



East African Community

The East African Community Industrialisation Policy 2012-2032

Structural 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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FOREWORD

The EAC Partner States, like many developing countries, aspire to transform their economies to a modern and industrialised status that can sustainably generate sufficient outputs to satisfy both domestic and export markets and rapidly increase per capita incomes to improve the living standards of their people. The industrial sector in the region has developed into one of the main components of national and regional economic structures. The contribution of manufacturing to GDP in East Africa is estimated at 8.9%, which is considerably below the average target of about 25% that all the five Partner States have set for themselves to achieve by 2032. The industrial sector has the potential to contribute significantly to the economy by creating jobs, stimulating the development of other sectors like agriculture and services, increasing foreign exchange earnings, and modernising the lives of people.

Industrialisation in the context of EAC depends on how the region strategically leverages the market created by the Common Market Protocol as a source or stimulus for demand, while simultaneously capitalising on opportunities created by the fast growing global and emerging markets for manufactures. The realisation of a fully functioning Common Market and the deepening of regional integration through a monetary union are crucial for providing the much needed impetus for industrialisation in the region.

The EAC Region is endowed with vast natural resources with the potential for stimulating resource-based industrialisation in the region. However, these resources remain untapped due to a combination of factors, including gaps in governance frameworks, a non-conducive business environment both at national and regional levels, gaps in requisite skills and technological know-how, limited and fragmented national markets creating constraints for the realisation of economies of scale in production; information gaps, low quality infrastructure including a non-functioning railway network, inadequate investment in capacity and maintenance of existing roads networks which lead to high transaction costs and inadequate energy production.

To address the challenges of industrial development, regional cooperation needs concerted efforts in order to create an effective policy coordination framework geared towards eliminating constraints to growth and enterprise upgrading at national and regional level. These efforts must also facilitate the identification of leverage elements that can be harnessed to accelerate the industrialisation process in each Partner State.

In recognition of the challenges faced by industrial development in the region, the EAC Summit called upon the Secretariat to urgently formulate an EAC Industrial and Investment Strategy supported by an effective institutional decision making framework to promote equitable industrial development in the EAC region. Experiences from the rest of the world indicate that the achievement of more vibrant and sustainable economic development is dependent on the level of industrialisation of a region. Cooperation at regional level is important since it encourages synergies, expands market reach and helps establish the necessary linkages required for successful industrialisation.

The EAC Industrialisation Policy is therefore intended to address the challenges facing the region, particularly the need to build a more diversified regional economic structure which remains the most predictable way of reducing vulnerability to shocks and ensuring more rapid development. The formulation of the policy was accomplished through a comprehensive and inclusive process, based on analysis and wide consultations with stakeholders in the five Partners States, in order to ensure that it is a broad-based policy embraced by all stakeholders. The policy is aligned to the relevant articles of the Treaty for the Establishment of the East African Community, in particular

articles 79 and 80 as well as article 44 of the Common Market Protocol. The policy preparation was further informed by the industrialisation framework at the continental level, particularly the Plan of Action for Accelerated Industrial Development of Africa (AIDA).

The policy outlines 14 strategic measures that will guide the region towards the attainment of the broad policy objectives including, among others: (1) promoting the development of strategic regional industries, (2) strengthening national and regional institutional frameworks and capabilities for industrial policy design and implementation, (3) strengthening the capacity of industry support institutions (ISIs), (4) strengthening the business and regulatory climate, (5) enhancing access to finance, (6) facilitating the development of relevant technical skills, (7) facilitating the development of micro, small and medium enterprises, (8) strengthening industrial information management and dissemination systems, (9) equitable development, (10) developing support infrastructure along identified development corridors, (11) promoting research, development and innovation, (12) promoting sustainable industrialisation, (13) increasing access to markets, and (14) supporting gender in industry.

The implementation of the EAC Industrial Policy will be guided by a set of principles, relating to issues such as equitable industrialisation, strengthening and exploiting policy synergies, promotion of targeted industry value chains, and pursuing industrialisation based on market principles and on comparative and competitive advantage.

I therefore urge the EAC Partner States, the private sector and other stakeholders to support the successful implementation of the Policy.



Signed

Chairperson of the EAC Council of Ministers
Hon. Musa Sirma, MP
Minister for East Africa Community, Kenya

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ACRONYMS AND ABBREVIATIONS

AGOA	Africa Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
AU	African Union
CET	Common External Tariff
CMP	Common Market Protocol
COMESA	Common Market for East and Southern Africa
EAC	East African Community
EABC	East African Business Council
EU	European Union
FDIs	Foreign Direct Investments
FTAs	Free Trade Areas
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDD	Industrial Development Department
IDF	Industrial Development Fund
ISI	Import Substitution Industrialisation
ISIC	International Standard for Industrial Classification
IPAs	Investment Promotion Agencies
LDCs	Least Developed Countries
MSME	Micro, Small and Medium Enterprise
NAFTA	North American Free Trade Agreement
NTBs	Non-Tariff Barriers
R&D	Research and Development
RECs	Regional Economic Communities
SADC	Southern Africa Development Cooperation
SAP	Structural Adjustment Programme

UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organisation
USA	United States of America
WBG	World Bank Group
WEF	World Economic Forum
WTO	World Trade Organisation

1.0 INTRODUCTION

The EAC Partner States, like many other developing countries, aspire to transform their economies to a modern and industrialised status that can sustainably generate sufficient outputs to satisfy both domestic and export markets and rapidly increase per capita incomes to improve the living standards of its people. Industrialisation is a fundamental process through which many of today's wealthy countries have successfully accelerated their income growth and lifted their populations out of poverty. Industrialisation in the context of the EAC region will depend on how the region strategically leverages the market created by the Common Market Protocol as a source or stimulus for demand while simultaneously capitalising on opportunities created by the fast growing global and emerging markets for manufactures. The realisation of a fully functioning common market and the deepening of regional integration through a monetary union are crucial for providing the much needed impetus for industrialisation in the region.

Regional integration, launched in 1993 through the East African Tripartite Commission, has evolved into a five-nation common market of 133.5 million people (2009) with an estimated USD 74.5 billion GDP and average GDP per capita of \$558 (EAC Secretariat, 2010). Figure 1 shows the progress achieved and the remaining milestones on the road to full EAC economic integration.

Figure 1: Evolution of EAC Regional integration



Between 2005 and 2010, the EAC implemented a Customs Union which focused on:

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

In 2010, the EAC Partner States signed a Common Market Protocol (CMP) which, among other objectives, focuses on accelerating regional economic growth and development by introducing the free movement of goods, persons and labour, the right of establishment and residence, and the free movement of services and capital.

In addition, the EAC Common Market is expected to strengthen, coordinate and regulate the economic and trade relations among the Partner States in order to promote accelerated, harmonious and balanced development. 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.

To complement the region’s integration efforts and address the problem of overlapping memberships in trade groupings, the EAC, COMESA and SADC have put into motion the process of creating a Tripartite Free Trade Area (FTA). The rationale of the Tripartite FTA is to foster closer cooperation among the three Regional Economic Communities (RECs), with the ultimate goal of creating a single market encompassing 26 countries with a total GDP estimated at USD 624 billion.

Furthermore, the Tripartite FTA will contribute to the broader objectives of the African Union (AU), namely accelerating economic integration of the continent and achieving sustainable economic development, thereby alleviating poverty and improving the quality of life for the people of the Eastern and Southern African Region.

While EAC has registered significant progress on many fronts, it is pertinent to note that from a macro-economic perspective, significant imbalances remain among EAC Partner States. The large population size of 134 million people masks a comparative lack of effective market demand for the goods and services traded in the Region, including locally manufactured goods. The implementation of the Common Market Protocol provides a crucial step for ensuring stability for investors and a catalyst for industrialisation in the region. The table below outlines the aspects of the common market and required measures to support industrial development.

Table 1: Current policies, proposed strategies for strengthening the EAC common market

Challenge	Measures and strategies to mitigate challenge
Free movement of persons and labour	<ul style="list-style-type: none"> a) Ease cross-border movement of persons and adopt integrated border management systems b) Fully implement EAC regulations on free movement of workers to guarantee the free movement of workers who are citizens of other Partner States within their territories
Right of establishment and residence	<ul style="list-style-type: none"> a) Fully implement EAC right of residence regulations to guarantee the right of residence to the citizens of other Partner States

Free movement of goods and services	<ul style="list-style-type: none"> a) Prioritise elimination of tariff, non-tariff and technical barriers to trade b) Complete technical work and implement measures to harmonise and modernise the customs procedures in the EAC's major ports of entry in order to eliminate associated barriers to trade c) Harmonise and mutually recognise standards and implement a common trade policy d) Minimise items on the list of exclusions, transitional arrangements and derogations in favour of NON EAC trading partners in relation to CET and tariff movement of goods and services
Free movement of capital	<ul style="list-style-type: none"> a) Remove all existing barriers and restrictions on the movement, sale, investment and payment of capital b) Remove any discrimination based on the nationality or on the place of residence of the persons or on the place where the capital is invested
Policy coordination	<ul style="list-style-type: none"> a) Ensure more effective coordination and monitor performance of economic and monetary policies
	<ul style="list-style-type: none"> b) Ensure effective coordination and monitor performance of key market integration policies including policies and strategies on infrastructure, industrial development, IPR, Research and Development, etc.

2.0 THE RATIONALE AND CONTEXT

2.1 National Situation

The industrial policies of all Partner States contain a comprehensive set of measures to boost investment and exports and anchor industrial development within the larger national development visions.

The national policies also have similarities in relation to their themes, such as transformation, competitiveness and sustainability, and their sectoral priorities such as resource-based industrialisation.

Furthermore, there are some very positive elements in the implementation of the industrial policies of the Partner States. The promising trends include:

- i. Increasing the embedding of industrial policies into wider national development policies, exploiting synergies (e.g. in employment, agriculture and education) and enhancing the visibility of industrial objectives;
- ii. A better targeted sectoral focus, with sometimes a clearly defined prioritisation of strategic sectors and products. Prioritisation is a crucial requirement in order to map needs and formulate national positions in international trade negotiations (e.g. identification of sensitive products in Free Trade Area (FTAs));
- iii. A quite consistent match between national and continental policies relating to resource-based manufacturing as the easiest road into manufacturing and product diversification. This realisation gives direction (with the assessment of natural resources and the need to add value to exports) and provides a good opportunity to establish a fruitful public-private dialogue;
- iv. Policy measures that go beyond simple macro-economic stability and export promotion. Without underestimating the need for investments in infrastructure and private sector development, the presence of concrete policy reflects the acceptance of a larger governmental role in the promotion of productive restructuring;
- v. Application of a common tariffs structure (Common External Tariff-CET) in a strategic manner to promote selected products considered to be strategic for regional development goals;
- vi. Some limited emergence of regional markets – as opposed to global markets only – as a possible environment to promote economies of scale and competitiveness;
- vii. The wide recognition that the acquisition and diffusion of information technologies is a fundamental aspect of modern manufacturing, a consequential redesign of education policies and a sometimes clear identification of opportunities for technological leap-frogging;
- viii. The understanding that access to finance is critical for the advancement of the industrial process, and hence governments might need to intervene in a deficient financial services sector.

These are promising developments which show that after the import substitution and structural adjustment policy prescriptions, the Partner States are striving to find a policy mix that best suits their development needs.

However, the primary challenge remains to initiate and build sustained productive capacity capable of responding to the dynamics in a global business environment and international policy regime. This will require regional cooperation to create an effective policy coordination framework geared towards eliminating binding constraints to growth and enterprise upgrading at national and regional levels and facilitates the identification of leverage elements that can be harnessed to accelerate the industrialisation process in each Partner State.

2.2 Regional Situation

Experiences from the rest of the world indicate that the achievement of more vibrant and sustainable economic development is dependent on the level of industrialisation of a region.

Cooperation at regional level is important since it encourages synergies, expands market reach and helps establish the necessary linkages required for successful industrialisation.

In this respect, the EAC Industrialisation Policy will play a critical role, particularly in building a more diversified regional economic structure, which remains the surest way of reducing vulnerability to shocks and ensuring more rapid development.

Achievement of the above will be consistent with the industrial targets espoused within articles 79 and 80 of the Treaty for the Establishment of the East African Community (EAC), particularly in promoting self-sufficiency and balanced industrial growth, improving the competitiveness of the industrial sector and encouraging the development of indigenous entrepreneurs.

Furthermore, the policy will help raise investment levels, facilitate building new backward and forward linkages across the region, upgrade technological capacity and promote a more strategic integration into the world economy to ensure sustainable industrial growth.

2.3 Global Situation

The EAC Industrialisation Policy 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 globalisation, with lowering of tariffs and trade barriers, increased cross-border investment, and establishment of the World Trade Organisation (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 Japan (since the 1970s), which was ranked the second largest economy in the World after the United States and Korea (since the 1980s), China, India, and Brazil (since the 1990s);
- iii. The increasing dominance of the service sector over agriculture and industry, especially in the developed countries;
- iv. Technological changes such as the diffusion of information 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 countries (Brazil, Russia, India and China), and the ageing of the population in developed countries.

All these changes continue to shape the industrial development agenda and hence the need for the review and redefinition of industrial policies at national, regional and international levels to make them dynamic. In fact, new approaches to industrial policy have been tried out throughout the world, in particular the formulation and implementation of policies ‘from the bottom’ (local or regional), in a context where the policies are derived from broader consultation with stakeholders as opposed to a top-down approach.

The implicit assumption is that the industrialisation process is essential for the transformation of the economy as a whole and that it is possible to influence this process through strategic, targeted interventions. Options for state intervention range widely, from defining the rules of the competitive game to policies to strengthen selected industrial sectors or firms, and providing framework conditions for business to prosper. In fact, most governments throughout the world (in the EU, in the USA, also in developing countries) adopt measures to define and guarantee the rules of the competitive game (anti-trust, trade policy and WTO rules, and so on), but they also take measures to promote structural change, e.g. favouring the development of particular industries as well as creating resources such as human capital and knowledge and their exploitation.

In this regard, the EAC Industrialisation Policy has been developed to enhance dynamism and competitiveness of the region, including promoting activities which are instrumental to the generation of value addition, income and employment, together with technology diffusion.

2.4 Development of Strategic Regional Industries

The EAC Region is endowed with vast natural resources, but they remain untapped due to a combination of factors. These include non-conducive policies and business environment both at national and regional levels, gaps in requisite skills and technological know-how, information gaps and limited and fragmented national markets which hamper the realisation of economies of scale in production.

This calls for strategic collaboration among Partner States in order to collectively address the policy, regulatory, market and information challenges which reduce incentives for private investments in the industrial sector. To exploit the resource endowment in the region and enhance the region’s industrialisation levels, the EAC Industrialisation Policy has earmarked six strategic resource-based industries, in which the region has a comparative advantage and which will be developed to facilitate productive integration (PI) through industrial deepening, diversifying, specialisation and upgrading.

The promotional programmes and activities targeting the strategic regional industries will be informed by comprehensive feasibility assessments, and complemented by mapping studies to equip national and regional industry promotion organisations with adequate information to facilitate and attract viable private investment.

While there are efforts at national level to promote and develop some of the strategic industries, the scale has generally been low to facilitate rapid transformation of the economies in the region and contribute to the desired development goals. The policy interventions espoused will seek to scale up efforts at national and regional levels to ensure rapid development of strategic regional industries. The Six strategic regional industries to be promoted include:

Agro-processing

The region's abundant agricultural resources present a strategic base for socio-economic growth and food security through the promotion of agro-processing industries. Agro-processing industries are the biggest direct employer of all manufacturing industries, and also have a huge indirect employment potential in the services sector through backward and forward linkages. However, the industry produces mainly basic food and cash crops which are traded with little or no processing. Examples include coffee, cotton, tea, sugar, pyrethrum, vanilla, cloves and other spices, horticultural and floricultural products.

Iron, steel processing

Each of the EAC Partner States has a broad-based iron and steel products industry with various independent engineering, foundry and metalwork shops. The industry is, however, not highly developed and the product range is limited. The majority of iron and steel industries depend on erratic steel scrap as their raw material, and yet, potential exists for an integrated iron and steel mill utilising the existing iron ore and other feedstock in the region.

Other mineral processing

The region's rich mineral base offers tremendous opportunities for value-addition. Notable mined mineral resources of the region include beryllium, bismuth, copper, clay, glass sands, gold, gypsum, lead-zinc ores, limestone, lithium, marble, mica, phosphates, silver, uranium, coal, platinum, tin, tungsten, salt, vermiculite, oil, and cobalt.

Chemicals (fertilisers and agro-chemicals)

Chemicals, both organic and inorganic, and fertilisers are imported into the region in large quantities. Opportunities for producing such chemicals for both domestic and regional markets remain unexploited despite the availability of essential raw materials. Investment opportunities can be found in the production of polyvinyl chloride (PVC) resin from ethyl alcohol, formaldehyde from methanol, melanine and urea, mixing and granulating of fertilisers, cuprous oxychloride for coffee bean disease, caustic soda and chlorine-based products, carbon black, activated carbon, precipitated calcium carbonate, textile dyestuff, ink for ballpoints and gelatine capsules, among other things.

Pharmaceuticals

The imports of chemicals and pharmaceuticals account for about 5% of total imports in the region. A few pharmaceuticals in the form of tablets, syrups, capsules, liquid mixtures, disposable syringes, surgical gauze, aspirin and paracetamol and injectables are manufactured in the region. Investment opportunities exist in the manufacture of drugs for the treatment of various tropical diseases, the provision of modern family-planning services, and the manufacture of medical equipment and sundries (surgical cotton/gauze, sanitary pads, syringes, bandages, infusion syrups, oxygen). The rich biodiversity of the region also provides an opportunity in the processing of herbal medicines. The processing of pyrethrum extracts and the production of vaccines, antibiotics and vitamins also offer investment opportunities.

Energy

The region has abundant untapped energy resources, which are very far from being fully exploited. They include coal reserves (about 1,200 million tons in Tanzania), natural gas (65 billion cubic metres of methane gas reserves and even larger deposits of carbon dioxide, dissolved under Lake Kivu in Rwanda), and geothermal, solar and hydroelectric energy. Energy production is crucial for industrialisation and the growth of agriculture and services, and better exploitation of the existing resources could help save the foreign exchange that goes to pay for the import of petroleum products.

Oil and gas processing

Investor interest in oil and gas has been growing in the EAC Partner States. By 2006, petroleum investment in the region exceeded USD 100 million (USD 60 million in Tanzania, USD 31 million in Uganda and USD 10 million in Kenya). Uganda has discovered enough oil to provide for the entire current consumption of the EAC, with some left over for export to other countries, while Kenya and Tanzania have also reported significant potential for oil and gas. Exploration of these resources will change the political and economic dynamics of the EAC in a significant manner.

3.0 CHALLENGES FACING INDUSTRIALISATION IN THE REGION

East Africa's industrialisation efforts are restrained by a multitude of factors and challenges including:

- i. **Addressing gaps in governance frameworks:** These are manifested by the lack of viable strategies, policies and systems of coherent laws and regulations to guide the industrialisation efforts;
- ii. **Addressing institutional gaps:** These are manifested by inadequacies in institutional capabilities to provide support services, which are needed to backstop the process of industrialisation;
- iii. **Mobilising a 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);
- iv. **Reducing shortages of essential industrial skills:** due to the underdevelopment of human capital, there are shortages of industrial sector skills 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;
- v. **Building quality infrastructure:** Infrastructure challenges have significantly constrained accelerated development in all EAC Partner States, although the impact of these constraints has varied across the Partner States. The region's railway network is antiquated and unable to meet the demands of a 21st century 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 and inadequate but improving regional legal and regulatory frameworks to enable coordination of roads development initiatives. The region also possesses a huge energy production potential, although it remains underdeveloped;
- vi. **Enhancing 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 resulted in low technological readiness in the industrial sector;
- vii. **Enhancing 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 recently conducted within the Region, for example by World Bank or World Economic Forum, Small and Medium Enterprises (SMEs) have consistently identified access to finance as one of their major business constraints;

- viii. **Instituting a conducive legal and regulatory framework:** EAC Partner States have made some progress with regard to improvements in the 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 Industrialisation Policy (2012 – 2032) has been designed to address these challenges and scale-up industrialisation in the region.

4.0 KEY PRINCIPLES OF THE EAC INDUSTRIALISATION POLICY

The implementation of the EAC Industrial Policy will be guided by the following principles:

- i. Enhancing equitable industrialisation in the region: Equitable development will be achieved through a framework that promotes knowledge-sharing and provides for the equitable sharing of tax benefits¹ among the Partner States while enabling the nationals of all EAC Partner States to take advantage of industrialisation through equitable access to employment and investment opportunities;
- ii. Strengthening and exploiting policy synergies between the Industrial Policy and other sectoral policy instruments: Successful industrialisation will depend on ensuring the coherence of the various policies, including the application of CET and Customs Union instruments, implementation of the Common Market Protocol, harmonisation of taxation and management of taxes, removal of non-tariff barriers (NTBs), harmonisation of standards and development of a robust agricultural sector etc.;
- iii. Promoting a strategic dialogue between the public and private sector and other key audiences based on the principle of competitive partnerships will be crucial for effective and sustainable industrialisation;
- iv. Strengthening industrial linkages between large and micro, small and medium enterprises (MSMEs): This will entail facilitating production linkages between MSMEs and the large firms, nationally and regionally, and linking up with global markets and value chains;
- v. Promoting targeted industry value chains with widespread linkages and economic benefits extending across the region. The rationale for promoting value chains in target industries (also referred to as Strategic Regional Industries) is that the targeted industries will deliver significant benefits for the entire region thus enabling Partner States to move towards development convergence;
- vi. Promoting industrialisation on the basis of comparative and competitive advantage. East Africa's comparative and competitive advantage is underpinned by three main factors, namely:
 - a) Factor endowments include natural resources, human capacity, and finance;
 - b) Business climate includes factors such as infrastructure, policy environment, institutions, public administration, and the availability of supporting services;
 - c) Dynamic scale economies refer to synergies achieved through clustering and efficiencies resulting from increased economies of scale. In the context of EAC, the major driving force for greater integration will come from the scale efficiencies that can be achieved from a larger regional market, supporting larger and more efficient industries.

¹ For example, if VAT rates were harmonised within the region, to harness equitable sharing of tax benefits, Company X in Uganda would import goods from Company Y in Kenya at a zero rate, and only pay VAT in Uganda, where the goods would be consumed. Presently, both countries charge VAT on goods imported or exported, at different rates.

- vii. Successful industrialisation will depend on building the necessary human resource development for industrial transformation and employment;
- viii. Successful industrialisation will depend on creating and strengthening the region's capacity for innovation and effective application of science and technology in industry;
- ix. 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;
- x. The regional approach to industrialisation will be informed by a market-led approach with clear and transparent rules and processes for strategic and focused government intervention in critical areas such as correction of market failures, provision of public goods, investment in human capital, enhancing the technology base and provision of information and infrastructure needed by the private sector to become more efficient, innovative, and competitive.

5.0 VISION, MISSION AND OBJECTIVES OF THE POLICY

5.1 The Vision

The Vision 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*”.

5.2 The Mission

The mission of the EAC Industrialisation Policy (2012-2032) 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*”.

5.3 The Overall Objective

The overall objective of the East African Industrialisation Policy (2012-2032) is to enhance industrial production and productivity and to accelerate the structural transformation of economies of the EAC region in order to enable sustainable wealth creation, improved incomes, and a higher standard of living for the Community.

5.4 Specific Policy Targets

To ensure that the broad vision is attained within a reasonable timeframe, the policy sets out the following specific targets:

- 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
 - b. Growing the share of manufactured exports relative to total merchandise export to 60% from an average of 20%
 - c. 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.

5.5 Broad Expected Outcomes

The expected outcome of the industrialisation policy is to progressively contribute to an increase in:

- i. The manufacturing sector's contribution to the regional GDP, currently at an average of 8.7%, to an average of 25%² in 2032;
- ii. Manufacturing-based employment, currently at 456,000, to about 2.3 million in 2032;
- iii. Regional GDP, currently at USD 74.5 billion to about USD 238.9 billion in 2032;
- iv. GDP per capita, currently at USD 558, to US 1,300 in 2032;
- v. Manufactured value added per capita, currently at USD 50, to USD 258 in 2032;
- vi. The average score on the World Economic Forum (WEF) Competitiveness Index, currently at 3.42, to 4.5 in 2032.

² The MVA target of 25% of GDP in 2032 is the average target among the EAC Partner States. This figure may appear modest, but is actually ambitious when compared with data for the following countries (all 2009 data from the UNIDO Handbook of Industrial Statistics): China, 21.7%, Germany, 20.9%, Japan, 20.1%, Malaysia, 20.0%, Viet Nam, 15.1%, Bangla Desh, 13.5%, Mauritius, 11.3%. The above figures are based on 2009 data from the World Bank and UNIDO. With an assumed average annual GDP growth rate of 6%, attainment of the 25% target requires an annual MVA growth rate of 12%, compared with the current MVA growth rate of 4% for the EAC region. Only 7 countries in the world currently have an MVA growth rate greater than 11% (UNIDO Yearbook of Industrial Statistics, 2011). Achieving the MVA growth rate of 12% will require aggressive implementation of national and regional industrial policies and strategies, and complementary policies for promoting industrialisation including investment in infrastructure, etc., sufficient growth of agricultural sector and the services sector.

6.0 BROAD POLICY MEASURES

To address the industrialisation challenges outlined in the previous sections, the following broad policy measures will be undertaken:

6.1 Promoting the Development of Strategic Regional Industries/Value Chains and Enhancing Value Addition

Policy Issues

The EAC region has significant untapped agricultural commodities and natural resources, including iron ore, natural gas reserves and phosphates, which underscore the region's comparative advantage to scale up industrialisation through the development of strategic regional industries. The development of these industries will spur the growth of downstream industries, create backward and forward linkages across the region, generate multiplier effects and position the region on the path of sustainable long-term growth.

However, information on the potential resources required for the development of the strategic regional industries is scanty or in other instances not documented at all. In some cases, the resources have been extracted and exported away in raw forms without undergoing local value addition. Such resources include export of raw hides, mineral resources, raw cotton exports, export of scrap metals etc.

The lack of coordination in the promotion and development of the value chains with regional dimensions, and absence of a regional framework for establishing and supporting investments in the strategic regional industries further hamper the development of such industries where the region has comparative advantages. The region also lacks appropriate machinery and technical capabilities and knowledge to undertake high value addition/processing activities within the regional value chains.

Policy Objectives

To promote the development of strategic regional industries in the region with a view to fostering and unlocking the region's potential in value addition, encouraging and promoting cross-border industrial linkages and synergies within the value chains, thus ensuring productive integration and sustainable industrialisation in the region.

Specific Policy Measures

- i. Carry out value chains studies and formulate action plans for the development of the identified strategic regional industries;
- ii. Institute a framework for public-private sector partnership for the development of strategic regional industries;
- iii. Formulate regional incentive schemes to stimulate investment in the strategic regional industries;
- iv. Enhance the capacity of national and regional institutions/organisations to initiate programmes for high value processing activities in the identified strategic regional industries;

- v. Facilitate the development and dissemination of market intelligence and trade and investment information on the opportunities available within each strategic regional industry;
- vi. Set up a mechanism to enhance the capacity of national and regional institutions/organisations to conduct feasibility studies and other promotional programmes for the identified strategic regional industries;
- vii. Set up a financial vehicle/mechanism to support the development of projects and programmes under strategic regional industry initiatives;
- viii. Facilitate the development of regional brands and packaging programmes for the manufactures of identified strategic regional industries.

6.2 Strengthening National and Regional Institutional Capabilities for Industrial Policy Design and Management

Policy Issues

The design of effective policies depends on the capabilities of the technocrats and structures established to facilitate engagement with private sector. Experience from industrialised countries, including East Asian countries, shows that the capacity of the technocrats to design and implement good policies was a major factor in the success of industrialisation in these countries.

In the EAC region, however, the capacity and performance of the public sector that deals with industry related matters is generally low, and as a result, the implementation of industry-related policies and strategies has often been inadequate, constrained by a number of factors, including poor governance and ineffective monitoring and evaluation frameworks. Other issues include (1) the weak coordination of policies, strategies and programmes, (2) weak capability to design, implement and monitor policies and strategies as well as weak management systems, (3) weak incentives for capability improvements and performance, (4) challenges to enhance private sector participation, and (5) the challenge to harness the information, communication and technology for improved public service delivery.

Policy Objective

To strengthen the capacity of the public sector and private sector to effectively design, implement and monitor national and regional initiatives that will foster sustained industrialisation.

Specific Policy Measures

- i. Enhance the technical and management capacities of national and regional institutions to design, implement and monitor industrialisation policies and related regulations effectively;
- ii. Facilitating and encouraging capacity building exchange programmes in the field of industrial policy management among EAC Partner States as well as between EAC and selected dynamic industrialising countries and advanced countries to draw useful lessons on best practices;

- iii. Institutionalise national and regional inter-ministerial forums to facilitate discussions on sectoral and complementary issues affecting industrialisation and ensure effective coordination of actions;
- iv. Align national industrial strategies to regional industrial development programmes;
- v. Identify and strengthen policy institutes that can provide tailor-made courses and programmes on industrial policy formulation, management and monitoring of results.

6.3 Strengthening the Capacity of Industry Support Institutions (ISIs) to Develop and Sustain a Competitive Regional Industrial Sector

The framework for developing industrialisation in the region requires the evolution and/or strengthening of supportive institutions. The experience of dynamic regions across countries demonstrates that external factors, such as intermediate institutional support systems, play an important role in enhancing the performance of firms.

In the EAC region, the role of industry support institutions has been modest. A major concern is that existing institutions lack the required size, the necessary resources and the requisite technical capability to address the issues impacting on industrialisation in the region. As a result, some functions are not fulfilled adequately - the most prominent being research, development and design, standardisation, conformity to standards, and Intellectual Property Rights (IPRs).

The issue of productivity, competitiveness, provision of industry extension services and technical consultancy especially for small and medium enterprises has not been fully addressed, partly due to weak public and private sector support organisation. There are few institutions capable of formulating comprehensive strategies and delivering the entire package of finance, training, information, extension and marketing support that the local firms need. The region heavily relies on external consultancy services, particularly in the areas of industrial planning, preparation of development projects, feasibility studies, project design, and evaluation and monitoring. Where such local expertise exists, the quality of project delivery has been of concern. Institution building should therefore be given priority as it constitutes an important strategic and tactical tool for ensuring a sustainable industrialisation process. It is crucial for Partner States to collaborate in establishing and/or strengthening Industry Support Institution (ISIs) to ensure full utilisation of existing capacities in the region.

Policy Objective

To strengthen the capacity of Industry Support Institutions (ISIs) to adequately provide supporting services and support implementation of national and regional industrial programmes.

Specific Policy Measures

- i. Enhance the capacity of industry support institutions to adequately implement national and regional industrial programmes;
- ii. Advise on upgrading existing or setting up new industry support institutions that will help in the realisation of the region's industrialisation goals;
- iii. Design measures to support the institutions to meet the growing demand for industry-related services;

- iv. Establish and/or strengthen regional associations of technical consultancy firms for provision of consultancy services in feasibility studies, engineering design, industrial project evaluation and monitoring.

6.4 Strengthening the Business and Regulatory Environment

Policy Issues

The EAC Common Market Protocol contains a number of important measures designed to achieve full market integration within the EAC. Unfortunately, implementation of the protocol has been modest, thus curtailing the anticipated benefits of the integration. There have been incidences of Non-Tariff Barriers (NTBs) which continue to reduce the gains made through tariff elimination process.

In addition, the enforcement of Partner States' laws and regulations on business protection, including the anti-piracy and counterfeit laws (where they exist) is very weak. Furthermore, the perceived high levels of corruption within public institutions rank highest among the most problematic factors to doing business within the region, according to the 2011 World Economic Forum Annual Competitiveness Report. Security within the region, though improving, is still inadequate, and as such a major challenge to industrial development, particularly to attracting substantial foreign direct investments.

Policy Objective

To encourage and facilitate private investment flows into the Community by strengthening the business and regulatory environment, including adequate implementation of appropriate policies, laws and regulations necessary for the creation of a robust and thriving manufacturing sector.

Specific Policy Measures

- i. Establish and adopt a common programme for the promotion of cross-border investment;
- ii. Create and maintain a predictable, transparent and secure investment climate in the region;
- iii. Remove administrative, fiscal and legal restrictions to intra-Common Market investment;
- iv. Harmonise taxation and incentive policies to create a level playing field and avoid harmful tax competition among Partner States;
- v. Facilitate the pursuit of a favourable business environment through conducive macroeconomic policies in all five Partner States;
- vi. Develop a regional competitiveness framework to facilitate benchmarking of industrial performance and productivity with selected regional and global best practices;
- vii. Facilitate the development of a public-private partnership policy framework;
- viii. Provide incentives for start-ups and adopt common measures to promote emerging industries.

6.5 Enhancing Access to Financial and Technical Resources for Industrialisation

Policy Issues

Limited access to finance and technical expertise always ranks high on the list of constraint to investment in all 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 industrialisation through FDIs and Technical Assistance channels have not been fully exploited, partly due to disjointed or non-existence strategy to leverage these external resources. An effective regional collaboration mechanism to facilitate access to global technical and financial support initiatives would be a vital tool for harnessing external resources for industrial development.

It is further useful to note that, generally, the cost of borrowing in the region has been prohibitive; and the loan repayment periods are too short, which hampers business development, especially for industries with long project gestation periods. Furthermore, most MSMEs in the manufacturing sector have inadequate collateral to secure financing, given that financial institutions generally require that the borrower provides collateral equal to at least the value of the loan amount in order to access funds.

Policy Objective

To increase the availability of long-term financing, and foster joint and coordinated approach to accessing global and regional support initiatives for industrial development. Facilitation of adequate funding for industrialisation in the region will be undertaken by increasing the availability of long-term capital, ensuring increased capital mobility, elimination of restrictions on the transfer of capital funds between Partner States, while at the same time exploring new long-term financial mechanisms to support the development of strategic regional industries.

Specific Policy Measures

- i. Facilitate the integration of financial markets in the region, including the integration of the capital market to support mobilisation of funds for industrialisation;
- ii. Establish and develop a funding structure for regional industrial projects, particularly exploring the feasibility of setting up a Regional Industrial Development Fund (RIDF) within the framework of the EAC Development Fund (EADF);
- iii. Foster and promote the establishment of Industrial Collaboration Networks (ICNs) as avenues for leveraging regional and global resources industrial development within the frameworks of South-South, North-South and other triangular cooperation mechanism;
- iv. Put in place measures that will ensure adequate flow of capital within the region, including the removal of controls on the transfer of capital among the Partner States;
- v. Encourage cross-border trade in government securities such as treasury bills, development and loan stocks within the Common Market;
- vi. Explore the possibilities of establishing regional industrial bonds as a means of raising funds for industrialisation;

- vii. Put in place innovative finance and guarantee mechanisms for industry, particularly for MSMEs, including invigoration of local savings and the stock market; improved use of savings, deposit and guarantee funds;
- viii. Institute prudent monetary and fiscal policies to sustain the macro-economic stability and;
- ix. Provide incentives to encourage residents in the Diaspora to invest in the region's industrial development plans.

6.6 Facilitating the Development of and Access to Appropriate Industrial Skills and Know-how

Policy Issues

The industrial workforce in the region lacks both soft and hard skills that are essential for promoting sustainable industrialisation. Furthermore, public spending on human resource development within all five Partner States is still inadequate, while the cost for skills development in tertiary institutions is increasing. In addition, non-tariff barriers on the free movement of personnel across borders still exist between Partner States.

Policy Objective

To foster collaboration in the development of industrial skills and utilisation of human resources, technical know-how and institutional capabilities available in various industrial fields in the region.

Specific Policy Measures

- i. Establish strong linkages between industry and training institutions to align the training programmes to the needs of industry;
- ii. Strengthen vocational and technical training institutes and set up sector-specific training centres to ensure the steady supply of adequate and hands-on skills to industry;
- iii. Facilitate the harmonisation of labour and employment laws to ensure that industries in the EAC region respect workers rights and do not discriminate on the basis of gender, disability, ethnicity, or any other arbitrary criteria and introduce minimum wage requirements;
- iv. Facilitate the establishment of academic centres of excellence to support the development of essential skills and expertise for the strategic regional industries;
- v. Enforce the Common Market Protocol specifically with respect to the provision guaranteeing the free movement of labour;
- vi. Adopt a regional plan for the joint development and exploitation of human resources in terms of knowledge, skills, technological inventiveness and entrepreneurial abilities;
- vii. Establish a regional accreditation system to develop guidelines and standards for the certification of informal skills/tacit knowledge/skills relevant to industry.

6.7 Facilitating the Development of MSMEs

Policy Issues

Micro, small and medium enterprises (MSMEs) contribute significantly to the development of economies in the region. MSMEs constitute about 90% of firms by establishment and contribute up to 60% to employment. MSMEs in the region, however, bear the brunt of problems such as poor infrastructure, bureaucratic red tape, unfair tax administration, unaffordable financing schemes and lack of centralised information systems on business development services and technology extension services. MSMEs lack scale economies to meet large orders. In addition, the region lacks a consolidated policy framework for MSMEs.

Policy Objective

Formulate a regional framework that supports the growth and development of MSMEs to facilitate their integration into the regional and global value chains and enhances their prospects for effectively contributing to economic development goals in the region.

Specific Policy Measures

- i. Facilitate the development of programmes to upgrade MSME activities through capacity building and adoption of new technologies and innovations;
- ii. Facilitate the establishment of a regional information portal on MSMEs to provide regular information on business potential, market opportunities and access to finance;
- iii. Formulate a regional charter and a policy on MSME development. This will be undertaken through harmonisation of Partner States policies and legislations on MSMEs to ensure a sound framework for their growth and development;
- iv. Promote MSME's upgrading and graduation into large scale production through access to regional markets and the prudent application of government procurement systems;
- v. Facilitate the development of MSME clusters to enhance rural industrialisation and address development disparities at national and regional levels;
- vi. Strengthen MSME associations, both at national and regional levels;
- vii. Facilitate the harmonisation of Partner States policies and legislations on MSMEs to ensure a sound framework for growth and development of MSMEs in the regions.

6.8 Strengthening Industrial Information Management and Dissemination Systems

Policy Issues

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

Further lack of well analysed and comprehensive information particularly the profitability potentials of key industrial sectors hamper investment decision making. As a result the private sector is reluctant to invest substantially in some sectors and, where investments are made, suffers from high start-up costs due to the paucity of information.

Policy Objective

To establish reliable industrial information management systems that facilitate timely access to quality industrial information for policy decision making, industrial competitiveness monitoring and evaluation and the preparation of investment promotion campaigns.

Specific Policy Measures

- i. Institute a mechanism for the regular collection and processing of industrial statistics and technical information on industrial production, as well as its dissemination to the end users through regular industrial census/surveys. To institutionalise industrial data collection and dissemination, a regional industrial observatory will be set up;
- ii. Develop a harmonised system for the collection, processing and reporting of industrial statistics and strengthen the capacity of national and regional industry bodies to collect and manage industrial statistics;
- iii. Promote collaboration with other regional blocs and international organisations in sharing and dissemination of industrial information;
- iv. Create an electronic industrial information and resource centre as a one-stop shop for manufacturing industry information;
- v. Enhance the capacity for competitiveness analysis and provision of policy advisory services including industrial intelligence.

6.9 Promoting Equitable Industrial Development in the EAC region

Policy Issues

By global standards, all EAC Partner States are industrially underdeveloped. The factors that contribute to the low level of industrialisation relate to the challenges of industrial development highlighted in the preceding sections of this policy document.

As noted earlier, the competitiveness of the EAC region is a function of factor conditions, business climate, and dynamic scale economies. All the Partner States have an obligation to improve the competitiveness of their own economies, even as they seek to maximise the benefits of EAC integration.

Disparities exist among, and also within, the EAC Partner States, in terms of economic performance, as measured by GDP per capita. There are also disparities in social indicators, as measured by the UN 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. Given those differences, industrial growth within the region is also uneven, and this uneven development can create polarisation and even suspicion among Partner States.

As the Community strives to industrialise collectively and improve the economies of the Partner States through regional integration, it is imperative to ensure that the benefits of integration are equitably shared.

Policy Objective

To institute common principles at national and regional levels aimed at guiding the region towards achieving evenly spread and equitable industrialisation within the region.

Specific Policy Measures

- i. Facilitate free movement of skilled labour and other factors of production across the region to ensure equal access to business and employment opportunities created through industrialisation processes;
- ii. Promote an increase in resources devoted to the implementation of regional industrial programmes aimed at addressing industrial imbalances within the region;
- iii. Strengthen industrial collaboration among enterprises to facilitate technology transfer, transfer of best management practices and exploitation of complementarities based on the principles of resource pooling;
- iv. Improve the capacity and competitiveness of the industrial sector in all Partner States to enhance production and facilitate trade in industrial goods within and outside the Community;
- v. Support the development of indigenous entrepreneurs, and small and medium scale industries across the region to facilitate equitable exploitation of opportunities under the common market;
- vi. Ensure that the industrial sector contributes positively to the socio-economic wellbeing of the people of East Africa through Corporate Social Responsibility Programmes;
- vii. Enhance the development of all key sectors in the region where Partner States have comparative advantages to achieve sustained industrial development;
- viii. Promote fair trade and ensure consumer welfare;
- ix. Ensure that the East African Competitions Authority is capacitated to undertake adequate scrutiny of mergers and acquisitions with cross-border effects and other matters relating to competition;
- x. Harmonise VAT rates in the region and other taxes which have disproportionate impact on incomes earned in the region and therefore unduly influence the direction of investment flows and enterprise decisions;
- xi. Ensure the appropriate implementation of Double Taxation Agreements among the EAC Partner States.

6.10 Developing Supporting Infrastructure for Industrialisation along Selected Economic Corridors

Policy Issues

Development corridors are described as transport (or trade) corridors with under-utilised economic potential in their environs, whose development can be enhanced through spatial planning and development initiatives. They are therefore seen as a means of configuring, prioritising and promoting inter-related infrastructure and large scale economic sectoral investments in defined geographic areas, so as to promote productive integration (PI) and trade and investment led economic growth, optimise the use of infrastructure, encourage value-added processing and enhance the competitiveness of the economies.

In East Africa, the Northern Corridor anchored by the port of Mombasa in Kenya, and the Central Corridor, anchored by the port of Dar es Salaam in Tanzania, are principal and crucial transport routes for the national, regional and international trade of the five EAC Partner States; yet these corridors largely remain under-utilised in terms of spatial economic opportunities. This is due to inadequate physical infrastructure and inefficient links to important growth centres/poles and industrial districts. Given the low level of economic activity along such corridors, freight costs per km are more than 50% higher than global averages and, for the landlocked countries, transport costs can be as high as 75% of the value of exports.

Modernisation of transport infrastructure, removal of non-tariff barriers, demarcating industrial zones along these corridors and provision of logistical infrastructure (warehousing, distribution centres and storage facilities), is critical for trade expansion, enhancing spatial industrial linkages and also key to the success of the deepening of regional integration through productive integration. A regional framework to support development of infrastructure for industrialisation along economic corridors and putting in place the necessary logistic infrastructure to enhance productive integration is critical for the attainment of regional integration objectives.

Policy Objective

To develop a comprehensive framework for the provision of an integrated infrastructure programme that facilitates industrialisation along identified economic corridors with a view to fostering productive integration in the region.

Specific Policy Measures

- i. Establish the most effective ways of undertaking the joint promotion and coordination of major investment activities with regional impacts along key economic corridors, as a vehicle for industrialisation. A regional framework is required to facilitate undertaking of such joint integrated infrastructure and production integration initiatives;
- ii. Undertake a mapping of growth potential areas in the region, where integrated industrial corridor programmes can be initiated to stimulate industrialisation based on the existing resource endowment and spatial economic linkages;
- iii. Identify and develop opportunities along the identified economic corridors ideal for private sector participation and operation; and devise detailed strategies to mobilise such investors to take advantage of the opportunities.

6.11 Promoting Regional Collaboration and Development of Capability in Industrial R&D, Technology and Innovation

Policy Issues

Effective Research & Development, Technology and Innovation Systems (R&D&I) are key ingredients to structural transformation of an economy. The R&D&I system enables transfer and adaption of research and innovation findings which in turn catalyse the creation of new enterprises as well as new employment opportunities. EAC Partner States have separately undertaken several attempts to promote R&D and technology transfer, though with limited success. Minimal results have been realised through these initiatives largely due to a lack of scale, insufficient relevance to business needs and inadequate funds for scaling up the initiatives. The coordination of research efforts by research centres in the region and targeting of those efforts on agreed industrial research

priorities would yield better results and ensure optimal utilisation of limited available research funding and existing facilities.

The success of R&D, innovation and technology transfer initiatives is further hampered by weak intellectual property regimes (IPR) and inadequate frameworks to support innovation and technology transfer, including inappropriate fiscal and non-fiscal incentives.

Private sector involvement in R&D and innovation has been minimal and, where undertaken, dominated by foreign firms. Generally, the structure of competition in a number of sectors where significant barriers to entry exist act as disincentive for private sector to innovate, take up proven technologies and pursue new business models. The coordination between private and public R&D activities is often lacking. Domestic firms are reluctant to undertake R&D because of the high costs involved, and some view it as an unnecessary expense, fraught with risks, that does not yield immediate results. Shortages of risk capital, fragmented and under-invested research base for innovation, fragmented markets, weak or non-existent networks further compound the emergence of research and technology driven new enterprises.

Furthermore, the region is challenged by a lack of specialised skills and knowledge in emerging technology fields such as bio-technology, nano-technology and material science. There are limited synergies between R&D centres, universities and industries, leading to low commercialisation of the research findings and limited dissemination of the R&D results.

Policy Objective

To foster and catalyse creation of regional industrial research and innovation systems which facilitate private sector innovation, enhances capability in industrial science and technology and improves coordination in R&D&I.

Specific Policy Measures

- i. Build basic scientific and technological research capabilities in universities and technology centres through the appropriate training of scientists, engineers and technologists so as to ensure a critical mass of skills needed for industrialisation;
- ii. Establish mechanism and infrastructure to facilitate collaborative R&D and innovation, sharing research results and dissemination of the findings to industry including science, innovation, industrial and technology parks shared research laboratories. To achieve this measures, an EAC Industrial Research and Technology Institute will be established;
- iii. Establish mechanisms for the regular collection, sharing and dissemination of R&D results and innovation with industrial applications;
- iv. Develop a comprehensive plan for the development of applied sciences related to industry, energy, local materials and mineral processing;
- v. Formulate regional technology transfer, adaptation/adoption and diffusion models and mechanisms to facilitate the emergence of new enterprises (infant industries) and support upgrading of SMEs in the region;
- vi. Enhance the training of personnel for research and development in the areas of conventional industrial technology and science-based high technology;
- vii. Enhance budgetary resources allocation for industrial research, technology and innovation initiatives both in private and public domains. To achieve these measures, a

regional special funding mechanism including an industrial innovation fund and a matching grant scheme will be explored with a view to facilitating the implementation of collaborative R&D programmes;

- viii. Set up centres of excellence to promote technology adaptation, transfer and diffusion for the identified strategic regional industries.

6.12 Promoting Sustainable Industrialisation and Environment Management

Policy Issues

Currently most African countries are characterised by unsustainable economic growth with high levels of pollution, waste production and inefficient use of resources such as energy, material and water. Poor corporate governance, including the lack of corporate social responsibility (CSRs) policies and corporate environmental management practices among most manufacturing firms, result in low compliance with industrial and environment regulations. There is also limited application of cleaner production and resource efficiency and sustainable consumption and production tools within most manufacturing firms in the region. In addition, Partner States' environmental laws and regulations impacting on industrial production and operations are not harmonised, and agencies that enforce the laws and regulations are challenged by institutional weaknesses, among others.

Policy Objective

To foster collaboration and joint actions for sustainable industrial development through the promotion of sustainable production and consumption (SPC) and resource-efficient and cleaner production (RECP) principles in the region.

Specific Policy Measures

- i. Facilitate the preparation of regional guidelines on manufacturing firms' corporate social responsibility;
- ii. Undertake to co-operate and coordinate strategies for the protection and preservation of the environment against all forms of industrial pollution including atmospheric pollution, pollution of water resources and pollution from urban development and waste disposal. Legislative and regulatory frameworks to promote waste avoidance, prevention, reduction, re-use and recycling will be developed;
- iii. Identify the industries with the most harmful effect on environment and design mitigation measures to ensure compliance with environmental legislation including exploring opportunities for reducing carbon emissions through the Clean Development Mechanism (CDM);
- iv. Undertake measures to enhance resource-efficiency and sustainable consumption as a means to raise industry competitiveness and lessen the burden on the environment;
- v. Establish policies, programmes and regulatory frameworks to support and promote energy-efficiency in industries;
- vi. Undertake to co-operate and adopt common policies for the control of industry related hazardous waste, nuclear materials, radioactive materials and any other materials which impact on the environment; and

- vii. Take necessary measures to accelerate the reform and innovation process leading to ecologically rational, economically sound and socially acceptable industrialisation processes.

6.13 Expansion of Trade and Market access for Manufactured Products

Policy Issues

Non-tariff barriers (NTBs) between Partner States are still a major challenge to the free movement of goods and services across the region. Moreover, the rules of origin applicable in the region are often restrictive and therefore hinder high value addition and intra-regional trade prospects. The issue of overlapping memberships in different trade blocs with diverging trade rules still poses challenges to manufacturing enterprises targeting different trade blocs, a situation which constrains market expansion for manufactures.

Other challenges hindering access to markets include competition from cheaper imports from the economies of China and India, which make local products highly uncompetitive and unfair competition from counterfeit products. The low purchasing power in the market – more than half of the region’s consumers are living below the poverty line with very little purchasing power - further reduces the already limited market, and high corporate as well as other taxes in the region make investment unattractive for investors. The business community has not fully utilised available preferential schemes (AGOA, EU and other bilateral and multi-lateral trade arrangements) due to lack of competitiveness and limited value addition of manufactures from the region and their inability to meet standards and quality requirements in the target markets.

Policy Objective

To ensure that the regional market created through the Common Market is optimally utilised as a platform for invigorating industrialisation in the region by setting up appropriate regulatory mechanism to manage unfair trade practices affecting growth of industries as well as developing the market for manufactured products.

Specific Policy Measures

- i. Promote consumption and utilisation of regionally manufactured products through appropriate regional marketing and branding strategies;
- ii. Strengthen the regional supply capacity and review bilateral, regional and international trade arrangements to make them more supportive of industrialisation;
- iii. Develop a regional information system on available raw materials, industrial inputs, inter-mediate products and capital goods that can be traded regionally;
- iv. Minimise exceptions to the application of the Customs Union Protocol provisions;
- v. Create a regional anti-counterfeit legislation;
- vi. Eliminate non-tariff barriers (NTBs) affecting trade in manufactured products;
- vii. Harmonise and develop standards and quality certification systems for prioritised regional industries to enhance intra-regional trade of goods manufactured in the region;
- viii. Develop the capacity of regional industries to meet international standards and quality certification requirements for the targeted markets;

- ix. Promote product diversification and value addition for identified regional industries;
- x. Implement the provisions of article 14 of the East Africa Customs Protocol to ensure that there is uniformity among Partner States in the application of the Rules of Origin, and institute measures to ensure that the process is transparent, accountable, fair, predictable and consistent with the provisions of the Protocol.

6.14 Promoting Gender in Industrial Development

Policy Issues

In East Africa, as in many other parts around the world, women make a significant contribution towards the process of economic transformation and sustainable growth, and it is impossible to implement effective programmes for the economic and social development of the region without the full participation of women.

However, women experience unique barriers to production and trade compared to their male counterparts. It is therefore critical to ensure that industrialisation incorporates gender-sensitive aspects to ensure that female producers, importers and exporters reap the same benefits as men from regional integration.

Policy Objectives

The main objective is to support women entrepreneurs to develop the capability for undertaking investments in value addition in the various industry value chains, including those with high presence of women. The region should in addition ensure that women are adequately informed about available programmes to promote their full participation in manufacturing activities, and those women entrepreneurs with cross-border businesses are well informed about their rights and obligations, including the right to safety and protection at borders.

Specific Policy Measures

- i. Enhance women's access to both regional and international markets;
- ii. Facilitate the entry of women into the manufacturing sector by providing training in areas including ICT, e-commerce, and their participation in cross-border, regional, and international trade;
- iii. Train communities on the EAC Customs Union opportunities and benefits to empower women to engage in the manufacturing sector; and
- iv. Facilitate the formation of women-in-business associations and networks, and develop programs for linking women entrepreneurs with counterparts in other regions and countries.

7.0 ROLE OF COMPLEMENTARY POLICIES

Industrial policy is likely to be ineffective in the absence of complementary policies that support its objectives. 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 need for policy coherence calls for harmony between industrial policy and other domestic measures, such as exchange rate policy, monetary and fiscal policies and policies that affect infrastructure development and the investment climate. Some priorities in this regard are highlighted below.

7.1 Avoiding Exchange Rate Overvaluation

Exchange rate policy affects the development of manufacturing firms, as well as their ability to compete in international markets. In particular, a competitive exchange rate promotes exports and allows domestic firms to seize opportunities created in international markets. In this regard, it will be prudent that EAC Partner States avoid exchange rate overvaluation and currency instability by taking measures such as controlling inflation, managing natural resource wealth in a manner that minimises the risk of the Dutch disease, and adopting more flexible exchange rate regimes, where appropriate.

7.2 Adopting Appropriate Monetary and Fiscal Policies

The effectiveness of industrial programmes and policies depends in part on the extent to which monetary and fiscal policies are consistent with promoting industrial development. In particular, the mix of monetary and fiscal policies has to be such that firms have better access to credit, and real interest rates are not at a level that deters investment. In this regard, there is a need to align the stance of monetary and fiscal policies with the objective of promoting industrial development, while ensuring that the proposed measure does not lead to medium and long-term macroeconomic instability.

7.3 Strengthening Infrastructure Development

Substantial public investments are needed to address the region's infrastructure problem, however, given that governments do not have the adequate resources to address all infrastructure needs, the private sector should be provided with incentives to either participate or contribute more to infrastructure development in the region.

7.4 Improving the Investment Climate

East Africa's relatively burdensome regulatory environment increases trade costs and militates against the development of competitive manufacturing firms in the region. In this regard, efforts should be strengthened to reduce the regulatory and administrative burden associated with investment in the region. In addition, the sectoral dimension of investment climate perceptions and requirements should also be taken into consideration.

To ensure that complementary measures are tailored to the needs and objectives of industrialisation; and coherence is maintained between industrial policy pursuits and other sectoral and macro-economic policies, an institutional coordination framework will be established at both national and regional levels. The framework will facilitate engagement and interactions among various stakeholders, whose actions have impact on industrial development, with a view to coming up with common solutions.

8.0 INSTITUTIONAL AND GOVERNANCE FRAMEWORK

Implementation of the EAC Industrialisation Policy will be the responsibility of the EAC Secretariat, Partner States and the private sector. Collaboration in implementation will be fostered among all stakeholders including development partners.

The Sectoral Council on Industrialisation to be established will lead in the implementation of the Industrialisation Policy and provide policy guidance on matters pertaining to industrial development in the region. The Sectoral Committee will be the technical arm of the Sectoral Council on Industrialisation.

To ensure follow-up on the implementation of complementary policies and measures, an inter-ministerial coordination forum comprising ministers responsible for complimentary polices, and industrial development will be institutionalised to meet and make decisions on complementary measures affecting industrial development.

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.

The EAC Secretariat will be responsible for coordinating implementation of the EAC Industrialisation Policy and Strategy. The Department of Industrial Development (IDD) in the Secretariat will be strengthened to ensure effective coordination of implementation and preparation of programmes and projects. The capacity of IDD will be reinforced by creating the following functional units in the department:

- i. **Industry Competitiveness/Industrial Observatory function:** Main activities will include: undertaking policy review, redesign, monitoring and evaluation; coordinating and liaising with other regional economic blocs as well as Pan-Africa initiatives on industrial development; policy advocacy to promote EAC industrial development agenda at international and regional fora; investment opportunity identification with regard to regional industries; promotion of regional industries through linkages with national Investment Promotion Agencies (IPAs); facilitating Public Private Partnerships (PPPs) investment in strategic regional industries; undertaking feasibility assessments specific to strategic regional industries; carrying out sector competitiveness analysis and performance bench-marking; fostering collaboration in industrial development with other regional economic blocs and international organisations.
- ii. **SME Development Function:** Main activities will include supporting industrial competitiveness initiatives through promoting SMEs, proving information to SMEs on various sources of finance, providing advisory services to SMEs, facilitating linkages between SMEs and large firms, and designing and promoting the EAC Charter on SMEs and implementation of SME policy to be formulated.

- iii. **Industrial R&D, Technology Transfer and Innovation Function:** Main activities will include: supporting industrial competitiveness initiatives through promoting technology development and adoption, ensuring that R&D and Technology are closely linked to industry, mobilising research funds to finance R&D on products from Regional Industries, and conducting capacity building and training programmes on technology foresight, at national and regional level, support regional technology and innovation business-to-university/research centre linkages, carry out research and technology brokerage and commercialisation initiatives, creating awareness on available technologies through technology fairs/exhibitions, fostering regional and international collaboration among research and technology organization (RTOs), promoting technology transfer and diffusions models among others.

Private sector representative organisations, including the East African Business Council (EABC) and other regional private sector apex institutions, will be supported to play a lead role in implementation and monitoring of the Industrialisation Policy.

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Address of the EAC

East African Community Secretariat
P. O. Box 1096
Arusha
United Republic of Tanzania
Telephone: +255 27 2504253/8
Fax: +255 27 2504255
eac@eachq.org