategic industrial value chains; and develop training courses that re-skill the existing workforce. This will entail strengthening of technical, Vocational and Industrial Training Institutes and designation of Centres of Excellence to provide relevant skills for industrial development.
- iii) **Formulation of a joint public-private partnership for industry-driven skill development**
To promote interface between university/other training institution and industry to ensure mutually beneficial relationship. Universities lecturers and students can acquire practical skills by working in industry , and similarly, industry workers can contribute to dissemination of practical knowedge by lecturing at universities and other trainig institutions. This programme will aim at enabling Industry to embrace the on-the-job-learning approach to respond to global skills trends within industry at both basic and technical levels. Further the programme will entail measures to facilitate skill and knowledge transfer between universities and industry as well as addressing legal and other regulatory constraint to fostering of viable relationship between industry and university. For the success of industry driven skill development programme the following should be explored:
 - o Governmnets should ensure that on-the-job training provided by individual companies are rewarded through, for example, tax incentives.
 - o Within each industrial sector, best practices and training guidelines should be shared among companies.
 - o In addition, industry should create opportunities for internships/learnerships and apprenticeships to ensure graduates gain the required skills for the workplace. This however require that national governments provide necessary insurance covers.
- iv) **Instituting public-private dialogue so as to ensure efficient linkages between institutions and industry.** Appropriate schemes will be evolved to help the private sector establish many

required institutions (e.g., training centers, testing and certifying laboratories, upgrading facilities) in a public-private partnership mode.

- v) **Development of guidelines and standards for the certification of 'informal skills' relevant to the identified industrial priority sectors-** This will entail establishing regional and national accreditation authorities for certification of informal skills; as well as establishing a process of accreditation for tacit and embedded skills
- vi) ***Institute a mechanism that will commit Partner States to provide insurance cover to manufacturers*** to enable them offer internship and apprenticeship opportunities to students and trainees.

It is envisaged that in the short to medium term, adequate implementation of the above activities, including encouraging vocational schools to put more emphasis on skills development, will create a large pool of skilled artisans and tradesmen ready for the job market in the formal and informal sector

Implementation Arrangements: The IDD, working closely with Partner States particularly with ministries responsible for industrial development and education, and Vocational Training Institutes, will play a lead role in implementing this action programme.

Programme Area 5: Enhancing access to affordable financial and technical resources for industrialization.

Limited access to finance and technical expertise always ranks high as a constraint to investment in EAC Partner States. The pool of domestic long-term savings in all EAC Partner States is small given the prevailing low saving rates to GDP ratio; the institutional framework for collateralisation and contract enforcement is not fully developed, while the financial systems in the region are still not fully developed to provide innovative financing as is the situation in emerging markets. Opportunity to bridge the technical and financial resource requirements for industrialization through FDIs and Technical Assistance channels have not been fully exploited partly due to disjointed or non-existence strategy to leverage these external resources.

Access to capital resources has been identified as a major constraint to industrial development and has had a disproportionate impact on large and small-scale industries. High and unstable interest rates in Partner States deter entrepreneurs from investing. Lack of adequate capital for lending by the development finance institutions (DFIs), stringent conditions for obtaining loans and high interest rates has been a major challenge to access investment capital for the industrial sector.

Programme Objective: To improve the availability of medium and long-term funds for financing manufacturing projects as well as foster joint and coordinated approach to accessing global and regional technical resources for industrial development

Actions/Interventions:

- i) ***Establish a Regional Industrial Development Fund (RIDF) and strengthening capacities of regional development finance institutions: The RIDF will be*** made up of facilities for medium and long-term credit and matching grants to firms in the manufacturing sector. The establishment of the fund will be assessed as a funding window within the framework of East Africa Development Fund (EADF).

- ii) **Preparation of information toolkit on available financial instruments for industrial development projects.** Awareness seminars/ campaigns/conferences will be organized to inform private sector on the available financial instruments in the region to address medium and long industry funding needs. This will include instruments such as venture capital, private equity markets and listing on the stock market.
- iii) **Establishment of Regional Credit Guarantee Scheme to enhance access to finance** (See Annex II for more details). This will form part of the regional initiatives to facilitate loan guarantees by credit-worthy regional and multilateral development banks to finance large public-private infrastructure and large scale industrial projects within the framework of regionally codified norms.
- iv) **Establish industrial cooperation agreements (MOUs) with selected strategic countries/regions** including East Asia, South Asia, Latin America, South America, and European in order to leverage financial and technical resources for industrial development. These initiatives will aim at defining specific areas of collaboration including industrial skills development and worker exchange networks, technology transfer networks, industrial information exchange networks etc.
- v) **Undertake an assessment study on the institutional arrangement for delivery of industrial financing**, identify gaps and prepare a comprehensive plan for increasing access to industrial finance. The study to entail
 - o exploring appropriate interventions including., government-sponsored loan guarantee schemes, to encourage responsiveness of banks and Non-banking financial institutions to industrial investment loan needs
 - o exploring measures aimed at financially strengthening EAC industrial financial institutions through higher capitalisation, higher investments, and higher savings
 - o assessing the feasibility of establishing specialized regional banks and Non-banking financial institutions for small industrial investors and long-term industrial development projects

Implementation Arrangements: The IDD, EAC Secretariat, in collaboration with Partner States' Ministries of Finance, and that deal with Industrial development matters will take a lead role in implementing this programme including establishing the Regional Industrial Fund.

6.1.3 SPECIFIC POLICY TARGET THREE: STRENGTHENING CAPACITY FOR R&D, TECHNOLOGY AND INNOVATION, AND SUSTAINABLE INDUSTRIAL DEVELOPMENT

The aim is to strengthen regional and national innovation systems and promote sustainable industrial development:

Programme Area 1: Enhancing the capabilities and capacity of national and regional R&D institutions to meet the needs of science, technology and innovation (STI) in the manufacturing sector

Research and development (R&D) has not received adequate financial support from in the region despite commitment by Partner States to increase their R&D budget to at least 1 percent of the national GDPs. The low R&D spending in public and private sectors is manifested by generally low capability of enterprises to compete and adjust to changes in the consumer demands and

preferences. Further industry exhibits low technological readiness in terms of low absorption rate of modern technologies, low firm level technology absorption, and weak FDI attraction and technology transfer. Over 60 percent of research and development finances come from foreign Aid and grants and other international assistance. As such foreign or other international institutions play a major role in outlining and providing guidelines on the manner in which these funds are to be utilised and areas for expenditure. As a result, the R&D products are often misaligned to national development objectives and priorities.

The coordination and linkages between universities, private and public R&D activities are often lacking thus complicating efforts to transfer knowledge and innovation from universities to end users. The required infrastructure for knowledge and innovation management such as science and technology parks, technology transfer centres/offices or intellectual property rights institutions are still under development.

Programme Objective: The overall objective of this programme is to strengthen linkages between university, Industry, government to facilitate rapid commercialization and diffusion of modern technologies into the manufacturing sector, and thereby enhance the sector's competitiveness.

Actions/Interventions: To address the challenges facing R&D, STI, at both national and regional level, the following activities will be undertaken:

- i) ***Preparation of regional Action Plan for the upgrading and modernizing science, technology and innovation infrastructure*** to support structural change and value addition. A mapping study will be undertaken to assess the regional and national innovation systems including legal, regulatory and other challenges containing interaction between universities, research center and industry, and an intervention strategy prepared.
- ii) ***Carryout a feasibility assessment on the establishing a regional center for technology transfer and diffusion (CTTD)*** to address the apparent disconnect between university, industry and government and facilitate commercialization of R&D products. The CTTI will play an important role including: informing and discussing with enterprises opportunities for technology transfer, training, identification of suitable technologies for commercialization; assisting in negotiations and drafting technology transfer agreements, and identifying sources for funding commercialization of research products etc
- iii) ***Establishment of a framework for an EAC Industrial Research and Technology Development Institute*** to spearhead exploratory and adaptive research and innovation initiatives geared towards building technological capability for knowledge based and high tech manufacturing in EAC region. Preliminary assessment studies will be undertaken to determine modalities for establishing the institute. The institute will aim to address the challenges of fragmented research and development initiatives in the region and facilitate undertaking of collaborative R&D and innovation, sharing research results and dissemination of the findings to industry.
- iv) ***Carrying out a review of Intellectual Property Rights (IPR) regimes in the region with a view*** to harmonization and/or strengthening of IPR protection infrastructure and capabilities in the region. The IPR systems have become an area of concern for most businesses in the East Africa Region following the high incidences of counterfeiting and influx of pirated products in the region. This has created disincentive for local industries that have capacity to fund research and development to expand capacity either at firm level or in academic institutions.
- v) ***Establishment of a regional industrial Research and innovation fund (IDIF)***; and a matching grant scheme to support collaborative research and technology development initiatives in the region.

- vi) **Developing a sensitization programme to promote ICT adoption and the utilization of new and emerging technologies in major research intensive industrial sectors**
- vii) **Conducting assessment of Partner States implementation of the commitment by African Heads of States and Governments (Under the Lagos Plan of Action) to increase funding to Research, Science and Technology to at least 1% of national GDP**

The above activities are intended to increase the adoption and adaptation of modern technologies into the manufacturing sector, and thereby increase the sector's technological competitiveness.

Programme Area 2: Enhance National and Regional awareness on the importance of science, technology and innovation in the region.

The importance of science, technology and innovation in boosting enterprise competitiveness and sustaining economic growth need not be over-emphasized. In a highly globalized business environment where firms face competition from internal and external sources, it is paramount for all stakeholders in the entire innovation systems to appreciate and understand their specific roles and the contribution they can make towards technology creation and deployment.

In a number of African countries creation of new knowledge is still confined to government research institutes and universities, and these tend to be isolated from the production system due to the lack of proper incentive systems to commercialize existing research findings. As a result, businesses remain detached from the production of knowledge, limiting both their competitiveness and economic development

It is observed that firms in the region are reluctant to undertake R&D due to the high initial costs involved, while some private sector view research activities as an unnecessary expense, fraught with risks, that does not yield immediate results. Proper incentive systems therefore need to be devised to encourage private sector involvement in research and development. On the other hand, while significant progress has been made by universities and public research institutes in carrying out research and development in various segments of industry, there have been little corresponding efforts to popularise the ideas developed in such institution and bring them to the market. The interactions between universities, industry and government within EAC remains limited, while efforts to synergise with other research and technology organization are being pursued in fragmented manner. There is therefore a need to institute measures that will create awareness on the importance of science, technology and innovation among the various stakeholders in the innovation system, while fostering collaboration with similar organizations outside the region..

Programme Objective: This programme will aim at scaling up the overall level of adoption of science, technology and innovation in industry through awareness campaigns as well as pursuit and adoption of appropriate technology transfer models.

Actions/Interventions: Main activities that will be undertaken will include;

- i) **Establishment of a Regional Platform for interaction among Academia, Research and Technology Organizations (RTO) and Industry.** This will entail stock taking of collaboration needs from university, industry and public research(entities including joint R&D projects, internship, training conferences & seminars, trade fairs, and exchange programmes among CEO of RTOs) in the context triple helix¹³ framework.

¹³ Triple Helix Collaboration involves the Government, Academia and Industry

- ii) **Organize regional and South to South R&D institutional study tours** for best practice sharing and bench marking as a foundation for active collaboration.
- iii) **Establish a regional match making scheme (technology brokerage) involving local and international technology suppliers, private sector and R&D institutions.** The Pan African Agribusiness and Agro-industry Consortium (PanAAC) can be approached to offer mentoring and matchmaking services to MSMEs in the EAC Region
- iv) **Organising periodically, regional industrial technology and innovation conferences/exhibition** to show case latest advances in industrial technology and their applications Carrying out a review of the fiscal and non-fiscal incentives regimes with a view to coming up with improved systems to support and encourage private sector involvement in adaptive R&D and innovation. The system should include provision of grants and tax incentives for R&D undertaken by enterprises in co-operation with universities and institutions
- v) **Creating a consortia of SMEs involved in R&D to reduce the high initial cost of doing research** at enterprise level and scale up R&D activities undertaken by SME. An attractive fiscal and non-fiscal incentives will be formulated to encourage formation of consortia.
- vi) **Application/use of Public procurement to stimulate demand for technology and innovative products** development in the region. A task force should be established to review the public procurement systems with a view to coming up with a workable formula and the sectors to be targeted
- vii) **Creating a networking R&D interactive web portal for real time dissemination and exchange of STI information**
- viii) **Prepare a catalogue of successful industrial innovation stories in the sub-Saharan region, which** can be replicated, including the need to develop Regional Science and Technology Parks, the use of ICT to enhance research and development activities, and the absorption of emerging technologies

Implementation Arrangements: The IDD, EAC Secretariat, will work closely with research institutions, technology transfer organizations and Private Sector Associations to increase the overall level of science technology, research and development, and innovation available to the industrial sector.

Programme Area 3: Promotion of Sustainable Industrialization and Environment Management

Sustainable industrial development involves striking an appropriate balance between development pursuits, cultural consideration and basic needs on one hand and the protection and preservation of the natural environment for the current and future generations on the other hand.

Some of the environmental challenges the region is facing regarding industrial sector development include disposal and/or recycling of industrial wastes and emissions, inefficient use of energy and other material inputs, production of non-recycled plastic materials and other hazardous chemical wastes, continued use of firewood as source of energy in boilers for steam generation, and increased use of conventional energy sources (coal, oil based and wood fired) leading to green house gas (GHG) emissions

EAC Partner States are also faced with pressure from national and international obligations to conserve environment and curb degradation caused by increased human activities in mining, quarrying, industrial pollution and deforestation. With regard to pollution, a greater extent been

has impinged on land, air, water in urban centers. Areas close to large polluting industries such as chemical processing are most affected. Increased pollution without clear laws on polluter pays principle is a major impediment to creating a good business environment in the Region.

Furthermore, there is growing trend internationally to address a number of issues touching on Corporate Social Responsibility including labour standards, worker health, child labour, poverty and environmental impacts.

Programme Objective: To ensure environmentally sustainable industrial production and development, and compliance with relevant environmental regulations by manufacturing firms

Actions/Interventions: In order to achieve environmentally sustainable industrialization in the region, the following activities will be undertaken:

- i) Establishment/strengthening of national and/or regional centres for effective delivery of resource efficiency and cleaner production (RECP) services in all sectors ;
- ii) Facilitate MSMEs with adoption of relevant international certification, standardisation and occupational health and safety schemes for sustainable industrial development.
- iii) Harmonization of standards and principles that all companies must adhere to regarding CSR.
- iv) Setting up networking among the NCPCs and other RECP service providers in the region, to ensure effective dissemination of information and resources and foster peer learning and capacity development
- v) Development and implementation of legislative and regulatory framework to promote waste avoidance, prevention, reduction, reuse and recycle.
- vi) ***Upgrading of capacity of R&D institutions to offer technical support towards sustainable industrial development.*** This will in addition entail establishment of an information system on best alternative environmental technologies, and clean technologies for industry. Developing a capacity building programme for selected industries to comply with External Environmental Standards and Legislation. This will entail creation of capacity to understand the implications and ensure compliance with international environmental standards

Implementation Arrangements: The IDD, EAC Secretariat, will collaborate with the Partner States' Ministries charged with environmental issues, to implement this programme.

6.1.4 SPECIFIC POLICY TARGET FOUR: PROMOTING EQUITABLE INDUSTRIAL DEVELOPMENT AND GENDER EQUITY

Disparities exist among, and also within, the EAC Partner States in terms of economic performance, as measured by GDP per capita. And there are disparities in social indicators, as measured by the United Nations Human Development Index. These disparities are partly a reflection of the governance challenges faced by different partner states, but they are also a manifestation of differences in the levels of infrastructural development and gaps in the quality of the business climate in the respective Partner States.

Fundamental to attainment of equitable industrial development entails creating of sound infrastructure for industrial development and ensuring a competitive business environment prevails for domestic and foreign investors. Partner States must commit to implement national industrial development strategies and creating the most attractive business environment is paramount.

Programme Area 1: Improve access to competitive factor conditions, including agricultural or mineral raw materials, energy, infrastructure, and skilled labour productivity, among others.

With respect to infrastructure, the EAC Region faces several infrastructural challenges, which have significantly constrained accelerated development in all the five Partner States, though, at varying degrees.

The region's railway network is antiquated and unable to meet the demands of a 21st economy. The railways are unable to haul cargo efficiently and cost effectively leading to enormous damage of the Regions road network.

While the state of the region's roads can be described as fair, specific road infrastructure constraints relate to: (i) inadequate investment in capacity and maintenance of existing roads, and (ii) inadequate but improving regional legal and regulatory framework to enable coordination of roads development initiatives.

The region also possesses huge energy production potential although most of this energy resource remains underdeveloped. There have been significant improvements in the availability of ICT services, with mobile phone usage trail blazing the way.

Programme Objective: This programme will aim at supporting, national and regional initiatives in the development of cross border infrastructure, for promotion of intra-regional trade and lowering of transaction costs, especially for land-locked Partner States.

Actions/Interventions: Main activities that will be undertaken will include:

- i) **Map infrastructure requirements for the development of selected strategic regional industries** where each Partner States has comparative advantage. This will create necessary conditions for investors to exploit available investment opportunities in each Partner States.
- ii) Advocate for adequate implementation of ongoing regional initiatives including road master plan, rail master plan, energy master plan, upgrading of harbours and airports.

Implementation Arrangements: The Industrial Observatory and Competitiveness Unit of the IDD will implement the above activities and advise the EAC Sectoral Council on Industrialization.

Programme Area 2: Sustain current efforts to improve the business climate in the region, including the policy environment, institutions, public administration, and the availability of supporting services.

A conducive business environment is a critical enabler for East Africa's industrialization efforts. The region faces significant challenges in terms of inappropriate regulation, inequitable and uncompetitive business practices, policy unpredictability and inconsistency that restrict investment and market growth, legislative and regulatory practices that stifle entrepreneurship, among others.

Although Partner States have made some progress with regard to improvements in their respective regulatory environments, improvement in the quality of the business environment has been uneven with Rwanda making significant improvements while progress among other EAC Partner States remains modest. The 2011 Africa Competitiveness report shows that EAC countries still face

significant challenges with regard to the quality of the business environment under which they operate (WEF, ADB, WBG, 2011).

A sharper focus on building a quality legal and regulatory framework for businesses, including manufacturing enterprises, will enable EAC build credibility and respect for the legal and regulatory regime, overcome capacity constraints, pool resources and share overhead costs.

Programme Objective: To institute a conducive business environment for the development of industrial sector and entrepreneurship, at both national and regional level.

Actions/Interventions: Main activities that will be undertaken will include;

- i) ***Strengthen the capacity of the private sector to engage in policy dialogue with the government.*** The enterprise competitiveness analysis unit within the Secretariat will provide private sector with requisite analytical inputs for engagement with policy makers at national and regional level. Round table fora will be set up to facilitate dialogue between public and private sector. Each of the strategic value chains will have a corresponding roundtable forum. Country competitiveness analysis report and bench-marking report of the factor conditions will be used to gauge Partner States progress towards creating competitiveness conditions for industrial development.
- ii) ***Complement current efforts (through the provision of advisory services) at national level in the conduct of investors' surveys*** to monitor state of business environment in the region and present feedback in roundtable meeting of private and public sector. Investor survey reports from the five Partner States will be presented and discussed during the meeting of the proposed inter-ministerial coordination forum or the Sectoral council on industrialization.
- iii) ***Develop a coherent incentive framework to ensure evenly spread investment in all Partner States. This will entail working with*** the Ministries of Finance and other agencies to identify disparities in structure of fiscal and non-fiscal incentives among Partner States and designing of measures for harmonization of the incentive schemes to create a level playing field for all investors; and avoid race-to-the-bottom. This will ensure that investors are attracted on the basis of efficiency of facilitation services thereby triggering competition for improving investment facilitation services.
- iv) ***Increase linkages of business enterprises and supporting organizations in EAC region through cross-border business partnership;*** cross border joint ventures; supplier's development programme and improved trade in inter-mediate and other inputs. This will be achieved by ***establishing a network of Sub-contracting and Partnership Exchanges (SPX)*** to link local MSMEs as suppliers to large local enterprises and foreign investors; developing national capacities to promote establishment of new enterprises, building institutional capacities for better research, policy advocacy and targeted.

Implementation Arrangements for Programme Two and Three: The IDD, EAC Secretariat, supported by Partner States relevant organizations including ministries responsible for industrial development, Investment promotion agencies, export promotion agencies EABC and Manufacturers Associations, among others, will lead in implementation of this programme

Programme Area 3: Promoting Gender Equity and enhancing the role and contribution of women, youth and other marginalized entrepreneurs in the development of the industrial sector, at both national and regional level.

In the current situation, substantial efforts have been made in all Partner States to include women and youth in the development agenda. However women and youth are still marginalized in employment, in accessing funds from financial institutions, education, and leadership and in development programmes. They are the majority in the region hence very important in driving the economic growth of the Partner States.

Programme Objective: This programme will, through policy advocacy and awareness campaigns, aim at promoting gender equality, to among others, enable women and youth identify and seize economic opportunities that lead to decent and productive work. The programme will advocate for a conducive institutional, legal and regulatory environment that is gender-responsive and enables women and youth entrepreneurs to have equal access to business premises, productive assets and financial capital to start, improve and grow their businesses

Actions/Interventions: Main activities that will be undertaken will include:

- i) *Liaise with national institutions charged with gender development to organize a regional forum* for women and youth organizations in business or association to develop strategies for the effective participation of women and youth in manufacturing or industrialization.
- ii) *Provision of gender analysis as one of the key responsibilities of the industrial observatory/competitiveness unit.* The Unit would undertake regular surveys (every two years) with emphasis on women employment, compensation, promotion, training, working conditions, access to credit and involvement in industrialization. Use the findings to influence policies at EAC and Partner State levels

Implementation Arrangements: The IDD, EAC Secretariat, supported by Partner States Industrial Bodies charged with Industry, Gender, the EABC and Civil Society Organizations will lead in implementation of this programme.

6.1.5 SPECIFIC POLICY TARGET 5: SME DEVELOPMENT

The aim is to transform Micro Small and Medium Enterprises into competitive enterprises capable of contributing up to at least 50 percent of manufacturing GDP from 20 percent base rate.

Programme Area 1: Support the establishment of, and the expansion of incubation facilities at Partner State level so as to promote all-inclusive industrial development within the region

There is no readily available literature on status and number of incubation facilities in the five Partner States. Nonetheless, it is clear that MSMEs within the States could accrue substantial benefits from a growth in number of well managed business incubation facilities in the region, given the challenges they face, particularly in their early stages of growth. Available literature suggests that several MSMEs in the region have not been able to survive beyond their first year of operation, because of a myriad of challenges, including lack of access to finance, and inadequate entrepreneurial skills, among others

In the generic sense, the term ‘business incubation system’ is used to describe a wide range of organizations that, in one way or another, help entrepreneurs develop their ideas from inception through to the launching of a new enterprise, with further support provided during the operation of the new venture. Full service business incubators may offer space to tenant businesses, and provide office services as well as meeting the technical needs of the entrepreneur with regard to marketing, business organization, finance, advisory and consultancy.

Programme Objective: To promote the growth of innovative business incubation facilities, designed to minimize risk, stimulate investment and promote enterprises of different capacities, scale and geographic mix.

Actions/Interventions:

- i) ***Mapping of MSMEs clusters with high growth and development potential at national level*** and design an incubation programme to support cluster growth. This will entail assessing Partner States progress in implementing MSME incubation projects, identifying gaps and remedial measures
- ii) ***Development of cluster twinning programme to support the exchange of knowledge and best practices*** on cluster development among Partner States; and with clusters in the global market. This will enhance integration of MSMEs into regional and global value chains through access to knowledge and market information.

Programme Area 2: Formulation of a Regional MSME Policy¹⁴ including Charter on regulatory burden on MSMEs to ensure coherent and coordinated development in the sector.

Small and medium enterprises in the region represent more than 90 percent of business establishment and are key drivers for economic growth, innovation, employment and social integration. The sector however faces a myriad of challenges including over regulations and sometimes cumbersome laws and regulations, multiplicity of administrative systems centres of authorities, lack of centralized business and technology extension services and lack of financial instruments tailored to the needs of the sector. Further, lack of common approach and definition of MSME constitute a major impediment to regional approach in support for the development of the sector. The development of MSME sector has the potential for deepening regional integration, creating national and regional cohesion and ensuring balanced development across the region.

Programme Objective: To create a policy framework focused on minimizing regulatory burden and improving the prospects for upgrading the sector to enter regional and global value chains.

The policy will aim at promoting successful entrepreneurship, and improving business environment to allow them to realize full potential in the common market and global integration. The policy will address harmonization of schemes and institutional arrangements for coordination, definition issues, business linkages, appropriate response to impact of global integration including appropriate safety nets, access to public procurement, facilitating their integration into the regional value chains etc.

Actions/Interventions:

- i) ***Formulation of a regional SME Charter.*** This will entail undertaking audit of laws and regulations impacting on development of MSMEs, particularly laws pertaining to business registration, bankruptcy laws, start-up procedures, taxation, entry and exit requirements, sector restrictions; and national institutions with supervisory/regulatory oversight on MSME. This exercise will include assessment of preferential treatment for MSMEs prevailing at national level. Based on the audit report, prepare a comprehensive MSME policy and a charter for small businesses based on good practices at national, regional and international level.
- ii) Review Partner States progress in instituting MSME Policies, and, where gaps are identified, collect relevant information to develop a harmonious Regional MSME Policy

¹⁴ The development of the Regional MSME Policy has been adopted, basing on recommendations on a study conducted by Ernst & Young on the MSME Sector in the Region

Programme Area 3: Develop an EAC SME Business Information Portal to facilitate access to information that will enable MSMEs make the most of the common market.

MSMEs in the EAC Region are not able to meet the challenges of globalization mainly due to lack of Information and Infrastructure to access and disseminate information. The high cost of Internet accessibility, lack of awareness on Products, Technology, Quality and Competition (Market) coupled with high cost of procurement of authentic information have led to almost a ‘Digital Divide’ between those who have access to Information and those who have not.

Programme Objective: Set up a consolidated web-based information portal on all services provided by the EAC Community to MSMEs, including business services available at Partner State level, rules for doing business in the community, potential business partner and government contracts, technology service providers, and existing financial instruments, among others.

Actions/Interventions:

- i) ***Mapping of information requirements for small and medium enterprises.*** Cluster approach will be used to gather relevant information for MSMEs and a register of potential service providers prepared.
- ii) Design an SME Business Information Portal and uploading of relevant information for MSME.

Programme Area 4: Formulate and implement a regional Upgrading and Modernization Programme for SMEs¹⁵

The upgrading programme will address four areas which are vital for transformation of MSME businesses to modern and high value added economic activities. The areas are; (i) rendering regulatory and business environment more conducive and supportive to MSME development; (ii) strengthening technical support infrastructure for MSME development; (iii) improving firm level productivity/boosting MSME competitiveness through productivity improvement programmes and good management practices; and (iv) promoting technology and innovation among MSMEs.

Programme Objective: To improve the trade and productive capacity of MSMEs to enable them upgrade to high value added economic activities and modernize their businesses practices

Actions/Interventions:

- i) ***Development of Sound Regulatory and Institutional Framework for MSME development***
 - Conducting thorough analysis of the present institutional, regulatory, business and financial networks to all aspects and stages of MSME development and operations
 - Designing Action Plans for the introduction of reforms in the institutional and regulatory framework, business environment, and financial instruments related to the development of manufacturing MSMEs in the Region.
 - Designing and formulate comprehensive packages of policy actions and incentives for enhancing MSME development (A list of incentives that will be promoted at both National and Regional Level is presented in Annex II - Regional Industrial Promotion (Incentives) and Award’s Scheme)

¹⁵ This programme complements a project that has been approved by the Secretariat, and funded by the United Nations Industrial Development Organization (UNIDO) on Industrial Upgrading and Modernization of the Region, targeting MSMEs

- Introducing new financial instruments for MSMEs and upgrade existing financial mechanisms to enhance access to affordable finance to MSMEs at their different stages of development
- Strengthening capacities of national and regional institutions that directly deal with MSMEs

ii) Strengthening technical and quality support infrastructure for MSME development

- Mapping of existing national and regional technical support institutions in charge of MSME development and employment promotion
- Conduct a thorough diagnostic assessment and develop action plans for upgrading of three to four technical support, advisory, employment and vocational training institutions in each of the five Partner States
- Reinforce the capacities and capabilities of selected technical support institutions (2-3 institutions per Partner State) through training, and study tours, among others
- Build capacity of eight vocational training centres in priority manufacturing sectors (strategic regional industries)
- Provide training for 150 national experts, trainers, engineers and technicians on approaches and methodologies in following disciplines; (i) project formulation and appraisal, (ii) development and creation of MSMEs, (iii) entrepreneurship promotion, and (iv) IT communication and e-learning
- Promote cooperation between technical support institutions and harmonize their activities across the region

iii) Boosting selected MSME competitiveness through productivity improvement programmes

- Conducting at least eight strategic positioning studies for selected niches in the agro-food industries, leather and leather products and pharmaceuticals value chains in the Partner States
- Conduct diagnosis and prepare upgrade plans based on cluster and value chain approaches developed and implemented by selected pilot private MSMEs (at least 10 MSMEs per Partner State), operating in the agro-food industries, leather and leather products value chains
- Assess investment needs of at least 10 MSMEs in each of the five Partner States, and scout for investment opportunities for the MSMEs
- Provide entrepreneurial capacity building (combined with IT) for at least 100 entrepreneurs in each of the five Partner States
- At least 10 MSMEs in each of the five Partner States assisted in identification and access to financial mechanisms - credit lines, mutual guarantee schemes, and private equity
- Services of existing National Cleaner Production Centres (NCPCs) extended to selected groups of enterprises
- Create selected investment and export promotion opportunities in international markets for MSMEs, through the UNIDO-TIPO network, participation in specialized trade fairs and B2B programmes

Implementation Arrangements: The IDD, EAC Secretariat, in close collaboration with Partner States' Ministries charged with Industrial Development, Finance, Education and Investment Promotion Agencies and MSME Associations will implement this programme.

6.1.6 SPECIFIC POLICY TARGET 6: INCREASING EXTRA AND INTREA REGIONAL TRADE IN MANUFACTURED PRODUCTS

The aim is to increasing the contribution of (i) intra regional manufacturing exports from 5percent to at least 25 percent by 2032 and (ii) increasing the share of manufactured total exports to at least 60 percent from an average of 20 percent

Programme Area 1: Strengthen business and regulatory environment for industrialization, to increase the competitiveness of manufactured products within the region and international markets

Programme Objective: To increase the competitiveness of manufactured products from the region by improving competitiveness factors, strengthening the business and regulatory environment and provision of necessary infrastructure support services

Over the last decade, the EAC has recorded steady improvements in international trade performance with exports reaching USD 9.8 billion in 2009. EAC regional trade has however not grown as fast as desired and intra-regional and international trade remains raw material dominated. This reality reflects EACs urgent need to industrialize; based on the region's comparative advantage and capacity to compete. Significant challenges still exhibit with regard to the manufacture and export of value added manufactured exports in the context of enhanced global competition partly occasioned by the WTO trade regime.

Further, Non-Tariff barriers (such as multiple roadblocks, numerous weighbridges, and corruption) continue to hamper regional trade. Since 2008, when NTBs were identified (33 at that time and 47 in 2010), the majority have not been eliminated.

Actions/Interventions: Main activities that will be undertaken will include;

- i) ***Carryout benchmarking of trade and production competitiveness of selected manufacturing industries.*** The aim is to identify major trade competitiveness challenges of the selected manufacturing sector and the prepare a response strategy.
- ii) ***Establish business regulations and industrial competitiveness monitoring systems*** to, among others, guide the Partner States on areas that need to be attended to enhance competitiveness of the Region
- iii) Complement (through fast-tracking of progress) current efforts at national level in the elimination of Non-Tariff Barriers (NTBs) and Technical Barriers to Trade (TBTs) that affect trade in manufactures across the borders.

Programme Area 2: Enhancing Access of manufactured products to global and sub-regional Markets

Access to international markets to support value added manufacturing in East Africa could be significantly aided by access to Global Value Chains (GVCs). Global Value chains seek to take advantage of variations in competitiveness and cost advantages among producers and countries.

Participation of EAC industries entails establishment of business relationships with well established players in the field.

According to UNCTAD (2010), cooperation within a network of upstream and downstream partners can enhance a firm's status, information flows and learning possibilities as well as introduce new business practices and more advanced technology.

Successful participation of local firms in global value chains may therefore be contingent on support interventions including human resource development measures, business linkages with scientific and research organizations, continuous upgrading of processes.

For domestic MSMEs, the participation in a GVC brings many potential advantages, such as transfer of know-how and technological upgrading, but it has also some downsides, mainly related to the economic dependence and power imbalance that may characterize GVCs.

Programme Objective: To raise capability of manufacturing sector to meet global and international market requirements and stimulate demand for manufactured products in the region

Actions/Interventions: Main activities that will be undertaken will include;

- i) Develop quality assurance, product certification and traceability schemes for manufactured products to meet regional and international market requirements
- ii) Develop Strategy to support the enhancement of packaging and branding of manufactured products within the Region. This will include organizing packaging exhibitions and promoting packaging design and technology services provision.
- iii) Support the development of Regional brands and promote awareness campaigns on regional brands.
- iv) Develop regional procurement initiative to support locally produced manufactured goods as an affirmative action (an inventory of such products will be prepared).
- v) Create awareness on export requirements including rules of origin among others to relevant stakeholders (exporters manual will be prepared)
- vi) Develop a regional special economic zones (SEZs) framework to support intra and extra-regional exports of manufactures products.
- vii) Set up a regional export award scheme to encourage export expansion of manufactured products

7.0 IMPLEMENTATION AND COORDINATION ARRANGEMENTS

The EAC Secretariat will be responsible for the overall management and coordination of implementation of the Action Plan during the five years in which it will be implemented. The Department of Industrial Development at the Secretariat will work in close collaboration with Partner States' Ministries charged with Industry, Finance and Education. The Department will also work with the private sector (Manufacturers' Associations and Private Sector Associations) Science, Technology and Innovation Councils and Development Partners.

The EAC Sectoral Council and Sectoral Committee on Industry will provide an oversight and advocacy role to the IDD, to complement its coordination roles. The Sectoral Council and Sectoral Committee will also provide guidance and direction on industrial development within the region. The Sectoral Council will be supported by the Sectoral Committee on Industry which will be responsible for technical matters and advising the Sectoral Council accordingly.

The national industrial development coordination/consultative councils (committees) will monitor and oversee implementation of key complementary measures required for structural transformation and accelerated industrial development. The national coordination councils will prepare national visions for industrial development and ensure alignment of national visions with regional targets. The national councils will also hold various Ministries charged with Industrial Development accountable for failing to deliver the different responsibilities they have been assigned in implementing the Action Plan.

To ensure effective public-private sector dialogue in implementation of the Action Plan (2012 - 2017), bi-annual fora will be convened to strengthen consultations and provide dialogue between the EAC Secretariat, Partner States, and the private sector. From the fora, views on pertinent industry related issues that have emerged during the course of the Action Plan will be discussed and corrective measures taken. The dialogue will be convened by the IDD, EAC Secretariat.

8.0 MONITORING AND EVALUATION

8.1 Monitoring of the EAC Action Plan (2012 - 2017)

The monitoring of the Action Plan will comprise continuous and systematic collection and analysis of information (data) in order to inform the Secretariat and key stakeholders the extent to which progress against stated goals and objectives has been achieved

Two industrial assessment exercises will be conducted, first at the endorsement of the Action Plan to provide baseline data, and subsequently at the end of implementing the Action Plan to support impact evaluation.

The IDD, EAC Secretariat, will lead in monitoring the Action Plan, supported by the Sectoral Committee on Industry, and Partner States' Ministries charged with industrial development. The EAC Sectoral Council on Industrialization will play an oversight and quality assurance role.

8.2 Evaluation of the EAC Action Plan (2012 - 2017)

The evaluation of the EAC Action Plan will entail planned and periodic assessment of results in key areas (e.g. appropriateness, effectiveness, efficiency, impact and sustainability). The evaluation will build on the monitoring process by identifying the level of short to medium-term outcomes and longer term impacts achieved; the intended and unintended effects of these achievements; and approaches that worked well and those that did not work well; identifying the reasons for success or failure and learning from both.

Two main evaluations, a mid-term review in 2014 and a Terminal Evaluation in 2017, will be conducted.

9.0 SCHEDULE OF REPORTING

During the implementation of the Action Plan, the IDD will produce or coordinate the preparation of a series of structured reports. Below is a description of the reports;

- A programme inception report will be produced by the end of September 2012. The programme inception report will cover start up activities in implementing the Action Plan. Major start up activities will include operationalizing the EAC Sectoral Council on Industrialization, the Sectoral Committee on Industrialization, and the Industrial Observatory and Competitiveness “Unit” within the IDD.
- After the inception phase, progress reports will be prepared by the IDD, on a quarterly basis, with input from Partner States’ Ministries charged with industrial development.
- A mid-term review will be conducted after two years of implementing the Action Plan, to assess progress in achieving programme objectives and results. The review will be undertaken by a team of independent consultants, with appropriate technical expertise in thematic areas of industrialization. The terms of reference and composition of team of consultants will be determined by the IDD, EAC Secretariat
- Final evaluation will be conducted at the end of implementation of the Action Plan. The evaluation will be undertaken by a team of independent consultants, and coordinated by the IDD, with support from Partner States’ Ministries charged with industrial development. The final evaluation report will provide an assessment of the extent to which the objectives and outputs of the Action Plan have been achieved within the specified timeframe and resources. The report will be reviewed by the EAC Sectoral Council on Industrialization, and will be subjected to stakeholder validation.

Table 1 below outlines a summary of key milestones in implementing the Action Plan

Table 1: Key milestones in implementing the Action Plan

Period	Activities
July 2012- June 2013	<p>Inception Phase: The inception phase is intended to lay a firm foundation for implementation of the Action Plan (2012 - 2017). Main activities in this phase are all institutional related. They include;</p> <ul style="list-style-type: none"> • Establishment of the EAC Sectoral Council and the EAC Sectoral Committee on Industrialization • Establishment of an Inter-Ministerial Coordinating Forum • Establishment of a National Industrial Development Councils (Committees) • Setting up an Industrial Observatory and Competitiveness Function within the IDD, EAC Secretariat • Setting up an effective regional industrial information management and dissemination system • Addressing capacity gaps for industrial policy design, management and implementation at National and Regional level • Compiling a list of key contact persons that the IDD will liaise with within the five Partner States
July 2013 - December 2017	Full implementation of the Action Plan will commence in the third

	quarter of 2012 and end in 2017
Annual work plans/budgets	During the course of implementation of the Action Plan, detailed annual work plans and budgets will be prepared for each programme
Mid-year Performance Assessment (Beginning December 2013)	Performance assessment reports will be compiled by the IDD biannually (every six months). The assessment reports will be subjected to stakeholder validation and submitted to EAC Sectoral Council on Industrialization for approval
Mid-term Review (2014) and Final Evaluation (2017)	Comprehensive evaluations will be undertaken by independent experts at two stages (in 2014 and 2017), to assess progress and examine strategies for deepening outcomes and impacts of key interventions required to position the region on a sound platform for structural transformation and sustainable growth path

10.0 THE ACTION PLAN BUDGET

The budget for implementing the Action Plan (2012 - 2017) is delineated in Table 2 below;

Table 2: The Specific Policy Targets and the Budget Line per Programme

Specific Policy Target	Programme Areas	Budget (US \$)
Specific Policy Target One: Diversifying the manufacturing base and raising local value add from 8.62 percent to at least 40 percent in 2032	• Programme One: Promoting Development and Investment in Strategic Regional Industries within sectors in which the region has potential comparative advantage	7,500,000
	• Monitoring and Evaluation	750,000
Specific Policy Target Two: Strengthening Institutional Capacity for Industrial Policy Design, Management and Implementation	• Programme One: Strengthen and establish an effective Regional framework for Industrial Policy Design, Management and Implementation	300,000
	• Programme Two: Capacity Building for Industrial Policy Design, Management and Implementation	3,100,000
	• Programme Three: Strengthen National and Regional Institutional Capacities for Industrial Information Management	3,800,000
	• Programme Four: Enhancement of Industrial and Technical Skills Development	2,900,000
	• Programme Five: Enhance Access to Affordable Finance for Industrialization (Financing and Resource Mobilization for Industrial Development)	3,000,000
	• Monitoring and Evaluation	1,270,000
Specific Policy Target Three: Strengthening Research and Development; Technology and innovation as well as Sustainable Industrial Development	• Programme One: Enhance the capabilities and capacity of national Research and Development institutions to meet the needs of science and technology in the manufacturing sector	650,000
	• Programme Two: Enhance National and regional awareness on the importance of	600,000

Specific Policy Target	Programme Areas	Budget (US \$)
	innovation, science and technology and R&D in the operations of the private sector enhance	
	<ul style="list-style-type: none"> • Programme Three: Promotion of Sustainable Industrialization and Environment Management 	1,800,000
	<ul style="list-style-type: none"> • Monitoring and Evaluation 	300,000
Specific Policy Target Four: Promoting Equitable Industrial Development and Gender Equity	<ul style="list-style-type: none"> • Programme One: Improve access to factor conditions, including agricultural raw materials, infrastructure and labour productivity, among others 	1,300,000
	<ul style="list-style-type: none"> • Programme Two: Sustain efforts to improve business climate in the region, including policy environment, institutions, public administration and the availability of support services 	900,000
	<ul style="list-style-type: none"> • Programme Three: Enhance the role and contribution of women and youth entrepreneurs in the development of the industrial sector, at both national and regional level 	No Budget (This programme will be catered for by national and regional budgets that have been allocated to relevant institutions to implement related initiatives)
	<ul style="list-style-type: none"> • Monitoring and Evaluation 	200,000
Specific Policy Target Five: Transforming Small and Medium Enterprises into viable and sustainable business entities capable of contributing up to 50 percent of manufacturing GDP from 20 percent base rate	<ul style="list-style-type: none"> • Programme One: Support the establishment of incubation facilities at Partner State level, so as to promote all-inclusive industrial development within the region 	1,000,000
	<ul style="list-style-type: none"> • Programme Two: Formulation of a Regional MSME Policy including a Charter on regulatory burden on MSMEs, to ensure coherent and coordinated development within the sector 	1,000,000
	<ul style="list-style-type: none"> • Programme Three: Develop an EAC MSME Portal to facilitate access to web-based marketing of MSME products 	1,300,000
	<ul style="list-style-type: none"> • Programme Four: Formulate and implement an industrial Upgrading and Modernization Programme to support the growth and competitiveness of MSMEs 	16,152,570
	<ul style="list-style-type: none"> • Monitoring and Evaluation¹⁶ 	3,915,600
Specific Policy Target Six: Increasing the contribution of (i)	<ul style="list-style-type: none"> • Programme One: Strengthening the Business and Regulatory Climate for Industrialization 	1,000,000

¹⁶ This component includes project management costs for coordinating Programme Four: Formulate and implement an Industrial Upgrading and Modernization Programme

Specific Policy Target	Programme Areas	Budget (US \$)
intra regional manufacturing exports from 5 percent to at least 25 percent by 2032 and (ii) increasing the share of manufactured exports to at least 60 percent from an average of 20 percent	<ul style="list-style-type: none"> • Programme Two: Enhance Access to Markets for trade in manufactures 	3,400,000
	<ul style="list-style-type: none"> • Monitoring and Evaluation 	500,000
Total		56,638,170

10.1 Mobilizing Sustainable Financing

The proposed sources of financing for the eighteen programmes of the EAC Industrialization Action Plan are outlined below, under two categories; Short-term Sources and Medium to Long-term Sources;

Short-term Sources

- **Partner States Budget;** it is proposed that Partner States increase their contribution to industrial development, including infrastructure development, to about 5 percent of their national budgets. Presently, Partner States' contribution to industrial development is estimated at about 1 percent of the national budgets. A review of the 2012/13 nation budgets of the five Partner States shows that it is only the Government of Kenya (GoK) that has allocated a budget to industrial development activities that exclude the development of infrastructure. GoK allocated Ksh 1.45 billion for Research and Development for the financial year 2012/13. Ksh 3.91 billion was allocated to other industrial development and investment projects. The following strategies can be adopted to allow for adequate funding at national level;
 - **Through the Medium Term Expenditure Framework,** which encourages cooperation across ministries and planning over a longer horizon, the programmes proposed in the Action Plan should be mainstreamed into national development strategies, including those that are targeted at poverty alleviation.

In Uganda for example, some of the programmes of the Action Plan can be incorporated in Pillar II¹⁷ of the Development Strategy and Investment Plan (2011 - 2014) of the Agricultural Sector that aims at, among others, enhancing the competitiveness of Uganda's products and services in the regional markets through developing capacity to exploit existing and future market opportunities.

Upon mainstreaming of the programmes, the Permanent Secretaries and Senior Management in the different Ministries which are charged with industrial development should influence stronger commitment from their Governments, through awareness workshops and round table meetings like the Presidential Investors Roundtable, to prioritize the programmes. In addition, the Sector Working Groups of the Budget Directorates in the Ministries of Finance should be educated on the importance of the programmes of the Action Plan in the development of the region, such that they can appropriately advocate for the deployment of adequate resources to the programmes.

¹⁷ Planned activities under Pillar II of the Development Strategy and Investment Plan (2011 - 2014) include: (i) Identifying and developing products and services where Uganda has comparative and competitive advantage, and niche markets including organic products, (ii) Generating and disseminating profitability information for enterprise selection and analysis and agro ecological zoning, (iii) Supporting development of strategic value chains, and (iv) Promoting collective marketing, upscale of warehouse receipt system, and establishment of production networks/ clusters across neighboring countries for regional specialization in production and trade

- **Pension Funds:** In the four East African countries of Kenya, Tanzania, Uganda and Rwanda, pension assets constitute a large pool of funds, equivalent to a significant part of GDP.¹⁸ In spite of their suitability for financing industrial development, a substantial portion of these funds lie idle, awaiting new investment opportunities, the majority of which are targeted overseas.

In view of the unsatisfactory budget allocations to the industrial sector in all the Partner States, efforts should be undertaken to tap into pension funds, to finance industrialization projects. The Governments can directly borrow from the Pension Scheme, as is the case with Uganda, which has announced plans to borrow from country's sole statutory pension fund to finance infrastructure, including roads and railway networks. Another approach is for the Ministries charged with Industrial Development, to work closely with the Central Banks to issue an Industrialization Bond (preferably a 10-15 year bond), from which substantial amount of funds can be mobilized from Pension Schemes and other corporate enterprises, including banks, to fund industrialization projects. In Kenya, infrastructure bonds have successfully been issued since 2009, to fund specific projects in roads, energy, water and irrigation sectors. To date, four infrastructure bonds, amounting to Ksh 82 billion have been issued to fund various projects. Potential investors included commercial banks, insurance firms, pension funds and private firms. In Uganda, the Ministry of Finance, Planning and Economic Development is considering issuing an infrastructure bond to source the necessary capital needed to fund projects in the transport and energy sectors.

- **Resources from Donors.** Notable Donors include GIZ, World Bank, United Nations Development Programme (UNDP), Swedish International Development Agency (SIDA), Danish International Development Agency (DANIDA), Canadian International Development Agency (CIDA), Bill and Melinda-Gates Foundation, L'Agence Française de Development (AFD), China Development Bank, India Exim Bank, Japanese International Cooperation Agency (JICA), Africa Development Bank (AFDB), Arab Bank for Economic Development in Africa (BADEA), United States Agency for International Development (USAID) and Trademark East Africa (TMEA).

The following strategies can be employed to access funding from Development Partners;

- The IDD, supported by Ministries charged with Industrial Development, should work with the Resource Mobilization Office (RMO) of the EAC Secretariat to mobilize funding from Development Partners. The RMO reports to the Office of the Secretary General and is mandated to mobilise resources for EAC projects and programmes. The functions of the RMO include, among others, (i) Carrying out donor missions to market EAC and recruiting donors; (ii) Linking EAC with external donors and maintaining close and professional working relations with donors based on credibility and transparency; (iii) Reviewing project proposals and advising on compliance to guidelines and (iv) Coordinating disbursements and management of donor funds.
- From the above activity, the IDD should develop Donor profiles highlighting funding mechanisms, budgetary cycles, policy priorities and potential opportunities for funding, based on programmes outlined in the Action Plan. Thereafter, concept notes should be prepared about each programme, and presented to the Donors, to educate them about the importance of the programmes outlined in the Action Plan in enhancing the industrialization of the region.
- **Public-Private Partnerships (PPPs):** PPPs are mutually beneficial relationships that are formed between the public and private sectors. The private-sector partner typically makes a substantial

¹⁸ 20 per cent in Kenya, 4 per cent in Uganda, and nearly 2 per cent in Rwanda

equity investment, and in return the public sector gains access to new or improved services. Governments in East Africa have recognised that they need to attract from the private sector significant investment and financing in their infrastructure and utility sectors, as well as management and operating expertise, if they are to be able to meet the region's essential infrastructure capital investment requirements on a timely basis, in the short to medium term. Structured correctly, a PPP may be able to mobilize previously untapped resources from the local, regional and international private sector, which is seeking investment opportunities.

The main types of Public-Private Partnerships are:

- Build-Own-Operate (BOO): The private business builds and operates a public facility and retains legal ownership
- Build-Operate-Transfer (BOT): The private business builds and operates the public facility for a significant time period. At the end of the time period, the facility ownership transfers to the public
- Buy-Build-Operate (BBO): The government sells the facility to the private business. The private business refurbishes and operates the facility
- Design-Build-Operate (DBO): A single contract is awarded to a private business which designs, builds, and operates the public facility, but the public retains legal ownership
- Build-Develop-Operate (BDO): The private business buys the public facility, refurbishes it with its own resources, and then operates it through a government contract.

Uganda, Kenya and Tanzania have developed PPP frameworks that can guide the establishment of effective PPPs. A notable example of a PPP project embarked upon in the region was 25-year Rift Valley Railways Concessionaire. The deal was signed by the Governments of Kenya and Uganda and a Consortium of firms including Sheltam Rail Corporation of South Africa and Trans Century Limited. The project was undertaken to improve the Uganda-Kenya Railways in an effort to lower transportation costs between Kampala and Mombasa, to boost regional and international trade. However, the concessionaire defaulted on payments of concession fees, agreed investments and improvements in cargo haulage. From the above example, a key lesson that can be drawn in effectively implementing PPPs is that there is need for adequate capacity in responsible Government Ministries for structuring and negotiating deals to protect the public sector interest.

- **Establishing an EAC Industrialization Development Fund, within the framework of the EAC Development Fund:** There is a need to establish an EAC Industrialization Development Fund to finance industrial and productive capacity development and infrastructure projects. The Fund will play a pivotal role in providing the much needed financial assistance to implement the programmes of the Action Plan. Also, the Industrialization Development Fund will, through the issuance of loans, bridge the gap in the conventional financial market place, which may hinder the growth of otherwise financially sound, employment generating MSMEs. Financing from the Fund will generally lower interest rates, offer longer maturities or more flexible repayment schedules than conventional business loan sources. It is proposed that the EAC industrialization Development Fund is managed and administered by a Development Finance Institution (for example the East Africa Development Bank).
- **Development Finance Institutions (DFIs):** DFIs, including the East Africa Development Bank, the PTA Bank and Africa Development Bank are tailored to finance development projects, and can therefore play a key role in accelerating industrialization in the region. However, there is need to ensure the financial viability of the institutions is good, to enable them maximise their contribution to marginalized sectors and segments of the economy. In 2011, the EAC announced that EADB will get more support from the EAC Partner States to enable it increase funding to MSMEs.

DFIs can develop options for innovative financing mechanisms such as public-private partnerships, development funds and Special Purpose Vehicles (SPVs), and also the mobilization of stable long term funds from pension funds, to ensure that industry get sufficient long-term funds and in the desired sectors in accordance with planned priorities

- **Improve Investor Confidence, through promoting the provision of insurance cover:** Promote and encourage insurance agencies like Africa Trade Insurance Agency (ATI), PTA Bank and World Bank's MIGA to provide insurance cover to investments that will spur industrialization within the region. For example, ATI is an initiative of the COMESA, supported by the World Bank, and owned by African governments. The goal of establishing ATI was to reduce African Countries dependence on Aid by enhancing trade between the countries, and later increased competitiveness of the Continent. ATI is currently conducting business in 9 African Countries (Burundi, Democratic Republic of Congo, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda, and Zambia). The Agency is in advanced stages of registering an additional 9 African Countries. Theoretically, all the 54 African Countries are eligible for ATI Membership. ATI provides export credit insurance, political risk insurance, investment insurance and other financial products to help reduce the business risks and costs of doing business in Africa. By 2010, ATI's total paid up capital was \$ 155 million and the firm's gross exposure (amount of insurance cover the firm has been able to underwrite) was estimated at about \$ 600 million. It is estimated the \$ 600 million that has been provided as insurance cover, has been able to facilitate business within the region, in the tune of \$ 7 billion.

Medium to Long-term Source

- ***Establishment of National Sovereign Wealth Funds (SWF) for Industrialisation:*** SWFs are investment funds owned and managed by national Governments, with the mandate to invest in financial assets such as stocks, bonds, precious metals, property and other financial instruments. SWFs are typically created when Governments have budgetary surpluses. However, regardless of having a budget surplus or deficit, a number of countries in Sub-Saharan Africa including Nigeria, Ghana, Botswana, and Zimbabwe are developing or have developed SWFs. Uganda is in advanced stages of creating a commodity-based sovereign fund to manage potential excess oil revenues. The Government of Kenya has also been urged to set up an SWF in which surplus income that will accrue from the mining and exploration of oil in the Turkana Region will be deposited.

Once established, SWFs can make a great difference in accelerating industrialisation in the Region, by among others, offering long-term funds to finance investments in agro-processing, petrochemical and other manufacturing sectors. Indicative activities for setting up SWF can include (i) Carrying out a feasibility study to establishment of SWF for industrialization, (ii) Conducting a scoping study of existing Sovereign Wealth Funds (such as those of the Gulf States, Nordic countries and other examples of best practice); (iii) Establishing the fund, its operational modality, as well as management structure; (iv) Developing a framework for identifying and supporting priority projects; (v) Set up an independent monitoring system for both the fund and projects

- ***Setting up a Diaspora Investment Fund for Industry:*** Despite the significant volume of Diaspora funds that are streaming into Africa, a major problem is to ring-fence a portion of the funds for productive use. Currently, the Diaspora rely on family and friends in business for identification and implementation of investment opportunities with varied results as these local actors are untrained. It is proposed that a fund be set up with the guidance of the East African Development Bank and Africa Development Bank in cooperation with the World Bank, to attract Diaspora investment funds. Such a fund could be open to some donors and private sector stakeholders with specific interest in promoting the objectives of the fund. Some donors in Europe are already providing support to the Development Marketplace for

the African Diaspora in Europe (D-MADE) which is geared to providing grants for Diaspora entrepreneurs who want to set-up business activities in Africa.

Annex 1: Implementation Matrix

SPECIFIC POLICY TARGET ONE: DIVERSIFYING THE MANUFACTURING BASE AND RAISING LOCAL VALUE ADD FROM 8.62 PERCENT TO 40 PERCENT BY 2032

Programme Area	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme One: Promoting Development and Investment in Strategic Regional Industries within sectors in which the region has potential comparative advantage	<ul style="list-style-type: none"> Mapping of selected strategic regional industries (value chains study) to identify bottlenecks and constraints facing the industries 	<ul style="list-style-type: none"> Identified set of Clusters of firms with high-growth potential in each of the six strategic regional industries 	<ul style="list-style-type: none"> Competitive diagnostics survey report 	2013	IDD, EAC Secretariat and Ministries that deal with Industry matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners (GIZ, Trademark East Africa, etc) and East African Business Council	500,000	<ul style="list-style-type: none"> Business community willing to provide information to support sector analysis Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> EAC Secretariat and Partner States High Growth MSMEs in the region
	<ul style="list-style-type: none"> Develop feasible and bankable investment projects within the framework for the development Strategic Regional Industries 	<ul style="list-style-type: none"> Basing on value chain analysis, develop project portfolios, for bankable investment projects within Regional Industries Investment opportunities for the projects explored Awareness promoted among the conventional 	<ul style="list-style-type: none"> At least 10 MSMEs in each Partner State identified and invest in the bankable projects for Regional Industries 	2013 - 2014	IDD, EAC Secretariat and Ministries that deal with Industry matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners (GIZ, Trademark East Africa, etc) and East African Business Council	1,500,000	<ul style="list-style-type: none"> Business community willing to take part in developed bankable projects for Regional Industries Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> EAC Secretariat and Partner States High Growth MSMEs in the region

Programme Area	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		lenders to fund the projects <ul style="list-style-type: none"> Partner State programs that are able to effectively support the financing needs of proposed projects identified 							
	<ul style="list-style-type: none"> Establish a regional enterprise (industry) promotion and award scheme (REPAS) to stimulate investment into the Strategic Industries 	<ul style="list-style-type: none"> Programme of Action on promotion of regional industries designed and implemented Programme of Action on awarding exemplary regional industries designed and implemented 	<ul style="list-style-type: none"> Number of awareness campaigns carried out Percentage of business community exposed to cluster and competitiveness projects in the regional strategic industries Number of stakeholders participating in cluster development within the Regional Strategic Industries Number of MSMEs in Regional Industries 	2013 - 2017	IDD, EAC Secretariat and Ministries that deal with Industry matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners (GIZ, Trademark East Africa, etc) and East African Business Council	3,000,000	<ul style="list-style-type: none"> The private sector is willing and able to respond to opportunities identified 	<ul style="list-style-type: none"> High Growth MSMEs in the region

Programme Area	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
			awarded for exemplary record						
	<ul style="list-style-type: none"> Establish a Centre for Development of Strategic Regional enterprises/industry 	<ul style="list-style-type: none"> Roles of industrial development centre developed and implemented. The roles will include administering the award scheme, undertaking investment campaigns, identifying potential investors, and acting as a one stop shop information centre Mode of funding the activities of the centre designed and developed Centre adequately staffed and equipped 	<ul style="list-style-type: none"> Well function regional industrial development centre Awards scheme for regional industries administered Awareness campaigns on regional industries undertaken Regional branding of goods produced by Strategic Industries initiated with support from the centre New markets identified and access to old markets improved New products and services provided by selected clusters and 	2014	Investment Promotion Agencies in the five Partner States and Ministries of East Africa Community Affairs	IDD, EAC Secretariat; Manufacturers Associations; and Private Sector Associations	2,500,000	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> High Growth MSMEs in the region

Programme Area	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
			<ul style="list-style-type: none"> firms Improved quality of products manufactured by firms in strategic regional industry sectors Number of MSMEs linked to Strategic Regional Industries 						
	Develop modalities /framework to govern investment and operations of the strategic regional industries	<ul style="list-style-type: none"> The framework to govern investment and operations developed and implemented 	<ul style="list-style-type: none"> Well functioning framework for smooth operation and investment 	2014 - 2017	IDD, EAC Secretariat	Ministries that deal with Industry matters in the Five Partner States	8500,000	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> IDD, EAC Secretariat
Monitor and evaluate results of developing and promoting the strategic regional industries	<ul style="list-style-type: none"> Undertake reviews of activities implemented bi-annually Undertake a mid-term review Undertake a final evaluation of the programmes 	<ul style="list-style-type: none"> Development and investment in at least four Strategic Regional Industries 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2014 - 2017	IDD, EAC Secretariat	Ministries that deal with Industry matters in the Five Partner States	750,000	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> IDD, EAC Secretariat

SPECIFIC POLICY TARGET TWO: STRENGTHEN INSTITUTIONAL CAPACITY FOR INDUSTRIAL POLICY DESIGN, MANAGEMENT AND IMPLEMENTATION

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
<u>Programme One:</u> Strengthen and establish an effective and efficient National and Regional framework for Industrial Policy Design and Implementation	<ul style="list-style-type: none"> Establish the Sectoral Council and Sectoral Committee on Industrialization 	<ul style="list-style-type: none"> Terms of Reference for Sectoral Council and Sectoral Committee on industrialization designed Committee Members nominated and approved 	<ul style="list-style-type: none"> Industrial development matters at regional level adequately advocated for and followed upon Number of Sectoral Council meetings held annually 	Established by Jun.2013	Ministries of East Africa Community Affairs and EAC Council of Ministers	Ministries of Industry in the five Partner States; IDD, EAC Secretariat	100,000	Commitment from Top Leadership	<ul style="list-style-type: none"> Partner States and EAC Secretariat
	<ul style="list-style-type: none"> Establishment an Inter-Ministerial Coordinating Forum, charged with monitoring implementation of complementary or accompanying measures necessary for industrialization to be successful 	<ul style="list-style-type: none"> Terms of Reference for Inter-Ministerial Coordinating Committee designed Committee Members nominated and approved 	<ul style="list-style-type: none"> A conducive macroeconomic environment, regulatory framework, and quality infrastructure (energy, road transport, communications, railways, airways and waterways) favourable and conducive to the development and improvement of competitiveness of Industrial 	Established by Jun.2013	Partner States Ministries of Industry, Manufacturers' Associations, and Investment Promotion Agencies	IDD, EAC Secretariat	100,000	Commitment from Top Leadership	<ul style="list-style-type: none"> Partner States and EAC Secretariat

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
			Sector at both national and regional level <ul style="list-style-type: none"> Number of Inter-Ministerial Coordination Committee meetings held annually 						
	<ul style="list-style-type: none"> Establish regional steering committee to enable smooth implementation of industrialization programmes and projects 	<ul style="list-style-type: none"> Terms of Reference for regional steering committee on industrialization designed steering committee members nominated and approved 	<ul style="list-style-type: none"> Adequate resources mobilized for timely implementation of industrialization programmes and projects 	Established by Jun.2013	IDD, EAC Secretariat	Partner States Ministries of Industry, Manufacturers' Associations, and Investment Promotion Agencies	budget	Commitment from Top Leadership	<ul style="list-style-type: none"> Partner States and EAC Secretariat
	<ul style="list-style-type: none"> Establish national industrial development councils (committees) to monitor and oversee implementation of complementary measures, preparation of national visions for industrial development and alignment of national visions with regional targets 	<ul style="list-style-type: none"> Terms of Reference for national Councils on industrialization designed Council members nominated and approved Programme of Action for alignment of national strategies into regional 	<ul style="list-style-type: none"> Adequate implementation of complementary measures at national level National visions for industrialization developed and aligned to national targets National 	Established by Jun.2013	Partner States Ministries of Industry, Manufacturers' Associations, and Investment Promotion Agencies	IDD, EAC Secretariat	100,000	Commitment from Top Leadership	<ul style="list-style-type: none"> Partner States and EAC Secretariat

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		development plans designed and implemented	Industrial Strategies coherently implemented with Regional Industrial strategies <ul style="list-style-type: none"> • Effective and harmonious coordination of national and regional industrial development programmes • Number of Committee meetings held annually 						
<u>Programme Two:</u> Capacity Building for Industrial Policy Design, Management and Implementation	<ul style="list-style-type: none"> • Stock taking of national and regional industrial policy design and management capacity needs and preparation of capacity building plan to enhance policy generation and implementation, at national and regional level 	<ul style="list-style-type: none"> • Capacity skills gaps identified and addressed • Enhanced efficiency of national and regional industrial bodies in policy generation and implementation 	<ul style="list-style-type: none"> • Training Needs Assessment Reports • Capacity Building Plan • Report on training workshops 	By Jun. 2013	IDD, EAC Secretariat	Ministries of Industry and East Africa Community Affairs, and Investment Promotion Agencies in the five Partner States	2,500,000	<ul style="list-style-type: none"> • Availability of sufficient resources to undertake the planned activities • 	<ul style="list-style-type: none"> • Ministries of Industry in the five Partner States
	<ul style="list-style-type: none"> • Conduct awareness raising seminars for high-level government officials, Members of East Africa Legislative Assembly, Members of Parliament at National Level and influential private sector 	<ul style="list-style-type: none"> • Sensitization campaigns designed and implemented • Public and private sector champions on industrial development 	<ul style="list-style-type: none"> • Increased awareness and internalization of national and regional industrialization agenda • Increased 	2014	IDD, EAC Secretariat	Ministries of Industry, Ministry of East Africa Community Affairs, EABC, Manufacturers Association, Private Sector	500,000	<ul style="list-style-type: none"> • Commitment the public and private sector • Availability of resources to 	<ul style="list-style-type: none"> • Ministries of Industry in the five Partner States • EAC Secretariat

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	representatives in the region	identified	advocacy for industrialization policies and programmes, at national and regional level			Associations in the five Partner States		undertake activities	
	<ul style="list-style-type: none"> Courses on industrial policy management for civil servants and stakeholders organized and conducted 	<ul style="list-style-type: none"> Enhanced efficiency on industrial policy management 	<ul style="list-style-type: none"> Introducing special courses on industrial development in university curriculum Reports on courses conducted 	2014	IDD, EAC Secretariat	Ministries of Industry, Ministry of East Africa Community Affairs		<ul style="list-style-type: none"> Availability of resources 	<ul style="list-style-type: none"> Ministries of Industry in the five Partner States EAC Secretariat
	<ul style="list-style-type: none"> Designing and implementing industrial exchange programme in the context of South-South and North-South framework 	<ul style="list-style-type: none"> Study tours organized for government officials and industrial stakeholders to visit selected dynamic industrial locations. 	<ul style="list-style-type: none"> Reports on study tours undertaken Increased understanding the effective industrial policy and implementation mode 	2014	IDD, EAC	Ministries of Industry, Ministry of East Africa Community Affairs		<ul style="list-style-type: none"> Availability of resources 	<ul style="list-style-type: none"> Ministries of Industry in the five Partner States EAC Secretariat
	<ul style="list-style-type: none"> Assess the capacity of the East Africa Court of Justice to resolve regional conflicts and disputes related to industrial development 	<ul style="list-style-type: none"> Gaps identified and addressed that will enable East Africa Court to resolve regional conflicts and disputes related to industrial development 	<ul style="list-style-type: none"> Survey Reports 	2014	IDD, EAC Secretariat	Ministries of Industry, Ministry of East Africa Community Affairs and Ministries of Justice	100,000	<ul style="list-style-type: none"> Availability of resources 	<ul style="list-style-type: none"> MSMEs
<u>Programme Three:</u> Strengthen National and	<ul style="list-style-type: none"> Facilitate establishment of 	<ul style="list-style-type: none"> A well designed and functioning 	<ul style="list-style-type: none"> Statistical Reports with 	By Jun.2013	IDD, EAC Secretariat	Ministries of Industry in the	500,000	<ul style="list-style-type: none"> Availability of up to 	<ul style="list-style-type: none"> IDD, EAC Secretariat

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Regional Institutional Capacities for Industrial Information Management	effective Industrial Information Management and Dissemination Systems at National level, which are linked regionally and reflective of ongoing efforts on harmonisation of regional statistics	database on a national and regional industrialization programmes and investments <ul style="list-style-type: none"> Improved efficiency in the quality of industrial data collected and analyzed 	up to date data on industrialization			five Partner States; National Bureau of Statistics		date statistical data from Partner States	<ul style="list-style-type: none"> Ministries of Industry in the five Partner States Investors, local and foreign
	<ul style="list-style-type: none"> Setup Regional and National Industrial Competitiveness Intelligence Functions 	<ul style="list-style-type: none"> Specialized technical groups, at both national and regional level identified to act as think-tanks and industrial policy implementation units Identified Specialized Groups trained on monitoring and evaluation of industrial policies and strategies using UNIDO Methodology 	<ul style="list-style-type: none"> Adequate implementation, monitoring and evaluation of national and regional industrial policies and programmes 	2013	IDD, EAC Secretariat	Ministries of Industry, Ministry of East Africa Community Affairs, EABC, Manufacturers Association, Private Sector Associations in the five Partner States	800,000	Commitment from the public and private sector Availability of resources	<ul style="list-style-type: none"> Ministries of Industry in the five Partner States EAC Secretariat
	<ul style="list-style-type: none"> Establishing an integrated regional electronic platform for benchmarking and monitoring industrial performance and capabilities in the 	<ul style="list-style-type: none"> A well functioning Industrial Observatory and Competitiveness Function 	<ul style="list-style-type: none"> Monitored global and regional trends on industry and trade Benchmarking 	Established by Jun. 2013	IDD, EAC Secretariat; Ministries of Industry in the five Partner States	UNIDO, Investment Promotion Agencies, Development Partners and East African	2,500,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> IDD, EAC Secretariat Ministries of Industry in the five Partner States

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	<p>region; Establishing an Industrial Observatory and Competitiveness function within the IDD, EAC Secretariat;</p> <ul style="list-style-type: none"> ○ Set up an office for the observatory and competitiveness function ○ Recruit additional staff ○ Procure office equipment for industrial observatory and competitiveness function 	within the IDD, EAC Secretariat	<p>d regional and national performance</p> <ul style="list-style-type: none"> • Industrial competitiveness benchmarked • Impact of national and regional Industrial policy monitored 			Business Council			<ul style="list-style-type: none"> • Investors
<p><u>Programme Four:</u> Enhancement of Industrial and Technical Skills Development</p>	<ul style="list-style-type: none"> • Undertake industrial skills needs assessment survey and comprehensive industrial skills development programme 	<ul style="list-style-type: none"> • Capacity gaps in existing training institutions identified • Industrial skills development programme designed and implemented 	<ul style="list-style-type: none"> • Capacity Needs Assessments 	2013	IDD, EAC Secretariat; Ministries of Education and Councils for technical and vocational education	Ministries of Industry; Manufacturers Associations, Private Sector Association and Development Partners	500,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> • Vocational and Technical Training Institutions
	<ul style="list-style-type: none"> • Strengthen Technical, Vocational and Industrial Training Institutions and designation of Centres of Excellence to provide relevant 	<ul style="list-style-type: none"> • Basing in capacity needs assessment, action plans (with realistic budgets) developed and implemented 	<ul style="list-style-type: none"> • Centres of Excellence for industrial training established within the Region 	2013	IDD, EAC Secretariat; Ministries of Education and Councils for technical and vocational education	Ministries of Industry; Manufacturers Associations, Private Sector Association and Development Partners	1,000,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> • Vocational and Technical Training Institutions

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	skills for industrial development	for strengthening and upgrading Industrial Training Institutes within Partner States							
	<ul style="list-style-type: none"> Put in place incentives to encourage the private sector to provide necessary training for own staff, to respond to global skills trends within industry at both basic and technical levels. 	<ul style="list-style-type: none"> Incentives provided to the private sector to train their staff and offer sector-specific training and skills development 	<ul style="list-style-type: none"> Monitoring and evaluation reports 	2013 - 2014	IDD, EAC Secretariat; Ministries of Education and Councils for technical and vocational education	Ministries of Industry; Manufacturers Associations, Private Sector Associations and Development Partners	800,000	Availability of sufficient resources to undertake the planned	<ul style="list-style-type: none"> Vocational and Technical Training Institutions
	<ul style="list-style-type: none"> Facilitate revision of curriculum to address industrial/technical skills requirement (to meet demand of manufacturing sector) 	<ul style="list-style-type: none"> Curriculum revised to address industrial technical requirements 	<ul style="list-style-type: none"> Number of vocational and technical training institutions that have revised their curriculum to meet demands of manufacturing sector 	2013	IDD, EAC Secretariat; Ministries of Education and Councils for technical and vocational education	Ministries of Industry; Manufacturers Associations, Private Sector Associations and Development Partners	500,000	Availability of sufficient resources to undertake the planned	<ul style="list-style-type: none"> Private Sector (MSMEs)
	<ul style="list-style-type: none"> Establishing regional and national accreditation authorities for certification of informal skills as well as establishing a process of accreditation for tacit and embedded skills 	<ul style="list-style-type: none"> Guidelines and standards for certification of informal skills developed 	<ul style="list-style-type: none"> Accreditation authorities for certification established within the Region 	2014	IDD, EAC Secretariat; Ministries of Education and Councils for technical and vocational education	Ministries of Industry; Manufacturers Associations, Private Sector Associations and Development Partners	100,000	Availability of sufficient resources	<ul style="list-style-type: none"> Private Sector
	<ul style="list-style-type: none"> Institute a 	<ul style="list-style-type: none"> A programme 	<ul style="list-style-type: none"> Number of 	2014	IDD, EAC	Ministries of	100,000	Availability of	<ul style="list-style-type: none"> Private

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	mechanism that will commit Partner States to provide insurance cover to manufacturers to enable them offer internship and apprenticeship opportunities to students and trainees	of action on how to provide insurance cover to manufactures instituted	manufacturer that have accessed insurance cover to offer internship and apprenticeship		Secretariat; Ministries of Education and Councils for technical and vocational education	Industry; Manufacturers Associations, Private Sector Associations and Development Partners		sufficient resources to undertake the planned	Sector (MSMEs)
<u>Programme Five:</u> Enhance Access to Finance for Industrialization (Finance and Resource Mobilization for Industrial Development)	<ul style="list-style-type: none"> A regional industrial development fund established within the framework of the EAC Development Fund 	<ul style="list-style-type: none"> Portfolio of the Regional Industrial Development Fund established <ul style="list-style-type: none"> Target group for the Fund identified Awareness campaigns designed and implemented Framework to operationalize Industrial Fund designed and formulated 	<ul style="list-style-type: none"> Number of medium and long-term loans disbursed to the manufacturing sector Number of firms, particularly MSMEs accessing the industrial development fund 	2013 - 2015	EAC Sectoral Council on Industry, EAC Sectoral Committee on Industry, IDD, EAC Secretariat; EAC Development Fund	Ministries of Industry; Ministries of Finance, Manufacturers Associations, Private Sector Association and Development Partners	500,000	Availability of sufficient funds in the EAC Development Fund to set up Industrial Development Fund	<ul style="list-style-type: none"> Private Sector (MSMEs)
	<ul style="list-style-type: none"> Organize awareness campaigns on other avenues in which medium and long funds can be accessed, including venture capital, private equity markets and listing on the stock market 	<ul style="list-style-type: none"> Sensitization campaigns designed and implemented Increase in number of MSME manufacturing firms listed on the securities exchange Sensitization workshops 	<ul style="list-style-type: none"> Securities Exchange Annual Reports Progress Reports 	2013 - 2014	<ul style="list-style-type: none"> IDD, EAC Secretariat and Securities Exchange 	Ministries of Industry; Ministries of Finance, Manufacturers Associations, Private Sector Association and Development Partners	500,000	Capacity and commitment of organized private sector to list on the stock exchange	<ul style="list-style-type: none"> Private Sector (MSMEs)
	<ul style="list-style-type: none"> Set up a Regional 	<ul style="list-style-type: none"> Financing 	<ul style="list-style-type: none"> Number of 	2013 - 2014	<ul style="list-style-type: none"> IDD, EAC, 	Ministries of	2,000,000	Capacity and	<ul style="list-style-type: none"> Private

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	Credit Guarantee Scheme	<p>mechanisms for the scheme developed</p> <ul style="list-style-type: none"> • Target group for the scheme identified • Awareness campaigns designed and implemented on availability of medium term funds from the credit scheme • Framework for operationalization of Credit Guarantee Scheme designed and implemented 	<p>banks that offer credit to MSMEs, through the Credit Guarantee Scheme</p> <ul style="list-style-type: none"> • Number of MSMEs drawing loans through the Credit Guarantee Scheme • Amount of funds loaned to MSMEs 		Commercial Banks and MSMEs	Industry; Ministries of Finance, Manufacturers Associations, Private Sector Association and Development Partners		commitment of Commercial Banks and MSMEs to participate in this pilot project	Sector (MSMEs)
	Leverage financial and technical resource for industrial development by identifying specific areas of collaboration with East Asia, South Asia, Latin America, South America and Europe	<ul style="list-style-type: none"> • MOU for industrial cooperation established 	<ul style="list-style-type: none"> • Implementation strategy of MOU reports 	2013 - 2014	<ul style="list-style-type: none"> • IDD, EAC Secretariat 	Partner States' Ministries that deal with Industry matters in the Five Partner States	50,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> • IDD, EAC Secretariat • Partner States institutions that deal with industry
	<ul style="list-style-type: none"> • Prepare a comprehensive plan for increasing access to industrial finance 	<ul style="list-style-type: none"> • Identified gaps in strengthening EAS industrial institutions 	<ul style="list-style-type: none"> • Assessment study report on the institutional arrangement for delivery of industrial 	2013 - 2017	<ul style="list-style-type: none"> • IDD, EAC Secretariat 	Partner States' Ministries that deal with Industry matters in the Five Partner States	50,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> • IDD, EAC Secretariat • Partner States institutions that deal with industry related matters

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
			financing						
Monitoring and Evaluating progress in implementing this programme	<ul style="list-style-type: none"> Undertake reviews of activities implemented bi-annually Undertake a mid-term review Undertake a final evaluation of the programme 	<ul style="list-style-type: none"> Increased effectiveness and efficiency in policy generation and development Increased effectiveness and efficiency of institutional framework to deliver skills and programmes that meet the current and future needs of the manufacturing sector Increased access to medium and long term funds to the MSMEs 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2013 - 2017	IDD, EAC Secretariat	Partner States' Ministries that deal with Industry matters in the Five Partner States	1,270,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> IDD, EAC Secretariat Partner States institutions that deal with industry related matters

SPECIFIC POLICY TARGET THREE: STRENGTHEN RESEARCH AND DEVELOPMENT; TECHNOLOGY AND INNOVATION AS WELL AS SUSTAINABLE INDUSTRIAL DEVELOPMENT

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme One: Enhancing the capabilities and capacity of national R&D institutions to meet the needs of science, technology and innovation in the manufacturing sector	<ul style="list-style-type: none"> Undertake mapping study assessment for the region's Science, technology and innovation infrastructure and prepare an intervention strategy. 	<ul style="list-style-type: none"> Identification of STI infrastructural needs 	<ul style="list-style-type: none"> 	2012 - 2013	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and Science, technology and innovation	Ministries that deal with Industry matters in the Five Partner States, Investment Promotion Agencies, Manufacturers Associations,	100,000	Political will and Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> Public and Private R&D and Science and Technology Institutions MSMEs

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		<ul style="list-style-type: none"> • • 				Private Sector Associations, and East African Business Council			
	<ul style="list-style-type: none"> • Identify R&D centres that can serve as regional centres of excellence 	<ul style="list-style-type: none"> • Scoping exercise of R&D Institutions undertaken, to identify centres of excellence 	<ul style="list-style-type: none"> • No of R&D institutions visited. • Needs Assessment Capacity Report • Progress Reports 	2012 - 2013	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and Science, technology and innovation	Ministries that deal with Industry matters in the Five Partner States, Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, and East African Business Council	100,000	Political will and Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> • Public and Private R&D and Science and Technology Institutions MSMEs
	<ul style="list-style-type: none"> • Complement current efforts by Partner States in the review IPR regimes and the strengthening of IPR protection infrastructure and capabilities 	<ul style="list-style-type: none"> • Gaps in IPR protection infrastructure identified and addressed 	<ul style="list-style-type: none"> • Progress Reports 	2012 - 2013	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and Science, technology and innovation	Ministries that deal with Industry matters in the Five Partner States, Manufacturers Associations, and Private Sector Associations	No Budget (This activity will be catered for by national and regional budgets that have been allocated to relevant institutions to implement related initiatives)	Political will and commitment from relevant institutions to effectively implement planned activities	<ul style="list-style-type: none"> • MSMEs
	<ul style="list-style-type: none"> • Enhance networking through collaborative regional R&D programmes (including joint 	<ul style="list-style-type: none"> • Forum formed comprising the Government, Academia and Industry to 	<ul style="list-style-type: none"> • Minutes of meetings of for 	2012 - 2013	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and	Ministries that deal with Industry matters in the Five Partner States, Manufacturers	200,000	Political will and Availability of sufficient resources to undertake the planned	<ul style="list-style-type: none"> • Public and Private R&D and Science and Technology Institutions • MSMEs

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	projects, conferences, trade fairs, CEO meetings and technology expositions etc.) within the triple helix framework	promote R&D			Science, technology and innovation	Associations, and Private Sector Associations		activities	
	<ul style="list-style-type: none"> Establish a regional industrial development and innovation grant scheme to support collaborative STI 	<ul style="list-style-type: none"> Action plan to operationalize the innovation grant scheme designed and implemented 	<ul style="list-style-type: none"> Progress Reports 	2012 - 2013	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and Science, technology and innovation	Ministries that deal with Industry matters in the Five Partner States, Manufacturers Associations, and Private Sector Associations	150,000	Political will and Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> Public and Private R&D and Science and Technology Institutions MSMEs
	<ul style="list-style-type: none"> Promote adequate usage of ICT and the utilization of new and emerging technologies in major research intensive industry sectors 	<ul style="list-style-type: none"> Sensitization campaigns designed and implemented on the adequate usage of ICT and utilization of new and emerging technologies 	<ul style="list-style-type: none"> Number of industry sectors adopting ICT and new and emerging technologies 	2012 - 2013	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and Science, technology and innovation	Ministries that deal with Industry matters in the Five Partner States, Manufacturers Associations, and Private Sector Associations	100,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> Public and Private R&D and Science and Technology Institutions MSMEs
<u>Programme Two:</u> Enhance National and Regional awareness on the importance of science, technology and innovation in the region	<ul style="list-style-type: none"> Organize regional and South to South R&D institutional study tours for best practice sharing and benchmarking as a foundation for active collaboration. Establish a regional match making scheme 	<ul style="list-style-type: none"> Exposure to R&D capacity development best practices Increased active collaboration 	<ul style="list-style-type: none"> Number of study tours conducted Study tour Reports Number of collaborative R&D events and ventures/projects Regional R&D 	2013 - 2014	IDD, EAC Secretariat and Public and Private Institutions that engage in R&D and Science and Technology	Ministries that deal with Industry matters in the Five Partner States, Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations,	600,000	Capacity and commitment of organized private sector to understand the importance of R&D, science and technology and innovation	<ul style="list-style-type: none"> Public and Private R&D and Science and Technology Institutions MSMEs

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	<p>involving local and international technology suppliers, private sector and R&D institutions</p> <ul style="list-style-type: none"> • Create a networking R&D interactive web portal for dynamic dissemination and exchange of STI information • Develop an STI marketing campaign that articulates the role and outputs of STI using print and electronic media. • Catalogue successful R&D innovation stories in the region. 	<p>among regional R&D institutions, academia and the private sector</p> <ul style="list-style-type: none"> • Number of sensitization programmes on the importance of R&D and Science and Technology • Number of firms linking up with universities and R&D institutions to enhance their STI uptake and utilization. • Increased effectiveness and efficiency of institutional framework to meet the needs of science and technology in the manufacturing sector 	<p>interactive web portal established</p> <ul style="list-style-type: none"> • Increased STI awareness in the region. • Number of awareness, sensitization campaigns and programmes on compliance with environmental issues 			and East African Business Council			
<p><u>Programme Three:</u> Promotion of Sustainable Industrialization and Environmental Management</p>	<ul style="list-style-type: none"> • Develop a regional programme on resource use efficiency and cleaner production (RECP). 	<ul style="list-style-type: none"> • Enhanced competitiveness of regional industries. • Increase in 	<ul style="list-style-type: none"> • Number of RECP audit reports. • Reduction of environmen 	2013 - 2015	<ul style="list-style-type: none"> • IDD, EAC Secretariat and National Environmental 	<ul style="list-style-type: none"> • Ministries of Industry; Manufacturers Associatio 	1,000,000	Enabling regional RECP policy, strategy and framework Capacity and	<ul style="list-style-type: none"> • MSMEs • Communiti es

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	<ul style="list-style-type: none"> Facilitate MSMEs with adoption of relevant international certification, standardisation and occupational health and safety schemes for sustainable industrial development. 	<p>number of internationally certified firms in the region.</p>	<p>tal pollution loading.</p> <ul style="list-style-type: none"> Improved occupational health and safety in industries Reduction in environmental pollution litigation. Monitoring and Evaluation Reports No of ISO certificates granted. No. of productivity centres established No. of upgraded and innovative products on the regional market. No. of people employed in industry 		Agencies	<ul style="list-style-type: none"> ns, and Private Sector Association National Cleaner Production Centres (NCPCs) National Environmental Management Authorities 		<p>commitment of organized private sector to adopt cleaner production technologies</p>	
	<ul style="list-style-type: none"> Harmonization of standards and principles that all companies must adhere to regarding CSR 	<ul style="list-style-type: none"> Enhanced standard harmonization and principles 	<ul style="list-style-type: none"> Companies reports on CRS implemented activities 	2013 -2015	<ul style="list-style-type: none"> IDD, EAC Secretariat and National Environmental Agencies 	<ul style="list-style-type: none"> Ministries of Industry; Manufacturers Associations, and 		<ul style="list-style-type: none"> Capacity and commitment of organized private sector 	<ul style="list-style-type: none"> MSMEs

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
						Private Sector Associations		firms to adopt cleaner production technologies	
	<ul style="list-style-type: none"> To ensure effective dissemination of information and resources by setting up NCPCs and RECP service provider 	<ul style="list-style-type: none"> NCPCs and RECP service provider established 	<ul style="list-style-type: none"> Number of awareness, sensitization campaigns and programmes on compliance with environmental issues 	2013 -2015	<ul style="list-style-type: none"> IDD, EAC Secretariat and National Environmental Agencies 	<ul style="list-style-type: none"> Ministries of Industry; Manufacturers Associations, and Private Sector Associations 		<ul style="list-style-type: none"> Capacity and commitment of organized private sector firms to adopt cleaner production technologies 	<ul style="list-style-type: none"> MSMEs
	<ul style="list-style-type: none"> Development and implementation of legislative and regulatory framework to promote waste avoidance, prevention, reduction, reuse and recycle 	<ul style="list-style-type: none"> Increased effectiveness and efficiency of companies to promote waste avoidance, prevention, reduction, reuse and recycle 	<ul style="list-style-type: none"> Audit reports on implementation of legislative and regulatory framework 	2013 -2015	<ul style="list-style-type: none"> IDD, EAC Secretariat and National Environmental Agencies 	<ul style="list-style-type: none"> Ministries of Industry; Manufacturers Associations, and Private Sector Associations 		<ul style="list-style-type: none"> Capacity and commitment of organized private sector firms to adopt cleaner production technologies 	<ul style="list-style-type: none"> MSMEs
	<ul style="list-style-type: none"> Upgrade the capacity of R&D support institutions to offer technical support towards sustainable industrial development 	<ul style="list-style-type: none"> Action areas to enhance R&D identified and addressed Improved institutional support. Sustainable industrial 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2013 -2015	<ul style="list-style-type: none"> IDD, EAC Secretariat and National Environmental Agencies 	<ul style="list-style-type: none"> Ministries of Industry; Manufacturers Associations, and Private Sector Associations 	800,000	<ul style="list-style-type: none"> Capacity and commitment of organized private sector firms to adopt cleaner 	<ul style="list-style-type: none"> MSMEs

Programme Areas	Activities	Outcome	Means of Verification	Timeframe	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		development in the region.				ns		production technologies	
Monitoring and Evaluating progress in implementing this programme	<ul style="list-style-type: none"> Develop key performance indicators for benchmarking and adoption of R&D, STI by the private sector and capacity improvements of R&D Institutions Establish a monitoring and evaluation technical team to undertake routine monitoring and reporting. 	<ul style="list-style-type: none"> Improved industrial productivity. Acquisition of industrial productivity statistics Establishment of a functional monitoring and evaluation technical team 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2013 - 2017	IDD, EAC Secretariat	Ministries that deal with Industry and R&D and Science and Technology in the Five Partner States	300,000	<ul style="list-style-type: none"> Availability of sufficient resources to undertake monitoring and evaluation activities. 	<ul style="list-style-type: none"> IDD, EAC Secretariat Partner States institutions that deal with industry related matters

SPECIFIC POLICY TARGET FOUR: PROMOTING EQUITABLE INDUSTRIAL DEVELOPMENT AND GENDER EQUITY

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
<u>Programme One:</u> Improve access to Factor Conditions including agricultural raw materials, infrastructure and labour productivity	<ul style="list-style-type: none"> Map infrastructure requirements for the development of selected strategic regional industries, as part of the Value Chain Analysis 	<ul style="list-style-type: none"> Infrastructure constraints for the development of strategic regional industries identified and addressed 	<ul style="list-style-type: none"> Mapping Exercise Report 	2014	IDD, EAC Secretariat;	Ministries of Industry; Manufacturers Associations, Private Sector Association & Development Partners	800,000	Availability of sufficient resources to undertake activities	<ul style="list-style-type: none"> MSMEs
	<ul style="list-style-type: none"> Advocate for adequate implementation of ongoing regional infrastructure initiatives including road master plan, rail master plan, energy master plan, 	<ul style="list-style-type: none"> Monitoring and Evaluation framework developed tracking 	<ul style="list-style-type: none"> Progress reports 		2013 -2017	IDD, EAC Secretariat;	Ministries of Industry, Works and Finance; Manufacturers Associations,	500,000	Availability of sufficient resources to undertake activities

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	upgrading of harbours and airports.	<p>progress in implementation of regional infrastructure initiatives</p> <ul style="list-style-type: none"> Timely and adequate implementation of regional infrastructure initiatives 				Private Sector Association & Development Partners			
<u>Programme Two:</u> Sustain current efforts to improve the business climate in the region	<ul style="list-style-type: none"> Strengthen the capacity of the private sector to engage in policy dialogue, at both national and regional level 	<ul style="list-style-type: none"> Establish a platform for the National manufacturing associations within the EABC 	<ul style="list-style-type: none"> Number of Public-private sector for a organized Progress reports 	2014	IDD, EAC Secretariat, EABC	Manufacturers Associations, Private Sector Association & Development Partners	400,000	Availability of sufficient resources to undertake activities	<ul style="list-style-type: none"> MSMEs
	<ul style="list-style-type: none"> Complement current efforts (through the provision of advisory services) at national level in the conduct of investors' surveys to monitor state of business environment in the region 	<ul style="list-style-type: none"> Set of investment climate indicators to be monitored developed Survey instrument developed Periodic assessment of investment climate 	<ul style="list-style-type: none"> Doing Business Reports World Economic Forum Reports 	2014	IDD, EAC Secretariat; Inter-Ministerial Coordination Forum	Ministries of Industry; Investment Promotion Agencies; Manufacturers Associations, Private Sector Association & Development Partners	No Budget (This activity will be catered for by national and regional budgets that have been allocated to relevant institutions to implement related initiatives)	Commitment from relevant institutions to effectively implement planned activities	<ul style="list-style-type: none"> MSMEs
	<ul style="list-style-type: none"> Developing a coherent incentive framework to ensure evenly spread investment in all partner states by working with the Ministries of Finance and 	<ul style="list-style-type: none"> Inventory of Partner States fiscal and non-fiscal incentives Action 	<ul style="list-style-type: none"> Uniformity in Partner States fiscal and non fiscal incentive 	2015	IDD, EAC Secretariat and Investment Promotion Agencies	Ministries of Finance; Ministries of Industry; Manufacturers Associations,	No Budget (This activity will be catered for by	Commitment from relevant institutions to effectively implement planned	<ul style="list-style-type: none"> MSMEs

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	other agencies to identify disparities in structure of fiscal and non-fiscal incentives among Partner States and design measures for harmonization of incentive schemes to create a playing field for all investors	<p>Programmes on alignment of Partner States fiscal and non fiscal incentives, using international best practices</p> <ul style="list-style-type: none"> • Domestic tax Incentives for manufacturing industries to outsource to firms from other countries designed and instituted • Joint investment promotion missions to project EAC as a single investment area organized • Industrial collaboration among enterprises to facilitate technology transfer, transfer of best practices and exploitation of complementarity based on the principle of resource 	<p>and investment codes</p> <ul style="list-style-type: none"> • Increase in FDI inflows and intra-regional investments 			Private Sector Association & Development Partners	national and regional budgets that have been allocated to relevant institutions to implement related initiatives)	activities	

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		pooling established							
	<ul style="list-style-type: none"> Increase linkages of business enterprises and support organizations in the EAC Region through cross border business partnership; cross border joint ventures; and supplier development programme, among others 	<ul style="list-style-type: none"> Network on Sub-contracting and Partnership exchange established to link MSMEs with foreign partners established 	<ul style="list-style-type: none"> Increased collaboration and partnership between MSMEs and foreign firms 	2013	IDD, EAC Secretariat; EABC; Manufacturers Associations; and Private Sector Association	Ministries of Industry; Investment Promotion Agencies; & Development Partners	500,000	Availability of sufficient resources to undertake activities	<ul style="list-style-type: none"> MSMEs
<u>Programme Three - Promoting Gender Equity:</u> Enhance the role and contribution of women entrepreneurs in the development of the industrial sector, at both national and regional level	<ul style="list-style-type: none"> Liaise with national institutions charged with gender development to organize a regional forum for women organizations in business or association 	<ul style="list-style-type: none"> Develop and implement strategies for the effective participation of women in manufacturing and industrialization 	<ul style="list-style-type: none"> Increase in number of women entrepreneurs engaged in the manufacturing sector 	2014	IDD, EAC Secretariat; Ministries of Gender	Ministries of Industry; Manufacturers Associations, Private Sector Associations and Development Partners	No Budget (This activity will be catered for by national and regional budgets that have been allocated to relevant institutions to implement related initiatives)	Commitment from Partner States to harmonize gender specific industry regulations	<ul style="list-style-type: none"> Women MSMEs in Manufacturing
	<ul style="list-style-type: none"> Include gender analysis as one of the key responsibilities of the industrial observatory/competitiveness unit. 	<ul style="list-style-type: none"> Undertake regular surveys (every two years) with emphasis on women employment, 	<ul style="list-style-type: none"> Industrial strategies and programmes more responsive to gender 	2014, 2016	IDD, EAC Secretariat; Ministries of Gender	Ministries of Industry; Manufacturers Associations, Private Sector Associations and	No Budget (This activity will be catered for by national	Commitment from Partner States to harmonize gender specific industry regulations	<ul style="list-style-type: none"> Women MSMEs in Manufacturing

Programme Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		compensation, promotion, training, working conditions, access to credit and involvement in industrialization.	issues			Development Partners	and regional budgets that have been allocated to relevant institutions to implement related initiatives)		
Monitoring and Evaluating progress in implementing this programme	<ul style="list-style-type: none"> Undertake reviews of activities implemented bi-annually Undertake a mid-term review Undertake a final evaluation of the programme 	<ul style="list-style-type: none"> Conducive environment for industrial development Increased women participation in manufacturing sector 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2013 -2017	IDD, EAC Secretariat	Ministries of Industry; Ministries of Gender	200,000	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> IDD, EAC Secretariat Ministries of Industry and Gender

SPECIFIC POLICY TARGET FIVE: TRANSFORMING SMALL AND MEDIUM ENTERPRISES CAPABLE OF CONTRIBUTING UP TO 50 PERCENT OF MANUFACTURING GDP FROM 20 PERCENT BASE RATE

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
<u>Programme One:</u> Support the establishment of incubation facilities at Partner State level, so as to promote all-inclusive industrial development within the region	<ul style="list-style-type: none"> Mapping of MSMEs clusters with high growth potential at Partner State Level for development through incubation facilities. This activity will also include assessing Partner States readiness to invest in MSME 	<ul style="list-style-type: none"> Identified set of clusters with high growth potential for promotion through incubation facilities, at Partner State Level 	<ul style="list-style-type: none"> Mapping Exercise Report 	2013	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	500,000	<ul style="list-style-type: none"> Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment 	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	incubation facilities, and status of incubation facilities, where they are available							t in which they operate	
	<ul style="list-style-type: none"> Develop Cluster twinning to among others support exchange of knowledge and best practices on cluster development among Partner States and with clusters in the global market 	<ul style="list-style-type: none"> Action plans for Cluster twinning designed and formulated Action plans for enhancing MSMEs clusters within Partner States designed and formulated 	<ul style="list-style-type: none"> Number of effective and well managed incubator facilities within Partner States 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	500,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
<u>Programme Two:</u> Formulate a Regional MSME Policy including Charter on regulatory burden to ensure coherent and coordinated development of the sector	<ul style="list-style-type: none"> Formulate an EAC MSME charter by undertaking an audit of laws and regulations impacting MSMEs, particularly laws pertaining the business regulation, start-up procedures and taxation, among others Review Partner States' progress in instituting MSME Policies, and, where gaps are identified, collect relevant information to develop a harmonious Regional MSME Policy 	<ul style="list-style-type: none"> A comprehensive Regional MSME Policy An EAC Charter on MSMEs 	<ul style="list-style-type: none"> Better regulatory environment for MSME development 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	1,000,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
<u>Programme Three:</u> Develop an EAC MSME Portal to facilitate information access and web-based	<ul style="list-style-type: none"> Mapping of information requirements for MSMEs development, using a cluster approach 	<ul style="list-style-type: none"> Set of relevant information for development of MSMEs complied 	<ul style="list-style-type: none"> Dataset of information for MSME development 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Association	250,000	Availability of sufficient resources to undertake the planned	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
marketing for MSMEs						ns, Private Sector Associations and Development Partners		activities	
	<ul style="list-style-type: none"> Procure the services of a reputable firm to design an EAC MSME Portal and upload the portal with relevant information for MSME development 	<ul style="list-style-type: none"> An MSME Portal designed and installed 	<ul style="list-style-type: none"> Increased access to information to MSMEs 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	250,000	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Support MSMEs to develop websites, from which they will readily access the MSME Portal 	<ul style="list-style-type: none"> Programme of Action for supporting MSMEs design websites designed and formulated 	<ul style="list-style-type: none"> Number of MSMEs with websites 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	800,000	Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
<u>Programme Four:</u> Formulate and implement an industrial Upgrading and Modernization Programme to	<ul style="list-style-type: none"> Conduct a thorough analysis of the present institutional, regulatory, 	<ul style="list-style-type: none"> An inventory of institutional, business and financial networks to 	<ul style="list-style-type: none"> Study report on the present institutional, 	2014	IDD, EAC Secretariat, EABC, MSME Associations	Ministries charged with Industrial Development,	358,390	Availability of sufficient resources to undertake	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
support the growth and competitiveness of MSMEs	business and financial networks to all aspects and stages of MSME development and operations	all aspects and stages of MSME development	regulatory, business and financial networks to all aspects and stages of MSME development			Ministries of Finance, Manufacturers Associations, Private Sector Associations and Development Partners		the planned activities	
	<ul style="list-style-type: none"> Design Action Plans and advocate for reforms and harmony in the institutional and regulatory framework, business environment, and financial instruments related to the development of manufacturing MSMEs in the Region 	<ul style="list-style-type: none"> Reforms in institutional and regulatory framework for the development of MSMEs in place and implemented 	<ul style="list-style-type: none"> Institutional, financial and regulatory framework favourable and conducive to the development of manufacturing MSMEs 	2014	IDD, EAC Secretariat, Ministries charged with Industrial Development	Ministries of Finance MSME Associations, Manufacturers Associations, Private Sector Associations and Development Partners	392,820	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Design and formulated comprehensive packages of policy actions and incentives for enhancing MSMEs development 	<ul style="list-style-type: none"> Policy Action Plans and incentives for MSME development 	<ul style="list-style-type: none"> Percentage increase in MSME growth Percentage increase in the contribution of MSMEs to Partner States GDP 	2014	IDD, EAC Secretariat, Ministries charged with Industrial Development	Ministries of Finance MSME Associations, Manufacturers Associations, Private Sector Associations and Development Partners	358,930	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Introduce new financial 	<ul style="list-style-type: none"> Number of new financial 	<ul style="list-style-type: none"> Percentage increase 	2014	IDD, EAC Secretariat, Ministries of Finance,	MSME Associatio	326,300	Commitment of MSMEs	<ul style="list-style-type: none"> MSMEs in the

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	instruments for MSMEs and upgrade existing financial mechanisms to enhance access to finance to MSMEs at their different stages of development	<ul style="list-style-type: none"> Number and status of upgraded financial mechanisms 	in MSMEs accessing affordable finance		Ministries charged with Industrial Development	ns, Manufacturers Associations, Private Sector Associations and Development Partners		in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	Manufacturing Sector
	<ul style="list-style-type: none"> Strengthening capacities of national and regional institutions that directly deal with MSMEs 	<ul style="list-style-type: none"> An inventory of institutional skills to all aspects and stages of MSME development taken 	<ul style="list-style-type: none"> Favourable and conducive environmental to the development of manufacturing MSMEs 	2014	IDD, EAC Secretariat, Ministries of Finance, Ministries charged with Industrial Development	MSME Associations, Manufacturers Associations, Private Sector Associations and Development Partners		Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Mapping of existing national and regional technical support institutions in charge of MSME development and employment promotion 	<ul style="list-style-type: none"> Inventory of existing national and regional technical support institutions in charge of MSME development Strength and 	<ul style="list-style-type: none"> Study report on mapping exercise 	2014	IDD, EAC Secretariat, Ministries charged with Industry, MSME Associations	MSME Associations, Manufacturers Associations, Private Sector Associations and Development	169,676	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		weaknesses of institutions identified				nt Partners			
	<ul style="list-style-type: none"> Conduct a thorough diagnostic assessment and develop action plans for upgrading three to four technical support, advisory, employment and vocational training institutions 	<ul style="list-style-type: none"> Criteria for selection of three to four institutions for upgrading designed and implemented Institutional capacity strengths and weaknesses identified 	<ul style="list-style-type: none"> Diagnostic assessment report 	2014	IDD, EAC Secretariat, Ministries of Education, Ministries of Gender MSME Associations,	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	261,040	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Reinforce the capacities and capabilities of technical support institutions 	<ul style="list-style-type: none"> Capacity building programme for technical support institutions designed and implemented 	<ul style="list-style-type: none"> Number of capacity building workshops Increased efficiency and effectiveness of technical support institutions 	2014	IDD, EAC Secretariat, Ministries of Education, Industry, MSME Associations	Ministries of Finance, Ministries of Gender, Manufacturers Associations, Private Sector Associations and Development Partners	3,295,630	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Build capacity of eight vocational training centres in priority manufacturing sectors 	<ul style="list-style-type: none"> Criteria for selection of eight vocational institutions designed and implemented Institutional capacity gaps identified Capacity building programme designed and 	<ul style="list-style-type: none"> Number of capacity building workshops conducted Increased efficiency and effectiveness of vocational training centres Number of 	2014	IDD, EAC Secretariat, Ministries of Education, Ministries of Gender MSME Associations,	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	1,252,992	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		implemented	vocational institutes meeting the needs of industry						
	<ul style="list-style-type: none"> Provide training for 150 national experts, trainers, engineers and technicians in project formulation, development and creation of MSMEs, entrepreneurship promotion and IT Communication 	<ul style="list-style-type: none"> Criteria for selection of 150 technocrats designed and implemented Capacity building programme designed and implemented 	<ul style="list-style-type: none"> Number of capacity building workshops Improvement in skills of trained technocrats 	2014	IDD, EAC Secretariat, Ministries of Education, Ministries of Gender MSME Associations,	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	678,704	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Conduct eight strategic positioning studies for selected niches in the agro-food industries, leather and leather products and pharmaceuticals value chains 	<ul style="list-style-type: none"> Strategic areas identified on how to enhance the competitiveness of agro-food industries, leather and leather products and pharmaceuticals value chains 	<ul style="list-style-type: none"> Study reports 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	1,044,160	Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Diagnose and upgrade plans based on cluster and value chain approaches, developed and implemented by 	<ul style="list-style-type: none"> Criteria for selection of plans for pilot private sector MSMEs designed and implemented 	<ul style="list-style-type: none"> Diagnosis Report Upgrading workshops and training reports 	2014	IDD, EAC Secretariat, MSME Associations	Ministries charged with Industry, Manufacturers Associations	3,263,000	Commitment of MSMEs in the manufacturing sector to recognize	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	selected pilot private sector MSMEs (10 per country) operating in agro-food industries, leather and leather products value chains	<ul style="list-style-type: none"> • Areas for upgrading identified • Upgrading programme designed and implemented 	<ul style="list-style-type: none"> • Enhanced industrial productivity among MSMEs • Increased industry sector employment 			ns, Private Sector Associations and Development Partners		and support the Secretariat in enhancing the business environment in which they operate	
	<ul style="list-style-type: none"> • Assess investment needs of at least 10 MSMEs in each of the five Partner States and scout for investment opportunities for the MSMEs 	<ul style="list-style-type: none"> • Criteria for selection of MSMEs designed and implemented • Investment needs of selected MSME identified • Proposals for investment in the MSMEs prepared and circulated among development partners and other stakeholders 	<ul style="list-style-type: none"> • At least 5 MSMEs in each of the five Partner States access substantial investment in their businesses 	2014	IDD, EAC Secretariat, Investment Promotion Agencies, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	652,600	Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	<ul style="list-style-type: none"> • MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> • Provide entrepreneurial capacity building (combined with IT) for at least 100 entrepreneurs in each of the five Partner States 	<ul style="list-style-type: none"> • Criteria for selection of 100 entrepreneurs designed and implemented • Capacity building programme designed and implemented 	<ul style="list-style-type: none"> • Number of capacity building workshops • Improvement in entrepreneurial skills of MSMEs • Enhanced industrial productivity among MSMEs 	2014	IDD, EAC Secretariat, Ministries of IT, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	587,340	Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment	<ul style="list-style-type: none"> • MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
			<ul style="list-style-type: none"> Increased industry sector employment 					t in which they operate	
	<ul style="list-style-type: none"> At least 10 MSMEs in each Partner State assisted in identification and access to financial mechanisms 	<ul style="list-style-type: none"> Criteria for selection of 10 MSMEs in each of the Partner States designed and implemented Handholding and awareness activities for enhancing access to finance among the MSMEs conducted 	<ul style="list-style-type: none"> At least 5 of the MSMEs in each of the five Partner States is exposed to financial mechanisms and accesses finance from the mechanisms 	2014	IDD, EAC Secretariat, Ministries of Finance, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	587,340	Commitment of MSMEs in the manufacturing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Services of existing National Cleaner Production Centres extended to selected groups of entrepreneurs 	<ul style="list-style-type: none"> Number of entrepreneurs incorporating cleaner production mechanisms in their operations 	<ul style="list-style-type: none"> Improved cleaner production in the EAC Region 	2014	IDD, EAC Secretariat, Ministries of Environment	Ministries charged with Industry, MSME Associations, Manufacturers Associations, Private Sector Associations and Development Partners	587,340	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Create selected investment and export promotion opportunities in international 	<ul style="list-style-type: none"> Number of Study tours organized for MSMEs under the B2B programme 	<ul style="list-style-type: none"> Progress reports Enhanced industrial productivity 	2014	IDD, EAC Secretariat, Investment Promotion Agencies, MSME Associations	Ministries charged with Industry, Manufacturers	685,230	Commitment of MSMEs in the manufacturing sector to	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	markets for MSMEs	<ul style="list-style-type: none"> Number of trade fairs, and number of MSMEs that participate in the trade fairs 	<ul style="list-style-type: none"> Increased industry sector employment 			Associations, Private Sector Associations and Development Partners		recognize and support the Secretariat in enhancing the business environment in which they operate	
	<ul style="list-style-type: none"> Conduct an analysis of policies and strategies for promoting innovation and technology in the region and benchmark the policies with those of developed economies 	<ul style="list-style-type: none"> Strengths, weakness, opportunities and threats of the policies and strategies identified Tool for benchmarking policies and strategies designed 	<ul style="list-style-type: none"> Study report on the analysis of the policies and strategies 	2014	IDD, EAC Secretariat, public and private institutions that engage in R&D and science and technology	Ministries charged with Industry, MSME Associations Manufacturers Associations, Private Sector Associations and Development Partners	202,306	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Develop a coherent and harmonized regional action plan for promoting innovation 	<ul style="list-style-type: none"> Comprehensive packages of policy actions and incentives for enhancing innovation advocated for by the IDD 	<ul style="list-style-type: none"> Progress reports 	2014	IDD, EAC Secretariat, public and private institutions that engage in R&D and science and technology, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	326,300	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> MSMEs in the Manufacturing Sector
	<ul style="list-style-type: none"> Through partnerships with technology institutions in 	<ul style="list-style-type: none"> List of priority institutions that will be partnered 	<ul style="list-style-type: none"> Number of study tours organized 	2014	IDD, EAC Secretariat, public and private institutions that engage in R&D and	Ministries charged with Industry,	469,872	Commitment of MSMEs in the manufactur	<ul style="list-style-type: none"> MSMEs in the Manufacturing

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	developed countries, enhance the capacities of R&D and technical support institutions in the region	with in developed countries <ul style="list-style-type: none"> Memorandum of Understanding signed between local technology institutions and those in developed countries 	for local technology institutions to developed countries		science and technology, MSME Associations	Manufacturers Associations, Private Sector Associations and Development Partners		ing sector to recognize and support the Secretariat in enhancing the business environment in which they operate	Sector
	<ul style="list-style-type: none"> Pilot product innovation and development with selected MSMEs operating in the agro-food processing, leather and leather products value chains 	<ul style="list-style-type: none"> Studies conducted on product innovation and development Number of innovative products developed and promoted 	<ul style="list-style-type: none"> Progress reports 	2014	IDD, EAC Secretariat, public and private institutions that engage in R&D and science and technology, MSME Associations	Ministries charged with Industry, Manufacturers Associations, Private Sector Associations and Development Partners	652,600	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none">
Project management costs ¹⁹ (including coordination, technical support and monitoring and evaluation)	<ul style="list-style-type: none"> Regional technical coordination committee set up Institutional and technical support to Undertake a mid-term review Undertake a final evaluation of the programme 	<ul style="list-style-type: none"> Contribution of Manufacturing MSMEs increases from 20 percent in 2012 to 27.5 percent in 2017 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2013 - 2017	IDD, EAC Secretariat, MSME Associations, EABC	Ministries of Industry	3,915,600	Availability of sufficient resources to undertake the planned activities	<ul style="list-style-type: none"> IDD, EAC Secretariat Ministries of Industry

¹⁹ Please note: This Programme/Project has already secured funding from UNIDO, and the project management costs have been budgeted at \$ 3.9 million. These costs are higher than those allocated to other programmes, because, they include salaries of project staff that will be recruited to run the project.

SPECIFIC POLICY TARGET SIX: INCREASING THE CONTRIBUTION OF (I) INTRA REGIONAL MANUFACTURING EXPORTS FROM 5 PERCENT TO AT LEAST 25 PERCENT BY 2032 AND (II) INCREASING THE SHARE OF MANUFACTURED EXPORTS TO AT LEAST 60 PERCENT FROM AN AVERAGE OF 20 PERCENT

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
<p><u>Programme One:</u> Strengthen business and regulatory environment for industrialization</p>	<ul style="list-style-type: none"> Establish business regulations and industrial competitiveness monitoring systems to, among others, guide the Partner States on areas that need to be attended to enhance competitiveness of the Region 	<ul style="list-style-type: none"> Benchmarks and model for monitoring competitiveness in the region designed and tracked Monitored benchmarks used to address Regional and National Industrial Regulatory inadequacies 	<ul style="list-style-type: none"> Progress Reports Backgrounds to the Budget World Bank Doing Business Report 	2014	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners	500,000	Availability of Resources	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector
	<ul style="list-style-type: none"> Carry out benchmarking of industrial performance and productivity with selected regional and global best practices 	<ul style="list-style-type: none"> A priority list of areas of support (access to information, markets, etc) to enhance firm productivity and performance formulated and advocated for, through, appropriate avenues 	<ul style="list-style-type: none"> 	2014	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners	500,000	Availability of Resources	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector
	<ul style="list-style-type: none"> Fast-track progress in elimination of NTBs and TBTs that affect trade across the 	<ul style="list-style-type: none"> Develop and implement an M&E tool for fast-tracking elimination 	<ul style="list-style-type: none"> M&E Progress reports Number of NTBs and TBTs 	2014	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the	Investment Promotion Agencies, Manufacturers Associations, Private Sector	No Budget (This activity will be catered for by national and regional	Political will and commitment from relevant institutions to effectively	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	borders	of NTBs and TBTs	tracked and eliminated		Five Partner States	Associations, Development Partners	budgets that have been allocated to relevant institutions to implement related initiatives)	implement planned activities	
<u>Programme Two:</u> Enhance Access to Markets for trade in manufactures	<ul style="list-style-type: none"> Liaise with national certification bodies to develop quality assurance, product certification and traceability schemes for products to meet regional and international market requirements 	<ul style="list-style-type: none"> List of essential requirements to be complied with for selected products designed and formulated Identification and collaboration with international certification bodies initiated Awareness campaigns undertaken on certification and traceability, quality assurance Matching grants provided to support firms certify their products 	<ul style="list-style-type: none"> Progress reports 	2015	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners	No Budget (This activity will be catered for by national and regional budgets that have been allocated to relevant institutions to implement related initiatives)	Commitment from relevant institutions to effectively implement planned activities	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector
	<ul style="list-style-type: none"> Develop Strategy to support the 	<ul style="list-style-type: none"> Survey undertaken 	<ul style="list-style-type: none"> Progress reports 	2015	IDD, EAC Secretariat	Investment Promotion	500,000	Availability of Resources	<ul style="list-style-type: none"> Enterprises in the

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	enhancement of packaging of manufactured products within the Region	<p>on packaging of manufactured products</p> <ul style="list-style-type: none"> • Areas of support to enhance packaging developed • Awareness campaigns undertaken on how firms can improve packaging of products • Matching grants provided to support firms enhance packaging of products 			and Ministries that deal with Industrial Matters in the Five Partner States	Agencies, Manufacturers Associations, Private Sector Associations, Development Partners			Manufacturing Sector
	<ul style="list-style-type: none"> • Support the development of Regional brands for manufactured products originating from the EAC 	<ul style="list-style-type: none"> • Identification of firms willing to use regional brands, and possible implications (study) • Pilot regional branding with firms that have a regional presence and exemplary record 	<ul style="list-style-type: none"> • Regional brands adopted by at least 50 MSMEs in the region 	2015	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners	500,000	Availability of Resources	<ul style="list-style-type: none"> • Enterprises in the Manufacturing Sector
	<ul style="list-style-type: none"> • Develop regional procurement initiative to support locally produced goods. 	<ul style="list-style-type: none"> • Inventory on products that can be procured regionally developed 	<ul style="list-style-type: none"> • Regional procurement of goods 	2015	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the	Investment Promotion Agencies, Manufacturers Associations, Private Sector	1,000,000	Commitment from Top Leadership, including politicians	Partner States and EAC Secretariat

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
		<ul style="list-style-type: none"> Identify and analyse opportunities for pooled procurement Procedures for procurement streamlined and improved Build regional collaboration , through meetings and workshops on best practices in pooled procurement 			Partner States and Procurement Agencies	Associations, Development Partners			
	<ul style="list-style-type: none"> Create awareness on export requirements including Rules of Origin to facilitate intra regional manufactured trade in value added products 	<ul style="list-style-type: none"> Number of awareness campaigns conducted 	<ul style="list-style-type: none"> Progress reports 	2015	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners	500,000	Availability of Resources	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector
	<ul style="list-style-type: none"> Support the development of a Regional SEZs to support intra and extra regional exports 	<ul style="list-style-type: none"> Framework on the design and implementation of Regional SEZs designed Proposals prepared to finance the development of Regional SEZs 	<ul style="list-style-type: none"> Progress reports 	2015	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, Private Sector Associations, Development Partners	500,000	Availability of Resources	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector
	<ul style="list-style-type: none"> Set up regional export award 	<ul style="list-style-type: none"> Award forum organized 	<ul style="list-style-type: none"> Progress report 	2015	IDD, EAC Secretariat	Investment Promotion		Availability of Resources	<ul style="list-style-type: none"> Enterprises in the

Output Areas	Activities	Outcome Indicator	Means of Verification	Timeframe	Implementing Agency		Indicative Resources	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	scheme to encourage export expansion of manufactured products				and Ministries that deal with Industrial Matters in the Five Partner States	Agencies, Manufacturers Associations, & Private Sector Associations			Manufacturing Sector
	<ul style="list-style-type: none"> Design awareness programmes on the counterfeit and substandard products 	<ul style="list-style-type: none"> List of counterfeits in the region developed Number of awareness campaigns conducted 	<ul style="list-style-type: none"> Progress reports 	2015	IDD, EAC Secretariat and Ministries that deal with Industrial Matters in the Five Partner States	Investment Promotion Agencies, Manufacturers Associations, & Private Sector Associations	400,000	Availability of Resources	<ul style="list-style-type: none"> Enterprises in the Manufacturing Sector
Monitoring and Evaluating progress in implementing this programme	<ul style="list-style-type: none"> Undertake reviews of activities implemented bi-annually Undertake a mid-term review Undertake a final evaluation of the programme 	<ul style="list-style-type: none"> Increase in intra regional manufacturing exports and (ii) the share of manufactured exports 	<ul style="list-style-type: none"> Monitoring and Evaluation Reports 	2013 - 2017	IDD, EAC Secretariat	Ministries of Industry;	500,000	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the planned activities 	<ul style="list-style-type: none"> IDD, EAC Secretariat Ministries of Industry

Annex II: The Pilot Projects

DESCRIPTION OF THE CREDIT GUARANTEE SCHEME

Objective

The overall goal of a Credit Guarantee Scheme is to help new and existing MSMEs to access credit from the eligible lending institutions without the hassle of producing collateral security. The proposed eligible lending institutions that will offer credit to MSMEs will include Commercial Banks, Micro-Deposit Taking Institutions (MDIs), and well established Micro Finance Institutions (MFIs).

It is proposed that the Credit Guarantee Scheme is set up within the auspices of the Regional Industrial Development Fund. The size of the local currency loan given by the banks, MDIs, and MFIs under this scheme will need to be capped, and can be equivalent to US \$ 100,000 per borrower. The projects for which loans will be drawn by MSMEs will be subjected to an agreed screening process/approval like any other loans.

The approval process, the definition of what constitutes Small and Medium enterprise and the definition of an eligible borrower will be decided jointly by the Regional Industrial Development Fund and the eligible lenders.

What needs to be done to get the Credit Guarantee Scheme Operational?

To operationalize the Credit Guarantee Scheme, the following activities will need to be undertaken by the IDD; EAC Secretariat;

- Prepare a proposal to the EAC Development Fund covering the following areas for approval to establish a Regional Industrial Development Fund;
 - Justification and scope of fund
 - Definition of target group and eligibility criteria
 - Other funding sources
 - Modalities for the operation of the fund (this section will cover the setting up of a credit guarantee scheme within the auspices of the fund)
 - Replenishment mechanisms for the fund
- Carry out a study to establish financial needs of MSME's, to gauge the initial portfolio of the Regional Industrial Development Fund
- Prepare and draft guidelines specifying the structure of the Credit Guarantee Scheme and its terms & conditions.
- Identify commercial banks, MDIs, and MFIs that are willing to fund MSMEs, with a guarantee from the Credit Scheme

How will the Credit Guarantee Scheme Operate?

Upon approval of the establishment of the Regional Industrial Fund, within which the Credit Guarantee Scheme will operate, it is proposed that a Credit Guarantee Fund Trust for Small and Medium Enterprises (CGFT-MSME) is set up to manage the scheme.

CGFT-MSME will avail collateral-free credit to MSMEs by mitigating 75 percent of the credit risk of the eligible lenders (Commercial Banks, MDIs or well established MFIs).

The eligible lenders will then agree to offer credit to eligible borrowers based on the feasibility of their projects. If the projects are approved and loans are advanced, the eligible lender will seek guarantee cover from CGFT-MSME, however, against the payment of a one-time guarantee fee of 2.5 percent of sanctioned credit facility and thereafter, annual service fee of 1 percent on the outstanding credit.

These fees can be passed on to the borrower in a transparent fashion. In the normal course on a 5-year credit facility, the guarantee fee and service charges payable would work out to around 1 percent on an annualized basis. However, interest rates cannot exceed 3 percent over prime lending rate of lender, excluding fees.

The lender can offer higher amount loans than US \$ 100,000, but CGFT-MSME only guarantees up to 75 percent of the credit risk subject to the pre-defined loan caps and guarantee caps per borrower.

A review of available literature suggests that with appropriate screening by both the lenders and the guarantors, and effective portfolio management and debt collection, most MSME loan portfolios can have a default rate of less than 5 percent.

Below is a summary of the functions of the CGFT-MSME

- Review, assess and approve applications for guarantees;
- Receive and review regular reports from participating financial institutions on the number of loan applicants and the situation of the portfolio of guaranteed loans;
- Process and review claims for payment of guarantees;
- Follow up on recovery, after guarantees are paid out, of loans that have defaulted (either directly or indirectly);
- Maintain records of guarantees and of claims paid out, to report periodically on the effectiveness of the system and to forecast trends within the schemes;
- Advise or assist borrowers with loan guarantees who are facing difficulties (in some schemes);
- Disseminate funds to commercial banks and other lending institutions for onward transmission to the MSMEs.

Conclusion

The Credit guarantee scheme can be successful if there is a commitment from all government agencies, commercial banks, donors and above all the private sector

MSME Incubators

Overview and Objectives of the Incubator Facility

MSME's constitute the majority of enterprises in several emerging and developed economies. Their operations are diverse, with high growth potential, and play a major role in employment creation. In EAC, MSMEs account for 70 percent of enterprises, and contribute more than 70 percent to non-agricultural employment in the region.

However, available literature suggests that several MSMEs have not been able to survive beyond their first year of operation, because of a myriad of challenges, including lack of access to finance, and inadequate entrepreneurial skills, among others.

To address these challenges, several emerging and developed economies, with support from development partners, have set up business incubator facilities, to help reduce business start-up risks and also progressively promote induced "clustering" in terms of encouraging the competitive geographical agglomeration of MSMEs.

In the generic sense, the term 'business incubation system' is used to describe a wide range of organizations that, in one way or another, help entrepreneurs develop their ideas from inception through to the launching of a new enterprise, with further support provided during the operation of the new venture.

Full service business incubators may offer space to tenant businesses, and provide office services as well as meeting the technical needs of the entrepreneur with regard to marketing, business organization, finance, advisory and consultancy.

The main activities that incubators perform include;

- Providing secure, affordable, flexible, well equipped physical space including communication infrastructure;
- Providing professional, business, management, and technical consulting services (in areas where the MSME's don't have the relevant knowledge and expertise) together with access to seed and working capital, public grants, loan financing, venture capital, R&D partnership funding, and state equity financing;
- Liaising with institutions like universities and research institutes on the latest innovations and ideas in the industry;
- Creating an interactive community of entrepreneurs, academic, and business interests that stimulate and encourage the sometimes fragile incubation process, and most importantly
- Providing high level business support/management services under one roof for entrepreneurs and new ventures that have medium and high level technological focus to create synergies.

How to operationalize the MSME Incubator in the EAC Region

Like any other business, the successful and effective implementation of MSME incubator pilot project within the EAC will need a concerted and well coordinated effort between the different stakeholders (also referred to as the incubation network system).

It is proposed that incubation network system comprises the following stakeholders;

- The Industrial Development Department; EAC Secretariat,

- Partner States' ministries charged with Industry, Finance, Land, Environment and East Africa Community Affairs; among others
- The private sector (Manager of the Incubators in form of a PPP). Selection of the manager of the incubator will be subjected to open bidding process, and a selection criteria will be prepared against which the bids will be evaluated
- The identified MSMEs who will be supported in the facility
- Research and Development Institutions and Universities

The incubator will be funded by Industrial Development Fund, with support from five Partner States and Development Partners, including the GIZ. The proposed roles of key stakeholders in the implementation process are summarized below.

Role of the Industrial Development Department; EAC Secretariat

- Conduct a feasibility study on the viability of setting up an incubation facility in each of the five Partner States, and basing on the findings of the study, select viable value chains for promotion within the facility. The selection of the value chains will be based on Partner States priorities
- Select institutions that will operate/manage the incubation facility on the basis of an eligibility criteria
- Link up with national mechanisms for financing the incubation facility. In addition prepare a proposal to the EAC Development Fund, to set up an industrial development fund, which will partially fund the setting up and running the incubator facility.
- Coordinate, and ensure effective provision and delivery of industry support services by Partner States

Role of the Partner States

- Secure land/physical building premises for setting up of the incubator. The land should be in the proximity of relevant institutions, including universities, and research institutions, among others
- Allocate budgets for setting up and running the incubator.
- Set up an institutional and regulatory framework that favours and supports the setting up of MSME incubators, in addition to favourable policies on MSME development.
- Provide industry support services (product quality certification, R&D, and support the provision of business development Services, among others)

Role of Development Partners

- Provision of funds to set up and run the incubator facility (For example, funds can be provided for actual set up infrastructure within the facility or for provision of Technical Assistance)
- Provision of advisory services in the implementation of the incubator facility

Support the Development of Industrial Corridors - Addressing Infrastructural Challenges

Corridors play a key role in shaping the economic development of a nation or a region, especially when they are well managed and efficiently operated. Corridors support the exchange of goods and services between firms, in a cost-effective manner, which in turn leads to greater efficiencies in the firms' production systems and supply chains.

Rodrigue, Slack and Blank (2009) note that the main economic rationale underlining the efficiency of corridors is based upon:

- The greater capacity of corridors to support trade volumes based upon the principle of economies of scale in transportation. This is likely to be the single most important factor behind the creation of corridors. The argument is that accessibility - the efficient transport infrastructure along the corridors - provides for travel to and from various locations along the corridors, and makes them attractive for businesses to locate and for people to live.
- Better integration between production and distribution due to cost and time efficiency along corridors. The corridor becomes an intermodal supply chain composed of gateways and inland ports.
- Greater reliability of distribution because of transport performance - more efficient cross-border flows.

From the above overview, it is clear that adequate investment in infrastructure is of great importance in the development of corridors. Improving infrastructure means primarily reduced transportation costs along the corridor, and this requires adequate planning, sufficient budget allocations and efficient institutional capacity.

In the East Africa Region, there are two main Corridors, which are the principal and crucial transport routes for national, regional and international trade of the five Partner States. The corridors are;

- The Northern Corridor anchored by the port of Mombasa in Kenya, and
- The Central Corridor, anchored in the port of Dar-es-Salaam in Tanzania.

However, investment in the two corridors, particularly in infrastructure, has generally inadequate, largely because of poor governance, organizational deficiencies, and revenue inadequacy. This has limited economic growth within the environs of the corridors, which the East African Region has been striving to achieve, for the past decade or so. To illustrate;

- Regional connectivity is hampered by ports (Mombasa and Dar-es-Salaam) with high berth and yard congestion, slow customs clearance, and excessive dwell times for ships;
- Service reliability of the rail systems is poor (especially at transfer and locomotive exchange points), and their operating efficiency is low;
- Over 50 percent of the road network is gravelled, and poorly maintained;
- There are delays along the corridors due to informal checkpoints and the border crossings have antiquated infrastructure.

The sections below present in detail the main infrastructural challenges along the two corridors; recent efforts that have been undertaken to address the challenges; and measures the Industrial

Development Department (IDD), EAC Secretariat, can spearhead to further development within the corridors.

Seaports:

Current Status

The two main international ports of the region—Mombasa in Kenya and Dar es Salaam in Tanzania—suffer from heavy congestion and berthing delays²⁰, which are mainly caused by the inadequate container terminal capacity of the ports.

In the port of Mombasa, the recent introduction of progressively larger container vessels and rapid growth in container freight volumes driven by the growth of the regional economy and trade have run up against too shallow water to accommodate vessels over 30,000 deadweight tons and storage yard width incompatible with the volume of container cargo (World Bank; 2012).

At the port of Dar es Salaam Cross-border, cargo, particularly goods destined for Zambia and the Democratic Republic of Congo take long to clear, largely because of the delays in dispatching the goods on backhaul truck services. This results in an increase in cargo dwell time at the port.

Efforts undertaken to enhance the efficiency of the Ports

To enhance the efficiency of the ports, and improve the reliability of port services, several projects have been proposed at the port of Mombasa and Dar es Salaam. The projects include,

- **Mombasa Port:** enhancement of the short-term container handling capacity, a new container terminal (Kipevu West), an offshore petroleum offloading jetty, and a dry bulk terminal facility. Also, in June 2011, Kenya's Port Authority announced a Ksh 10 billion rehabilitation and expansion project for Mombasa port. The project includes dredging of mud and silt to accommodate bigger vessels and the simultaneous construction of a new cargo berth. The project is expected to address the problem of congestion at the port and thus to improve its operational efficiency in line with the government's Vision 2030.
- **Dar es Salaam Port:** enhancement of short-term container handling capacity, a single-point mooring facility, a new container terminal, and dry bulk and break bulk facilities. Also, in March 2011, Tanzania's Port Authority embarked on a rehabilitation and expansion project to enhance the efficiency of the port of Dar es Salaam. The project is designed to increase the channel depth. It also includes building two new berths and turning the port's single-point mooring facility into a multipurpose facility. The project cost, excluding the channel deepening, is put at around \$460 million (World Bank; 2012).

How can the IDD; EAC Secretariat, complement the above measures?

To complement the above measures, there is an urgent need to improve cargo-handling volumes at regional ports in the short term, and to address the shortage of regional ports in the longer term. Demand for port capacity in East Africa is rising rapidly, and the scope for expansion in the existing ports is generally limited.

To achieve the above goals, the IDD, EAC Secretariat should undertake study, and, using the study findings, draw a plan of actions to advocate for the following;

²⁰ An assessment of all the different transport alternatives between selected origins and destinations for exports and imports along the Northern and Central Corridors, conducted by JICA in 2011, revealed that most of the transit delays are at these two ports

- How to improve port capacity and efficiency in terms of yard space, number and length of berths, and loading/unloading facilities of major international ports;
- How to improve connection between the ports with international corridors to achieve world-class standards;
- How to improve intermodal connectivity with railways and roads, and development and strengthening of inland container depots.
- Assistance for moving to a “landlord” model of port operation (involving concessions to private operators); and
- How to improve port operation efficiency through single-window port procedures, electronic forms submission, simplified port procedures, and certification of clearance and forwarding agents, among other measures

Rail Networks:

Current Status

The regional rail systems are operating well below their original design capacity, have low transport productivity, and face tight capacity constraints because of poor track conditions, and poor locomotive and wagon availability (World Bank; 2012).

The Northern Corridor, for example, has a theoretical design capacity for the Tanzania-Zambia railway of 5 million tons per annum, but throughput is only about one-tenth of that (World Bank; 2012). Presently, the corridor also has about 20 derailments per month.

The condition of the rolling stock in the Central Corridor—109 locomotives and 1,670 wagons—is poor because of lack of maintenance. Operating speed restrictions of 13-50 km per hour are in force on many sections of the track because of its poor condition. Train turnaround time between Dar es Salaam and Mwanza or Kigoma is typically 18 days, rather than the scheduled 10.37 days (JICA; 2010).

The need for substantial investment to repair and upgrade the region’s rail track, rolling stock, and other equipment is self-evident.

Efforts undertaken to enhance the efficiency of the Rail networks

Key projects in Tanzania include a performance management contract (after the government took full control of Tanzania Railway Limited from 1 August 2011), as well as track infrastructure upgrade, repair, and maintenance to improve reliability and reduce train transit and turnaround times.

The revitalizing of the Rift Valley Railroads (RVR) includes rehabilitating track between Mombasa and Nairobi; repairing and upgrading the existing RVR locomotive fleet in Kenya and Uganda; and upgrading the RVR Mombasa intermodal yard and equipment.

How can the IDD; EAC Secretariat, complement the above measures?

To complement the above efforts, the IDD; EAC Secretariat should undertake a detailed study;

- Analyzing the cost structure and performance of regional rail systems, and compare them to those of roads;

- Identifying priorities for system upgrading and restructuring and estimate the needed investment for increasing operating speed from the current regional average low of 30 km an hour;
- Analyzing regional demand and estimate threshold traffic volumes for regional railroads to achieve financial viability;
- Identifying deficiencies in the current rail concession agreements in regional rail networks; and
- Identifying potential financing schemes for revitalizing regional rail systems.

The IDD, EAC Secretariat, should also fast-track the implementation of a policy, adopted by the African Union and regional governments, which espouses for all new railway projects to conform to standard international gauge specifications.

Regional Roads:

Current Status

Most sections of the Northern and Central Corridors across Kenya, Uganda, and Tanzania have been rehabilitated or reconstructed in recent years (with assistance from the World Bank, the EU, the African Development Bank, and other development partners), and road conditions have improved.

However, an assessment by JICA (2010) rated 45 percent of the road capacity in the Northern Corridor poor and gave it a level of service grade of E or F²¹. Many highways remains unpaved, and over 3,500 km of regional roads have a gravel surface. And there have been persistent problems in maintaining pavements due to capacity problems at road bureaus and the private companies undertaking road repair projects.

In this regard, the regional road network needs several types of improvement: upgrading road capacity, especially the segments with level of service grades E or F; rehabilitating paved roads where the condition has deteriorated beyond the point at which preventive and routine maintenance works; paving many of the gravel roads; and filling in missing links

Currents Efforts to upgrade the road network

A key regional network project is the transnational Arusha-Namanga-Athi River Road (235 km) linking Nairobi (Kenya) to Arusha (Tanzania). The road, which began construction in early 2008, will facilitate movement of traffic from Zambia, through Tanzania, from Kenya to Ethiopia, and Uganda. The road will also enhance import and export traffic from the port of Mombasa.

Other regional road projects include the Arusha-Holili-Voi (240 km) road linking Northern Tanzania to Mombasa, and the Malindi-Lunga Lunga-Bagamoyo (400 km) road running along the coast between Kenya and Tanzania (World Bank; 2012). More recently, in November 2011, Kenya and Ethiopia signed a \$743 million agreement to construct a road network connecting the two countries. The 888 km Addis Ababa-Nairobi-Mombasa road will further interconnect the two countries with the rest of the region.

²¹ Grades range from A (best) to F (worst)

How can the IDD; EAC Secretariat, complement the above measures?

The IDD; EAC Secretariat should advocate for the construction of important missing links in the main corridors, as key priorities for strengthening the road network. Specifically, the IDD should espouse for the following;

- Developing international corridor networks connecting key international ports with inland areas;
- Developing a branch (feeder) road network that connects key cities, production sites, trunk roads, and key rail stations;
- Developing rural roads that link poor areas with trunk roads; and
- Developing inland container depots at strategically important points of large cities, rail stations, seaports, and airports.

Further, the IDD, EAC Secretariat should support the harmonization of cross-border transport laws and regulations within the region. The IDD, EAC Secretariat should seek funding for Technical Assistance, to help partner states align their laws on vehicle limits to regional standards and to adopt new regulations imposing administrative penalties for noncompliance. Such assistance can be extended to develop a regional overloading control strategy with targeted enforcement provisions based on risk management, including databases that develop profiles of frequent offenders and additional enforcement measures to target high-risk truckers.

Regulatory and Administrative Issues:

Current Status

Many border crossings have antiquated infrastructure, inadequate coordination between the countries, and congestion. The key problems that plague border crossings have been extensively documented and include;

- Excessive documentary requirements and outdated official procedures;
- Insufficient use of information and communications technology systems;
- Lack of efficient cooperation among a country's customs and other governmental agencies.

Further, customs procedures in the Region are non-transparent and unpredictable. Firms spend a lot of time searching for information and frequently have to pay bribes, penalties, and fees for administrative or judicial appeals. These expenditures raise the cost of doing business in the region, particularly among small firms.

Currents Efforts to streamline regulatory and administrative issues

Several one-stop border posts are planned. Namanga town on the Tanzania-Kenya border is expected to be the largest (and the first in Africa) followed by Malaba between Kenya and Uganda and Gatuma on the Rwanda-Uganda border. Similar facilities are planned for Horohoro and Sirari, also on the Tanzania-Kenya border, Rusumo (Tanzania-Rwanda), Mtukula (Tanzania-Rwanda), and elsewhere. The posts are being set up with financial help from Japan.

How can the IDD; EAC Secretariat, complement the above measures?

The EAC Secretariat and the five Partner States are committed to the introduction of one-stop border posts, aimed at transforming all borders in the Region.

To support the above initiative, the IDD, EAC Secretariat should develop a programme of action on how to improve the performance of customs focusing on the following areas:

- Reducing the level of bureaucracy by streamlining and simplifying clearance procedures and making them transparent;
- Establishing a code of conduct for both customs officers and clearing and forwarding agents, which should include standards for customs clearance in terms of duration as well as a provision of appeals of customs decisions

Piloting the Load Balancing and intermodal transport Project for reducing trade costs along corridors

A Load balancing PPP project that combines railways, barge transport over the lake, and trucking needs to be conceptualized as the greatest weakness in EAC is its logistics costs.

At present, there is little balance between the head haul and backhaul traffic in the EAC region. Conceptually the transport assets can be better managed if each destination has enough products to fill up the trucks or railway wagons in both directions. That is the only way the costs will come down.

One way to expand the market for rail and lake barge borne freight (which is cheaper) is to resort to containerization which brings together the best aspects of the rail and truck modes of transport, dovetailing their respective strengths to reduce total transportation costs. This also results in many more shippers using the rail and barge mode as containers are brought to their doorstep by road from a rail and barge fed container facility.

Hence, while the rail takes care of the long haul, dispatch and delivery from premises is done by trucks bridging the distance to the railhead. This will also enable multi-modalism to penetrate into DRC, Sudan and the other neighbouring hinterland, lowering overall freight costs.

Support the Development of Industrial Corridors - Ongoing Industrial Projects

To complement efforts in improving the infrastructure of the corridors, the IDD, EAC Secretariat should also evaluate the status of the current industrial development projects being undertaken along the corridors and assess the feasibility of setting new ones.

Specifically, the Secretariat should undertake studies that will assess the ability of the current projects to spur additional economic developments; the project's ability to increase the economic diversification of the region, utilize natural abundant resources, and create local beneficiation. This assessment will provide useful insights on whether it is necessary to set up new projects, or upgrade the current projects.

Enhancing industry value chains, targeting sectors that hold the greatest potential should also constitute the core dimension of the IDD, EAC Secretariat. For instance, defining and implementing a competitiveness framework, that strengthens agro industry value chains is likely to significantly enhance the EAC's growth and employment potential given the importance of this sector to the regional economy.

Promoting the development of Special Economic Zones or Industrial Parks along the corridors

The goal of this initiative is to promote regional competitiveness directly as well as providing demonstration effects not only on how to create a competitive investment climate, through Special Economic Zones, but more broadly on the potential benefits of key provisions of integration, including labour and capital mobility.

Regional Industrial Promotion (Incentives) and Award's Scheme

The goal of the Regional Industrial Promotion and Award's Scheme is to promote targeted investment in the Strategic Regional Industries.

The scheme, which will be run by the Centre for the development of Regional Industries, will formulate and implement promotional and development measures for the development of the strategic regional industries, in view of Partner States' priorities.

Promotion of Strategic Regional Industries, through the provision of incentives

Through the Scheme, the Centre for the development of Regional Industries will put in place Special incentives, to attract significant investment in the strategic regional industries. Examples include;

- VAT Refund on locally purchased raw materials
- Duty and tax free import on plant and machinery
- Tax holidays (10 yrs) for Industries exporting >80% of production
- Bank guarantee to purchase equipment through some commercial banks (max of 10% interest rate, tenure up to 8 years, etc)
- Incomes are exempt from Tax
- Lease of land (10 years free)
- Provision of handholding assistance to MSMEs engaged in more than one Partner State (business registration, licensing and work permits)
- tax incentives to engage in R&D and innovation, either privately or through public sector research institutes
- tax incentives for management training in application of Science and Technology

Summit Award

Objectives of Summit Awards

- To recognize and encourage investment in the strategic regional industries by giving public recognition to industries that have contributed significantly towards national and regional economic development (GDP) and prosperity (employment creation)
- To promote the importance of industrialization in the structural transformation of the Region and to improve Region's overall competitiveness.

Benefits of Participation

- The companies with outstanding growth and contribution to national and regional development will be recognized and publicized.
- The effectiveness of each company's operations could be promoted and enhanced.
- The service level of individual companies as well as the whole manufacturing sector could be improved and enhanced.

The evaluation of companies will be based on the following weighted parameters: -

- Value (US\$) of exports by Industry
- Price competitiveness (Value/volume)
- Level and nature of value addition
- Total number of direct employees
- Technology Transfer (innovation and product adaptation)
- Export market diversification
- Environmental consciousness
- Social responsibility
- Gender in employment

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