



East African Community



The East African Community Industrialisation Policy in Brief

Opening new opportunities for growth and expansion of cross border
manufacturing and upgrading of small and medium enterprises (SMEs)



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List of Abbreviations/Acronyms

AIDA	Accelerated Industrial Development of Africa
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
GDP	Gross Domestic Product
IDD	Industrial Development Department
IPR	Intellectual Property Rights
LVAC	Local Value Added Content
MSME	Micro Small and Medium Enterprises
NGO	Non-Governmental Organization
NTB	Non-Tariff Barriers
REPAS	Regional Enterprises Promotion and Award Scheme
ROO	Rules of Origin
R&D	Research and Development
SADC	Southern African Development Community
SME	Small and Medium Enterprise
TBT	Technical Barriers to Trade

Introduction

The EAC industrialisation policy approved by the EAC Summit in November 2011 provides a regional framework aimed at growing and expanding the manufacturing and small and medium enterprise (SME) business so as to create employment and income for the benefit of the region. The theme of the policy is built on the need for “structural transformation of the manufacturing sector through high value addition and product diversification based on comparative and competitive advantages of the region”. This will enable countries in the region to individually and collectively achieve faster and sustained economic growth which is central to attaining a middle income status as per the visions of the Partner States.

The policy emphasises the role of the private sector in driving industrialisation in the region and seeks to promote strategic dialogue between public and private sector and other key stakeholders based on principles of competitive partnerships. To avoid previous policy mistakes, the EAC industrialisation will be pursued through market based instruments that create incentives for private sector to respond to emerging opportunities. The governments will, however, make strategic and focused interventions in critical areas such as creating a most conducive business environment, investment in human capital, enhancing the technology base, and providing information and infrastructure needed by private sector to become more efficient, innovative and competitive.

Integrated EAC Markets: Prospects for Growth in Manufacturing Businesses

The manufacturing and SME businesses in the region are anticipated to register substantial growth as they take advantages of the expanded markets for skills, finances, technology, and other factors of production required for competitive production. Since the launch of regional integration in 1993 through the East African Tripartite Commission, the market has now evolved into a five nation common market of 133 million people with an estimated USD 79.2 billion GDP and average GDP per capita of USD 685 (EAC Secretariat; 2011).

Figure 1 shows progress achieved and the milestones that remain on the road to full EAC integration.

Figure 1: Evolution of EAC Regional Integration

EAC Milestones



In 2005 the EAC started the implementation of a Customs Union which focuses on:

- A common External Tariff (CET) on imports from third countries - raw materials (0 per cent), intermediate products (10 per cent) and finished goods (25 per cent), the latter percentage being fixed as the maximum;
- Duty-free trade between the Partner States;
- Common customs procedures.



Loading of goods at a port in the EAC

The EAC Common Market Protocol was signed by the Heads of State in November 2009. Among other objectives, it focuses on: accelerating regional economic growth and development by enabling free movement of goods, persons and labour the rights of establishment and residence; and the free movement of services and capital.

In addition, other benefits of the Common Market include:

- Sustaining equitable regional economic expansion and integration of economic activities within the Community, and
- Enhancing research and technological advancement to accelerate economic and social development.

Past Industrialisation Efforts in EAC Region

The need for regional efforts to collaborate in promoting industrial development in the region has been there as early as the 1960ies. During these periods, industrialisation was characterised by strong direct government participation through state owned enterprises in manufacturing and distribution and high levels of industrial regulation pursued through industrial licensing. Moreover, redistributive measures included direct allocation to industries and the creation of the EAC Development Bank to support industries and investment in the region. Under a tax transfer system, industries of less developed members were protected by imposing a tariff on imports from a country with which it had a trade deficit.

By and large, the above efforts did not yield noteworthy results in industrialising the region equitably and were inherently unsustainable.

The EAC region has learnt from the past efforts and mistakes of administratively allocating of industrial investments. Under the Treaty establishing the Community, the Partner States are now committed to take steps in the field of industrial development to promote self-sustaining industrial development, improve the competitiveness of the industrial sector and promote the development of indigenous entrepreneurs using a market-led approach.

Preparation of the EAC Industrialisation Policy

The EAC Summit in 2007 directed the Secretariat to “urgently prepare an EAC Industrial development and investment strategy supported by an effective institutional decision making framework to promote equitable industrial development in EAC region”. Following months of consultative process with key stake holders at regional and national levels, including the public and private sectors and civil society organisations, the EAC Industrialisation Strategy and Policy were prepared and approved by Summit in 2011 in Bujumbura, Burundi.

The development of the strategy and policy was anchored in the industrial strategies of the five Partner States, adopting, where, appropriate, the strategic sectoral priorities of the Partner States. The formulation of 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, as well as the EAC-COMESA-SADC tripartite integration efforts. The region has adopted a people centred approach to integration in order to ensure that all key stakeholders actively support and champion industrialisation and other development efforts.

The formulation of the EAC Industrialisation Policy and Strategy is timely coming at a time when the Africa continent is seen as the next frontier of economic growth. The strategic interventions outlined in the policy are anticipated to further catalyse prospects for higher economic growth in the region. The successful implementation of the strategy and policy will be premised on the nine guiding principles that informed the policy formulation.

Principle 1: Enhancing equitable industrialisation in the region.

Principle 2: Strengthening and exploiting policy synergies between the Industrial Policy and other sectoral policy instruments.

Principle 3: Promoting strategic dialogue between the public and private sector.

Principle 4: Strengthening industry linkages between large and micro, small, and medium enterprises (MSMEs).

Principle 5: Promoting targeted industry value chains with widespread linkages and economic benefits extending across the region.

Principle 6: Promoting industrialisation on the basis of comparative and competitive advantage.

Principle 7: Enhancing skills and knowledge for industrialisation.

Principle 8: Ensuring that the regional industrialisation policy institutional framework for implementation provides for well defined and predictable roles of Partner States and EAC institutions, with a clear institutional decision making framework within the region.

Principle 9: Market-led approach to industrialisation.

Development of Strategic Regional Industries/Enterprises

The Industrialisation Policy identifies six priority sectors with regional comparative advantages. Strategic interventions to support the competitive development of the priority sectors have therefore been proposed. The identified strategic regional value chains include:

- agro-processing
- iron-ore and other mineral processing
- petro-chemicals and gas processing and
- fertilizers and agro-chemicals
- pharmaceuticals
- energy and bio-fuels.

The selection of the sectors was based on the priorities identified at national level, which was complemented by a selection methodology that combines assessed attractiveness of the industry (growth and market share) and industry strategic feasibility (factor endowments) into a single indicator.

To attract investment into the priority sectors and generate new industrial capacities, a regional enterprise promotion and award scheme will be set up, and interested investors will register so as to take advantage of the scheme. Industries operating under the scheme will be classified as strategic regional industries/enterprises and will be required to meet at least four of the following policy objectives: (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 the 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.

A center for the development of strategic regional industries/enterprises will be established to administer the scheme and promote targeted investments in the priority sectors.



Pharmaceutical production is one of the six strategic regional industries of the EAC Industrialisation Policy

Objectives of the EAC Industrialisation Policy/Strategy

The vision of the EAC Industrialisation Policy/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 Industrialisation Policy/Strategy is *“to create a market driven, regionally and internationally competitive and balanced industrial sector based on the comparative and competitive advantages of the EAC Region”*.

The overall objective is *“to create a modern, competitive and dynamic industrial sector that is fully integrated into the global economy”*.

The specific objectives/targets of the EAC Industrialisation Policy (2012-2032) include:

- Diversifying the manufacturing base and raising local value added content of resource based exports to at least 40% by 2032;
- Strengthening the regions’ institutional frameworks and capabilities for industrial policy design and implementation; and delivery of support services;
- Strengthening R&D, Technology and Innovation capabilities;
- Expanding trade in manufactures by increasing (i) intra regional manufacturing exports relative to total manufactured imports in to the region to at least 25% by 2032 and (ii) increasing the share of manufactured exports relative to total merchandise exports to at least 60%; and
- Transforming Micro Small and Medium Enterprises (MSMEs) into viable and sustainable business entities capable of contributing to at least 50% of manufacturing GDP.



Local value addition in fish processing in the EAC

Planned Interventions to achieve the Policy Objectives and Targets

The policy outlines measures and strategic interventions necessary for achievement of industrialisation objectives and targets as follows:

Diversifying the manufacturing base and raising local value added content (LVAC) of manufactured exports. Interventions include:

- Mapping of priority regional value chains (agro-processing; fertilizers and agro-chemicals; pharmaceuticals; iron ore & other mineral processing; energy & bio-fuels; petro-chemicals & gas processing) and preparing investment and value addition action plans;
- Creating/establishing a framework for public-private sector partnership for coordinated development of the strategic regional industries;
- Setting up a regional enterprises (industry) promotion and award scheme (REPAS) to stimulate investment into priority strategic regional value chains;
- Setting up a centre for the development of strategic regional industries/enterprises to administer the scheme and also undertakes comprehensive and innovative investment campaigns.



Diversifying the manufacturing base through cement production

Strengthening national and regional institutional capabilities for industrial policy design and management. Interventions include:

- Enhancing the technical and management competencies of national and regional institutions to design, implement and monitor industrialisation policies and related regulations effectively;
- Conducting awareness seminars among various stakeholders including national and regional parliamentarians, NGOs, private sector leadership, policy technocrats, to ensure regional industrial development agenda is accorded priority in resource allocation;
- Creating regional and national industrial development coordination mechanisms to facilitate synergy building between industrial development and other sectoral initiatives. At regional level, a Sectoral Council on Industrialisation will serve as the platform for setting the regional agenda for industrial development. At national level, national industrial development councils will be created to facilitate coordination of industrial development.;
- Setting up national and regional industrial observatories for monitoring global industrial development trends and bench-marking competitiveness drivers of industrialisation relative to industrializing countries.

Strengthening R&D, Technology and Innovation capabilities.

Interventions include:

- Aligning science, technology and innovation infrastructure to meet the needs of industrial development in the region. This will entail a reviewing of regional innovation systems and creating instruments/incentives to enhance triple helix collaboration between universities, industry and governments;
- Facilitation of networking among research institutions, academia and industry for best practice sharing, and building partnerships for collaborative R&D, technology and innovation initiatives;
- Supporting the establishment of regional centres of excellence in technology transfer and innovation;
- Establishment of an EAC Industrial Research and Technology Institute (EAC-IRTI) to coordinate and facilitate collaboration in industrial research and technology development initiatives;
- Strengthening intellectual property rights (IPR) regimes as well as IPR protection infrastructure and capabilities in the region;
- Establishing a regional industrial innovation and award fund (IIAF) as a means to catalyse innovation efforts and support collaborative science technology and innovation initiatives;
- Organising regional technology conferences and exhibition to show case latest trends in science, technology for industrial development.

Expanding trade in manufactured products through (i) increasing intra regional manufacturing exports relative to total manufactured imports to at least 25% by 2032 and (ii) increasing the share of manufactured exports relative to total merchandize exports to at least 60%: Interventions include:

- Creating a competitive production and business environment to enhance competitiveness position of the manufactured exports. Export promotion infrastructure such as special economic zones will be developed along major economic corridors to facilitate integrated production and cross border linkages, and attract a critical mass of investment in manufacturing;
- Developing quality assurance, product certification and traceability schemes for manufactured products to meet regional and international market requirements;
- Fast-tracking progress in elimination of non-tariff barriers (NTBs) and technical barriers to trade (TBTs) that affect trade in manufactures across the borders;
- Creating awareness on export requirements and aligning rules of origin (ROO) to enhance intra-industry trade in manufactures;
- Developing a strategy to support the enhancement of packaging and branding of manufactured products within the region;
- Supporting the development of regional brands for manufactured products;
- Set up a regional export award scheme to encourage export expansion of manufactured products.

Transforming Micro Small and Medium Enterprises (MSMEs) into viable and sustainable business entities capable of contributing at least 50% of manufacturing GDP. Interventions include:

- Formulating a regional SME policy and charter to support coordinated development of the sector and minimize regulatory burden on the small businesses;
- Creating an SME business portal where SMEs can show case their products and services , and also access a variety of market information such as technology services, government contracts, and market opportunities;
- Formation/strengthening of regional association of SMEs and network of intermediary organizations to facilitate sharing of best practices in SME policy promotion tools;
- Setting up a regional web-page containing a directory of SMEs and database on various business support programmes available at regional and national level;
- Promoting development of SME clusters and regional entrepreneurship programmes covering business plans preparation, proper maintenance and reporting accounting and financial information etc;
- Developing regional credit rating and credit information reference and referral systems for SMEs (capacity building programme for the financial institutions and SME credit providers);
- Developing a regional programme for the upgrading of SMEs to enable the sector take advantage of common market opportunities and integrate into regional and global value chains.



In 2032 MSME shall contribute at least 50% of manufacturing GDP in the EAC

Financing Mechanisms for the Industrialisation Programmes

To ensure availability of long-term financing for industrial development in the region, the policy provides the following interventions:

- Facilitating the integration of financial markets in the region, including the integration of the capital market to support mobilisation of funds for industrialisation;
- Establishing/strengthening regional industrial development banks to mobilise funds to support investment in long-term industrial development projects. The regional industrial development fund to be established will be administered by the regional bank. The fund will be capitalised through Partner States contributions as well as contributions from development partners;
- Exploring the possibilities of establishing regional industrial bonds as a means of raising funds for industrialisation;
- Setting up a regional credit guarantee scheme and other innovative financial products (seed & venture capital, leasing & inventory financing) to enhance SME access to credit lending by commercial banks;
- Increasing national and regional budgetary allocation to the industrialisation programmes and projects.

Coordination of Infrastructural Challenges and other Complementary Measures



Infrastructure development key for success of the EAC Industrialisation Policy

Industrialisation policies are likely to be ineffective in the absence of complementary policies that support their objectives such as infrastructure (road and rail networks, energy etc.) or macro-economic factors (interest rates, exchange rates, fiscal and non-fiscal incentives etc). In particular, access to quality and affordable energy supply is a pre-condition for industrialisation which should be addressed concurrently as industrialisation programmes are implemented. The manufacturing sector alone is a major user of energy (electric power), consuming over 60 percent of total energy production. The planning for energy expansion should therefore take into account the manufacturing sector requirements for energy in terms of quantity, quality and price.

The need for policy coherence calls for harmony between industrial policy and other domestic measures, such as exchange rate policies, monetary and fiscal policies and policies that affect infrastructure development and the investment climate. An institutional mechanism (regional inter-ministerial forum) has been proposed to ensure that complimentary measures are aligned to support regional industrialisation objectives.

Institutional Arrangements for Implementation and Roles

The success of the EAC Industrialisation Strategy is heavily reliant on the presence of a strong institutional mechanism to guide its implementation. After consultations with various stakeholders, a proposed institutional framework for industrialisation policy related matters was designed.

The overall policy guidance on industrial development in the region will be the responsibility of the Sectoral Council on Industrialisation (to be established). The Sectoral Committee on Industry will be the technical arm of the Sectoral Council. To ensure follow-up on the implementation of complementary policies and measures, an inter-ministerial coordination forum comprising of ministers responsible for implementing complimentary polices, and industrial development will be institutionalised to meet and make decisions on complementary measures affecting industrial development.



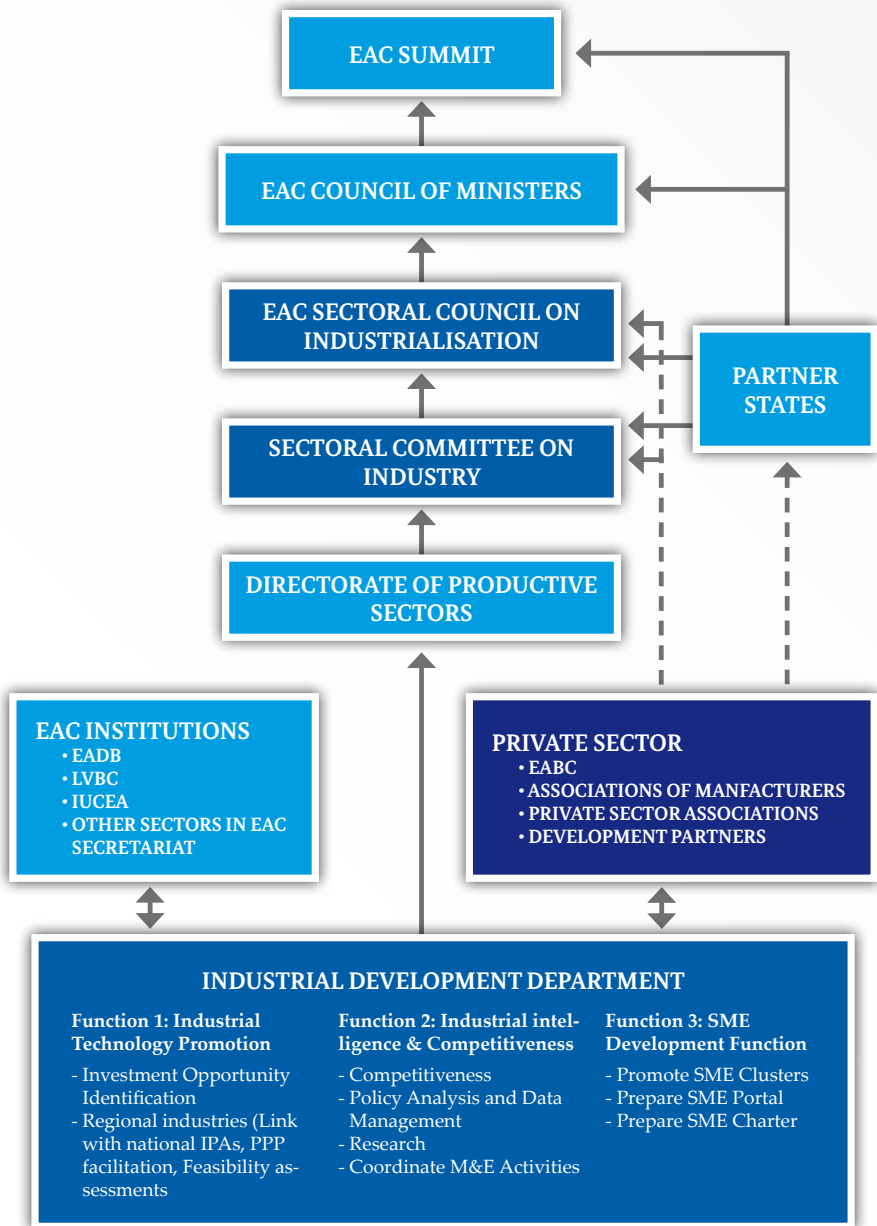
Regional cooperation essential for successful implementation of the EAC Industrialisation Policy

At national level, industrial development coordinating councils will be set up to discuss corresponding complimentary measures having a bearing on industrial development. The private sector associations particularly the association of manufacturers, associations of SMEs and other relevant private sector bodies will participate in the deliberations of the Sectoral Council, Sectoral Committee, inter-ministerial coordination forums and national industrial development coordination councils as members.

The EAC Secretariat will be responsible for coordinating the implementation of the EAC Industrialisation Policy and Strategy. The Industrial Development Department (IDD) in the Secretariat will be strengthened to ensure effective coordination of implementation and preparation of programmes and projects. The capacity of the IDD will be reinforced by creating the following functional units in the department: Industrial observatory/competitiveness function; SME development function; and R&D, technology and innovation function.

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

Figure 2: Proposed Institutional Framework for Implementation of the Policy



Role of EAC Secretariat

The EAC Secretariat, through the Industrial Development Department (IDD), will maintain regular communication on industrial development issues with regional and national stakeholders including Partner States and private sector organisations, promote the region's industrial development agenda internationally, promote and facilitate joint regional industrialisation ventures, promote collaboration in Industrial R&D and fostering of synergies between universities, research centres and industry and provide strategic information to the industrial sector, especially regional industries, SMEs and entrepreneurs on markets, new technologies, and the nature of competition.

Role of Partner States

National Governments are expected to ensure that national industrialisation policies and strategies are implemented, and that they are aligned with regional industrialisation initiatives. The Partner States are also expected to work in tandem with the private sector to initiate, implement, and monitor national industrial development policy interventions that reinforce regional industrialisation efforts.



EAC headquarter in Arusha, Tanzania

Role of the Private Sector

Private sector representative organizations including national associations of manufacturers, East African Business Council, among others will play a lead role in the implementation of the EAC Industrialisation Strategy. Their roles will include:

- Taking advantage of the policy framework and exploit business opportunities created in the common market;
- Dialoguing with regional and national authorities on the need for a competitive business environment and requisite infrastructure for industrial development;
- Participating in the national and regional policy making organs particularly those relating to industrialisation as well as monitoring the implementation of the policy;
- Aiming to build strong and competitive industrial enterprises, based on ethical business principles and practices and able to meet the requirements of local, regional and international markets;
- Working together through their respective associations and advocating for industrial policies and interventions that will contribute to regional industrialisation.



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Imprint

Published by

East African Community (EAC)
www.eac.int

Design and layout

MEDIA DESIGN
www.media-design.me

Photo credits ©

Cover/P. 11 Kenyan Association of Manufacturers, P. 7/14 www.janhoffmann.info,
P. 9 medeor/B. Breuer/B. Betzelt, P. 10 Hartmut Fiebig, P. 13/15 EAC, P. 17 Roderick Ahimbazwe

Publishing date

August 2012

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