

**EAST AFRICA COMMUNITY (EAC)  
PRIVATE SECTOR DEVELOPMENT  
(PSD) STRATEGY**

*Abridged Version*

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## LIST OF ABBREVIATIONS

AGOA	African Growth Opportunity Act
APSEA	Association of Professional Societies in East Africa
ATGEA	Association of Tea Growers of East Africa.
BDS	Business Development Services
BEST	Best Environment Strengthening programme for Tanzania
CBI	Cross-border investment
CDSC	Central Depository and Settlement Corporation
CEOs	Chief Executive Officers
CET	Common External Tariff
CISO	Confederation of Informal Sector Organizations
CMA	Capital Markets Authority
CMDC	Capital Markets Development Committee
COMESA	Common Market for Eastern and Southern Africa
CPI	Corruption Perception Index
CU	Customs Union
EABC	East African Business Council
EABS	East Africa Business Summit
EAC	East Africa Community
EACA	East African Competition Authority
EACJ	East Africa Courts of Justice
EADB	East African Development Bank
EALA	East African Legislative Assembly
EAIPB	East African Investment Promotion Board
EAR	East African Railways
EASRA	East African Member States Regulatory Authorities
EATC	East African Tourism Council
EBA	Everything But Arms
EIA	Environmental impact assessment
ERS	Economic Recovery Strategy
EU	European Union
FASERT	Foundation for the Assistance of Small Enterprises and Rural Technology
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HIV/AIDS	Human Immuno Virus/ Acquired Immune Deficiency Syndrome
HRD	Human Resource Development
ICT	Information and Communications Technology
IPA	Investment Promotion Agencies
IPTL	Intellectual Property Technology Law
KEPSA	Kenya Private Sector Alliance
KwH	Kilowatt Hour
LVBD	Lake Victoria Basin Development
M&E	Monitoring and Evaluation
MAC	Monetary Affairs Committee
MSETTP	Micro and Small Enterprise Training and Technology
MSME	Micro, Small and Medium Enterprise
MTCS	Medium Term Competitive Strategy
MW	Megawatts
NGO	Non-Government Organizations
NTBs	Non-trade barriers

PAC	Public Awareness Campaign
PEAP	Poverty Eradication Action Plan
PPP	Public-Private Partnership
PRSPs	Poverty Reduction Strategy Papers
PSD	Private Sector Development
PSDS	Private Sector Development Strategy
PSFU	Private Sector Foundation Uganda.
PWC	PriceWaterhouse Coopers
R&D	Research and Development
SACCOs	Saving and Credit Cooperatives
SADC	Southern Africa Development Community
SAPs	Structural Adjustment Programmes
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
S&T	Science and Technology
TC	Technical Committees
TI	Transparency International
TIC	Trade Information Centres
TNBC	Tanzania National Business Council
USA	United States of America

## **1.0 BACKGROUND AND CONTEXT**

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

The experience of the former EAC (1967-1977) indicates that one of the contributing factors to its collapse was inadequate provision for participation of the private sector and other stakeholders in shaping developments in the Community. The new EAC Treaty (1999) has drawn from this experience and is therefore placing greater emphasis on fostering regional development that is people-centred, private sector driven and internationally competitive. The EAC Treaty of 1999 places PSD at the heart of its strategy for accelerating regional growth, creating wealth and reducing poverty. The vision of regional economic integration and development is to achieve a strengthened regional market, create wealth in the region, and enhance international competitiveness. This vision can only be realized through improved business environment, institutional and human capacity building leading to increased trade and investment, and production and productivity of private sector firms in the region. A larger regional market in the context of greater competition and improved policies will increase the incentive for private investment in the region. It is against this background that the need for a common private sector development strategy has arisen.

Private sector driven regional economic integration implies a higher level of private sector participation in development of the regional economy. It is recognized that private sector operations are increasing in scope, following the redefinition of the role of government to reduce its direct engagement in business operations. Privatization initiatives and public sector reforms bear testimony to the changing roles of government on the one hand and the enhanced role of the private sector on the other. The implication of these developments is that the private sector strategy presented here has envisaged the widening space for the private sector in economic activities.

## **2.0 CURRENT STATUS**

This chapter presents the status of the regional economy and that of the private sector in the key sectors of agricultural and natural resources and industrial, commercial and services sector.

### **2.1 Regional Economy and Status of the Private Sector**

The structure of the East Africa's economies is dominated largely by agriculture having accounted in 2004 for around 17% of GDP in Kenya, 43.3% in Tanzania and 33.2% in Uganda. There have been efforts to create convergence of key macro- economic variables as part of policy reforms and the EAC Treaty provides for institutional mechanisms to ensure continuing harmonization of policies. Regional policies to promote the private sector have also been moving in a similar direction of convergence, although at a slow pace.

Although, the private sector accounts for over 80% of the GDP in the three Partner States, these investments have not been sufficient to guarantee rapid private sector growth. The structure of the private sector in the EAC region is dominated by Micro, Small and Medium size Enterprises (MSMEs). These are very significant in terms of number of enterprises and the number of jobs they create. MSMEs account for 87% of all enterprises in the region and on average contribute more than 70% of non- agricultural employment in the region. A people- centred development strategy will therefore need to give ample space for the development of MSMEs in the region. This approach will entail aligning MSME policies with action on the ground in the context of market driven and private sector led development in the region. In particular, there is recognition of the need to align the governments' policy statements on domestic investment with the practise on the ground.

### **2.2 Agricultural and Natural Resources**

These are dominant economic activities in the region and they have a significant presence of private sector activity. However, privatization and restructuring initiatives in the region have resulted in a reduced role of the public organizations in agriculture. There are however, still gaps in marketing of inputs and products and investments in infrastructure and technology.

Agribusiness has a large potential but little has been done to promote value addition of the sector, which has remained in traditional commodity markets. There has been a shortfall in two

other areas; insufficient demand driven public- private sector partnership and little effort in identifying new value adding products and tapping new market opportunities.

The region has rich fishery resources both offshore marine fish resources in the Indian Ocean and in the region's lakes and rivers. Fishing is primarily a private sector activity. However capacity for policing, controlling and actually enforcing the regulations has not helped to develop private sector activity in a sustainable manner.

Forestry activities are also predominantly private sector and present immense opportunities for further private sector development. Forestry resources are exploited not only for timber and furniture, but also for the fuel needs of the low- income populations, often to the detriment of the environment. The capacity for management and regulation of private sector activity in the exploitation of forestry resources is still inadequate in the region.

The region is rich in minerals, not fully mapped or quantified. A considerable part of the present mining activity is small scale and informal. However, the recent establishment of large scale mining operations through FDI raises challenges of developing complementarities and building forward and backward linkages and networks between large-scale and small-scale operations.

The public sector is still dominant in the generation and distribution of electric power. However, with restructuring under way there is now greater potential for private sector participation.

Water is increasingly becoming a scarce natural resource. Initiative are currently being undertaken to restructure and privatise water supply and management systems especially in urban areas, thus giving greater space to private sector participation.

### **2.3 Industrial, Commercial and Services Sectors**

In all three countries the modern industrial and commercial sectors, together with small and medium enterprises (SMEs), are heavily dominated by the private sector, in part due to extensive privatization of public enterprises in the last decade. New investments in this sector are more competitive than the old investments largely because they have been set up under a competitive environment in which trade liberalization is prevalent in the region. The sectors which have attracted the most new investments are mining, tourism, horticulture, textiles and clothing, fish products and investments in information and communication technologies. Each of the EAC countries has a list of few "entry points" or selected sectors with the highest growth potentials.

For example; textile & garment (AGOA as an opportunity), horticulture (flowers, vegetables to EU market), tourism, coffee/ tea, etc.

### 3.0 CHALLENGES AND CONSTRAINTS

Five categories of constraints facing PSD in the region have been identified as follows: policies at macro-economic and sector specific levels, institutional framework and governance; access to key resources; infrastructural and supportive services.

#### 3.1 Policy related Constraints

These have reference to macro-economic policies, trade and tax policies, the legal and regulatory frameworks and the investment policies. The principal factors constraining economic performance include:

- i. *Tight monetary and financial policies* Although there has been considerable progress in both economic and political liberalization, concern has been raised over the tight and constraining monetary and financial policies coupled with incomplete and shallow financial policies coupled with incomplete and shall financial sector reforms.
- ii. *Trade policies especially tariff and non- tariff barriers.* These are being addressed within the framework of the EAC Customs Union.
- iii. *Disincentive effects of existing tax regimes relating to levels, multiplicity of taxes and tax administration.* Concern has been raised on absence of a coherent and coordinated approach to harmonization of tax policies and of tax incidence. However, Fiscal Affairs Committee is addressing this concern and good progress has been made in harmonization of corporation taxes and in harmonizing the tax incidence under the EAC customs union.
- iv. *Absence of a legal framework to ensure free movement of labour, services, goods and capital.* Labour market policies are not harmonized in the region and the existing policies do not facilitate free movement of labour and professionals. The negotiation of Common Market Protocol has commenced and its implementation will address some of the pinpointed constraints.
- v. *A restrictive regulatory and administrative regime.* These raise the cost of doing business and act as a barrier to development by helping a large portion of private sector actors out of formal economy. Work is being done both at the national and EAC regional levels to address the constraint.
- vi. *Inadequate and unambiguous competition policies have raised concern in the private sector.* Good progress has been made to finalize the regional competition policy and have it enacted.

- vii. *Inadequate investment codes and incentives.* This is being addressed by developing an EAC mode of Investment Code based on best practices and will function as a guiding instrument to national investment codes.

### **3.2 Institutional Framework and Governance**

Institutions facilitate information about market conditions, determine and enforce property rights and influence competition in markets. However, the existing institutions in the region are not effective in this, due to lack of complementary institutions and deficiencies in existing institutions in terms of capacity and orientation.

The institutional framework comprises a wide variety of Private Sector Organization and Public Sector Organization operating at National levels and regional levels. Governance concerns cover both the public and private sector.

#### **(a) Private Sector Organizations**

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

#### **(b) Public Sector Organizations**

Public sector organizations are supposed to carry out the following support functions for the PSD: provide an enabling environment for private sector growth; facilitating trade and investment; disseminating information/ facilitating communication, streamlining administrative procedures for efficient service delivery and providing public investment. Poor achievement of these regional objectives is attributed to several factors, including inadequate funding and human resources, lack of a legal mandate, and delays in completion of multi-lateral agreements.

#### **(c) Public- Private sector Partnership (PPP)**

This has grown considerably in recent years in the areas of policy dialogue, advocacy and participation in consultations and conferences. In terms of broad policy statements, PPP has been endorsed by all the three EAC countries but the requisite rules and procedures for

procurement and definition of the respective roles of the public and private sector have yet to be put in place unambiguously. The capacity of regulatory mechanisms is still inadequate to manage PPP investments efficiently.

A clear framework for implementation of PPP is yet to be fully developed. This will address areas of infrastructure and other strategic investments sectors.

#### **(d) Good governance**

In all three countries, efforts are being made to curb corruption through encouraging transparency and applying the rule of law in government operations. However, lack of political will has impacted on the fight against corruption. This is due to inadequate funding and ill equipping of anti-corruption institutions. Further, the legal framework is also inappropriate since most bureaucrats charged with responsibility of fighting corruption are themselves corrupt. There are also deficiencies in corporate governance whereby many private enterprises are not transparent in handling of their accounts, role of boards and treatment of stakeholders.

### **3.3 Infrastructure and Public Utilities**

There have been serious problems in ensuring access to reliable and affordable infrastructure in the region. The costs (of power, telecommunication and water services) are major concerns. This undermines the relative competitive position of the private sector in the region. With appropriate investments in PPP, it is possible to achieve lower costs of power and other infrastructural services.

Tremendous effort has been made by the partner states to address these issues in the area of power, roads infrastructure, and railway network and telecommunications sectors. Private sector participation in all these areas is slowly being encouraged; however the privatization and restructuring initiatives in the three countries are slow and not coordinated.

In order to enhance rapid access to infrastructure and ancillary services, it is clear that the EAC countries need to evolve coordinated, harmonized and complimentary transport and communications policies and also improve and expand the existing transport and communication links and establish new ones.

### **3.4 Access to Requisite Resources**

### **3.4.1 Access to Investment Finance**

Investment Finance is of great importance, both as a key resource and as an area of opportunity for private sector participation. However, the financial sector has remained ineffective due to limited banking networks, non-performing loans, low level of monetization of the EA economy and weaknesses of corporate governance in public sector banks coupled with the challenges of supervision and enforcement of prudential guidelines by the Central Banks.

### **3.4.2 Human Resources**

The region has low levels of education attainment compared to other regions. Major concerns include: i) legal and administrative restrictions on the free movement of labour within the region ii) inadequate/inappropriate structure of educational and training systems in the region iii) lack of cooperation and coordination between education and training institutions across the board iv) insufficient remuneration levels leading to brain drain to other regions of Africa and elsewhere in the world v) adverse impact and implication of HIV/AIDS on human resources for PSD.(e.g. loss of productivity and knowledge, increased costs, erosion of markets)

### **3.4.3 Land**

Underutilization of agricultural land, land degradation and ownership rights are some of the critical issues. These act as constraints to free movement of investors and cross border agricultural investments. Access to land is also a constraint on non-agricultural investment, with non-availability of appropriate business premises being particularly acute for micro and small enterprises. As regards serviced land for investment, ownership rights leasing, etc, there is room for improvement especially using coordinated policies at EAC level.

### **3.4.4 Access to Support Services**

The development of competitive markets requires the existence of supporting marketing institutions and adequate provision of essential public goods and services. Enterprises require technological and information services, marketing services and capacity building through training if they are to improve performance. The status of technological extension services is particularly in bad shape in the EAC region. Further, there is a big gap in the area of provision (in terms of both quality and quantity) of such services as accounting, legal advice, investment/ business planning, ICT, etc

The concept of differential requirements (based on enterprise size, gender etc.) has not been sufficiently adopted in development programs. This concept will need to be recognised more explicitly in the PSDS.

## 4.0 GOALS AND OBJECTIVES

### 4.1 Vision Statement

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

### 4.2 Mission Statement

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

### 4.3 Goals and Objectives

The EAC Treaty of 1999 places PSD at the heart of its strategy for accelerating regional growth, creating wealth and reducing poverty. The vision of regional economic integration and development is to achieve a strengthened regional market, create wealth in the region, and enhance international competitiveness. This vision can only be realized through improved business environment, institutional and human capacity building leading to increased trade and investment, and production and productivity of private sector firms in the region.

The objectives of the PSD Strategy are to:

- *Increase space of the private sector in development of the regional economy.* This envisages to be done by striking an appropriate balance between the functions of government (in their redefined and refocused manner) and the private sector in a complimentary way.
- *Focus on removing regional level constraints and tap economies of a larger regional market.* Focus is placed on market linkages within the region and between the region and the rest of the global economy and identify the regional level issues pertinent to PSD.
- *Ensure that the strategy is consistent with people- centred and private sector driven approach.* Priority will be given to ensuring that a broad range of actors participate in bringing about high growth and in sharing the benefits generated by accelerated growth broadly in the region.
- *Promote competitiveness by focusing on areas of comparative advantage, and develop competitive advantages over time.* This will enable the regional economy to develop the capacity to seize opportunities offered by the globalization process, while withstanding its threats.

- *Identify priority sectors* which reflect potential sources of growth, export and diversification in the EA region.
- *Ensure implementation.* This is done by putting in place an implementation strategy which specifies the role and mechanism for the participation of the private sector institutions in the implementation and monitoring and evaluation of the PSD strategy.

## 5.0 THE STRATEGY

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

The strategy will focus on creating conditions that will enable enterprises use their existing capacities more effectively and foster new private investments. The actions that are to be taken under this strategy are meant to put in place a business environment which facilitates enterprises to respond to opportunities and improve their competitiveness (reducing cost of doing business and utilizing resources more efficiently). Further action is facilitating enterprises to develop their capacities to compete (by increasing skills training, technological innovation, information technology, infrastructure) and by improving coordination and efficient management of linkages and networks (supply chains).

Highest priority will be accorded to: -

- (i) Improving the business environment in which firms operate;
- (ii) Evolving an institutional framework and good governance that is consistent with efficient workings and development of markets; and
- (iii) Promoting investment in institutional and human capacity building and increasing competitiveness and diversification of the economy of the region.

There are two sets of actions that are contained in the PSD strategy. The first set of actions is those meant to ensure a strong private sector investment, facilitate enterprises to respond to existing and new opportunities and achieve greater efficiency in the allocation of resources. These include improving the policy environment and the efficiency of markets.

The second set of actions are those which have direct bearing on the competitiveness of the private sector enterprises and creating conditions that reduce the cost of doing business, spur efficiency through capacity building, competition and ensure a level playing field. Key to this

second set of actions is enhancing the capacity to deliver infrastructure and business support services more efficiently and in a demand-driven manner.

## **5.1 PRIORITY CROSS CUTTING AREAS**

This looks at strategies to make the private sector an engine of growth in the region which will facilitate improvement in the various areas outlined below.

### **5.1.1 Improving the Business Environment: Reducing the Cost of Doing Business**

The business environment will be improved by enhancing policy coordination and policy integration with a view to putting in place conditions for reducing the cost of doing business in the region. Such cooperation in designing and implementing policies will be directed towards overcoming market failures and supporting markets to develop more efficiently and facilitate enterprises to invest and trade more freely in the region.

Priority will be accorded to completing the process of harmonization of policies, laws and regulations so that investors can access similar incentives and benefits in the region. This will aim to create a single East Africa market and investment area.

### **5.1.2 Market Supporting Institutions and Governance**

Institutional capacity building is necessary to support and facilitate the efficient working of the market and to create markets where they are missing. Institutions channel information about markets (conditions, goods and participants), define and enforce property rights including rights of the private sector in relation to governments and institutions influence the intensity of competition and direction and pattern of competition in markets. Therefore institutions influence the distribution of assets, incomes and costs as well as the incentives for actors in markets and the efficiency of markets. In this strategy, the effectiveness of the existing institutions will be enhanced by filling gaps in missing institutions to ensure the necessary complementary institutions and redress the deficiencies in existing institutions in terms of capacity building and appropriate orientation. Good governance on the part of government as well as the private sector will be promoted in order to make sure that the institutional framework delivers according to expectations.

## **Public Institutions**

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

### **Private Sector Organizations and Firms**

Business associations should be structured so that they can act on a regional scale, with EABC playing a leading role in promoting regional integration. Actions that will be taken include: ensuring that the legal framework facilitates regional linkage of national apex bodies; taking measures to ensure that EABC represents all private sector interests, including smallholders and the informal sector, and that its representation can be adapted to changing private sector structure over time. Private sector organizations at all levels (local, national, regional) require an effective mechanism to ensure coordination of their activities and working relationships which ensure that various interests at all levels are reflected and accommodated in the stance and operations at the level of apex bodies at national and regional level.

Good governance will be promoted in order to make sure that the institutional framework delivers according to expectations. Improved systems of governance in the region are expected to reduce the cost of doing business. Promotion of financial discipline and curbing corruption in the region will be accorded top priority based on coordinated action and putting in place transparent rule of law and procedures. The strategy will promote good corporate governance including promoting democratic leadership and cohesion in business associations.

Developing firm level capacity to compete is central to the strategy. The strategy will ensure private firms are facilitated to build the capacity to formulate effective strategies, develop effective organizational structures to support those strategies, and to develop competence in production and marketing. To assist firms in achieving these goals, effective support services comprising training, consultancy and advisory services, marketing services, technological services, information dissemination and promotion of business linkages are critical. The main

reason for using supportive services is to build the capacity of enterprises by fostering learning processes. It is recognized that technology innovations and technology upgrading is central to the process of building the capacity to compete. The strategy to be adopted is that of taking policy actions that leverage these modes of technological innovation and upgrading by enterprises. The strategy will ensure that provision of support services and capacity building programmes are demand-driven and that there are sufficient buy-in (and pay-in) for the ultimate beneficiaries.

### **Public-Private Partnership**

The PSD strategy recognizes the unique opportunity for the key sectors to adopt public-private partnership (PPP) investment. The PPP approach will provide additional opportunity to facilitate freer flow of factors and deepen market integration. The approach will be promoted and developed in 2 key areas: Policy dialogue and consultations; and investments.

### **Good Governance**

Improved systems of governance in the region would reduce the cost of doing business. Financial discipline should be promoted as well as putting in place the transparent rule of law and procedures. Private sector associations should develop a code of ethics and promote democratic leadership and cohesion in business associations.

## **5.2 Access to Basic Infrastructure**

The strategy for improving infrastructure is to adopt PPP approaches, especially in mobilising resources for large regional infrastructure projects, to facilitate competition, and to build appropriate regulatory capacity. This strategy should ensure access to reliable and efficient infrastructure for the EAC region's people as a whole, and for the poor in particular. The private sector will be enabled to provide infrastructure and social services on its own or in partnership with the public sector. Policy measures especially regulatory and procurement regulations will be put in place to promote private participation in investment in infrastructure and social services.

In order for PPP in infrastructure to move from declaration to action, measures will be taken to evolve a regional infrastructure policy with private sector participation accompanied by a clear regulatory framework and procurement procedures.

### 5.3 Requisite Resources

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

#### 5.3.1 Finance

The thrust of the strategy as regards promoting access of firms to finance is to ensure that financial markets work. Measures should be taken to evolve a sound financial sector that enables enterprises to enter the market and operate effectively as well as help to restructure firms to operate efficiently in competitive regional and global markets. Private sector access to financial services will be improved by measures to reduce the risk associated with lending, and to provide incentives to the financial institutions to diversify financial products.

#### 5.3.2 Human Resource Development (HRD)

Education and training are central to the ability of enterprises to compete in the regional and global economies. The quality of labour and the mix of skills must be improved if they are to help create a competitive regional economy. Four sets of actions will need to be taken.

- a. First, the strategy must encourage both governments and the private sector to play an active and harmonized role in developing human resources in the region.
- b. Second, there is a *critical need for coordination and harmonization of training in entrepreneurship and business management*, so as to train job creators with a regional perspective.
- c. Third, the *legal and regulatory regime will continue to be harmonized* to permit free regional movement of labour and recognition of education certificates within the region.
- d. Fourth, *the private sector will be sensitised to make its contribution in fighting the HIV/AIDS pandemic* in their respective work places by raising awareness and at broader level there is need for establishing the linkage between education and HIV/AIDS strategies in a more systematic manner. Fighting HIV/AIDS deserves high priority starting with coordination of approaches, learning from best practices in the region (especially successes in Uganda) and harmonizing efforts to manufacture affordable drugs.

### **5.3.3 Land**

Special attention must be paid to land tenure, land use and availability of land for business purposes. In order to encourage greater use of presently underutilized agricultural land, action should be taken in 4 areas:

- i. *Promoting free movement of investors* and harmonize land property rights in the region to allow investors move freely within East Africa.
- ii. *Invest in cross border infrastructure*, including roads, water and telecommunications.
- iii. *Enable land to be used as an instrument of economic empowerment* and as collateral in accessing loans in a harmonized way in the region.
- iv. *Make available land for business premises especially for MSMEs.*

### **5.4 Supportive Services**

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

### **5.5 Economic Empowerment**

Having recognized the diversity of the private sector in the region, the strategy will pay attention to enhancing the capacities of the weaker groups within the private sector. In this respect, micro, small and medium size enterprises will be given priority. It is recognised that vulnerable groups in the rural areas form the majority of the population in the region. Possibilities of forming linkages and networking with them e.g. through contract farming, agri-business and marketing will be identified and encouraged. The strategy will strive to empower the majority of the private sector operators and develop the missing middle. The strategy will be to harness the energy of strong elements of the private sector to enhance the capacity of the weak, while also empowering the weak to compete or effectively collaborate with the strong through business

linkages and networking to their mutual benefit. Action will be taken to enhance economic empowerment of small businesses and of women in particular.

It is recognized that activities undertaken by men and women are partly socially constructed. Responsibilities, roles, rights and mobility of men and women are shaped by social relations that are formalized through custom, legislation, organizational cultures and contextually specific norms. All these contribute to creating differential barriers and opportunities. These social, cultural and economic barriers will be identified and addressed. The position of women in business is recognized and gender mainstreaming is adopted in the strategy. This is done to exploit the complementarities that exist and to ensure inclusion of all stakeholders. The strategy is to provide an enabling environment for the majority of entrepreneurs to graduate from survival-oriented into growth and specialization oriented enterprises. Joint ventures and other forms of partnerships between men and women should be encouraged and promoted. Strategic development of indigenous businesses is needed.

## **5.6 Priority Sectors**

The strategy will be implemented with priority accorded to those sectors, which have great potential for poverty reduction and are more amenable to intra-regional trade and private sector investment. These are: agriculture and agri-business, natural resources, manufacturing, tourism, and information and communications technology (ICT).

### **5.6.1 Agriculture and Agri- business**

PSD strategy aims to promote investments in agriculture and agri- business by improving incentives, infrastructure and technology and building institutional and human capacities. The strategy will further aim to raise productivity in areas with high potential for poverty reduction, develop competitive advantage in areas having comparative advantage and capitalize on value added and productivity increase through agri-business activities including input supply, transport, storage, and processing and marketing of agricultural products.

Priority should be accorded to science and technology and R & D in particular to meet the needs of the majority of the East Africans who are deriving their livelihoods from agriculture and related rural activities.

### **5.6.2 Natural Resources**

These include natural gas, coal, solar, energy, power alcohol and biogas, all offering opportunities to the private sector. Great potentials include new and renewable sources of energy such as solar, biomass, biogas, mini & micro hydropower, which need to be exploited. Action will start with coordination in taking a regional inventory of current and potential resources and thereafter, encourage private investments, exploiting the PPP for natural resource development.

### **5.6.3 Wildlife and Tourism**

A regionally coordinated approach to wildlife resources will involve incorporating the communities in wildlife conservation and management, developing infrastructure in the parks and game reserves and finding a common approach to poaching. The tourist component of the strategy will be to develop a collective and coordinated approach to the promotion and marketing of quality tourism into and within the Community. This strategy should define the place of the private sector in the implementation of the marketing plan and strategy.

### **5.6.4 Manufacturing**

The regional industrial strategy provides a reference tool and guide for action by the private sector and other stakeholders. The strategy aims to create an enabling business environment for the establishment of an internationally competitive single market and investment area and to serve stakeholders in the region as a blue print for future industrialization in the region.

### **5.6.5 Information and Communications Technology (ICT)**

The strategy should incorporate joint EAC participation in the ongoing effort to install the new fibre optic cable. There should be a coordinated initiative to digitalize key government agencies and activities so that the standards and software are compatible allowing for cross- country exchange of information. ICT training needs as well as organizations (donor assisted) of regional training initiatives should be identified and national markets eventually opened to regional competition.

## **6.0 IMPLEMENTATION FRAMEWORK**

### **6.1 OVERVIEW**

The implementation strategy has been formulated with specific policy actions, public awareness campaigns and a monitoring and evaluation system. Implementation will be participatory with each stakeholder having clear roles to perform. Implementation of the proposed strategy will involve a number of stakeholders: EAC Secretariat, regional level institutions, national level government departments and public sector organizations, private sector organizations and enterprises. In order to coordinate and ensure effectiveness of the proposed reforms, special unit will be established in the EAC secretariat, which will coordinate implementation. Implementation Committees for the PSD strategy will be established at the EAC level and the special unit established for the purpose of coordinating implementation will service these Committees.

### **6.2 Public Awareness Campaign**

During the Private sector study, it was found that most citizens of the Partner States appeared not to understand how regional co-operation would empower them or increase regional cross-border trade and investment. There is therefore a clear need for the Public Awareness Campaign (PAC). Key stakeholders identified include: Government and public institutions, Private Sector organizations and firms, Religious organizations, schools and NGOs, Civil Society, Diplomatic missions and development partners, and Local government as well as the informal sector.

The prime objectives of the campaign are to reduce information gaps within the EAC framework, and empower stakeholders through a people centred campaign to enhance the spirit of regional co-operation, to significantly improve the public image of the EAC and to create widespread understanding and support for EAC institutions by highlighting opportunities and addressing constraints affecting performance in various sectors.

### **6.3 Implementation Matrix**

It indicates the issues that need mitigation, type of interventions or activities to be undertaken, the implementing agents, timing and the cost implications. Implementation of the PSD strategy will involve a number of stakeholders; EAC Secretariat, regional level institutions, national level

governmental departments and public sector organizations, private sector organizations and enterprises. *Details of implementation matrix are contained in Annex 1*

#### **6.4 Monitoring and Evaluation**

Monitoring and evaluation (M&E) will comprise an essential component of a successfully implemented PSDS. Monitoring indicators include; detailed work plans; monitoring work sheets; report guidelines; evaluation guidelines and creation of an East African statistical database. For effective M& E of the PSD program, the following actions are recommended:

- (i) *Preparation of a Monitoring Evaluation Tool*, which should consist of the following elements: Work plan for the monitoring process; Identification of monitoring indicators based on the main issues of the PSDS project; Monitoring work sheets and analysis of information; Guidelines for producing monitoring reports; and Evaluation questions and guidelines for preparation of National Evaluation Reports.
  
- (ii) *Capacity building* of those staff who will be involved in the actual monitoring and evaluation process.
  
- (iii) *PSDS project report analysis* at the regional level. A Technical Steering or Monitoring Committee will review the national reports with a view to analyzing progress made and constraints experienced, and will then prepare a regional report.

## Annex 1: Implementation Matrix and Action Plan

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
High cost of doing business	○ Establish a regional level regulatory unit	Governments, EAC, EABC	December 2007	550000
	○ Strengthen policy coordination of macro and sectoral policies	Governments, EAC	Continuous	Na
	○ Strengthen public-private sector policy dialogue and consultations	EABC, business associations, governments, EAC	Continuous	100000
	○ Harmonize and coordinate business regulatory agencies and procedures in the region	Governments, Regulatory Agencies ,EAC, EABC	Continuous	500000
	○ Complete formulation of a regional competition policy	Governments, EAC	March 2007	Na
	○ Build the capacity to manage competition in the regional economy	EAC, Governments, EABC	Continuous	60000
	○ Establish EA Competition Authority	EAC, Governments	December 2007	520000
	○ Harmonization and coordination of investment policies. ○ Finalise a model East African investment code.	Governments, Investment Promotion Agencies, EABC, Private Sector Associations	Continuous June 2007	Na
	○ Conducting regular business climate surveys	EABC, business associations, consulting firms, IPA	Continuous	200000
	○ Establish a code of conduct to guide business operations	Government, EABC, Business Associations	December 2007	40000
Inefficient legal regime that is non supportive of private sector.	○ Coordinate the reform of commercial courts to make them serve all business in a timely manner.	Governments, EABC	Continuous	Na
	○ Review the current procedure for harmonizing laws and make it more efficient	Governments, EABC, EAC, EALA	Continuous	Na

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
	<ul style="list-style-type: none"> <li>Revisit the legal provisions to ensure facilitation of transition from informal small enterprises to larger corporatized enterprises</li> </ul>	Governments. EALA, EABC, Apex Private Sector Organizations, EAC.	Continuous	Na
	<ul style="list-style-type: none"> <li>Harmonise and coordinate reform of commercial laws and registries to ensure that they are supportive of private sector development</li> </ul>	Governments, EALA, EACJ, EABC, EAC, Business Associations	Continuous	Na
	<ul style="list-style-type: none"> <li>Liberalize the legal profession to ensure free movement of professionals.</li> </ul>	Governments, EABC, EALA, EAC	December 2010	Na
	<ul style="list-style-type: none"> <li>Redefine the mandates of business associations to ensure adequate legal provision for them to undertake regional level issues and responsibilities.</li> </ul>	EABC, Business Associations,	December 2007	Na
	<ul style="list-style-type: none"> <li>Build capacity for commercial lawyers</li> </ul>	Governments, Associations of Lawyers, EALA	Continuous	50000
	<ul style="list-style-type: none"> <li>Review laws to make relevant parts “East African” to enable East African private sector to develop regionally.</li> </ul>	Governments, EABC, EACJ EALA, EAC	June 2008	Na
Inefficient public sector institutions	<ul style="list-style-type: none"> <li>Reorient the attitudes of the public officials towards serving the private sector development.</li> <li>Introduce educational programmes to public servants on private sector operations.</li> <li>Inculcate work ethics in public institutions</li> </ul>	EAC, Governments, EABC, Educational and Training Institutions	Continuous	70000
Non-inclusive representation in EABC	<ul style="list-style-type: none"> <li>Widen representation in the EABC.</li> </ul>	EABC, Business Associations,	June 2007	40000
Lack of resources to implement EABC Strategic Plans	<ul style="list-style-type: none"> <li>Mobilize resources for the implementation of the EABC Strategic Plans</li> </ul>	EABC, Business Associations	Continuous	1000000

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
Weak capacity of EAC Level Institutions for private sector development.	<ul style="list-style-type: none"> <li>○ Identify capacity needs of EAC Secretariat,</li> <li>○ Create a special unit for coordinating the implementation of PSDS</li> <li>○ Establish a Special Sectoral Committee for PSD</li> </ul>	EAC , Governments	June 2007	300000
Lack of Public – Private Partnership (PPP) at Regional level.	<ul style="list-style-type: none"> <li>○ Prepare a work plan for enhancing PPP</li> <li>○ Form a committee for implementing the work plan.</li> <li>○ Institutionalise PPP.</li> </ul>	Governments EAC, business associations EABC	June 2007	Na
Weak human resource development	○ Explore the most appropriate incentives for private sector to invest in human development.	Government EABC, business associations	Continuous	50000
	○ Harmonize approaches to private sector participation in investment in human resource development in the region	Government EABC, business associations	Continuous	20000
	○ Develop HR for S & T especially ICT.	Governments, EAC, IUCEA EABC, Training Institutions	Continuous	300000
	○ Harmonize and coordinate restructuring of education and training systems to meet needs of entrepreneurship development	Governments, EABC, EAC, IUCEA, Training Institutions	June 2008	30000
	○ Coordinate and harmonize certification, qualifications and accreditation of professionals	Governments, Professional Associations and EABC	June 2008	20000
	○ Regularize and formalize free movement of labour including professionals in the region.	Governments, EAC, EABC, EALA, EACJ	June 2010	Na
	○ Eliminate payment of fees for work permits for East Africans	Governments	June 2007	Na
	○ Eliminate requirement of work permits for skills within the region	Governments	June 2010	Na

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
	<ul style="list-style-type: none"> <li>Complete harmonization and coordination of labour market policies including laws and regulations.</li> </ul>	Governments, EABC, EAC, EALA	June 2010	Na
Under utilised arable land in the region	<ul style="list-style-type: none"> <li>Land tenure reform.</li> <li>Provide incentives to investors to encourage them to invest in these regions.</li> </ul>	Governments, EALA, EACJ, EABC, IPA	June 2008 Continuous	Na
Limited use of land for economic empowerment	<ul style="list-style-type: none"> <li>Coordinate and harmonize initiatives using land as collateral and to acquire shares in companies.</li> </ul>	Governments, EABC	Continuous	40000
Lack of land for investment	<ul style="list-style-type: none"> <li>Coordinate and harmonize approaches to provision/ allocation of land for business premises including small businesses</li> </ul>	Governments, EABC	Continuous	40000
Weak support services to private sector development	<ul style="list-style-type: none"> <li>Take stock of existing capacities for providing business development services and other business support services and identify their capacity needs</li> <li>Build capacity of BDA service provider.</li> <li>Harmonize and coordinate initiatives and approaches towards promoting provision of business supportive services</li> </ul>	EAC, Governments, EABC	June 2007	70000
Inefficient suppliers	<ul style="list-style-type: none"> <li>Formulate incentive systems to encourage large enterprises to upgrade the quality of products and services from SMEs</li> </ul>	Governments EABC	Dec 2007	30000
	<ul style="list-style-type: none"> <li>Put in place modalities of collaboration between large and small enterprises.</li> </ul>	EABC	September 2007	50000
Weak and inadequate ICT for private sector	<ul style="list-style-type: none"> <li>Install an appropriate fibre-optic marine cable for Eastern Africa</li> </ul>	EABC,EAC Governments	June 2008	Na

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
development	<ul style="list-style-type: none"> <li>○ Digitize public sector operations that are of service to the private sector.</li> <li>○ Promote e-commerce in the region</li> <li>○ Develop ICT infrastructure</li> </ul>	EABC, Public sector	Continuous	60000
Weak and inadequate financial sector policy for private sector development	<ul style="list-style-type: none"> <li>○ Harmonize key laws <ul style="list-style-type: none"> <li>▪ Banking Laws</li> <li>▪ Capital Markets Laws</li> <li>▪ Pension Legislation</li> <li>▪ Insurance laws</li> <li>▪ Reform pension and social security scheme</li> </ul> </li> </ul>	EAC Secretariat Member State Ministries of Finance & Parliaments, East African Legislative Assembly	December 2007	Na
	<ul style="list-style-type: none"> <li>○ Strengthen Existing Regional Protocols in Finance</li> </ul>	EAC Secretariat, Partner States, Ministries of Finance, Partner States Central Banks.	Continuous	Na
	<ul style="list-style-type: none"> <li>○ Establish a regional financial services association</li> </ul>	EAC, EABC, EASRA, Central Banks	June 2007	100000
	<ul style="list-style-type: none"> <li>○ Agree on a regional approach to broaden financial intermediation to underserved market segments.</li> </ul>	EAC Secretariat, Governments, Central Banks, Capital Market Authorities	June 2007	Na
	<ul style="list-style-type: none"> <li>○ Harmonize approaches to economic empowerment</li> </ul>	EAC Secretariat, Governments	Dec. 2007	30000
Inadequate Capacity of EADB	<ul style="list-style-type: none"> <li>○ Recapitalize EADB to make capital adequate for development and reconstruction rather than the earlier mandate of correcting imbalances.</li> </ul>	Governments, EADB	Continuous	Na
	<ul style="list-style-type: none"> <li>○ Build capacity of its management and operations to cope with the new mandate</li> </ul>			50000
Lack of regional investment promotion mechanism	<ul style="list-style-type: none"> <li>○ Put in place a regional framework for attracting FDI</li> </ul>	EAC, EABC, Investment Promotion Agencies	June 2007	50000
	<ul style="list-style-type: none"> <li>○ Form a regional investment promotion body (EAIPB)</li> </ul>	EAC Secretariat, EABC, EAIPAs, CMDC, EALA	Dec. 2007	100000

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
	<ul style="list-style-type: none"> <li>○ Integrate infrastructure sectors for regional efficiency and as potential markets for FPI and FDI investments</li> </ul>	EAC Secretariat, EAIPB, CMDC, Governments.	2006	Na
	<ul style="list-style-type: none"> <li>○ Strengthen existing regional protocols in investments</li> </ul>			Na
	<ul style="list-style-type: none"> <li>○ Promote investments in tourism</li> <li>○ Establish mechanisms of cooperation in tourism approaching the region as a single market</li> <li>○ Prepare a regional tourism master plan</li> </ul>	Governments, EABC, EAC, EAT	December 2007	50000
Lack of access to capital for investment especially in agriculture and rural activities	<ul style="list-style-type: none"> <li>○ Liberalize investment flows in the region</li> <li>○ Privatize and harmonize issuance of securities</li> <li>○ Review company laws to enhance access to capital markets</li> <li>○ Establish regional credit rating agencies</li> </ul>	Governments, Central Banks, Capital markets Authorities, EABC	June 2007	30000
Uncoordinated regional infrastructure policy	<ul style="list-style-type: none"> <li>○ Carry out a study to look into harmonization of approaches to regional infrastructure policy including infrastructure, restructuring and privatisation</li> <li>○ The formulation and implementation regional infrastructure policy</li> <li>○ Build capacity to regulate investments in infrastructure</li> </ul>	EAC, Governments, EABC, business associations	Dec. 2007	100000
Inadequate capacity of SMEs contractors at the various regional and district.	<ul style="list-style-type: none"> <li>○ Coordinate decentralization approaches in infrastructure building.</li> <li>○ Enhance capacity of SME contractors</li> </ul>	Governments, EABC	Continuous	50000
Lack of access to contracts and linkages between SMEs and Large	<ul style="list-style-type: none"> <li>○ Study to define the appropriate approach to networking between large enterprises and SMEs.</li> </ul>	Governments, EAC EABC	Dec. 2007	70000

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
corporations	<ul style="list-style-type: none"> <li>○ Improve access to contractors.</li> </ul>			
Cumbersome immigration and trade facilitation procedures	<ul style="list-style-type: none"> <li>○ Take stock of the obstacles which inhibit free movement of goods and people at borders</li> <li>○ Simplify travel requirements and immigration and trade facilitation procedures at border points to facilitate easy movement.</li> </ul>	EAC, Governments	continuous	Na
Weak small and medium size enterprises	<ul style="list-style-type: none"> <li>○ Set up and coordinate regional information bureaus to empower business associations with information flow</li> <li>○ Coordinate the building of entrepreneurial skills through training in management, networking and fostering linkages</li> <li>○ Coordinate the Promotion of discipline and business ethics relating to loan repayment</li> <li>○ Coordinate the Institutionalization of advocacy and capacity building of business associations.</li> </ul>	Governments, EABC, Business Associations, EAC, Training Institutions	Continuous	100000
Low productivity in Agriculture	<ul style="list-style-type: none"> <li>○ Coordinate and harmonize agricultural policies and approaches towards agribusiness development on a regional level</li> <li>○ Coordinate the approaches to be used to rationalize central and local government taxes</li> <li>○ Coordinate approaches towards identification of comparative and competitive advantages and value chain analysis in agribusiness.</li> <li>○ Coordinate the formalization of linkages between large and small</li> </ul>	Governments, EABC, EAC	Continuous	50000

Issue	Action To Be Taken/Intervention	Implementing Agent/ By Whom	When/ Time-Table	Cost Implications US Dollars
	farmers and other investors in agribusiness.			
Lack of value addition in primary products.	<ul style="list-style-type: none"> <li>○ Formulate policies to encourage value addition</li> <li>○ Develop incentives for value addition</li> </ul>	Governments, EAC, EABC, Business association.	Continuous	90000
Weak conformity to standards so as to promote global trade	<ul style="list-style-type: none"> <li>○ Strengthen private sector capacity to meet international standards</li> <li>○ Strengthen inspection and surveillance mechanism</li> </ul>	EAC, Government, standards agencies	2007	Na
Inadequate public awareness campaign of the EAC	○ Production of EAC initiatives documentary film to promote regional cooperation, once every year plus air time costs.			100000
	○ Bi-monthly press briefing to Journalists by the management of the EAC Secretariat.			40000
	○ Sponsorship of regional sport associations, regional competitions, awards and prizes to winners linked to EAC programmes/ initiatives.			200000
	○ Hiring consultants: Firm and specialized individual fees on yearly basis.			500000
	○ Purchase of equipment, transport costs, per diem/accommodation for consultants, etc.			300000
Monitoring and evaluation	<ul style="list-style-type: none"> <li>○ Media monitoring by a specialized firm for three years.</li> <li>○ Public awareness evaluation meeting, workshops</li> <li>○ Opinion survey/research, once per year to capture lessons learned and adjustment.</li> </ul>			200000

