



EAST AFRICAN COMMUNITY INDUSTRIALISATION STRATEGY

2012 - 2032

THEME

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

EXECUTIVE SUMMARY

The strategy document elaborates key interventions necessary for effective implementation of the East African Community Industrialisation Policy (2012-2032). The Strategy is premised on the collective commitment of the EAC Partner States to fast track equitable and sustainable development of the region for the benefit of the people of East Africa. Implementation of the East African Industrialisation Strategy (2012-2032) holds the key to unlocking the region's development potential through structural transformation and diversification of the regional economy.

The EAC has made a commitment to transform the regional economy through industrialisation. The region's overriding objective is to create a modern, competitive and dynamic industrial sector, fully integrated into the global economy.

Articles 79 and 80 of the EAC Treaty, common principles of the EAC Common Market Protocol, and the 2011-2016 EAC Development Plan clearly and unambiguously articulate the region's commitment to economic structural transformation through industrialisation. This primary commitment to industrialisation is also reflected in other subsidiary policies, regulations and action plans.

The EAC Industrialisation Strategy is underpinned by national industrialisation policies and strategies and draws lessons from best regional and international practices. The Strategy will be instrumental in realising the objectives of the EAC Industrialisation Policy (2012-2032) which include:

- a) Diversifying the manufacturing base and raising local value added content (LVAC) of resource based exports to at least 40% % from the currently estimated value of 8.62% by 2032
- b) Strengthening institutional frameworks and capabilities for industrial policy design and implementation ;
- c) Strengthening R&D, Technology and Innovation capabilities to foster structural transformation of the manufacturing sector and industrial upgrading;
- d) Expanding trade in manufactures by increasing (i) intra regional manufacturing exports relative to total manufactured imports in to the region to at least 25% by 2032 and (ii) increasing the share of manufactured exports relative to total merchandize exports to at least 60% from an average of 20 percent; and
- e) Transforming Micro Small and Medium Enterprises (MSMEs) into viable and sustainable business entities capable of contributing to at least 50% of manufacturing GDP up from 20 percent base rate.

Successful implementation of the Strategy presupposes sustained regional convergence, in accordance with the EAC Common Market agenda. Given the challenges that stand in the way of a fully integrated EAC Common Market, risks to strategy implementation remain significant.

Non Tariff Barriers (NTBs) remain pervasive; soft and hard infrastructure is inadequate and inefficient; supply side constraints remain significant; the legal and regulatory regime is weak.

While the region has attained a level of socio-economic convergence, achieving full macro-economic convergence with regard to key macro-economic variables such as inflation, interest rates, etc remains a challenge.

The EAC Industrialisation Strategy identifies six strategic regional industries in which the region has potential comparative advantage:

- i. Iron-ore and other mineral processing;
- ii. Fertilisers and agrochemicals;
- iii. Pharmaceuticals;
- iv. Petro-chemicals and gas processing;
- v. Agro-processing; and
- vi. Energy and Bio-fuels.

The strategic regional industries will be promoted through collaborative efforts among the Partner States and the private sector. The industries are expected to contribute towards attainment of the regional goals on increased and sustained economic growth; employment creation and enhancing industrial and production linkages within the region.

The development of strategic regional industries is also expected to ensure diversification of the industrial base and stimulate value addition of local resources in the region; promote upgrading of production structures; address trade imbalances; and ensure increased intra-EAC trade as well as export expansion.

The EAC Industrialisation Strategy outlines several interventions through which the region will realise its expressed goal of enhanced competitiveness, economic transformation and higher quality of life for East African citizens. The broad strategic interventions include;

- a) Prepare action plans and or master plans to support the development of strategic regional industries/value chains;
- b) Formulate mechanisms to operationalise Regional Industry Promotion and Award Scheme to support investments into the priority basic industries;
- c) Strengthen investment environment for value addition including setting up minimum value addition requirements; and attract investments into the priority value chains;
- d) Support enhanced product (manufacturing) quality, certification and product conformity to regional and international standards;
- e) Enhance capacity for industrial policy design, formulation, implementation and monitoring at national and regional levels;
- f) Support the development of a framework for Public Private Partnerships (PPPs) to ensure collaboration in establishment of regional industries;
- g) Build and sustain the capacity to generate data and information needed to support industrial diagnosis and competitiveness evaluation;
- h) Institute measures to increase demand for locally manufactured goods including regional branding strategies; and
- i) Institute measures to increase export of locally manufactured goods including setting regional free zones and special economic zones.

In addition, the Strategy outlines four pilot projects that will give effect to a coordinated region-wide approach in implementing the above interventions. Of particular importance are the development corridors and spatial development pilot initiatives, sector clustering and agglomeration projects.

The EAC Industrialisation Strategy will be implemented through policy guidance of the proposed Sectoral Council on Industrialisation, supported by technical teams convening under the proposed Sectoral Committee on Industry.

The EAC Secretariat through the Industrial Development Department will be the focal point to facilitate implementation of the decisions of the EAC Policy Organs including the Summit, Council of Ministers, and the Sectoral Council on Industrialisation.

To expedite the industrialisation efforts within the region, the Department will be strengthening to execute the following addition functions:

- **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.
- **SME Development Function:** Main activities will include supporting industrial competitiveness initiatives through promoting SMEs, providing 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.
- **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, mobilizing 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, carryout out research and technology brokerage and commercialization 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.

Implementation of the EAC Industrialisation Strategy will be guided by the ten principles including the need for equitable industrialisation, the need to strengthen and exploit policy synergies, promote targeted industry value chains and promote industrialisation on the basis of comparative and competitive advantages of the region, among others.

The EAC Strategy will be funded through several initiatives, including setting up a regional industrial fund within the framework of the EAC Development Fund, PPPs, development partners, foreign direct investments and portfolio investments and the EAC financial and capital markets.

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LIST OF ACRONYMS AND ABBREVIATIONS

AIDA	Action Plan for Accelerated Industrial Development of Africa
AGOA	Africa Growth and Opportunity Act
AU	African Union
AUC	African Union Commission
BOT	Build-Own-Transfer
CAGR	Compounded Annual Growth Rate
CAMI	Conference of African Ministers of Industry
CET	Common External Tariff
CEOs	Chief Executive Officers
CGFT	Credit Guarantee Fund Trust
CHP	Combined Heat and Power
CIP	Competitive Industrial Performance Index
CMP	Common Market Protocol
COMESA	Common Market for East and Southern Africa
COMTRADE	Commodity Trading Statistics Database of the UN
DESA	Department of Economic and Social Affairs
EABC	East Africa Business Council
EAC	East African Community
EADB	East Africa Development Bank
EACSO	East African Common Services Organisation
EDZ	Economic Development Zone
EPZ	Export Processing Zone
EU	European Union
FBu	Franc Burundais
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GNP	Gross National Product
HRD	Human Resource Development
IDD	Industrialisation Development Department
IIDS	Integrated Industrial Development Strategy

IMCF	Inter-Ministerial Coordinating Forum
IMF	International Monetary Fund
IP	Intellectual Property
IPAs	Investment Promotion Agencies
IPC	Industrial Promotion Centre
IPR	Intellectual Property Rights
ISI	Import Substitution Industrialisation
ISIC	International Standard for Industrial Classification
ISO	International Standard Organisation/Industry Support Organisation
ITC	International Trade Center
LDCs	Least Developed Countries
LVAC	Local Value Added Content
M&E	Monitoring and Evaluation
ME pc	Manufactured Exports per capita
MVA pc	Manufacturing Value Added per capita
MEMD	Ministry of Energy and Mineral Development
MFCF	Manufactured Fixed Capital Formation
MOAFC	Ministry of Agriculture, Food and Cooperatives
MFN	Most Favoured Nation
MHT/MVA	Medium - High Technology in Manufacturing Value Added
MSMEs	Micro, Small and Medium Enterprises
MT	Metric Tonnes
MVA	Manufacturing Value Added
NTBs	Non Tariff Barriers
NGO	Non Government Organisation
OVOP	One Village One Product Programme
PPP	Public Private Partnerships
R&D	Research and Development
RCA	Revealed Comparative Advantage
RECs	Regional Economic Communities
RIPC	Regional Industrial Promotion Centre
RTCE	Regional Technical Centres of Excellence

RVCRT	Regional Value Chain Round Table
SADC	Southern Africa Development Community
SAP	Structural Adjustment Programmes
SDIs	Spatial Development Projects
SEZs	Special Economic Zones
SIDO	Small Industries Development Organisation
SIDP	Sustainable Industrial Development Policy
SOSUMO	Sugar Company of Moso
SPS	Sanitary and Phytosanitary Measures
SSA	Sub-Sahara Africa
SRIPS	Strategic Regional Industry Promotion Scheme
STI	Science, Technology and Innovation
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial and Development Organization
USA	United States of America
USD (US\$)	United States Dollar
WB	World Bank
WTO	World Trade Organization

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DEFINITION OF KEY TERMS

Industrialization: The process in which a society or country transforms itself from being predominantly an agricultural economy and a producer of primary commodities to an economy largely driven by manufacturing of goods and services. Individual manual labour is often replaced by mass production, and craftsmen are replaced by assembly lines¹. Characteristics of industrialisation include the use of technological innovation to solve problems, as opposed to dependence on factors outside human control, such as weather. Other characteristics include more efficient division of labour and faster economic growth.

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

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

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

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

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

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

Manufacturing Value Added (MVA) per capita: MVA per capita gives a measure of the capacity for production of manufactured goods while taking account of country size.

¹ Source: <http://www.investopedia.com/terms/i/industrialization>

1.0 BACKGROUND AND CONTEXT

The EAC Summit directed the Secretariat to formulate an East African Industrial Development and Investment Strategy supported by an effective institutional decision making framework, aimed at promoting equitable industrial development in the region. Following months of consultative process with key stake holders at regional and national levels, including the public and private sectors and civil society organizations, the EAC Industrialization Strategy and Policy were prepared and approved by Summit in 2011 in Bujumbura Burundi.

The development of the Policy and Strategy is anchored in the EAC Treaty (Articles 78 and 80), and the Common Market Protocol (Article 44), which recognise the need for regional cooperation in the field of industrial development.

Specifically, the Treaty states:

“Partner States shall take steps in the field of industrial development that will: a) promote self-sufficiency and balanced industrial growth; b) improve the competitiveness of the industrial sector so as to enhance the expansion of trade in industrial goods within the Community and the export of industrial goods from the Partner States in order to achieve the structural transformation of the economy that would foster overall socio-economic development in the Partner States; and c) encourage the development of indigenous entrepreneurs”.

The Common Market Protocol calls on Partner States to adopt common principles to:

- a) Promote linkages among industry and other economic sectors within the Community;
- b) Promote industrial research and development, transfer, acquisition, adaptation, and development of modern technologies;
- c) Promote value addition and product diversification to improve resource utilisation;
- d) Promote sustainable industrial development that includes environmental protection, management, and efficient resource utilisation;
- e) Facilitate the development of SMEs, promote indigenous entrepreneurs;
- f) Promote knowledge-based industries; and
- g) Disseminate and exchange industrial and technological information, among others.

Under the Protocol, the EAC Council of Ministers is empowered to issue directives to give effect to implementation of projects and programmes, under industrial development, including among others:

- i. the implementation of an East African Industrial Development Strategy;
- ii. the promotion of new technologies and the infrastructure necessary for industrial development;
- iii. the improvement of quality and technical regulatory infrastructure to ensure compliance of industrial products to standards and technical regulations;
- iv. the establishment of physical infrastructure for industrial development including industrial parks and special economic zones;
- v. the establishment of a regional mechanism for developing human capacity for industrial and technological advancement;
- vi. regional support for Public Private Partnership and Civil Society dialogue;
- vii. the development of a regional mechanism to provide sustainable and affordable industrial development finance; and

- viii. Support for the development of a regional productive base for capital, intermediate goods and tools.

1.2 Scope of the EAC Industrialisation Strategy

In this Strategy document, the definition of industry is confined to the manufacturing sector, excluding other industrial sectors such as construction, utilities, and mining. This will ensure more focussed attention to the manufacturing sector which is considered as the centre-piece for any industrialization strategy. The strategy however provides mechanism for synergizing with the other complementary sectors.

The United Nations International Standard Industrial Classification (ISIC), Rev.3.1, on manufacturing has been adopted for purposes of identifying priority areas of focus for the Strategy. Table 1 below outlines the relevant areas of focus, based on ISIC categorisation;

Table 1: ISIC Codes on Manufacturing

ISIC Code	Category
10/11/12	Manufacture of food products, beverages and tobacco products
13/14	Manufacture of textiles, wearing apparel
15	Manufacture of leather and related products
16/ 31	Manufacture of straw, wood and cork products, furniture
17	Manufacture of paper and paper products
18	Printing and reproduction of recorded media
19	Manufacture of coke and refined petroleum products
20	Manufacture of chemicals and chemical products
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations
22	Manufacture of rubber and plastics products
23	Manufacture of other non-metallic mineral products
24	Manufacture of basic metals
25	Manufacture of fabricated metal products, except machinery and equipment
26	Manufacture of computer, electronic and optical products
27/ 28	Manufacture of electrical equipment, machinery and equipment
29/30	Manufacture of motor vehicles, trailers, semi-trailers and transport equipment
32/35	Other manufacturing and energy

Source: United Nations

1.3 Guiding Principles in Formulating the Industrialisation Strategy

The development of the EAC Industrialisation Strategy (2012 – 2032) has been anchored in the industrial strategies of the five Partner States, adopting, where appropriate, the strategic priorities of the Partner States.

The development of the Industrialisation Strategy has also been informed by and aligned with the Pan-Africa wide industrialization initiative- The Strategy for the Implementation of the Plan of Action for the Accelerated Industrial Development of Africa (AIDA), 2008 (The AIDA Strategy).

The Strategy takes note of the strategic documents of other regional blocs, including the Southern Africa Development Community (SADC), and the Common Market for East and Southern Africa (COMESA).

Most importantly, the development of the Strategy was informed by consultations with key stakeholders at the regional and national levels, including civil society, the public and private sectors.

The East African Industrialisation Strategy is informed by the following guiding principles:

Principle 1: Enhancing equitable industrialisation in the region: Equitable development will be achieved through a framework that promotes knowledge sharing and provides for equitable sharing of tax benefits² 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.

Principle 2: Strengthening and exploiting policy synergies between the Industrial Policy and other sectoral policy instruments: Successful industrialisation will depend on ensuring coherence in implementation of the various sectoral policies and instruments which impact on industrialisation including application of a Common External Tariff and Customs Union instruments; implementation of the Common Market Protocol; harmonisation of taxation and management of taxes; removal of Non-Tariff Barriers (NTBs); and harmonisation of standards.

Principle 3: Promoting strategic dialogue between the public and private sector: This will be undertaken to facilitate inclusive participation based on the principle of competitive partnerships and ensure effective and sustainable industrialisation.

Principle 4: Strengthening industry 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 them up with global markets and value chains.

Principle 5: Promoting strategic targeted regional industry value chains with widespread linkages and economic benefits extending across the region. The rationale for promoting value chains in strategic target industries is that the targeted industries will deliver significant benefits for the entire region thus enabling Partner States to move towards development convergence.

Principle 6: Promoting industrialisation on the basis of comparative and competitive advantage. East Africa's comparative and competitive advantage is underpinned by three main factors, namely:

- i. Factor endowments; includes natural resources, human capacity, and finance.
- ii. Business climate; includes factors such as infrastructure, policy environment, institutions, public administration, and the availability of supporting services.
- iii. Dynamic scale economies; refers 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.

Principle 7: Enhancing skills and knowledge for industrialisation: Successful industrialisation will depend on building necessary human resource development for industrial transformation, and employment as well as entrepreneurship. The creation and strengthening of the region's capacity for innovation, and effective application of science and technology in industry will be instrumental to industrialisation in the region. Entrepreneurship and innovation will be critical to the EAC's industrial competitiveness.

Principle 8: Ensuring that the regional Industrialization 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: The implementation of the EAC Industrialisation Strategy will take into account relevant national, regional,

² 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

and international standards for safety, health, and environmental protection, and will implicitly incorporate national ,regional and international commitments to gender equality, workers' rights, and other relevant conventions.

Principle 9: Market-led approach to industrialisation: 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.

2.0 STRATEGIC REVIEW

2.1 Lessons from Previous Industrialisation Strategies in East Africa

Initial post independence industrialisation efforts in East Africa and most of Africa sought to achieve self reliance and quickly transform countries from agricultural to industrial societies. The strategies were premised on optimistic views of prospects for industrial transformation and were characterised by a focus on import substitution and subsequently, export-led industrialisation.

East Africa has a long history of cooperation in social and economic spheres dating back to pre-independence times. Immediate post independence cooperation was oriented towards provision of common services under the East African Common Services Organization (EACSO), the predecessor to the initial East African Community (1967-1977).

In 1967, Kenya, Uganda and Tanzania entered into a treaty to consolidate and strengthen cooperation. Under the previous East African Community, the three countries singularly and jointly pursued Import Substitution Industrialisation (ISI) strategies. ISI sought to substitute externally produced goods and services with locally produced goods.

Import substitution was a common approach among emerging economies in the 1950s and 1960s as an industrialisation strategy to promote economic independence and to lay a foundation for entry into high value added manufacturing.

The region initially focused on the manufacture of low technology consumer items with the expectation that subsequent industrialisation efforts would focus on production of intermediate goods and ultimately the manufacture of sophisticated capital goods.

Industrialisation was characterised by strong direct government participation through state-owned enterprises in manufacturing and distribution and high levels of industrial regulation pursued through industrial licensing.

The 1967 treaty for East African cooperation unsuccessfully sought to mitigate imbalances in levels of industrialisation and intra-regional trade in goods and services. Redistributive measures included direct allocation of industries and the creation of the EAC Development Bank to support industry and investment in the region. Tanzania and Uganda, which were considered to be disadvantaged members of the EAC, were each expected to secure 38.75% of EADB investments as opposed to Kenya's 22.5%.

Under a tax transfer system, industries of less developed members were protected by imposing a tariff on imports from a country with which it had a trade deficit. There were also regulations to encourage industries in Uganda and Tanzania, but location advantages and the more business-friendly environment pulled most of the investors to Kenya.

The demise of the Community in 1977 reflected a collective failure by the region's leadership in addressing cooperation challenges. Specifically, there was lack of political will to address a range of issues at the core of regional disharmony including: ensuring broad based buy-in and commitment among key stakeholders to sustain regional cooperation, effectively addressing the issue of intra-regional trade imbalances, and resolving the inequality challenge with regard to sharing the benefits of regional integration, macroeconomic disharmony and failure to coordinate key economic policies, including the industrialisation policy. The main challenges faced by the EAC (1967-1977) in promoting industries stemmed from:

- a) Significant divergence in the EAC Partner States development paths whereby Kenya pursued a market-oriented approach while Tanzania, and to some extent Uganda, sought to build their economies on socialist foundations.

- b) The global economic shocks of the early 1970s, including the end of the Gold Exchange Standard which resulted in global monetary instability, and the 1973 international oil crisis which resulted in high global energy prices. These shocks had a negative impact on the regional economy thereby constraining the region's industrialisation through ISI.
- c) Attempts to redistribute the economic and industrial benefits of regional integration through administrative and direct regulatory interventions, such as regional allocation of industries, industrial licensing, variable trade tariffs, were inherently unsustainable.

The late 1970s and the 1980s witnessed a shift in East Africa's approach to industrialisation. In the face of the collapse of the original EAC, an unfavourable global environment, and regional political, social and economic disharmony, the East African countries sought to minimise direct government intervention in industry and to encourage export oriented manufacturing.

The change in direction was primarily prompted by a number of exogenous factors including the international oil crisis of the early 1970s and the region's inability to sustain strong direct state interventions as the primary path to enable economic development. The 1980s and 1990s were characterised by the pursuit of Structural Adjustment Programs (SAPs) which ushered in a period of state retreat from industrialisation - a consequence of external interventions by the Bretton Woods institutions, namely the IMF and World Bank.

In the absence of a structured regional cooperation and coordinated industrial development policy and strategy, country specific industrial policies sought to put in place conducive conditions for the emergence of private sector-led industry including:

- i. Deregulation of the economies to make the regulatory regimes less invasive;
- ii. Privatisation of state-owned enterprises and cut back in the direct role of the state;
- iii. Elimination of government subsidies primarily targeted at state owned enterprises;
- iv. Devaluation of currency in part to make export of goods and services more attractive.

The SAPs exposed the domestic manufacturers, who had hitherto been significantly shielded from external competition, to competitiveness pressures. Many state-owned enterprises which depended on state subsidies, could not sustain previous levels of production.

However the SAPs, without addressing business constraints such as weak infrastructure, limited access to finance, and administrative barriers, did not achieve their declared goal of a restructured and increasingly competitive manufacturing sector.

In the 1990s and more recently, the region's industrialisation policies have been strongly influenced by issues of debt relief and poverty reduction efforts and the need to ensure that debt savings benefit the poor.

At the insistence of development partners, significant resources have been targeted at social sectors, such as health, often at the expense of the region's infrastructure and productive sectors. Critical appraisal of the region's poverty reduction efforts has now resulted in the prioritisation of support for the region's production sectors, including manufacturing.

Unlike in the 1960s and 1970s, when ideological differences contributed to derailing the integration process, the EAC Partner States now pursue market-driven development agendas. The EAC Industrialisation Strategy also aims at ensuring equitable industrial development among all the Partner States. The Strategy has to sustain an intricate balance among all the Partner States since the key socio-economic indicators are similar. The region has also adopted a people-centered approach to integration in order to ensure that all key stakeholders actively support and champion industrialisation and other development efforts.

2.2 Lessons from previous industrialisation strategies in Africa

African industrialisation strategy initiatives have included the Industrial Development Decade of Africa I IDDA I (part of the Lagos Plan of Action (1980 – 2000), and IDDA II, whose main thrust was the redefinition of the roles of the State and of the private sector, and the new emphasis on the role of Regional Economic Cooperation (REC) in promoting industrialisation.

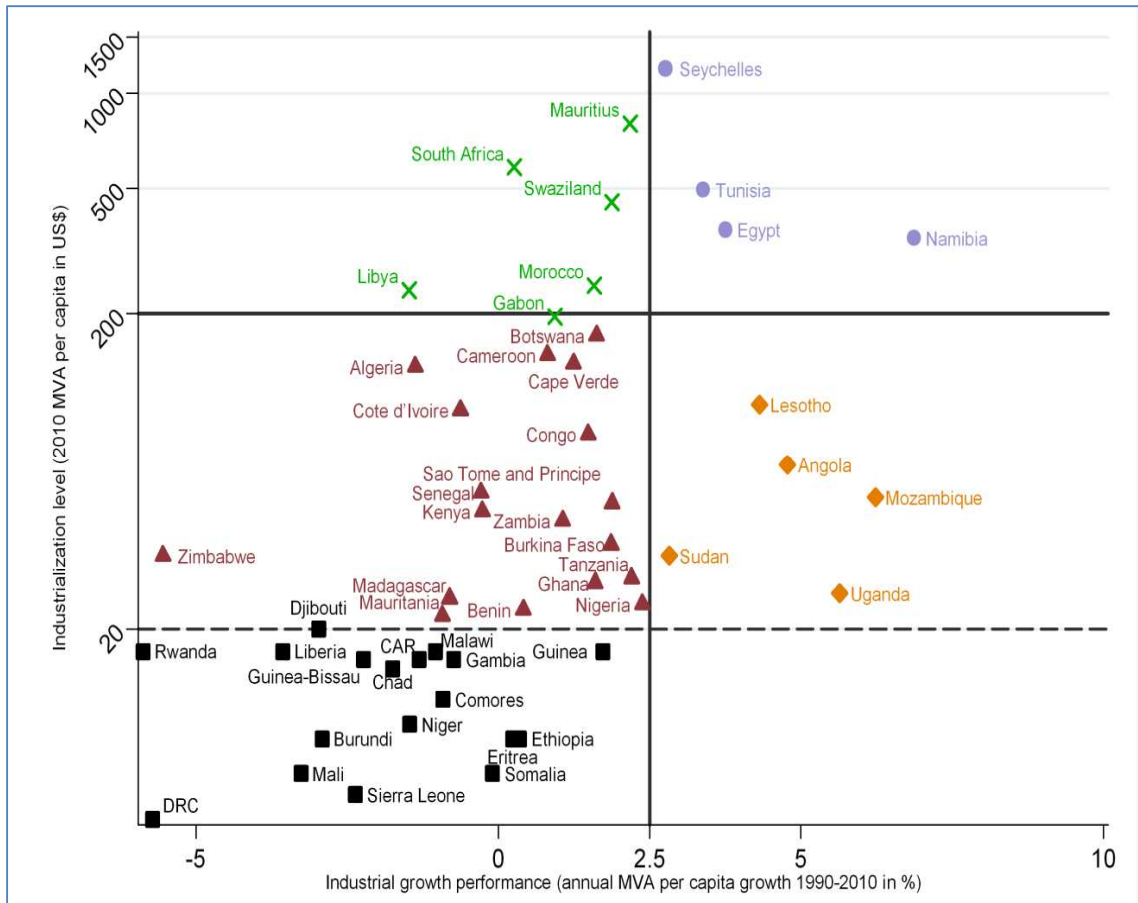
Many production and trade indicators attest to the fact that Africa still lags behind the rest of the world in industrial development. The continent’s share of global manufactured fixed capital formation (MFCF), manufacturing value added (MVA) and manufactured exports (ME) are extremely low, falling behind its share of the global population (of around 18%) and virtually stagnating (African Union; 2010).

African economies have the smallest share of manufactured to merchandise export ratio, which was 17.8% in 2006. The comparable ratios for American developing economies, Asian developing economies, and all developing economies in the same year were 46.4%, 70.4% and 62.8%, respectively. The ratio for developed economies and the global average ratios were 76.3%, and 69.3%, respectively.

Furthermore, Africa’s manufactured exports per capita (ME p.c.) and MVA p.c. are very low, compared, for instance, to those of the developing economies in East Asia (UN 2008 Report).

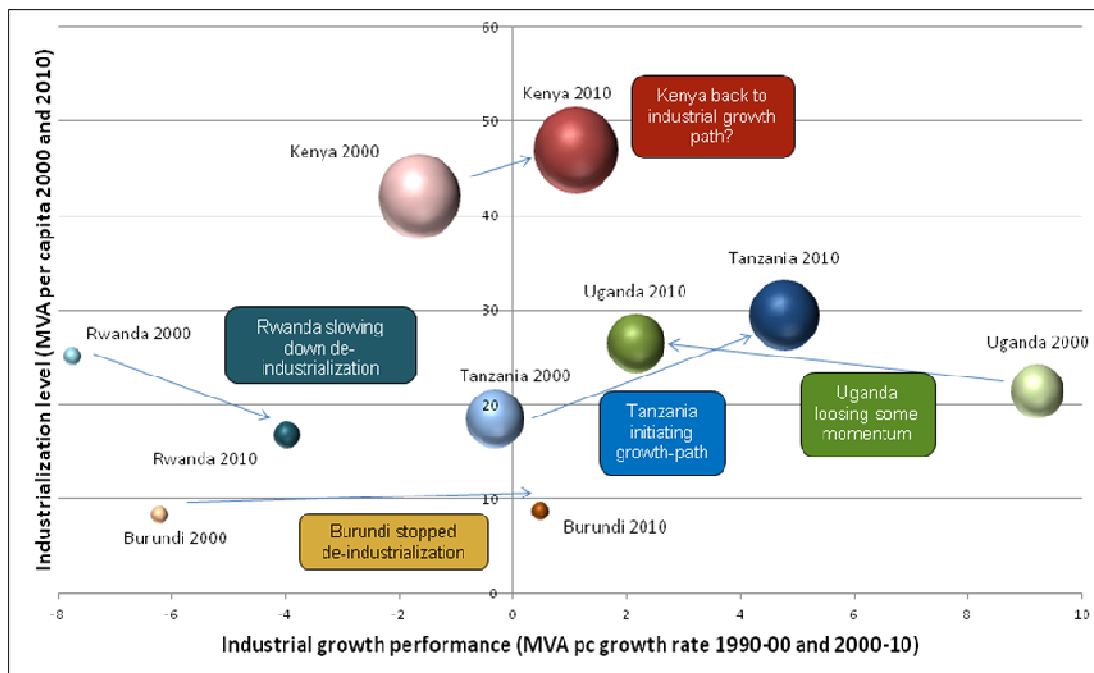
Fig.1 below shows levels of industrialisation in Africa.

Fig 1: Levels of industrialisation and industrial growth performance in Africa



Source: UNIDO; 2010

Fig 2: Status of Industrialisation in East Africa



Source: UNIDO; 2010

In general, the strategies pursued by African states to industrialise their economies in order to achieve economic transformation and diversification realised limited success. The following are the key lessons learned from earlier industrialisation efforts:

- Industrialization strategies were often not formulated as part of a co-ordinated approach including trade, investment and infrastructure. It has generally been agreed that a multi-pronged approach is essential for success.
- Earlier policy focus was often on delivering support to individual enterprises, especially parastatal companies, than on their efficiency and profitability. It has become widely understood that the responsibility of the State should be mainly to provide the foundation for a competitive private sector through appropriate policy direction, well functioning institutions, a strong regulatory framework, sound infrastructure, investment in knowledge and skills, provision of public goods, and sustainable incentives regimes.
- While external factors had a strong bearing on the performance of industry in Africa, structural factors, including quality of hard and soft infrastructure, market size and effective demand for products and services and weak skills base, played a major role. Experience has also shown that lack of infrastructure is generally the most limiting factor to the development of the manufacturing industry. It is therefore incumbent on governments to ensure that new industrial strategies and policies address these constraints.
- Successful industrialisation requires local ownership and championship. Championship of industrialisation, including design and implementation of industrialisation policies and strategies, should however not just be a preserve of governments but should involve all key stakeholders. The relationship among key stakeholders is best intermediated by competitive partnerships championed by the public and private sectors. Close engagement with the private sector will ensure that policy design is sensitive to issues and constraints enterprises face.
- Growth of the manufacturing sector can best be promoted alongside, and not at the cost of, the development of agriculture and services. In all the successful industrialising countries in Asia,

the first step on the path to industrialisation was a rapid increase in agricultural productivity and output. The continent's current resource endowment and stage of development suggests that agriculture will be the key economic sector, supporting livelihoods, contributing to food security and earning foreign exchange in the immediate future and over the medium term.

- f) Political stability is a necessary condition for industrialisation. Political instability undermines the basis for investment, both domestic and foreign, and is often associated with destruction of infrastructure.

Despite the major constraints faced on the economic transformation path, Africa has demonstrated resilience and renewed determination to overcome the challenges. At the pan-African level, the Action Plan for the Accelerated Industrial Development of Africa (AIDA) has been agreed upon by the Africa Heads of State and Government and a strategy to implement the action plan formulated and endorsed by the Conference of African Ministers of Industry (CAMI). The Plan identifies key priorities that need to be addressed at national, regional, and continental levels in order to promote coherent industrial development. Priorities identified included;

- i. Product and export diversification
- ii. Mobilisation of resources for regional infrastructure and heavy industries; establishment of an industrial development fund for infrastructure and heavy industries
- iii. Natural resources management and development
- iv. Establishment of strong linkages between industry, and national and regional science and technology centres of excellence and research institutions
- v. Human capital development and sustainability
- vi. Facilitation of joint cross-border industrial enterprises and intra-regional trade within the framework of value chains
- vii. Development of standards and compliance
- viii. Development of legal, institutional and regulatory framework
- ix. Provision of incentives to African Diaspora experts in science and technology to contribute to national industrial development

The AIDA Strategy has been adopted by RECs in Africa including the EAC, and the region seeks to develop and implement a set of activities and measures, at regional and national levels, targeted at industrial development in each of the above areas of priority.

2.3 Review of the Industrial Development Strategies in Partner States

The section below reviews the current industrialisation strategies pursued by individual EAC Partner States and the linkages with national development plans.

2.3.1 Overview of the Industrial Strategies

The current industrial strategies of all five Partner States are premised on market-based approaches, which see the governments as facilitators and enablers of the industrialisation process. The approaches emphasise the role of government as the policy maker, as a provider of public goods, and as a creator of a suitable enabling environment within which the private sector can engage in business.

Specifically, the Government as the facilitator and enabler of industrial development addresses issues such as: the malfunctioning markets, including correcting for externalities and failures; enhancing the technology base and investing in human capital; and providing information and infrastructure needed by the private sector to become more competitive, through efficiency improvements and innovation.

Table 2 summarises the key characteristics of the national industrialisation strategies of the five Partner States. Clearly, a number of commonalities can be identified in national industrialisation strategies, all aiming at enhancing the business environment and the institution of an appropriate framework that will ensure an industrialisation process led by the private sector.

Table 2: Market Based Measures of the EAC Industrialisation Strategies

Market-based measures	Kenya	Uganda	Tanzania	Rwanda	Burundi
Research and Development	+	+	+	+	+
Skills and Human Resources Development	+	+	+	+	+
Physical Infrastructure for Industrialisation	+	+	+	+	+
Supporting Market Development Ability (Both Domestic and Export)	+	+	+	+	+
Infrastructure provision for Special Economic Zones	+	+	+	+	+
Improving Regulatory and Legal Framework	+	+	+	+	+
Institutional Support and Development	+	+	+	+	+
Raw Materials and Industrial Input	-	-	-	+	-
Environmental Sustainability	+	+	+	+	+
Energy Development for Growth	+	+	+	+	+
Standards and Quality Infrastructure	+	+	-	+	+
SME Development	+	+	+	+	+
Promotion of Targeted Sub-sectors	+	-	+	+	-

Source: Compiled by Consultant. Note: + means that the measure is espoused; - means the measure is not espoused

2.3.1.1 Synopsis of Selected Key Areas of Focus in the Industrial Strategies

A recent and special area of focus in all the industrial strategies is the development of special economic zones (Table 2); which are geographic concentrations of interconnected enterprises and associated support institutions. Within these zones, infrastructure – roads, power, water, sewerage - is provided, thus easing the most binding constraints faced by manufacturing firms generally. In addition, the special economic zones are fertile environments for the development of inter-firm linkages, as spatial proximity and shared business interest facilitate collaboration.

Tanzania's Integrated Industrial Development Strategy 2025, for example, outlines a number of strategies for the development of economic zones, including the merger of the country's current two economic zones (the Export Processing Zone and the Special Economic Zones) to form the Economic Development Zone (EDZ). The EDZ will be developed at the water front of each development corridor, including the Bagamoyo, Mtwara and Tanga.

In Kenya, given the heterogeneity of the country, which makes different regions suitable for different types of industrial and manufacturing activities, region-specific industrial and manufacturing clusters are to be promoted, including providing them with necessary infrastructure and services to stimulate development. An initial pilot site will be set up in Mombasa to allow for easy importation of necessary raw materials and exporting of finished goods.

In Uganda, special economic zones are to be established through the development of industrial parks and through the proposed institutional mechanism to promote and coordinate the “One Village One Product” (OVOP) Programme.

In Rwanda, the industrial strategy outlines a number of measures that will encourage industries to locate in industrial parks and special economic zones to benefit from centralised industrial waste management systems.

Another area of focus in the Partner States’ industrial strategies is the promotion of sectors or sub-sectors with high growth potential. In Kenya, Tanzania and Rwanda, unlike other Partner States, the strategies direct the governments to target sub-sectors, where the countries enjoy comparative advantage. Examples include agro-based industries such as textiles, processing of horticultural products, hides, skins and leather, tea, coffee and sugar. The national strategies also target the processing of iron and steel and petrochemicals.

In Kenya, Rwanda and Uganda, the strategies further stress the importance of standards and quality infrastructure, to promote product quality and to help deal with the challenges of competition from sub-standard and counterfeit goods; illicit goods and illegal trade.

In Kenya, for example, a number of industries have collapsed or are on the verge of collapsing due to counterfeiting and piracy. Textile and dry cell manufacturers are cases in point. (EAC Inception Report on the Counterfeit Policy; 2008).

2.3.1.2 Linkage between the Industrial Strategies and National Development Plans

The vision statements of national industrialisation strategies are anchored in the long term development goals of the respective EAC Partner States governments.

Uganda: In Uganda, the industrial sector occupies a central position in the Government vision geared towards economic and social transformation. The vision of the strategy is an industrial sector that is modern, competitive, dynamic, and fully integrated into the domestic, regional and global economies.

Uganda aims to achieve 25% contribution of manufactured products to total GDP and 30% contribution of manufactured exports to total exports by 2015. Contribution of manufactured products to GDP during the last five years has averaged 6.6% (Background to the Budget; 2011).

Kenya: The country’s Vision 2030 identifies the industrial sector as a key growth driver because industry enjoys strong forward and backward linkages with other important economic sectors such as agriculture; offers high prospects for employment creation; acts as a catalyst for technology transfer and attraction of FDI; offers high prospects for deepening Kenya’s drive to integrate further into the regional and global economy; and provides significant foreign exchange earnings to the Kenyan economy. Kenya targets a sustained industrial sector growth rate of at least 15% per annum by 2017. The sector grew by 3.6% in 2008 and 2.0% in 2009 (Kenya Industrial Policy; 2010).

Tanzania: The Integrated Industrial Development Strategy 2025 (IIDS 2025) was developed to implement the objectives of the Sustainable Industrial Development Policy 1996 – 2020 (SIDP³ 1996 – 2020) and realise the targets stipulated by the Tanzania Development Vision (TDV) 2025.

³ The SIDP declares the government decision to phase the public sector out of production activities and let the private sector be the principal vehicle for economic growth.

The Vision 2025 recognises the leading role of the industrial sector in the process of transforming the nation from a least developed country to a middle income country and diversification from a weather and market depending economy to a self-sustainable semi-industrialised one by 2025. The country targets an average annual growth rate of 15% for the manufacturing sector. Between 2003 and 2008, the sector did register commendable growth rates, ranging between 8.5% and 9.9% (IIDS; 2025).

Rwanda: In Rwanda, the broad goals of the Industrial Policy and Strategy are those outlined in the Vision 2020 and the Economic Development and Poverty Reduction Strategy (2008 – 2012). These include promoting the growth of the economy with a target of becoming a middle income country by 2020.

Rwanda's target is for the industrial sector to account for 26% of GDP by 2020, national investment rate to reach 30% of GDP, and non-farm employment to reach 1.4 million. It is worth noting that the manufacturing share of GDP has declined from 20% in 1980 to 12% in 2001, where it has remained since (UNIDO; 2008).

Burundi: Burundi's industrial policy and strategy for industrial development has targeted agriculture as the key sector driving economic growth. There have been efforts to develop a national industrialisation policy and strategy to guide the industrialisation process targeting the following aspects:

- a) The creation of an enabling environment for the private sector
- b) Improving infrastructure
- c) Legal and regulatory framework
- d) Increased access to finance
- e) Strengthening of private and public institutions

Currently, the contribution of industry to the GDP of the EAC region is estimated at about 19.2%, of which, 8.9% is generated by manufacturing (UNIDO; 2011). This level of contribution is low in relation to the average target of about 25% for the EAC Partner States.

Based on an assumed GDP growth rate of 6%, the rate of industrial growth needs to be 11.7% to achieve a manufacturing GDP contribution of 25% within 20 years. This goal is achievable provided there is sufficient commitment from the Partner States to adequately implement their current proposed strategies.

2.4 Economic Situation and Challenges Facing Industrialisation in the EAC

The current economic context and the challenges facing industrialisation in the East African Community are elaborated below.

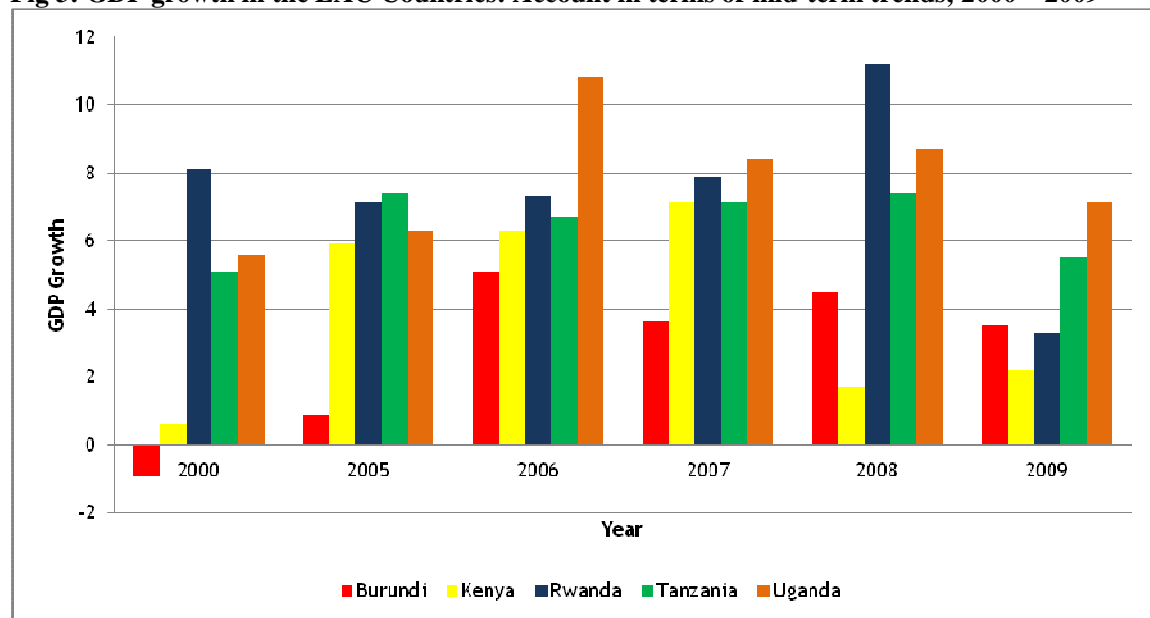
2.4.1 The Current Economic Situation in the EAC

The impressive growth and expansion of the economies of EAC Partner States registered over the past decade or so has created an optimistic backdrop against which the region's industrialisation efforts are being pursued. Economic growth of the EAC region has been faster than in the rest of Sub-Saharan Africa since 2005 and almost doubled the rates achieved in the previous 15 years (IMF, 2011).

The collective GDP (at current prices) of the five EAC Partner States stands at USD 74.5 billion (EAC Secretariat; 2011). However, the region's sustained economic expansion continues to be challenged by a number of international economic shocks including the 2008 global economic and financial crisis, mainly characterised by instability in international financial flows and bank lending.

Despite the recent global economic crisis, Tanzania, Rwanda and Uganda have been ranked among the top 20 fastest growing economies in the world for the past five years with annual per capita growth averaging close to 4% over the past six years. Uganda recorded its highest growth at an average of 6.9% while Tanzania and Rwanda have expanded rapidly since the early 2000s (Fig. 3).

Fig 3: GDP growth in the EAC Countries: Account in terms of mid-term trends; 2000 – 2009



Source: The World Bank; 2011

According to the African Economic Outlook, the region is expected to lead growth on African continent by registering a 6% growth in the period 2011/2012. However, for the region to achieve its objective of attaining middle-income status within the next 20 years, it must sustain growth rates of 8.5% or higher (IMF; 2011).

Table 3 shows key economic indicators for the EAC region.

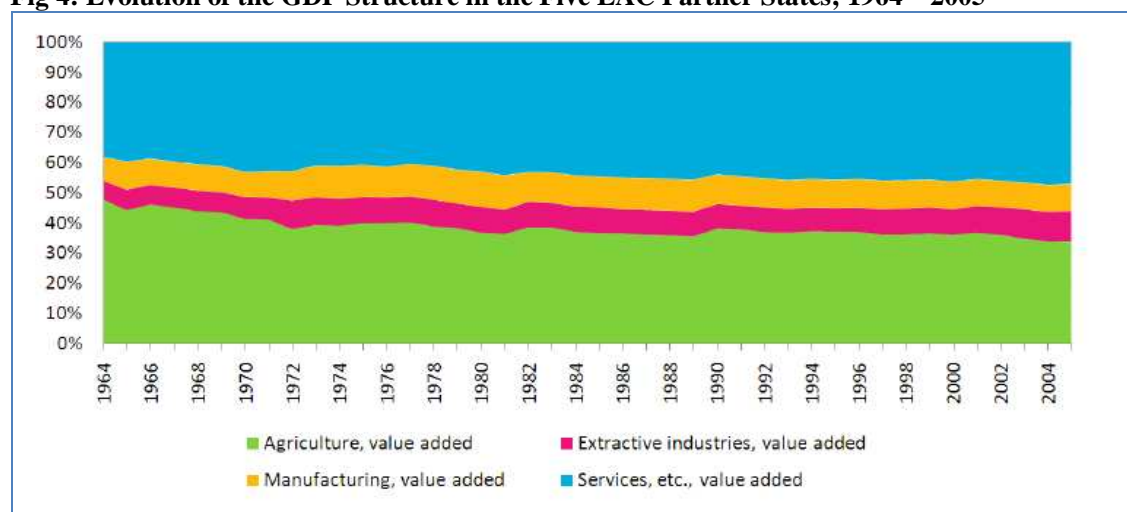
Table 3: Macroeconomic Trends in the EAC Countries; 2008

Macro-economic Parameters	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (in billions, constant 2000 US\$)	0.9	17.6	3.0	15.4	10.9
GDP growth (annual %)	4.5	1.7	11.2	7.4	8.7
GDP per capita growth (constant 2000 US\$)	111.3	453.2	313.2	372.9	344.9
Merchandise trade (% of GDP)	1.4	-1.0	8.2	4.4	5.2
Export value index (2000 = 100)	39.4	53.0	31.6	48.9	50.1
Food exports (% of merchandise exports)	64.8	44.2	66.5	37.4	63.0
Food imports (% of merchandise imports)	11.2	11.6	10.3	7.8	13.0
FDI, net inflows (% of GDP)	0.3	0.3	2.3	3.6	5.0
Lending interest rates (%)	16.5	14.0	16.5	15.0	20.5
Real Interest rate (%)	-6.9	0.8	-0.8	4.2	13.2
Domestic credit to private sector (% of GDP)	21.4	30.0		16.0	13.9

Source: *The World Bank; 2011*

EAC countries' growth upturn is for the most part driven by services and extractive activities (UNIDO; 2011). Despite post independence efforts geared at economic structural transformation, regional economic output remains skewed towards relatively low value extractive industry and commodity production.

Extractive industry and commodity production contribute significantly to output and account for a large proportion of GDP. Over the last four decades, the regional economy has relied on the agriculture and mining sectors. However, the region's services sector has continued to gain prominence. The contribution of manufacturing and value addition to the region's economy, including employment generation and wealth creation, remains modest, as illustrated in Fig. 4 (UNIDO; 2011).

Fig 4: Evolution of the GDP Structure in the Five EAC Partner States; 1964 – 2005

Source: *UNIDO, 2011*

The above figure shows that the economies in the EAC continue to be dominated by agriculture although its share in the regional GDP has decreased over time with the contribution of the services sector increasing. Agriculture provides a livelihood to about 80% of the region's population, and is the single largest contributor to the employment in East Africa. The region's agricultural sector produces basic food

and cash crops, including coffee, cotton, tea, sugar, pyrethrum, vanilla, cloves and other spices, horticultural and floricultural products, which are mainly traded with little or no processing.

2.4.2 Challenges to EAC's Industrialisation

Challenges facing industrialisation in the EAC region include:

- (a) Gaps in the governance capacity, as manifested by lack of viable strategies, policies, and systems to guide the industrialisation efforts.
- (b) Institutional gaps, as manifested by lack of strong institutions to provide support services, which are needed to backstop the process of industrialisation.
- (c) Shortages of critical mass of essential resources, 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). There are also shortages of essential industrial skills, due to the underdevelopment of human capital. Besides, critical masses of *technological capacities*, which are needed to catalyse sustainable development, are lacking.

These basic challenges are compounded by small, fragmented, and underdeveloped markets.

To more effectively realise the potential gains from regional economic integration, the EAC Partner States, individually and collectively, are taking measures, though at varying degrees, to address the above challenges, including;

- i. instituting a conducive legal and regulatory framework;
- ii. building quality infrastructure;
- iii. enhancing Research and Development;
- iv. enhancing access to affordable finance;
- v. strengthening political governance;
- vi. strengthening macro-economic stability and policy consistency; and
- vii. enhancing education and skills;

It is also worth noting that several efforts are underway at regional level to address challenges facing industrialisation, through similar measures. In this regard, to limit duplication, the EAC Industrialisation Strategy (2012 – 2032) will only track the progress of the implementation of the above measures.

An Inter-Ministerial Coordinating Forum (IMCF) will be set up at the regional level, charged with following up on progress in implementing the measures, both at national and regional level (elaborated in chapter 9.0). The deliberations and decisions of the IMCF will be forwarded to the Council for consideration.

2.5 Benchmarking EAC Industry to Industrialisation in the Global Context

Knowledge of policies, incentives and programs related to East Africa’s industrial sector, and the global industry, is essential for a better understanding of the factors necessary to grow the region’s industrial sector. Benchmarking regional industry within the global context is essential for appropriate strategy and policy design and implementation. In the context of a regional market that is not fully integrated, responsibility for industrial development primarily rests with EAC Partner States. However, regional integration has enormous potential to contribute to the realisation of regional industrialisation objectives.

The global industrial landscape is constantly changing. Emerging manufacturing industries in Asia, Central and Eastern Europe and South America are increasing competition and forcing existing players to be more efficient. The forces shaping global manufacturing are also at play in East Africa. As a consequence, East African economies are challenged to take proactive steps to reduce the high costs faced by domestic enterprises which largely stem from poor infrastructure and a high regulatory burden, among others.

East Africa’s manufacturing sector comprises major producers as well as MSMEs (see section 2.5.1 on profile of MSMEs in the region) and contributed approximately 9.7% to the region’s GDP in 2008 (UNIDO, 2008).

The share of manufactured products in total exports stands at approximately 32%. Table 4 below compares the contribution of industry to GDP within the EAC and the rest of the world, over the period 1970 – 2008.

It is important to note that world manufacturing as a share of total world GDP has declined from a 26.7% contribution in 1970 to 18.1% in 2008. This decline is attributed to the significant expansion of the global economy which has witnessed the emergence of a strong services sector.

However, performance of East Africa’s industrial sector has been heading in the opposite direction. While industry in eastern Africa contributed to about 3.1% to GDP in 1970, this figure sharply increased to 20.8% in 1990 (Table 4). No significant change has taken place since that time.

Growth in manufacturing in eastern Africa mirrors a similar pattern to that of other developing economies. The sector contributed 1.7% in 1970. This changed to 4.9%, 10.4% and 9.7% in 1980, 2000 and 2008 respectively.

Table 4: Contribution of Industry to GDP over the Period 1970 – 2008

	%share of GDP	1970	1980	1990	2000	2005	2008
World	Industry	36.9	38.1	33.3	29.1	28.8	30.1
	Manufacturing	26.7	24.4	21.7	19.2	17.8	18.1
	Mining & utilities	3.9	7.1	5.2	4.5	5.5	6.2
Dev. economies	Industry	13.1	35.6	35.2	35.5	38.8	40.7
	Manufacturing	6.3	11.9	15.3	12.8	11.6	10.5
	Mining & utilities	4.8	19.3	15.2	18.4	23	25.8
Eastern Africa	Industry	3.1	7.8	20.6	18.6	20.6	20.3
	Manufacturing	1.7	4.9	3.4	10.4	10.3	9.7
	Mining & utilities	0.8	1.5	3.3	3.1	3.6	3.7

Source: World Bank; 2009

2.5.1 Micro, Small and Medium Enterprises (MSMEs)

Micro, small and medium enterprises (MSMEs) account for the majority of industrial jobs but larger enterprises account for a much greater share of Manufacturing Value Added (MVA).

MSMEs are widely represented geographically and in all major sectors of the economy, including the manufacturing sector. MSMEs are also highly diversified by ownership, type of enterprise, number of employees, capital investment and stage of development. It is estimated that MSMEs (engaging 1-20 persons) account for 87% of all enterprises in the region (EABS, 2003). On average MSMEs contribute more than 70% of non-agricultural employment in the region.

The activities in the MSMEs sector are generally characterised by ease of entry and exit, self employment with a high proportion of family workers and apprentices, reliance on locally available resources, small scale of operation with little capital and equipment, high labour intensity, limited adaptation of modern technology, low skill levels, with acquisition of skills mostly outside the formal schooling system, lack of access to organised markets for key resources (financial markets, education and training) and lack of access to supporting services.

2.5.2 Competitiveness of the Industrial Sector

East Africa's industrial sector is also characterized by lack of competitiveness when viewed from a global perspective. UNIDO's Competitive Industrial Performance Index (CIP) which combines four competitiveness benchmarks including industrial capacity, manufactured export capacity, industrialisation intensity and export quality, provides an excellent tool for comparing country and regional competitiveness in industry. Table 5 compares four East African countries: Uganda, Kenya, Tanzania and Rwanda, with four industrialising Asian countries. The regional distribution of CIP rankings captures the global industrialisation pattern where by many Asian countries have rapidly joined the ranks of highly industrialising countries – Asia leads the developing countries of the CIP Index. Sub-Saharan Africa, including all East African countries, lags at the bottom of their rankings.

Table 5: Ranking of Selected Countries by the Competitive Industrial Performance (CIP) Index, 2000 and 2005

Country	Rank 2000	Rank 2005	CIP Index 2000	CIP Index 2005
Rwanda	114	115	0.101	0.116
Uganda	116	110	0.117	0.094
Kenya	102	101	0.135	0.14
Tanzania	117	115	0.087	0.18
Singapore	1	1	0.887	0.89
Korea	9	12	0.528	0.575
Malaysia	13	16	0.509	0.474
Taiwan	10	10	0.552	0.555

Source: UNIDO; 2011

The East African Community Partner States, like most Sub-Saharan economies, remain high cost production locations. A case in point is the high indirect costs faced by Kenyan firms. By estimates, Kenya's factory floor productivity is close to China's; but once one accounts for indirect costs, Kenyan firms are seen to be 40% less productive than Chinese firms (ACR, 2009).

Further to this, although labour costs in the Partner States are competitive internationally, the region's manufacturing firms are not competitive as demonstrated by the region's low levels of trade in manufactured products.

The capacity of East Africa's industry to innovate and adapt to global competitiveness challenges significantly depends on several factors. These include the capacity of government to play an effective

role as the regulator of business activities, as the provider of services and infrastructure, and enforcer of contracts.

The quality of government intervention significantly influences the capacity of the region to attract both domestic and international investments, to create new enterprises and to foster the growth of existing businesses. While earlier phases of industrialisation in Asia and elsewhere relied on policies geared towards shielding their domestic markets from external competition, the current WTO global trade regime limits the policy scope for trade policy intervention.

In a globalising world economy, with increasing competition among countries and regions, a number of enabling factors have assumed increased importance including; the tax burden of companies, access to highly qualified manpower, quality of infrastructure, including power, telecommunications, road, rail and air transport. EAC countries are therefore challenged to learn from these countries in terms of policy and strategy design and implementation.

Lessons and Best Practices

A number of lessons and best practices can be drawn from experiences of other countries and regions that have registered greater success in achieving structural transformation and economic diversification. These include:

Market access key to industrialisation: Experiences from industrialised countries demonstrate the importance of accessing wider markets able to provide sufficient demand for large scale production. The emergence of the Asian Tigers, and more recently the phenomenal growth of industry in China, has been driven by access to international markets including the USA and European markets, in addition to the growing domestic demand.

Building a fully integrated EAC market will be critical in unlocking local manufacturing potential while consolidating the EAC market will be critical to industrial growth by providing markets for products manufactured within the region.

Enhance Government capacity to design and implement appropriate policies: A strong lesson learnt from more successful industrial societies relates to the importance of strengthening Government capacity to develop and implement industrial development programmes and policies.

Weak state institutions make it challenging for government to implement policies and interventions in support of industrialisation. National and regional efforts should go towards enhancing capabilities to design, formulate, and implement policies, strategies and programs. Support may be available from international agencies, such as UNIDO, and development partners.

Strengthen technology and innovation: The Asian Tigers were able to significantly improve prospects for industrialisation by committing substantial resources to technology development and acquisition as well as innovation.

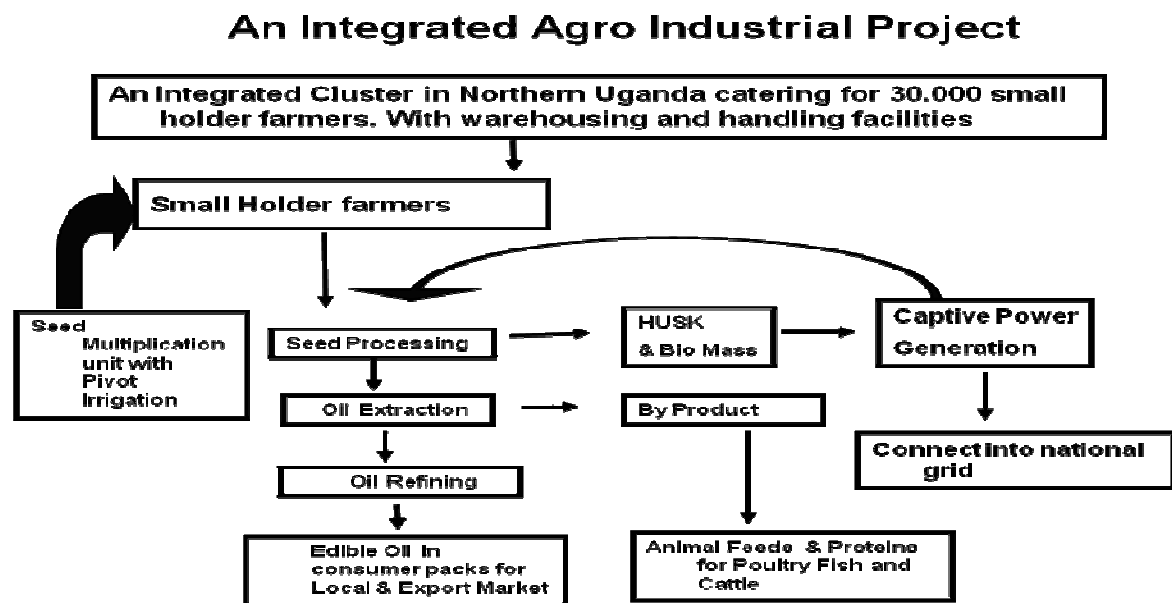
This partly entailed establishing regional innovation systems, promoting collaboration and networking between universities and industries; fostering innovative mind-sets of the CEOs and employees through training programs; offering skills training matching the needs and demands of local enterprises; customized education and technology support programs to meet the needs of industry and many other policies.

East Africa should provide more support for technology and innovation by stimulating local production of technological knowledge by providing incentives to entrepreneurs or facilitating technology acquisition through FDI. Governments should also invest in education and basic skills formation to ensure ample supply of skilled labour.

Create intra-industry linkages and linkages in the wider economy: Economies that have achieved successful industrialisation, including the Asian Tigers of Singapore, Korea, Taiwan and Hong Kong, prioritised the development of intra industry and economy wide linkages for instance promotion of agro-industry is a smart way of ensuring a productive linkage between industry and agriculture. Sustained industrial demand for agricultural products is leveraged to enhance agricultural productivity through a dynamic productive relationship between manufacturers and farmers.

Linkages can also be created between domestic firms and foreign firms and result in technology transfer and enhancement of local skills base. Policies to support development of industrial clusters are also critical. Fig. 5 below illustrates agro-industry linkages using an example of Mukwano Group of Industries, a Ugandan-based industrial conglomerate.

Fig 5: Illustrating Agro-industry Linkages Using an Example of Mukwano Group of Companies, a Ugandan-based Industrial Conglomerate Employing over 6000 Workers



3.0 RESOURCE ENDOWMENT AND COMPARATIVE ADVANTAGES IN THE REGIO

In this section an analysis of the resource base for industrialization in each Partner States is presented including the profiles of the various industrial sectors /sub-sectors. A systematic methodology has been applied to identify strategic industrial sectors targeted for promotion based on the region's comparative advantages. A SWOT analysis is also presented to assess the prevailing internal and external environment that determines the growth prospects of the sectors.

3.1 Sectors with Potential for Growth in EAC Partner States

The sectors with potential in the EAC region have been derived from the analysis of the industrial strategies of the Partner States in relation to the existing and potential comparative advantage. Among the areas covered are: comparative production advantage; potential contribution to GDP and employment; current and potential contribution to exports; abundance of raw or input material; and potential for competitiveness. The profiles of the industrial sectors in each Partner States are summarized below. The detailed profile of the industrial sector in each country is provided in Annex 1 which presents general information about the attractiveness and feasibility of industrial sectors prioritised in each Partner State.

3.1.1 Uganda – Manufacturing Sector & Overview of Sectors with Potential

Uganda's manufacturing value added as a percentage of GDP is lower than the Sub-Saharan average of 14.8%, and has declined from 9.83% in 1999 to 6.73% in 2003. In the preceding years up to 2009, the sector had an average growth rate of 7.7% (The World Bank; 2010).

The major industries in the country are based on processing agricultural products such as tea, tobacco, sugar, coffee, cotton, grains, dairy products, and edible oils. Other important industries include beer brewing and the manufacture of cement, fertilisers, matches, metal products, paints, plastics, shoes, soap and textiles.

Manufacturing of textile apparel has the highest number of businesses in Uganda. Cotton ginning has 15 companies, textile manufacturing has 67 units, and manufacture of wearing apparel has 3,418 units (UNIDO; 2011). There are a number of small and cottage industries, which produce a wide variety of metal and wooden products ranging from security doors, household and farm goods, numerous spare parts, and furniture.

There is evidence that Uganda's industrial structure is skewed towards agro-processing, and a few light manufacturing industries. Findings of recent research by the Economic Policy Research Council, analysing Uganda's Revealed Comparative Advantage (RCA) in the EAC region, established several sectors in which the country possess comparative advantage over other Partner States.

3.1.2 Rwanda – The Manufacturing Sector & Overview of Sectors with Potential

The manufacturing sector in Rwanda is small, and employs a very small proportion of the active population. According to 2007 EAC estimates, the sector employed 45,907 persons including non permanent/seasonal workers, of which 80% were in the food processing sub-sector. Manufacturing is dominated by agro-processing.

There is also manufacturing of textiles, cement, paint, pharmaceuticals, soap, matches and furniture. According to the Ministry of Finance and Economic Planning, in 2006, about two-thirds of the manufacturing operators were micro and small establishments, employing under 50 workers (UNIDO; 2011).

Rwanda's industrial policy and strategy commits the Government to promote new economic sectors to boost domestic production and foster export competitiveness. The policy and strategy also commit the Government to promote future sectors with a focus on medium and high-tech industries. As a consequence, a total of ten sectors have been earmarked as priorities. These sectors were selected on the

basis of desirability⁴ and feasibility⁵. Table 7 below outlines the sectors selected, and the timelines within which they will be promoted.

Table 6: Sectors Targeted in the Rwanda Industrial Policy and Strategy

Target Period	Approach	Sectors
Short-term	Improve the feasibility of industries and promote the sectors	Agro-processing (including pyrethrum, dairy, vegetable oil, soaps and detergents); textiles (including silk, leather & leather good); mineral processing
Medium-term	Promote desirable sectors as they become feasible	Construction materials (including cement); pharmaceuticals; chemical products (including fertilisers)
Long-term	Reduce support to successful sectors, and promote support to new feasible sectors	Building materials (metal parts and structures); bio-plastics and other high-tech industries

Source: Rwanda Industrial Policy and Strategy; 2011

⁴ Desirability relates to the sector's potential for economic and social returns, its potential for linkages with other sectors and dynamic technological trajectories

⁵ Feasibility relates to export potential, presence of domestic demand and availability of inputs.

3.1.3 Tanzania – The Manufacturing Sector & Overview of Sectors with Potential

The manufacturing sector of Tanzania has recently showed signs of recovery and growth. Its performance is still low by African standards, producing only US \$15.5 as manufacturing value added (MVA) per capita in 2008 (UNIDO; 2011). The manufacturing sector comprises mainly firms engaged in food, beverage and tobacco processing, paper and packaging, textile and garments sub-sectors. Other sub sectors include steel and steel products, petroleum, chemicals, cement, glass and other non-metallic production.

The IIDP 2025 outlines sub-sectors have been targeted for development. The sub-sectors were selected based on: size of the market; length of value chain; availability of resources; and the sector's comparative advantage. Some of the sub-sectors include: fertiliser and chemicals, textiles, light machinery, iron and steel subsector and agro-industry. Agro industry covers: edible oil, cashew nut processing, fruit processing, milk and dairy, and leather and leather products.

3.1.4 Kenya – The Manufacturing Sector & Overview of Sectors with Potential

Kenya's industrial sector has grown marginally over the past two decades. The sector, despite its potential, has not been dynamic enough to function as "an engine for growth of the economy" as is the case with other emerging economies. The sector has been inward-looking with limited technological progress and reflects past import-substitution and export-led policy orientations (Kenya Draft Industrial Policy; 2010).

Manufacturing accounts for about two-thirds of Kenya's industrial sector, the rest being made up of quarrying and mining and construction. According to the 2010 economic survey, the contribution of the industrial sector to GDP in 2009 was as follows; Manufacturing – 9.5%; Construction - 4.4%; and Mining and Quarrying – 0.5%.

Manufacturing is mainly agro-based and is characterised by relatively low value addition, employment, capacity utilisation and export volumes partly due to weak linkages to other sectors. The intermediate and capital goods industries are also relatively underdeveloped, implying that Kenya's manufacturing sector is highly import dependent. The performance of the manufacturing sector has been affected by low capital injection, use of obsolete technologies and high costs of doing business.

Kenya's Industrial Policy has identified 22 sectors to drive the country's industrialisation process in the short, medium and long-term including iron & steel, beverages & tobacco, wood & wood products, paper and paper products, pharmaceuticals.

3.1.5 Burundi – Manufacturing Sector & Overview of the Sectors with Potential

Manufacturing activities in Burundi are dominated by small scale processing and manufacturing plants, concentrated mainly in Bujumbura. The largest industrial enterprises include a brewery, a textile company, a sugar company and enterprises involved in the packaging of coffee. The largest enterprises are state-owned and constitute the bulk of the national output (UNIDO; 2011).

Other companies, mostly SMEs, are primarily engaged in processing local agricultural raw materials (e.g. vegetable oil, fruit juices, mineral water, tobacco, hide tanning, etc) and production of consumer goods (foam mattresses, textiles) and building materials. Other agricultural products such as cotton, coffee, tea, and sugar are also processed in the country.

Prior to the political crisis of 1994, the contribution of the national manufacturing sector to GDP was around 12%, and provided employment to about 48,000 permanent and part-time workers. The political crisis, followed by the recent global recession, resulted in a decline in the sector's contribution by volume

and value. Burundi's strategy for industrial development has targeted agro-industry as the key sector driving economic growth.

The government has embraced industrialization driven by private investments as a strategy for invigorating growth and reducing poverty over the long term. Areas in which the private sector has invested include: agro-industry, the manufacture of basic products such as fertilisers, pesticides, pharmaceutical goods and traditional cash crops (coffee, cotton, tea) as well as production of non-traditional crops such as fruits and vegetables, and flowers.

Particular attention is being paid to encouraging exports of non-traditional products (for example, fruits, vegetables, and ready-made clothing) where Burundi has comparative advantage.

3.2 Priority Regional Sectors

For industrialisation efforts in the EAC to be successful, concerted regional efforts should be embarked upon to primarily promote those industries that are competitive in local, regional and selected international markets.

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

In selecting industries to promote, market size and efficiency was taken into account because they are inter-related. For example, firms are able to grow and to serve larger markets as they become more efficient in exploiting their factor endowments through better management and innovation, and as they benefit from low cost of doing business due to an improved business climate.

The EAC Industrialisation Strategy aims to achieve this goal by identifying opportunities for upgrading, deepening and diversifying of existing industries, and also promoting new investments.

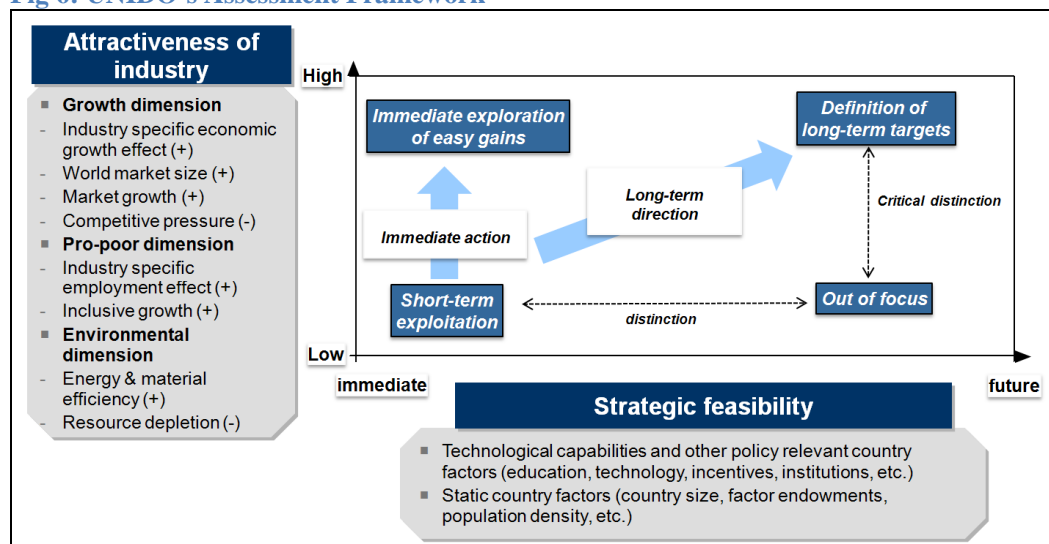
From Section 3.1 highlighting the industrial landscape of each Partner States, it can be observed that the national industrialisation plans are quite ambitious in scope thus calling for prioritisation. Through consultations with stakeholders in the public and private sector, a long list of target industrial sectors was prepared based on national strategy documents. The targeted national industries were subjected to further scrutiny, to establish their attractiveness and strategic feasibility, using the framework developed by UNIDO (Fig. 6) for identifying industrial development priorities. The framework used in selecting target regional industries is based on two dimensions: attractiveness⁶ and feasibility⁷.

⁶ The Attractiveness score is calculated from a weighted average of the following: Potential impact on GDP growth and MVA (15%); Potential for employment (10%); Potential for inclusive growth (5%); Potential for profitability and tax collections (10%); Low environmental impact (15%); Modest investment requirements (10%); Forward and backward linkages (15%); Strategic fit with country vision of the future (10%); and Skill development impact (10%).

⁷ Feasibility is calculated from a weighted average of the following: Availability of competitive raw materials and inputs (20%); Technology readiness (5%); Availability of adequate trained workforce (5%); Ease of doing business and favourable macroeconomic conditions (15%);

Using the UNIDO Framework (Fig 6), different industries were assigned a score on attractiveness and strategic feasibility, as illustrated in Table 7. For both parameters, industries are assigned a score of between 1 and 10.

Fig 6: UNIDO's Assessment Framework



Source: UNIDO; 2010

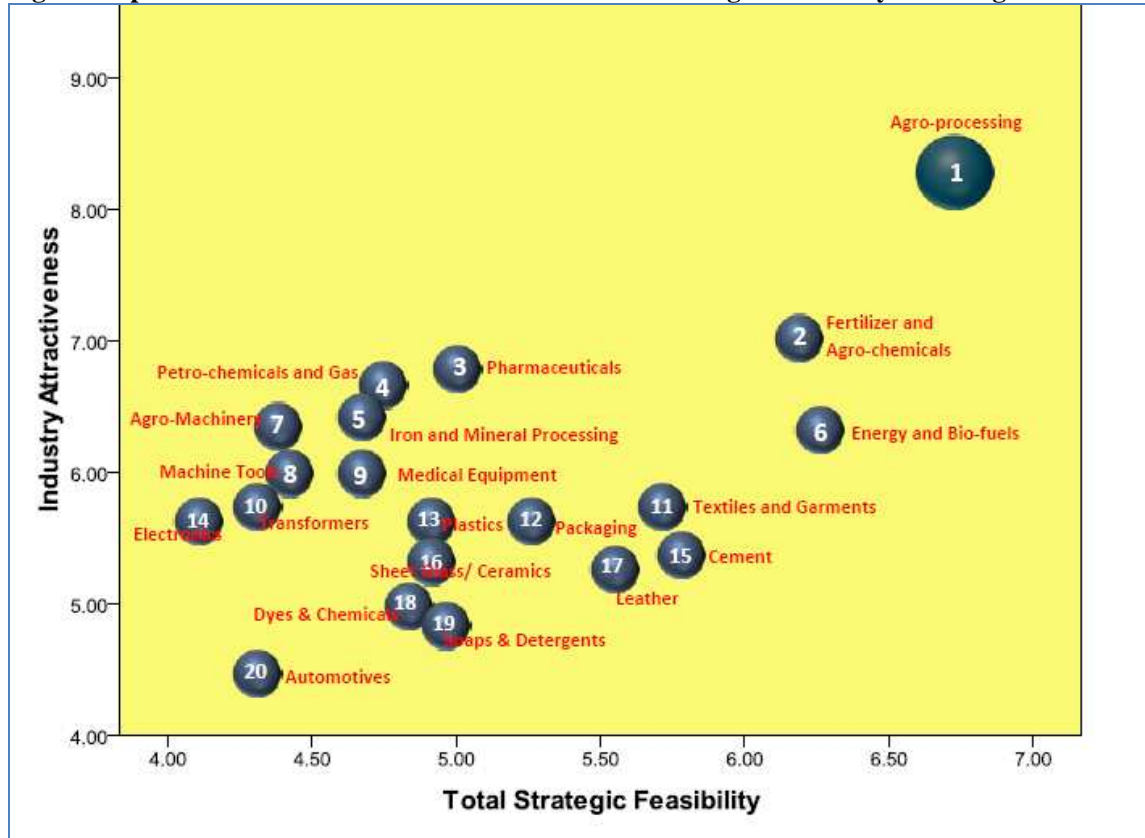
Table 7: Industry Attractiveness and Strategic Feasibility

S.no.	Industries	Total Attractiveness	Total Strategic Feasibility
	Weightage		
1	Agro Processing - Veg Oil, Fruits, Beverages, Dairy, Meat, Nuts, Plantation produce, Grain milling	8.20	6.80
2	Fertilisers and agrochemicals	7.05	6.20
3	Pharmaceutical Industry - Bulk and retail	6.80	4.99
4	Petrochemicals and Gas processing	6.75	4.74
5	Iron, Steel and other metals and their products tubes, bars, rods, rolls, wires, pipes, mesh	6.45	4.69
6	Energy - Bio, Ethanol, Solar, Geo thermal, Hydro-electric, Thermal etc.	6.40	6.23
7	Agro machinery	6.30	4.39
8	Machine tools and spares	6.05	4.39
9	Basic medical equipment	6.00	4.64
10	Transformers and electrical equipment	5.85	4.34
11	Textiles - Cotton, Silk, Linen Spinning, Weaving and Garments	5.80	5.69
12	Packaging Industry & Sacks	5.65	5.24
13	Plastic products	5.65	4.89
14	Electronic and computer assembly	5.65	4.09
15	Cement	5.45	5.74
16	Sheet Glass and ceramics	5.40	4.94
17	Leather	5.30	5.54
18	Dyes and chemicals	5.00	4.89
19	Soaps and Detergents	4.90	4.94
20	Automotives - cars, buses and tractor assembly and spares	4.50	4.34

Infrastructure and energy quality and cost impact (10%); Adequacy of policies and regulations (15%); Low competitive pressure (15%); and Access to available markets, regional and export (15%).

In Fig. 7, a graphical illustration on how each industry scores, using UNIDO's assessment framework is presented. Note; the number on the bubble is premised on its serial number presented in Table 12 above.

Fig 7: Graphical Illustration on the Attractiveness and Strategic Feasibility of a Targeted Industry



From Fig. 7 above, it is clear that agro-processing, fertilisers, iron/steel and metals, energy projects (ethanol) and textiles registered the highest scores on attractiveness and strategic feasibility, and therefore have the greatest potential for growth within the region. Automotives, soaps and detergents and dyes and chemicals are among the industries that scored the least, and therefore, have the least growth potential within the region.

3.3 Identified Strategic Regional Industries including Case Studies

Basing on the above analysis and broad consultation with stakeholders, the six industries below have been selected as the ones with potential comparative advantage within the region;

- a) Iron-ore and other mineral processing;
- b) Fertilisers and agrochemicals;
- c) Pharmaceuticals;
- d) Petro-chemicals and gas processing;
- e) Agro-processing; and
- f) Energy and bio-fuels.

3.3.1 Agro-processing Industry

The agro-processing industry scored highest on industry attractiveness (8.20) and strategic feasibility (6.80) and therefore, has the highest growth potential in the region.

Agro processing industry in the region primarily comprises:

- i. Vegetable Oil
- ii. Fruits & Vegetable Processing – Papaya, Pineapple, Banana, Mangoes, Tomatoes etc
- iii. Beverages – Tea, Coffee, Beer etc.
- iv. Dairy – Cheese, Powdered Milk and Processed Meat etc
- v. Nuts – Cashew, Macadamia etc.
- vi. Other Plantation Products – Sisal, Pyrethrum, Sugar etc.
- vii. Grain milling and VAPs – Maize, Wheat, Rice etc

Kenya: In Kenya, agriculture is the mainstay of the economy and currently represents 24% of the GDP. More than one third Kenya agricultural produce is exported and this accounts for 65% of Kenya’s total exports. Most of the agro-exports from Kenya are in raw or semi-processed form creating room for an enhanced higher level value chain.

Tanzania: In Tanzania, the agro-processing sub-sector represents 55% share among the manufacturing sector, with beverage and tobacco industries accounting for the majority of industries in the sub-sector..

Uganda: In Uganda, in 2010, the food processing, beverage and tobacco sector was the most dominant industry with one third of the selected manufacturing and 52% share of the total employment. In the same year, the sector accounted for nearly half of Uganda's exports (47%).

Rwanda: In Rwanda, over 90% of households practise some form of crop cultivation while the sector serves as the principal source of employment for nearly 80% of the labour force and accounts for about a third of GDP. Rwanda’s top exports are agro-based including tea, coffee, and horticulture (vegetables, etc),

Burundi: Burundi’s strategy for industrial development has targeted agriculture as the key sector driving economic growth. The principal traditional agro-industrial crops include coffee, tea and cotton.

Below is a case study on areas the EAC can collaborate with the private sector to enhance the productivity of the agro-processing industry

Box 1: Joint Negotiation Strategy Can Boost Agro-processing in the Region

A large cashew nuts processing company headquartered in East Asia and with operations in Tanzania has expressed interest in setting up a processing plant in the country, to tap into the abundant production of the nuts in the country, and also leverage its economies of scale, using Kenya’s modest yield.

However, Kenya recently banned export of raw cashew nuts. This suggests that the company would only rely on production from Tanzania, which may have an impact on its economies of scale.

It is understandable why Kenya would only allow processed cashew nuts to be exported, but derogation can be made in the case of EAC countries. Also, since Tanzania has imposed a tax on export of raw cashew nuts at 15% of FOB value or 160 USD / Mt, whichever is higher, the same could be a barrier for export to non EAC countries, rather than a blanket ban.

The company also argues that the EAC should lobby India (one of the largest markets of cashew) to allow import of value added goods like cashew kernels into the region, which today attracts 20-30% import duty, while the raw cashew nuts are duty exempt. This will support more processing in East Africa.

This case study demonstrates how a joint negotiation strategy by the EAC Secretariat with Partner States can benefit the region as a whole. The case study also demonstrates the need to harmonise national sub-sector strategies and to give special derogation to movement of goods within the region so that the industries can benefit from economies of scale

3.3.2 Fertiliser and Agro-chemicals Industry

The fertiliser and agro-chemicals industry registered the second highest score on attractiveness (7.05) and strategic feasibility (6.20).

Fertilisers are any organic or inorganic material of natural or synthetic origin (other than liming materials) that is added to soil to supply one or more plant nutrients essential to the growth of plants. Inorganic chemicals typically contain the elements phosphorus, nitrogen, sulphur, and potassium (P, N, S, K). Agrochemicals refer to the broad range of pesticides, including insecticides, herbicides, and fungicides.

The phosphorus in commercial fertilizers is normally obtained from rock phosphates. Nitrogen is provided by ammonia, manufactured by a process that uses natural gas as the source of hydrogen, and energy. Globally, two percent of the natural gas production goes into manufacturing of ammonia.

Tanzania has abundant deposits of natural gas and rock phosphates, which can scale up fertiliser and agro-chemical production in the country. Kenya has downstream petroleum and rock phosphates as well, which can significantly boost fertiliser and agro-chemical production in the country.

Fertiliser usage, which would greatly increase agricultural productivity, is currently very low in the EAC region. Farmers in East Africa are not adequately sensitised about the benefits of using fertilisers and other inputs such as agro-chemicals and are discouraged by the high cost of inputs, and significant part of the cost is due to transport and logistics as the inputs have to be imported.

Fertiliser use in Kenya is estimated at about 35kg/ha, while in Tanzania it is estimated at about 8kg/ha. In Sub-Saharan Africa, fertiliser use is less than 10kg of Nutrients per ha mainly due to the high grain to nutrient price ratios and high levels of production risks (N. Mont; 2009).

Box 2 below illustrates how investment in the fertiliser and agro-chemicals industry can be bolstered through harmonisation of regulations and the establishment and implementation of effective policies.

Box 2: Harmonisation of Policies Can Increase Investment in the Fertiliser and Agro-chemicals Industry

A large multinational has prospects of setting up a fertiliser and agrochemical plant in Kenya. The firm has explored phosphate mining areas and is in the initial process of setting up a non-ammonia based fertiliser crusher.

The firm will also refine the rock phosphate to pure cakes, which will later be transformed into agrochemicals. The firm is however worried about the time it will take to get the agro-chemicals certified in the countries. Apparently, it takes three years per country to get certification clearance.

The establishment of a non-ammonia based fertiliser crusher could have been expedited, if substantial and timely information on processing the certificate was available, including the fact that a certificate received in one country is acceptable in all other countries of EAC as well.

Also, the fertiliser plant with ammonia becomes feasible only when there is a large market, which can only be achieved if the governments decide to make use of fertilisers a central theme of their agricultural policies.

This case study illustrates the importance of harmonisation of standards and the need for an appropriate agriculture sub-sector policy that will boost production in the region and make production of fertilisers and agrochemicals viable.

3.3.3 Pharmaceutical Industry

The pharmaceutical industry registered the third highest score on attractiveness (6.8) and strategic feasibility (4.99).

In 2008, world exports of pharmaceutical products were estimated at \$400 billion, with Sub-Saharan African countries contributing about 10% (\$326 million). The majority of global pharmaceutical sales originate from US, EU and Japan, with ten key countries accounting for over 80% of the global market.

Available literature suggests that the pharmaceutical industry in the Middle East and Africa is currently entering into a new era, with the development of infrastructure system and rapidly changing regulations⁸. This is mainly due to the high prevalence of diseases, huge population base and development of legal and regulatory measures to address health sector challenges. The pharmaceutical market in the African region is expected to grow at a CAGR of around 11% during 2010-2012.

In East Africa, the pharmaceuticals industry is currently fragmented with limited local production of generic active ingredients and international pharmaceutical companies exporting pharmaceutical products in the region.

The region imported pharmaceutical products estimated at \$800 million in 2008. Table 13 provides the pharmaceutical products imports for all the Partner States.

Table 8: EAC Pharmaceutical Product Imports 2004 - 2008

Pharmaceutical products. Imported value : USD ('000)	2004	2005	2006	2007	2008
Burundi	14,977	16,135	26,619	25,407	31,952
Kenya	27,820	158,019	203,554	222,175	293,392
Uganda	77,553	81,778	119,741	172,046	241,669
Rwanda	16,064	32,260	34,211	57,273	48,200
Tanzania	52,711	107,608	88,543	167,019	191,981

Source: ITC calculations based on COMTRADE statistics; 2009

The successful establishment of the pharmaceutical industry in the EAC region requires measures to ensure that the industry operates at full capacity to achieve economies of scale. It also requires effective research and development. Research and Development (R&D) is the starting point of the pharmaceutical industry value chain and crucial to value addition. Industry coordination is necessary to ensure that the health and industrialisation objectives are achieved in a mutually reinforcing manner.

Efforts should be undertaken to raise the level of R&D, science and technology and innovation undertaken in the public sector to enhance industrial competitiveness in the pharmaceutical industry. Also, the EAC should identify capacity strengthening needs of existing training institutions and/or examine the justification for new institutions to meet R&D skills requirements for the industry.

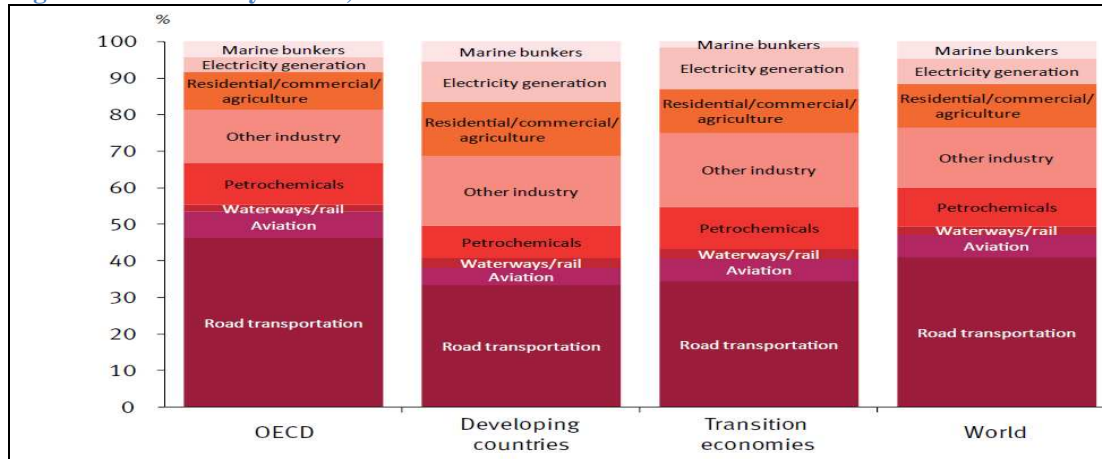
3.3.4 Petrochemicals and Natural Gas Processing Industry

The petrochemicals and natural gas industry registered the fourth highest score on attractiveness (6.75) and strategic feasibility (4.74).

⁸ <http://www.rncos.com/> (“Middle East and Africa Pharma Sector Forecast to 2012”)

The boom in global demand for oil and its derivatives such as petrochemicals has led to the development of vibrant international trade in the petro-chemical industry particularly among the developed nations (Fig 8).

Fig 8: Oil Demand by Sector; 2006



Source; *World Oil Outlook, OPEC; 2009*

In the East Africa region, Uganda has proven oil deposits, whose production will provide the prerequisite raw materials essential for the development of the petrochemical industry in the region. Exploration for oil and gas in Kenya and Tanzania has yielded promising results as well.

The Uganda Government, in line with its National Oil and Gas Policy, 2008 has developed plans to undertake medium to large-scale refining in the country to satisfy national and regional petroleum product requirements.

3.3.5 Iron Ore Processing and other Steel-related Products

The iron and steel industry registered the fifth highest score on attractiveness (6.45) and strategic feasibility (4.69).

The iron and steel industry includes production of steel from iron ore and manufacturing of structural metal products such as steel structures for factories and related installations, spare parts, motor vehicle bodies and trailers, domestic appliances, water tanks, and electricity conductors.

The steel products manufactured are used in sugar industries, tea factories, railways, cement plants, cotton ginneries, textile industries, steel plants, mining, and electrical machinery. The iron and steel industry is an attractive industry because it has significant technology trajectories and economies of scale, with the potential to generate far-reaching positive effects.

It should however be noted that the majority of iron and steel factories currently operating in the region depend on steel scrap, whose supply is uncertain. Yet potential exists for an integrated iron & steel mill utilising the existing iron ore in the region.

In Uganda for example, hematite of high quality iron ore occurs in the western part of the country, estimated in excess of 50 million tonnes. In Tanzania, there are proven iron ore reserves in Liganga, estimated at 45 million tonnes and in Itewe, estimated at 50 million tonnes. In Kenya there are proven iron ore reserves in Kitui and Ikutha. Further, the region has scattered expertise in engineering, foundry and metal workshops.

Opportunities exist for setting up foundry works that can make precision castings from which precision components can be machined. Three Partner States (Uganda, Tanzania and Kenya) each have plans to set up mini-integrated iron ore processing plants. There are therefore opportunities for collaboration in

establishing an integrated iron and steel mills that can serve the regional market and facilitate development of other linkage industries in the region.

3.3.6 Renewable Energy and Bio-fuels

The energy and bio-fuels Industry registered a score of 6.40 on attractiveness and 6.23 on strategic feasibility.

The renewable energy production (bio-fuels, solar, geo-thermal) industry registered a score of 6.40 on attractiveness and 6.23 on strategic feasibility. Box 3 summarizes the case of ethanol as a liquid bio-fuel. Bio-diesel, which can be produced from jatropha and other crops, is another attractive source of renewable fuel for the transport sector.

Cogeneration is the simultaneous production of energy, heat and power from a single energy system and source. It is also known as combined heat and power (CHP) technology.

The other renewable energy technologies, solar and geothermal, have manufacturing potential through the establishment of industries for the production of solar panels and geothermal power production rigs within the EAC.

Box 3: Opportunities for Ethanol Production in the Region

This case involves four sugar estates located along Lake Victoria – Kagera in Tanzania, Sony Sugar in Kenya and Kakira Sugar Works and Sango Bay in Uganda. Sango Bay and Kagera are privately owned, while Sony Sugar will soon be privatised.

The four sugar estates occupy sizeable pieces of land, which present enormous opportunities to expand and modernize their production. The total amount of cane crushed by all four is over 10,000 tonnes per day. If they were to expand, and modernise, the estates can collectively produce close to 50,000 tonnes of cane per day. This kind of production (50,000 tonnes of cane per day) can viably support the establishment of an ethanol plant and an independent power project. Since they are all located along the Lake, the estates can use barge transport and therefore reduce the cost of transport dramatically.

This joint project will need to be facilitated by the EAC and the benefits are likely to be immense because electricity generation from bagasse can have a direct positive impact on the quality and cost of electricity, and ethanol fuel generation can save precious foreign exchange for the three governments.

This case study demonstrates the need for regional collaboration and effective policy measures, whereby the three Partner States will work closely with the four private sector operators to lessen dependence on hydro-power.

3.4 SWOT ANALYSIS OF THE MANUFACTURING SECTOR IN THE EAC REGION

This section presents a SWOT analysis of the industrial sector in the region. The analysis summarises the discussion presented in the preceding chapters.

Table 9: SWOT Analysis of the EAC Region

<p>Strengths</p> <ul style="list-style-type: none"> • Peace and political stability (with growing political commitment), in addition to the EAC population of 134 million consumers, access to the other regional markets of COMESA (385 million) and SADC (215 million) as well as preferential access to the EU and US markets • Regional hub for transport logistics with long coastline for export oriented industries • Sound macroeconomic fundamentals • Rich endowment of natural resources • Commitment from Partner States to industrialise the region • Presence of institutional framework for industrialisation (The Department of Industry at the EAC, Partner States' Ministries of Trade and Industry and East Africa Community Affairs) • Growing demand for value added products • Presence of a Customs Union, a Common Market Protocol, SADC-COMESA-EAC Free-Trade Tripartite • Growing intra-regional trade 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Inadequate physical infrastructure, particularly along development corridors • Small and fragmented market of individual Partner States • Slow implementation of the Customs Union and Common Market protocols • Low demand for locally manufactured products • Weaknesses in the business environment, regulatory and institutional framework, and insufficient and or inappropriate incentives • Observed gaps in technical support, vocational training, marketing and business information capacities to support manufacturing/exporting • Low diversification of product range, low productivity, uncompetitiveness, low value-added exports; • Unharmonised regulations and laws • Weak institutional framework to support SMEs development • Weak institutional framework to implement and monitor policy • Low R&D and technology transfer • Inappropriate skills development for industry • Inadequate access to finance • High reliance on agriculture • Weak productive and trade capacity of SMEs
<p>Threats</p> <ul style="list-style-type: none"> • Development disparities among Partner States • Insecurity around problematic borders • Competition of counterfeits and cheap products from China and India • Continuous erosion of preferential markets due to reductions in global MFN Tariffs • FDI relocation to low cost and competitive production locations in Asia • Rising labour costs making labour intensive manufacturing to be uncompetitive 	<p>Opportunities</p> <ul style="list-style-type: none"> • Region has high potential for value addition • Presence of high growth sectors • Commitment from Development Partners to fund the industrial sector • Manufactured exports targeting emerging markets and untapped Africa markets • Manufacture of intermediate and capital goods for regional markets • Regionalising and internationalising production organisation in keeping with deepening of integration

4.0 THE INDUSTRIALISATION STRATEGY

4.1 Mission, Vision and Objectives

The EAC Industrialisation process will be guided by the following Vision, Mission, and Expected Outcomes.

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*”

Five-year Action Plans will be developed to progressively steer the region in achieving the above Vision Statement.

The Mission

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

Main objective

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

Specific Targets

Basing on consultation with stakeholders in the five Partner States and a review of other regional blocs’ industrialisation strategies, and the global trends in industrial development, the EAC Industrialisation Strategy will aim to achieve the following five specific targets over the 20-year period of its implementation:

- f) Diversifying the manufacturing base and raising local value added content (LVAC) of resource based exports to at least 40% % from the currently estimated value of 8.62% by 2032
- g) Strengthening institutional frameworks and capabilities for industrial policy design and implementation ;
- h) Strengthening R&D, Technology and Innovation capabilities to foster structural transformation of the manufacturing sector and industrial upgrading;
- i) Expanding trade in manufactures by increasing (i) intra regional manufacturing exports relative to total manufactured imports in to the region to at least 25% by 2032 and (ii) increasing the share of manufactured exports relative to total merchandize exports to at least 60% from an average of 20 percent; and
- j) Transforming Micro Small and Medium Enterprises (MSMEs) into viable and sustainable business entities capable of contributing to at least 50% of manufacturing GDP up from 20 percent base rate.

4.2 Broad Expected Long-term Outcomes/Impact

Progressively contribute to an increase in:

- a) The manufacturing industry's contribution to the regional GDP, currently at an average of 9.7%, to an average of 25%⁹ in 2032. This growth will have multiplier effects on the agricultural and services sectors;
- b) Manufacturing based employment currently at 456,000 to about 2.3 million in 2032;
- c) Regional GDP, currently at \$ 74.5 billion to about \$ 238.9 billion in 2032 (based on a projected annual GDP growth rate of 6%);
- d) GDP per capita currently at \$ 558 to \$ 1,300 in 2032 (based on a population growth rate of 2.8% annually);
- e) Manufactured value added per capita, currently at \$ 50 to \$ 258 in 2032;
- f) The average score on the World Economic Forum Competitiveness Index currently at 3.4 to 4.5 in 2032.

4.3 Broad Expected Immediate Outcomes/Impact

- a) Streamlined and coherent policy framework to support deepening of regional production systems and business linkages;
- b) Harmonised policies, strategies and business climate regarding SME activities in the region;
- c) Strengthened institutional and policy management capacities of the major stakeholders;
- d) Reinforced capacities of the technical support institutions, business advice and consultancy centres;
- e) Establishment of new financial mechanisms and products for SME development and upgrading;
- f) Annual increase in employment by 10% in the manufacturing sector and new employment opportunities created indirectly in agricultural sector and services;
- g) Growth of industrial production at a minimum of 10-20% per year;
- h) Improved productivity, flexibility, strengthened managerial capacities and marketing skills, and the production costs mastered and cut down;
- i) Increased value added by 10-15% per year;
- j) Enhanced exports capacities and imports substitution and stronger linkages across the priority value chains.

⁹ 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): China, 21.7%, Germany, 20.9%, Japan, 20.1%, Malaysia, 20.0%, Vietnam, 15.1%, Bangladesh, 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 the MVA growth rate of 12%, compared with the current MVA growth rate of 4% for the EAC region. Only seven 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 policy determination and commitment to the 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.

4.4 Strategic Interventions

To achieve the above targets and outcomes, several strategic interventions, in line with the with the 13 broad policy measures outlined in the EAC Industrialisation Policy (2012-2032), have been formulated to guide actions and support measures for industrial development in the region.

The strategic interventions, which take into account feedback from consultations with stakeholders in the five Partner States, will ensure that EAC achieves the Vision, Mission and overall Objective of the EAC Industrialisation Policy and Strategy within the 20-year period of implementation.

In addition, besides addressing the challenges facing industrialisation in region as espoused under Chapters 2, against which the 14 broad policy measures were developed – the criteria used in selecting the strategic interventions included; development integration; strengthening investment environment for value addition; balanced and equitable development; sustainable and conducive business environment and gender equality, among others. Table 15 below outlines the key strategic interventions, and the related policy measures.

Table 6: Broad Policy Measures and Selected Strategic Interventions

Broad Policy Measures	Selected Strategic Interventions
Promoting the development of strategic regional industries/value chains and value addition	<ul style="list-style-type: none"> Formulate sector specific master plans/action plans to facilitate the development of the identified strategic regional industries Undertake analysis of the strategic regional industries value chains and design and implement measures that will deepen, upgrade and diversify the strategic industries
Supporting the development of support infrastructure to enhance industrialisation along development corridors	<ul style="list-style-type: none"> Undertake a mapping of potential areas/regions industrial growth along selected development corridors and develop and implement measures that will steer substantial industrial investments along such corridors
Promoting Equitable Industrial development in EAC region	<ul style="list-style-type: none"> 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. Facilitate access to employment and investment opportunities through liberalization of skilled workforce mobility and cross border industrial investments
Strengthening national and regional institutional frameworks and capabilities for industrial policy design and implementation	<ul style="list-style-type: none"> Conduct capacity needs for policy design, management and implementation and prepare a programme on industrial policy management and institutional development
Strengthening Industrial Information Management and Dissemination Systems	<ul style="list-style-type: none"> Build and sustain the capacity at national and regional level for industrial data and information generation and management. Harmonization of industrial data collection and reporting methodologies will be undertaken.
Facilitating the development of, and access to appropriate industrial skills and know-how	<ul style="list-style-type: none"> Prepare an industrial skills development and improvement programme bases on industrial skills needs assessment.
Enhancing access to financial and technical resources for industrialization	<ul style="list-style-type: none"> Establish and develop a funding structure for strategic regional industrial projects, particularly, exploring the feasibility of setting up a Regional Industrial Development Fund (RIDF) as a window within the EAC Development Fund Foster and promote establishment of industrial collaboration networks (ICNs) with selected strategic countries/regions for access to financial and technical support for industrial development

Broad Policy Measures	Selected Strategic Interventions
Strengthening the capacity of industry and business support organisations to provide technical and advisory services to hence competitiveness of the industrial sector	<ul style="list-style-type: none"> Assess the capability of industry support institutions to promote industrialisation in the region and design and implement measures to support the institutions to meet the growing demand for industry related services
Enhancing gender dimension in industrial development	<ul style="list-style-type: none"> Strengthen gender-mainstreaming efforts through training in gender analysis, gender planning and realistic application of gender strategies and measures for effective mainstreaming of gender in industrial operations
Strengthening the business and regulatory climate	<ul style="list-style-type: none"> Intensify measures to enhance the business environment in all the five Partner States, including developing an EAC Business Environment Monitoring System (BSME), and conducting industrial competitiveness bench-marking survey
Expansion of trade and market access for manufactured products	<ul style="list-style-type: none"> Identify trade policy instruments, non-tariff barriers (NTBs) and regulatory impediments to manufacturing, and institute measures to ensure that industry takes full advantage of the expanded regional market.
Promoting regional collaboration and development of capability in industrial R&D, technology and innovation	<ul style="list-style-type: none"> Evaluate the capabilities and capacity of the public and private research institutions and universities to meet the science and technology needs of the manufacturing sector and prepare a regional response strategy
Promoting sustainable industrialisation and environment management	<ul style="list-style-type: none"> Advocate common policies for the control of industry related hazardous waste, nuclear materials, radioactive materials and any other materials which impact on environment Promote resource efficient and cleaner production initiatives in industries to enhance competitiveness and facilitate compliance with environmental measures.
Facilitating MSME Development and Upgrading	<ul style="list-style-type: none"> Prepare a coherent regional policy on SME development and Charter on best practices for promoting SME development. Develop a regional programme for the upgrading of SMEs to enable them take advantage of common market opportunities and integrate into regional and global value chains

The Implementation Matrix presented in Chapter 7 below outlines in detail the interventions.

5.0 EAC INDUSTRIALISATION STRATEGY OPERATIONAL AND IMPLEMENTATION PLAN

SPECIFIC POLICY TARGET ONE: DIVERSIFYING THE MANUFACTURING BASE AND RAISING LOCAL VALUE ADDED CONTENT (LVAC) OF RESOURCE BASED EXPORTS TO AT LEAST 40% FROM THE CURRENTLY ESTIMATED VALUE OF 8.62% BY 2032

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
Low levels of value addition of locally manufactured products, particularly in the strategic regional industries including limited product diversification	Promoting Development and Investment in Strategic Regional Industries in sectors in where the region has potential comparative advantage	Preparation of strategic regional industry development plans/master plans. This will involve mapping of selected strategic regional industries value chains (value chains study) to identify bottlenecks and constraints facing the industries. The analysis should; <ul style="list-style-type: none"> ○ Mapping obstacles to the development of the strategic regional industries ○ Mapping gaps in the quality management systems ○ Assess technology, management, market access and investment needs ○ Identify policy issues needed to develop and/or upgrading strategic regional industries 	<ul style="list-style-type: none"> • Comprehensive Value chains mapping studies carried out and corresponding strategic industry development plans prepared 	<ul style="list-style-type: none"> • Interviewing stakeholder through consultative meetings • Reports of the value chains studies 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) • Ministries of Industry and Trade, • Ministries of East Africa Community Affairs, • National Investment Promotion Agencies , EADB, AFDB, DFIs • Manufacturing Associations and Private Sector Associations 	<ul style="list-style-type: none"> • Availability of sufficient resources (financial and technical) to undertake the activities • Activities implemented 	500,000

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
		Preparation of feasible and bankable investment projects based on the value chains study reports and investment promotion strategy	<ul style="list-style-type: none"> • Feasibility studies for selected strategic regional industries carried • Portfolios of bankable investment projects in the strategic regional industries prepared • Investment promotion campaigns and awareness carried out among stakeholders 	<ul style="list-style-type: none"> • Catalogue of feasibility studies, bankable projects prepared • Interviews with stakeholders • Data on new investment made in the strategic regional industries 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) • Ministries of Industry • Ministries of East Africa Community Affairs, • National Investment Promotion Agencies (NIPAs), EADB, DFIs, AFDB • Manufacturing Associations and other relevant Private Sector Organizations 	<ul style="list-style-type: none"> • Availability of sufficient resources to undertake the activities • Activities implemented 	1,500,000

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
		Assessment of setting up regional industry promotion and award scheme (RIPAS) to stimulate investment into the Strategic Industries	<ul style="list-style-type: none"> • Regional industry promotion and award scheme (RIPAS) Concept note prepared and disseminated among stake holders • Operationalization of the RIPAS through appropriate institutional mechanism • Programme of Action on awarding or recognition of exemplary regional industries/enterprises designed and implemented 	<ul style="list-style-type: none"> • Stakeholder interviews and report of the dissemination workshops • Catalogue of enterprises registering to operate under the RIPAS • Portfolio of investment opportunities in the framework of RIPAS • Institutional framework to administer RIPAS 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) Ministry of Industry • National Investment Promotion Agencies (NIPAs) Manufacturers Associations, Private Sector Associations, Development Partners and East African Business Council (EABC) 	<ul style="list-style-type: none"> • Favourable business climatic conditions prevail • Partner States' buy-in and support to the EAC Industrialisation Strategy • The private sector is willing and able to respond to opportunities identified 	3,000,000
		Provision of incentives for start-up industries and establishing measures for promotion/nurturing of infant industries (particularly technology based start-ups)	<ul style="list-style-type: none"> • Effective institutional framework for promotion of infant industries/start-ups established and operationalised • Harmonized incentive regimes and other government support systems in place • Growth of start up entrepreneurs and 	<ul style="list-style-type: none"> • Stakeholder consultative engagements • Catalogue of enterprises benefiting from infant industry schemes • Surveys to establish number of new start-up industries and entrepreneurs 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) • Ministries responsible for industry • Ministries of East Africa Community Affairs, National Investment Promotion 	<ul style="list-style-type: none"> • Partner States' buy-in and support to the EAC Industrialisation Strategy • Activities are financed • Activities are conducted 	200,000

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
			<ul style="list-style-type: none"> operators in selected industrial clusters achieved 	<ul style="list-style-type: none"> 	Agencies <ul style="list-style-type: none"> Manufacturing Associations and Private Sector Associations 		
		Establishing/setting up value addition bench-mark/targets levels for the identified strategic regional industries	<ul style="list-style-type: none"> Value addition benchmarking studies undertaken for selected strategic regional industries Twinning of enterprises operating under RIPAS with selected countries carried out 	<ul style="list-style-type: none"> Value addition diagnostic reports Stakeholder surveys Report of the twinning missions 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministries responsible for industry Manufacturing Associations, EABC Other relevant Private Sector Associations 	<ul style="list-style-type: none"> Partner States' buy-in and support to the EAC Industrialisation Strategy Activities are financed Activities are conducted 	500,000
		Promotion of regional productivity improvement campaigns among the identified strategic regional industries and initiate establishment of a regional productivity center for manufacturing	<ul style="list-style-type: none"> Industrial productivity improvement strategy designed and disseminated among stakeholders Concept on Regional industrial productivity center prepared and discussed among 	<ul style="list-style-type: none"> Stakeholder (beneficiary) surveys reports Concept note on regional productivity improvement center Catalogue of enterprises 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministries that deal with Industry, Private Sector, 	<ul style="list-style-type: none"> Availability of sufficient resources (financial and technical) to undertake the activities Activities implemented 	250,000

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
			stakeholders <ul style="list-style-type: none"> Regional industrial productivity improvement centre operationalized 	benefiting from productivity improvement programme	Association of Manufacturers, EABC <ul style="list-style-type: none"> National Bureau of Standards, National Productivity Centres Development Partners 		
		Supporting strategic regional industries to meet international standards and technical regulatory requirements to improve their competitiveness and responses to new challenges of liberalised markets	<ul style="list-style-type: none"> Regional standards and quality certification systems for the strategic regional industries put in place Product quality and certification programmes designed and promoted 	<ul style="list-style-type: none"> EAC Standards documents Stakeholder survey reports Report of the quality promotion workshops 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministries that deal with Industry, Association of Manufacturers and private sector in general, EABC National Bureau of Standards International Organization(U 	<ul style="list-style-type: none"> Availability of sufficient resources (financial and technical) to undertake the activities Activities implemented 	250,000

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
					NIDO)		
		Supporting the establishment of a regional accreditation body, to ensure the competency of testing, certification, calibration and inspection services provided to the manufacturing sector	<ul style="list-style-type: none"> Bench-marking of the national accreditation bodies carried out and regional support programme designed and implemented Regional centers of excellence in testing certification, calibration and inspection services identified 	<ul style="list-style-type: none"> Bench-marking study reports Stakeholder consultative surveys Catalogue of institutions certified as centres of excellence 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministries that deal with Industry National Bureau of Standards Association of Manufacturers, EABC Development Partners 	<ul style="list-style-type: none"> Availability of sufficient resources (financial and technical resources) to undertake the activities Activities implemented 	250,000
	Promoting the development of industrial support infrastructure to enhance industrialisation along selected economic corridors	Undertaking of baseline studies on regions with potentials for industrial corridor growth and development(baseline surveys on industrial corridors development will enable identification of potential areas in EAC where integrated corridor development initiatives can be initiated to stimulate industrialisation based on the existing resource endowment)	<ul style="list-style-type: none"> Mapping of regions with potential for industrial corridor growth carried out Infrastructure development plans for the development of the identified industrial corridors prepared. Investment promotion plans for the industrial 	<ul style="list-style-type: none"> Study report on industrial corridor development programme Stakeholder consultative surveys Profiles of investment opportunities under the industrial corridor 	EAC Secretariat (IDD), Ministry of Industry and Ministry of Transport and Infrastructure Development, Private Sector, EABC, AFDB, EADB, Development Partners.	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities SMEs ability to participate in the programme 	1,000,000

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
			corridor development prepared	development programme)			
		Establishing incubation facilities along development corridors that will serve to reduce start-up risks and also progressively promote/ induced “clustering” in terms of encouraging the phenomenon of the competitive geographical agglomeration of firms	<ul style="list-style-type: none"> • Mapping of potential industrial cluster to be promoted under incubation carried out • Programme for the cluster development formulated and implemented 	<ul style="list-style-type: none"> • Study report on regional industrial clusters • Catalogue of enterprises benefiting from cluster development programme • Stakeholder surveys 	<ul style="list-style-type: none"> • EAC Secretariat (IDD), Ministries that deal with Industry, transports and road matters in the Five Partner States, Private Sector, EABC, AFDB, EADB, DFIs, Development Partners 	<ul style="list-style-type: none"> • Availability of sufficient resources to undertake the activities • SMEs ability to participate in the programme 	500.000
		Setting up of a Load Balancing and Intermodal Transport Project along the identified industrial development corridors	<ul style="list-style-type: none"> • Strategy for setting up a Load Balancing and Intermodal Transport Project designed and implemented • Improved efficiency, and fewer delays at customs points along the development corridors 	<ul style="list-style-type: none"> • Project Reports 	<ul style="list-style-type: none"> • EAC (IDD) Secretariat, Ministry of Industry, Ministry of Transport and Infrastructure Development, 	<ul style="list-style-type: none"> • Availability of sufficient resources to undertake the activities • SMEs ability to participate in the programme 	5,000,000

• Private Sector,

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
					EABC, AFDB, EADB and Development Partners		
	Equitable dimension of the EAC Industrialisation Strategy and Policy	Promoting and develop mechanisms that enhance the free movement of skilled labour in regional industries to ensure equal access to business and employment opportunities created through industrialisation processes	<ul style="list-style-type: none"> Programme of measures to ensure equitable industrial development is designed 	<ul style="list-style-type: none"> Project design report Stakeholder consultative surveys 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministry of Industry, Ministries of Finance, Ministries of EAC Affairs, Private Sector, Development Partners 	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities Activities implemented 	<ul style="list-style-type: none"> 500,000
		Creation of incentives and other support promotional measures for attraction and enhancement of the development of all key industrial sectors in the region where Partner States have comparative advantage to achieve sustained industrial development	<ul style="list-style-type: none"> Incentive and award scheme under strategic industry proportion set up 	<ul style="list-style-type: none"> Regional and National Investment Reports Catalogue of enterprises benefiting from the scheme 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministry of Industry, Ministry of Finance, National 	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities Activities implemented 	

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
					associations, Private Sector		
		Supporting the development of indigenous entrepreneurs, and small and medium scale industries across the region to facilitate equitable exploitation of opportunities under the common market	<ul style="list-style-type: none"> Common principles and promotional programmes for the development of SMEs in place 	<ul style="list-style-type: none"> Project reports Stakeholder consultative survey 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministry of Industry, Ministries of Finance, Investment Promotion agencies, EABC, Association of Manufacturers, Development Partners 	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities Activities implemented 	
		Undertaking studies to assess the benefits of harmonising VAT rates in the region and other taxes which have disproportionate impact on incomes earned in the region	<ul style="list-style-type: none"> Assessment studies on tax harmonization carried out 	<ul style="list-style-type: none"> Study reports Stakeholder consultative surveys 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministry of Industry, Ministries of Finance, 	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities Activities implemented 	

Industrialisation Challenges /Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate (USD)
		<p>Ensure that Double Taxation Agreements concluded with third parties do not discourage local cross-border investors or local entrepreneurs</p>	<ul style="list-style-type: none"> • Appropriate Double Taxation Agreements endorsed and operationalised 	<ul style="list-style-type: none"> • Number of double taxation agreement concluded • Stakeholder consultative surveys 	<ul style="list-style-type: none"> • EAC Secretariat (IDD), Ministry of Industry, Ministries of Finance, Ministries of EAC Affairs, Private Sector, Development Partners 	<ul style="list-style-type: none"> • Availability of sufficient resources to undertake the activities • Activities implemented 	

SPECIFIC POLICY TARGET TWO: STRENGTHEN NATIONAL AND REGIONAL INSTITUTIONAL FRAMEWORKS AND CAPABILITIES FOR INDUSTRIAL POLICY DESIGN, MANAGEMENT AND IMPLEMENTATION

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
Inadequate policy generation and implementation capability	Strengthen and establish an effective and efficient National and Regional framework for Industrial Policy Design and Implementation	Preparation of capacity building plan to enhance capacity for industrial policy design, management and implementation, at national and regional level. This will entail: <ul style="list-style-type: none"> • stock taking of national and regional industrial policy design and management capacity needs • Identification of essential interventions to empower local education / training institutions to build effective capacities for delivery of industrial policy management courses 	<ul style="list-style-type: none"> • Capacity building needs assessment for policy design, management and implementation undertaken • essential interventions to strengthen local education that provide support services in industrial management policy identified • Capacity building plan formulated and implemented. 	<ul style="list-style-type: none"> • Training Needs assessment Report • Catalogue of institutions /personnels benefiting from the capacity building programme • Reports of the training workshops • Consultative surveys on capacity the building programme • Catalogue of institutions providing training on industrial policy design and management 	<ul style="list-style-type: none"> • EAC Secretariat (IDD); Ministries of Industry, Universities, Private Sector associations, Development partners, selected training institutions at national and regional level 	<ul style="list-style-type: none"> • Effective/proper implementation of national and regional reforms • Favourable business climatic conditions prevail • Availability of resources to undertake the training programme 	200,000
		Setting up regional and national institutional mechanisms to monitor and manage implementation of EAC industrialization Policy and Strategy	<ul style="list-style-type: none"> • Relevant approvals for the establishment of the Sectoral Council on Industrialization, Inter-ministerial coordinating Forum (IMCF), and Sectoral Committee on 	<ul style="list-style-type: none"> • Reports of the Council • Stakeholder consultative surveys • Catalogue of institutions/organizations participating in the meetings of 	<ul style="list-style-type: none"> • EAC Secretariat (IDD), Ministries of East Africa Community Affairs, Ministries responsible for Industrial 	<ul style="list-style-type: none"> • Approval by the Council • Commitment from Top Leadership • Resources (financial and technical) available 	1, 000,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
			<p>Industry secured . This will include preparation of relevant Terms of Reference</p> <ul style="list-style-type: none"> • Relevant Approvals for setting up national Industrial Development Coordinating Councils secured • The Sectoral Council and Sectoral Committee operationalized • The national industrial development coordinating Council operationalized 	<p>the Sectoral Council, Coordinating Forum and National Industrial Development Councils</p>	<p>development, Private Sector Associations, EABC, Ministries of Finance, selected technical national and technical institutions</p>		
		<p>Conducting awareness campaigns/seminars on EAC industrialization policy and strategy for high-level government officials, Members of East Africa Legislative Assembly, Members of Parliament at National Level and influential private sector representatives in the region</p>	<ul style="list-style-type: none"> • Regional and national stakeholder Sensitization campaigns/seminars designed and implemented • Industrial development champions identified in key public and private institutions to promote industrial development agenda 	<ul style="list-style-type: none"> • Reports of the sensitization seminars • A catalogue of research institutions conducting research on industrial development issues • Increased budgetary allocation for industrial development initiatives • Increased 	<ul style="list-style-type: none"> • EAC Secretariat (IDD), Ministries of Industry, Ministry of East Africa Community Affairs, EABC, Manufacturers Association, Private Sector Associations, Parliamentarians(national and regional levels) 	<ul style="list-style-type: none"> • Commitment from the public and private sector • Availability of resources to undertake activities 	500,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
				awareness and internalization of national and regional industrialization agenda			
		Facilitating the establishment of PPPs on industrial development programmes by providing analytical and other support services for dialogue processes related to industrialisation	<ul style="list-style-type: none"> Effective institutional mechanisms for public-private dialogue on policy issues which impact the industrialisation established. This will include sector based roundtable fora for the identified strategic regional industries The identified institutional mechanisms for promoting private /public dialogue operationalized 	<ul style="list-style-type: none"> Number of round table for a established Reports of the meeting of the relevant roundtable fora Catalogue of institutions/organization participating in the for a Catalogue of proposal identified during meeting to address challenges and constraints to industrial development 	<ul style="list-style-type: none"> EAC Secretariat (IDD), Ministries of Industry; Business Associations; Development Partners, EABC Relevant national and regional technical support organizations 	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities Relevant approvals by Council secured 	125,000
Lack of a coherent approach in collection, processing and dissemination of	Strengthen Industrial Information Management and Dissemination	Build and sustain the capacity to generate statistical data needed to support industrial development through an effective use of statistics to inform policy, monitor its implementation, promote	<ul style="list-style-type: none"> Needs assessment for industrial data and information management undertaken 	<ul style="list-style-type: none"> Capacity Needs assessment reports Catalogue of institutions 	<ul style="list-style-type: none"> National Bureau of Statistics; Ministries of Trade, EABC, 	<ul style="list-style-type: none"> Availability of sufficient resources to undertake the activities 	300,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
Industrial statistics	Systems	accountability and measure development results industrialisation	<ul style="list-style-type: none"> Industrial census/surveys undertaken in all Partner States Programme for Strengthening national and regional industrial information management systems formulated. This will include setting up and operationalizing national and regional industrial observatory systems Biennial industrial reports prepared Annual industrial bulletins produced 	<ul style="list-style-type: none"> benefiting from the capacity building programme Up-to-date National and regional Statistical Data on industries Biennial industrial reports Industrial bulletins 	Private Sector Associations, national and regional technical support institutions	<ul style="list-style-type: none"> Cooperation from Partnering Organizations Relevant approvals from Councils/Sectoral Council Secured 	
Inadequate appropriate skills for the industry	<ul style="list-style-type: none"> Facilitating the development of, and access to appropriate industrial skills and know-how 	<p>Prepare an industrial skills development and improvement programme based on industrial skills needs assessment.</p> <ul style="list-style-type: none"> Undertake industrial skills needs assessment to identify gaps and strengths in the skills delivery systems in the region Design mechanism for institutionalising partnership between industry and institutions for industrial skills development 	<ul style="list-style-type: none"> Industrial needs need assessment undertaken Capacity building programme for industrial skills upgrading prepared and implemented Studies to facilitate identification of centers of excellence conducted Modalities for the promoting networking among 	<ul style="list-style-type: none"> Industrial skills need assessment report Catalogue of institutions participating in the industrial skills upgrading programme Number of Centers of excellence set up to provide industrial skills training services A catalogue of organizations/net 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministries responsible for higher education, Ministries responsible for industry National Council for Tertiary Education Council for Technical and Vocational 	<ul style="list-style-type: none"> Financial and technical resources available Necessary approvals for implementation of the measures secured Cooperation from participating organizations secured 	300,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		Facilitate identification/establishment of regional Centres of Excellence in industrial skills development and transfer of know-how Devise modalities for networking industrial skills education/ training institutions in EAC region	universities/training institutions and industry formulated	works under industrial skills development programme •	Education and Training • Development Partners		
Inadequate access to affordable finance and technical resources for the manufacturing enterprises	• Enhancing access to financial and technical resources for Industrialization	Establish and develop a funding structure for a regional industrial projects, particularly, exploring the feasibility of setting up a regional Industrial Development Fund within the framework of the EAC Development Fund	<ul style="list-style-type: none"> • Concept note prepared and feasibility assessment for the regional industrial development fund carried out • Legislation on the establishment of an Industrial Development Fund prepared • Industrial Development Fund operationalised 	<ul style="list-style-type: none"> • Report of the Council/Sectoral Council • Stakeholder surveys • Relevant bills/Acts/institutions to execute the Fund • A catalogue of enterprises benefiting from the fund 	<ul style="list-style-type: none"> • EAC Secretariat(IDD), • Ministries responsible for Industry • Ministries responsible for EAC Affairs, DFIs • AFDB, EADB, EABC, Ministries of Finance • Development Partners, 	<ul style="list-style-type: none"> • Commitment from participating institutions secured • Council approval secured • Availability of financial and technical resources for establishing the Fund 	150,000
		Setting up a Regional Credit Guarantee Scheme to enhance access to finance by SMEs	<ul style="list-style-type: none"> • A regional credit guarantee facility established and 	<ul style="list-style-type: none"> • Concept note and feasibility study reports 	<ul style="list-style-type: none"> • EAC Secretariat(IDD), 	<ul style="list-style-type: none"> • Commitment from participating 	5,000,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
			<ul style="list-style-type: none"> operationalized A concept note and feasibility study for the scheme undertaken 	<ul style="list-style-type: none"> A catalogue of banks that offer credit to SMEs, through the Credit Guarantee Scheme Acts/bills /laws operationalizing the credit Institutional set up for administration of the scheme 	<ul style="list-style-type: none"> Ministries responsible for Industry Ministries responsible for EAC Affairs, DFIs AFDB, EADB, EABC, Ministries of Finance Development Partners, 	<ul style="list-style-type: none"> institutions secured Council approval secured Availability of financial and technical resources for establishing the Fund 	
		<p>Foster and promote establishment of industrial collaboration networks (ICNs) as avenues for leveraging regional and global resources for industrial development within the frameworks of South-South, North-South and other triangular cooperation mechanism</p> <ul style="list-style-type: none"> The collaboration networks will be established in key partnering countries and/or region to facilitate mobilization of technical and financial resources for regional programmes and projects 	<ul style="list-style-type: none"> Concept note and a programme for the promotion of industrial collaboration networks prepared Evaluation of Strategic collaboration partners at regional and global levels carried out Bilateral exchange missions carried out and MOUs signed Industrial collaboration functions set up and coordinators recruited 	<ul style="list-style-type: none"> Stakeholder review meeting reports Programme and concept note Strategic partnership assessment reports Signed MOUs on industrial collaboration A catalogue of support mobilized through the ICNs 	EAC Secretariat (IDD), Ministry of Industry, Ministry of EAC Affairs, Development Partners, Private Sector, EABC, Foreign Missions, Embassies affiliated to EAC	<ul style="list-style-type: none"> Approval by Council Secured, Collaborating partners commitment Financial resources to execute the programme 	250,000
		Undertake assessment study on the	<ul style="list-style-type: none"> The various studies 	<ul style="list-style-type: none"> Industrial finance 	<ul style="list-style-type: none"> EAC 	<ul style="list-style-type: none"> Availability 	300,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		<p>institutional arrangement for delivery of industrial financing and prepare a comprehensive plan for increasing access to industrial finance. The study to entail</p> <ul style="list-style-type: none"> exploring appropriate interventions (e.g., government-sponsored loan guarantee schemes) to encourage responsiveness of banks and Non-banking financial institutions to industrial investment loan needs exploring measures aimed at financially strengthening EAC industrial financial institutions through higher capitalisation, higher investments, and higher savings assessing the feasibility of establishing specialized regional banks and Non-banking financial institutions for small industrial investors and long-term industrial development projects 	<p>launched</p> <ul style="list-style-type: none"> New financial products introduced to support industrial development Comprehensive plan for strengthening and capacitating existing national and regional industrial financing institutions prepared Feasibility assessment for establishing regional banking and non financial institutions for small industrial investors and long term industrial projects carried out 	<p>study reports</p> <ul style="list-style-type: none"> Feasibly study reports Catalogue of enterprises benefiting from new industrial finance products 	<p>Secretariat(IDD),</p> <ul style="list-style-type: none"> Ministries responsible for Industry Ministries responsible for EAC Affairs, DFIs AFDB, EADB, EABC Ministries of Finance Development Partners Selected banking non-banking financial institutions 	<p>of funds to undertake the studies</p> <ul style="list-style-type: none"> Approval of the Councils Commitment from participating partners secured 	
Inadequate industrial support institutions to develop and sustain a competitive regional industrial sector	<ul style="list-style-type: none"> Strengthen the capacity of industry and business support 	<p>Assess the capability of industry support institutions to promote industrialisation in the region and design strategies to enhance the capacity of the institutions, and upgrade or set up new ones, where necessary</p>	<ul style="list-style-type: none"> Industry support institutions capacity assessment study carried out and a plan to enhance their capacity to promote industrial development 	<ul style="list-style-type: none"> Report of the study Stakeholder interviews 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministries of Industry Selected industry support institutions Association of 	<ul style="list-style-type: none"> Availability of funds to undertake the studies Approval of the Councils Commitment from 	<ul style="list-style-type: none"> 200,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
	organisations to provide technical and advisory services to hence competitiveness of the industrial sector	<ul style="list-style-type: none"> Develop capacity building programmes for the institutions to be able to adequately support national and regional industrialisation strategies, particularly at SME level Design measures to support the institutions meet the growing demand for industry related services 	<p>formulated</p> <ul style="list-style-type: none"> Appropriate institutions to promote strategic regional industries identified, capacity gap assessed and a response strategy formulated 		<p>manufactures</p> <ul style="list-style-type: none"> Chambers of commerce and industry Development Partners EABC 	<p>participating partners secured</p>	
Mainstreaming gender into the EAC Industrialisation Policy and Strategy	Promoting Gender equity in industrial development	<p>Identify and facilitate the review, assessment and harmonisation of existing gender specific industry regulations to remove inconsistencies or gender bias</p> <p>Strengthen gender-mainstreaming efforts through training in gender analysis, gender planning and realistic application of gender strategies and measures for effective mainstreaming of gender in industrial operations</p> <p>Facilitate the formation of women in business associations and networks, and develop programmes for linking women entrepreneurs with counterparts in other regions and</p>	<ul style="list-style-type: none"> Review of industry related gender regulations undertaken with a view to harmonization or bench-marking Training in gender analysis and planning in industrial operation carried out Associations for women in business formed and business linkage programme prepared 	<ul style="list-style-type: none"> Report of the review study Stakeholder interviews and report of the training workshop Terms of reference for the associations (MOU) Business linkage programme 	<ul style="list-style-type: none"> EAC Secretariat (IDD) EAC Gender Ministries, Ministries responsible for industrial development 	<ul style="list-style-type: none"> Availability of funds to undertake the studies Approval of the Councils Commitment from participating partners secured 	300,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		countries					

SPECIFIC POLICY TARGET THREE: EXPANDING TRADE IN MANUFACTURES BY INCREASING (I) INTRA REGIONAL MANUFACTURING EXPORTS RELATIVE TO TOTAL MANUFACTURED IMPORTS IN TO THE REGION TO AT LEAST 25% BY 2032 AND (II) INCREASING THE SHARE OF MANUFACTURED EXPORTS RELATIVE TO TOTAL MERCHANDISE EXPORTS TO AT LEAST 60% FROM AN AVERAGE OF 20 PERCENT

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
<p>Generally weak business and regulatory environment which impact on competitiveness of industries</p>	<p>Strengthen the business and regulatory environment to create a competitiveness business environment for industrial growth</p>	<p>Intensify measures to enhance the business environment in all the five Partner States, including developing an EAC Business Environment Monitoring System (BEMS)</p>	<ul style="list-style-type: none"> • Status of EAC Business environment undertaken and a response strategy prepared • EAC Business environment monitoring system (BEMS) designed and launched 	<ul style="list-style-type: none"> • Report on the EAC business environment • Stakeholder survey reports • World Bank Doing Business Report • Feedback from the BEMS 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) • Ministries responsible for industrial development • EACB, Association of manufacturers • Private Sector • National Investment promotion agencies • Development partners (World bank, UNIDO) 	<ul style="list-style-type: none"> • Availability of funds to undertake the studies • Approval of the Councils • Commitment from participating partners secured 	<ul style="list-style-type: none"> • 400,000
		<p>Develop a regional Industrial competitiveness framework to facilitate benchmarking of industrial performance and productivity with selected regional and global best practices</p> <ul style="list-style-type: none"> • This will include regularly conducting industrial competitiveness benchmarking surveys to monitor progress on improvement of the business environment 	<ul style="list-style-type: none"> • Industrial Competitiveness Monitoring Framework prepared, Tools and methodologies for carrying out industrial competitiveness benchmarking designed • Baseline information for the bench-marking collected based on the bench-marking parameters • Benchmarking survey 	<ul style="list-style-type: none"> • Report of the Councils/Sectoral Councils • Survey reports • Catalogue of enterprises using the competitiveness tracking systems 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) • Ministries responsible for industrial development • EACB, Association of manufacturers • Private Sector • National Investment promotion agencies • Development partners (World bank, UNIDO) 	<ul style="list-style-type: none"> • Availability of resources (technical and financial)to undertake the studies • Approval of the Councils • Commitment from participating partners secured 	<ul style="list-style-type: none"> • 400,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
			<p>undertaken among selected strategic regional industries/enterprises</p> <ul style="list-style-type: none"> A mechanisms for tracking industrial competitiveness put in place (would include annual competitiveness surveys, firm levels feedback loops, etc) 				
<p>Low demand for locally manufactured exports, both in the region and international markets</p>	<ul style="list-style-type: none"> Expansion of trade and market access for manufactured products 	<ul style="list-style-type: none"> Develop strategies for expansion of manufactured exports including developing regional standards and product quality certification systems for manufactured products with specific reference to the strategic regional industries; productivity improvement programmes, and packaging and branding initiatives <ul style="list-style-type: none"> This will include accreditation systems on testing methods, laboratories, metrology and calibration Developing Packaging and 	<ul style="list-style-type: none"> Review and assessment of the capacity of the enterprises under strategic regional industries to conform to international standards and quality requirements carried out Capacity of the standards and accreditations organizations in the public and private domains to deliver testing, calibration and conformity assessment services evaluated and gaps identified A programme to upgrading enterprises capacity as well as 	<ul style="list-style-type: none"> Study reports Report of the Council/Sectoral Council A catalogue of institutions selected for support programmes Feedback from industries interviewed Programme document Project document on the establishment of packaging design center 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministries of Industry National Bureau of Standards and related support institutions Association of manufacturers Selected private sector players Development 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 300,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		branding initiatives such as packaging technology centers etc	<p>capacity of supporting institutions designed and implemented</p> <ul style="list-style-type: none"> Explore possibilities of a establishing regional packaging design and technology centre as well as organizing a regional packaging technology exhibition Regional Industrial productivity improvement initiatives carried including exploring the introduction of KAIZEN Systems among others 	<ul style="list-style-type: none"> Report of the regional packaging exhibition Regional Industrial productivity initiatives programme document A catalogue of enterprises benefiting from the productivity improvement programme 	Partners		
		Identify trade policy instruments, non-tariff barriers (NTBs) and regulatory impediments to manufacturing, and institute measures to ensure that industry takes full advantage of the expanded regional market.	<ul style="list-style-type: none"> A scoping study to assess the impact of NTBs and other trade related policies including rules of origin and counterfeiting on industrial growth and development undertaken for selected regional industries Response strategy formulated and implemented A mechanisms for monitoring counterfeit 	<ul style="list-style-type: none"> Study report Feedback from stakeholders surveys Response strategy document 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministries of Industry National Bureau of Standards and related support institutions Association of manufacturers, Selected private 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 500,000

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
			<p>trade in manufactures put in place</p> <ul style="list-style-type: none"> Rules of origin reviewed to enhance trade in manufactures in the region 		<p>sector players</p> <ul style="list-style-type: none"> Anti-counterfeit agencies, Customs authorities, Ministries of trade, Development Partners 		
		<p>Establish a regional information portal on available capacities for industrial products in the region including raw materials, capital goods, inter-mediate inputs etc. This will increase intra-industry trade in these products</p>	<ul style="list-style-type: none"> An inventory of industrial raw materials, inputs, capital goods and intermediate products and capacities prepared Information dissemination systems put in place 	<ul style="list-style-type: none"> Survey reports Council/Sectoral Council Reports Inventory of the industrial raw materials and capital goods 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministries of Industry Association of manufacturers, Selected private sector players 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none">

SPECIFIC POLICY TARGET FOUR: STRENGTHENING R&D, TECHNOLOGY AND INNOVATION CAPABILITIES TO FOSTER STRUCTURAL TRANSFORMATION OF THE MANUFACTURING SECTOR AND UPGRADING OF PRODUCTION SYSTEMS

Industrialisation Challenges/Constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
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Industrialisation Challenges/ constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
<p>Weak R&D institutional capacity that is unable to provide effective environment for innovation</p>	<ul style="list-style-type: none"> Promoting regional collaboration and development of capability in industrial R&D, technology and innovation 	<p>Evaluate the capabilities and capacity of the national public and private industrial research & development institutions to meet the science and technology needs of the manufacturing sector</p> <ul style="list-style-type: none"> Assessment of research and technology demands for new and existing sectors where EAC has growth potentials Assessment of Capacities and capabilities of public and private institutions to meet these demands Potentials centres of excellence identification Assessment of technology and innovation infrastructure including technology parks, science parks, innovation park and IPR systems Industrial innovation, R&D, and technology transfer framework designed 	<ul style="list-style-type: none"> Mapping of new and existing sectors where EAC has potential to become competitive through application of technology services undertaken Capacity and capability of public and private research and technology organization to meet the demand for new and existing sectors evaluated, gaps identified and response strategy prepared Feasibility study on for the establishment of Institutional mechanisms for effective delivery of research and technology services to meet the needs of industry undertaken (technology services centres). Centres of excellence identified Technology transfer and innovation infrastructure assessed and relevant feasibility studies to guide establishment of technology, innovation and industrial parks carried out 	<ul style="list-style-type: none"> Study reports Council/Sectoral Council Reports Catalogue of institutions/enterprises benefiting from the capacity building programmes Stakeholder interviews reports Identified centres of excellence Feasibility Study reports 	<ul style="list-style-type: none"> EAC Secretariat (IDD) National Industrial Research Institutes National Science Councils Universities Private Sectors Organizations Development Partners Ministry of Industry Inter University Council of East Africa 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 400,000

Industrialisation Challenges/ constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
			<ul style="list-style-type: none"> Regional Intellectual Property Rights System put in place 				
		<p>Strengthen linkages between universities, R&D institutions and industry, through promotion of cooperation networks involving academia, RTOs and the private</p> <ul style="list-style-type: none"> Assessment of areas/ industrial research fields where networking could have potential impact on scaling up technology and innovation carried out , and gaps identified Mapping/Scoping of ongoing industrial research and technology development initiatives and identification of potentials areas for synergies/collaboration Networking with other regional economic blocs and 	<ul style="list-style-type: none"> Studies to guide establishment of networks undertaken Appropriate twinning options (both at regional and international level) identified and mechanism to facilitate interactions put in place Formal mechanism for Networking among selected centres of excellence established (centre for engineering design and manufacturing, technology centres, metrology and calibration centres, productivity centres, cleaner production centres etc) relevant institutional networks and twinning arrangements established 	<ul style="list-style-type: none"> Study reports Catalogue of centres participating in the regional networking initiatives Number of industrial research and technology promotion networks established 	<ul style="list-style-type: none"> National Industrial Research Institutes EAC Secretariat (IDD) Ministries of Industry Private Sector, Development Partners National Science Councils 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 300,000

Industrialisation Challenges/ constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		<p>at international level explored and promoted</p> <p>Set up appropriate mechanism for financing industrial research, technology development and innovation</p> <ul style="list-style-type: none"> Special funding mechanisms including industrial Development innovation funds (IDIF) and matching grants scheme to support collaborative initiatives should be explored An Award scheme for innovators explored Increased budgetary allocation to at least 1 percent of GDP 	<ul style="list-style-type: none"> Detailed concept note prepared and feasibility study for industrial development innovation fund and grant scheme undertaken Regional Award Scheme for industrial innovation set up Interventions to increased budgetary support for industrial research and technology development sector prepared Operationalization of the IDIF, Matching grant Scheme and Award Scheme 	<ul style="list-style-type: none"> Feasibility study reports Council/Sectoral Council Reports A catalogue of enterprises/institutions/individuals receiving Awards Number of new innovation oriented enterprises Increased investment in commercialization of research and innovations Number of collaborative R&D programmes 	<ul style="list-style-type: none"> National Industrial Research Institutes EAC Secretariat (IDD) Ministries of Industry Private Sector, Development Partners National Science Councils 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 300,000
Inadequate compliance with and implementation of environmental related regulations by industry	<ul style="list-style-type: none"> Promote sustainable industrialisation and environment management 	Facilitate and advocate for adoption of common policies and regulations for the control of industry related pollution, hazardous waste, nuclear materials, radioactive materials and any other industrial discharges and wastes which	<ul style="list-style-type: none"> Baseline study to establish status of industry compliance with environmental regulations (national, regional and international laws, regulations and conventions) undertaken 	<ul style="list-style-type: none"> Baseline study report Report of the Awareness seminars Response strategy document Environmental Audit Reports 	<ul style="list-style-type: none"> National and Regional Environment Agencies EAC Secretariat (IDD) Ministries of Industry International 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from 	<ul style="list-style-type: none"> 300,000

Industrialisation Challenges/ constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		<p>impact on environment</p> <ul style="list-style-type: none"> • Common strategies and policies for industrial waste management • Common policies and strategies for environmental impact assessment (EIAs) studies • Common principles and guidelines on corporate social responsibilities (CSRs) • Legislative and regulatory frameworks to promote waste avoidance, prevention, reduction, re-use and recycling should be developed 	<ul style="list-style-type: none"> • A response strategy including awareness seminars conducted 	<ul style="list-style-type: none"> • 	<p>Organizations (UNIDO, UNDP, UNEP)</p> <ul style="list-style-type: none"> • Private Sector • National Cleaner Production Centres • Ministries of Environment • Private Sector Associations 	<p>participating partners secured</p>	
		<ul style="list-style-type: none"> • Promote resource efficient and cleaner production initiatives in industries to enhance competitiveness and 	<ul style="list-style-type: none"> • A regional strategy on Resource Efficiency and Cleaner Production (RECP), and Sustainable 	<ul style="list-style-type: none"> • Regional strategy document 	<ul style="list-style-type: none"> • National and Regional Environment Agencies 	<ul style="list-style-type: none"> • Availability of resources (technical and financial)to 	<ul style="list-style-type: none"> • 300,000

Industrialisation Challenges/ constraints	Broad Policy Measures	Specific Interventions/Output Activities	Objective Verifiable Indicator	Means of Verification	Implementing Agency	Assumptions	Budget Estimate
		facilitate compliance with environmental measures.	Production and Consumption (SPC) prepared and implemented <ul style="list-style-type: none"> Setting up Regional networks mechanism for cleaner production centres 	<ul style="list-style-type: none"> Council/Sectoral Council report Catalogue of enterprises participating in regional RECP initiatives 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministries of Industry International Organizations (UNIDO, UNDP, UNEP) Private Sector National Cleaner Production Centres Ministries of Environment Private Sector Associations 	undertake the studies <ul style="list-style-type: none"> Approval of the Councils Commitment from participating partners secured 	

SPECIFIC POLICY TARGET FIVE: TRANSFORMING MICRO SMALL AND MEDIUM ENTERPRISES INTO VIABLE AND SUSTAINABLE BUSINESS ENTITIES CAPABLE OF CONTRIBUTING UP TO AT LEAST 50% OF MANUFACTURING GDP FROM 20% BASE RATE

Industrialisation	Broad Policy Measures	Specific Interventions/Output	Objective	Means of	Implementing	Assumptions	Budget
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Challenges/Constraints		Activities	Verifiable Indicator	Verification	Agency		Estimate
Weak institutional and regulatory framework to support the development of SMEs	<ul style="list-style-type: none"> Facilitating the Development of MISMEs 	<ul style="list-style-type: none"> Sett up an SME business portal where SMEs can access a variety of information on technology services, market opportunities etc 	<ul style="list-style-type: none"> A catalogue of information services needed by SME business prepared through surveys of SME businesses Information portal designed and launched 	<ul style="list-style-type: none"> Survey report Council/Sectoral Council reports A catalogue of SME accessing information through the portal 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministry of Industry SME associations Manufacturing Associations EABC Development Partners DFIs AFDB EADB 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 300,000
		<p>Formulate a regional charter and a policy on MSME development. This will be undertaken by harmonisation of Partner States policies and legislations on MSMEs to ensure a sound framework for their growth and development.</p> <ul style="list-style-type: none"> To include Benchmark of country best practices on SME promotion 	<ul style="list-style-type: none"> An audit of regulatory, laws and administrative requirements to be fulfilled by SME carried out Required reforms and reviews proposed EAC Charter on SMEs and a regional policy formulated 	<ul style="list-style-type: none"> Survey reports Compendium of regulations and administrative measures Council/Sectoral Council Reports Charter and Regional SME policy 	<ul style="list-style-type: none"> EAC Secretariat (IDD) Ministry of Industry SME associations Manufacturing Associations EABC Development Partners DFIs AFDB EADB Ministry of Trade 	<ul style="list-style-type: none"> Availability of resources (technical and financial)to undertake the studies Approval of the Councils Commitment from participating partners secured 	<ul style="list-style-type: none"> 300,000

		<p>Develop a regional programme for the upgrading of SMEs to enable them take advantage of Common Market opportunities and get integrated into regional and global value chains</p> <p>The programme should cover four main components on:</p> <ul style="list-style-type: none"> • improving business environment • Boosting enterprises competitiveness • Business development services and supporting institutions • Innovation capacity 	<ul style="list-style-type: none"> • Plan of actions for improving business environment, boosting competitiveness, increasing business development services and increasing technology uptake prepared • Programme designed and implemented 	<ul style="list-style-type: none"> • Study reports • Council/Sectoral Council Report • Plan of Actions • Comprehensive programme • Catalogue of SMEs benefiting from the programme • A catalogue of Institutions executing the programme • Number of Programme implementation offices established 	<ul style="list-style-type: none"> • EAC Secretariat (IDD) • Ministry of Industry • SME associations • Manufacturing Associations • EABC • Development Partners • International Organizations (UNIDO, ILO, UNDP etc) • DFIs • AFDB • EADB • Ministry of Trade 	<ul style="list-style-type: none"> • Availability of resources (technical and financial) to undertake the studies • Approval of the Councils • Commitment from participating partners secured 	18,000.000

6.0 EAC INDUSTRIALISATION STRATEGY LOG FRAME

Logic Intervention	Objective Verifiable Indicators	Means of Verification	Important Assumptions
<p>Goal: <i>“Sustain a robust industrial structure which is globally competitive, environment-friendly and capable of significantly improving the living standards of the people by 2030”</i></p>	<ul style="list-style-type: none"> • Contribution of the manufacturing sector to total GDP of 25% by 2030 • Rate of growth of manufacturing sector at 12% by 2030 • Manufacturing Value Added per capita at \$ 258 by 2030 • Manufacturing based employment at 2.2m by 2030 • Average score on World Economic Forum Competitiveness Index between 4.8 and 4.9 by 2030 • Score on UNIDO’s Competitiveness Industrial Performance (CIP) Index of 3.5 	<ul style="list-style-type: none"> • National Industrial and EAC Statistical Reports; • Background to the Budget • UNIDO International Yearbook of Industrial Statistical • Industrial Surveys • World Economic Forum Competitiveness Report • UNIDO Statistics 	<ul style="list-style-type: none"> • Regional economic environment conducive for trade/commerce • Security of person and property sustained in the region • Capacity and commitment of organised private sector to support regional industrialisation initiatives
<p>Purpose: <i>“to create a market driven, regionally and internationally competitive industrial sector based on the comparative and competitive advantages of the Partner States”</i></p>	<ul style="list-style-type: none"> • A deepened, upgraded and diversified regional manufacturing sector • More investment in areas with potential and regional comparative advantage • Improved enabling environment • New markets identified for businesses • Improved efficiency in key value chains 	<ul style="list-style-type: none"> • National Industrial Statistical Reports • Background to the Budget • World Economic Forum Competitiveness Report 	<ul style="list-style-type: none"> • Stable macro-economic policies • Effective/proper implementation of national and regional reforms • Favourable business climatic conditions prevail • Partner States’ buy-in and support to the EAC Industrial Strategy
Outputs/Results Areas			
<p>Output/Results Area 1: Adequate Ownership and Coordination of the EAC Industrial Strategy</p>	<ul style="list-style-type: none"> • Efficient coordination of national institutions and activities in favour of EAC industrial strategic objectives • Adequate human and financial resources at the EAC Secretariat to implement regional industrial initiatives • Adequate awareness about the EAC Industrial Agenda 	<ul style="list-style-type: none"> • EAC Secretariat Progress Reports • Number of staff recruited at the Secretariat • Channels established for funding regional industrial initiatives/expedition of regional industrialisation programmes • Effective institutional mechanisms 	<ul style="list-style-type: none"> • Advocating influence for implementation of industrial initiatives is welcome • Willingness of development partners to continue funding activities of the EAC Secretariat • Top leadership in Partners States gives support to PPP sector collaboration

Logic Intervention	Objective Verifiable Indicators	Means of Verification	Important Assumptions
	<ul style="list-style-type: none"> • Public Private Partnership Structures Strengthened/Development of a conducive environment for PPPs • Capacity built in the public and private sector through existing institutions and associations to enable adequate implementation of industrial initiatives 	<p>for PPP dialogue on policy issues which impact industrialisation of the regions</p>	
<p>Output 2: The EAC Industrial Strategy Implemented and Monitored</p>	<ul style="list-style-type: none"> • Competitiveness of identified regional industries strengthened • Sector clusters formed and operational along identified productive/competitive industries • Pilot projects implemented • Benchmarks of good practice identified for the private sector • Communication Strategy implemented • Adequate research and analysis undertaken to support key policy recommendations to enhance regional industrialization • Adequate provision of analytical support for dialogue processes relating to competitiveness and business environment issues in the region • Adequate monitoring and evaluation of regional industrial initiatives • Reliable industrial data available for policy analysis, monitoring and evaluation • Partner States increase capacities to document, archive, disseminate and industrial data 	<ul style="list-style-type: none"> • Annual output of key industries • National Statistics on demand for locally manufactured goods • Formation of clusters of firms with high growth potential • New markets identified for businesses • Improved efficiency in key value chains • Industrial Survey Reports/EAC Secretariat Progress Reports • Industrial Survey Reports/EAC Secretariat Progress Reports • EAC Monitoring and Evaluation Reports/National Industrial Reports on Industrialisation • Legal and regulatory framework for collection of industrial data designed 	<ul style="list-style-type: none"> • Availability of sufficient resources to undertake research/undertake monitoring and evaluation and targeted industrial projects/initiatives

6.1 EAC Industrialization Strategy Operational and Implementation Plan

Objective-Output Activity	Activities	Timeframe	Estimated Cost (USD)
Output 1: Adequate Ownership and Coordination of the EAC Industrial Strategy	<i>Support the alignment and integration of national industrial strategies into regional industrial development plans</i>	2012 – 2013	NA
	1. Working with relevant national ministries, establish a regional network of industrial officials from the five EAC Partner States who will spearhead the integration of national industrial strategies into regional industrial development plans		
	2. Organize four workshops (quarterly) for one year, with the above team to draw up Action Plans to integrate regional industrial development programmes into national strategies		400,000
	3. Conduct annual assessments to follow up on progress in aligning national strategies to regional programmes		50,000
	4. Develop strategies, plans and policy recommendations on alignment of national industrial plans to regional ones		100,000
	5. Encourage design and publication of comprehensive reports on Partner States' progress in implementing of national and regional industrial development initiatives	Annually	NA
	<i>Promote an increase of resources devoted to industrial development within Partner States</i>	2012	100,000
	1. With support from the Ministries of Trade and Industry and the Ministry of East African Community Affairs, prepare a comprehensive proposal on areas that will require substantial funding to enhance regional industrialisation		
	2. Identify opportunities for stakeholder participation in regional dialogue on sustainable industrialisation in order to engender greater commitment from all key stakeholders. Use dialogue to secure greater resource commitment from Partner States and development partners to fund areas identified as crucial in enhancing regional industrialisation		100,000
	3. Put in place a regional framework for attracting FDI		50,000
<i>Communicating strategy vision, goals, benefits, challenges, risks and opportunities</i>	2012	100,000	
1. Enhance stakeholder education and awareness about benefits deriving from sustainable industrialisation. Specifically design a communications strategy to			

Objective-Output Activity	Activities	Timeframe	Estimated Cost (USD)
	create awareness/build support and buy-in for the Industrial Strategy.		
	<i>Facilitate the establishment of PPPs by providing analytical and other support for dialogue processes related to industrialization</i>	2012 – 2015	200,000
	1. Participate in the enactment of PPP Act at regional level		
	2. Establish a regional PPP forum, and organise bi-annual public/private workshops, to address challenges facing the region, and identify business partnership opportunities		800,000
	3. Design and implement a regional industrial investment promotion agenda and align with existing EAC investment conferences		100,000
Output 2: The EAC Industrial Strategy Implemented and Monitored	<i>Support the implementation of interventions espoused within the strategy document by providing both adequate human and financial resources for technical assistance</i>	2012 – 2017	1,234,000
	1. Increase the number of technical staff at the Secretariat from 2 to 4		
	2. Strengthen new staff's project management skills to enable implementation of key industrial priorities outlined in the Industrial Strategy		25,000
	3. Draft and operationalize annual regional industrialisation plans within the framework of the Industrial Strategy		200,000
	4. Commission studies and propose strategies for the region's sustainable industrial development		200,000
	<i>Support the development of sector clusters for identified regional industries, including mobilisation of resources for implementation</i>	2012 – 2013	100,000
	1. Conduct sub-sector analysis of value chain needs of selected clusters		
	2. Establish broad consensus (from Partner States) on sectoral development priorities and divisions of responsibilities of key interventions		NA
	3. Build awareness on areas that will enhance the productivity of the clusters		100,000
	4. Institute a regional campaign for promoting productivity awareness within the sectors		100,000
	5. Develop incentives for value addition		90,000
	<i>In collaboration with the private sector, implement the establishment of Industrial Parks with Business Incubation Centers</i>	2012 – 2017	100,000
	1. Commission feasibility study for how to best institute incubation centers in the		

Objective-Output Activity	Activities	Timeframe	Estimated Cost (USD)
	Partners States as a tool for small and medium business development		
	2. Study issues related to the development of the Special Economic zones and coordinate the implementation of relevant policies.		100,000
	3. Prepare a proposal for funding viable/bankable incubation centers		100,000
	<i>Facilitate the implementation of global competitiveness survey to benchmark the Region's competitiveness</i>	Annually	50,000
	1. Participate in the survey, by undertaking regional meetings to fill survey questionnaires		
	<i>Put in place a mechanism/s for regularly receiving updated data on industrial performance at national and regional level</i>	2012	10,000
	1. Commission the services of an IT firm to design and install a regional data base on industrial statistics		
	<i>Build and sustain the capacity to generate the statistical data needed to support industrial development through an effective use of statistics to inform policy, monitor its implementation promote accountability and measure development results.</i>	2012	100,000
	1. Commission the services of an IT consulting firm to conduct training workshops for stakeholders from the five Partner States on how to generate and use industrial statistics to inform policy and monitor its implementation, etc		
	<i>Conduct periodic reviews to assess progress in implementing industrial strategies, both at national and regional level</i>	Quarterly	50,000
	<ul style="list-style-type: none"> Develop a Monitoring and Evaluation matrix to track progress in implementing regional industrial initiatives 		
	<ul style="list-style-type: none"> Conduct quarterly assessments on progress on regional industrial development 		50,000
	<ul style="list-style-type: none"> Conduct annual surveys on the status of the industrial sector in the region 		50,000
	<ul style="list-style-type: none"> Basing on results of the assessments, fine tune industrial strategy annually 		50,000
	<ul style="list-style-type: none"> Media monitoring by a specialised firm for five years 	2012 - 2017	100,000
	<i>Strengthen the capacity of national regulatory bodies to monitor industry, to keep up with technological developments and enforce environmental regulations</i>	2012	52,500
	1. Conduct training workshops with stakeholders on improved tools and techniques for monitoring industrial establishments		

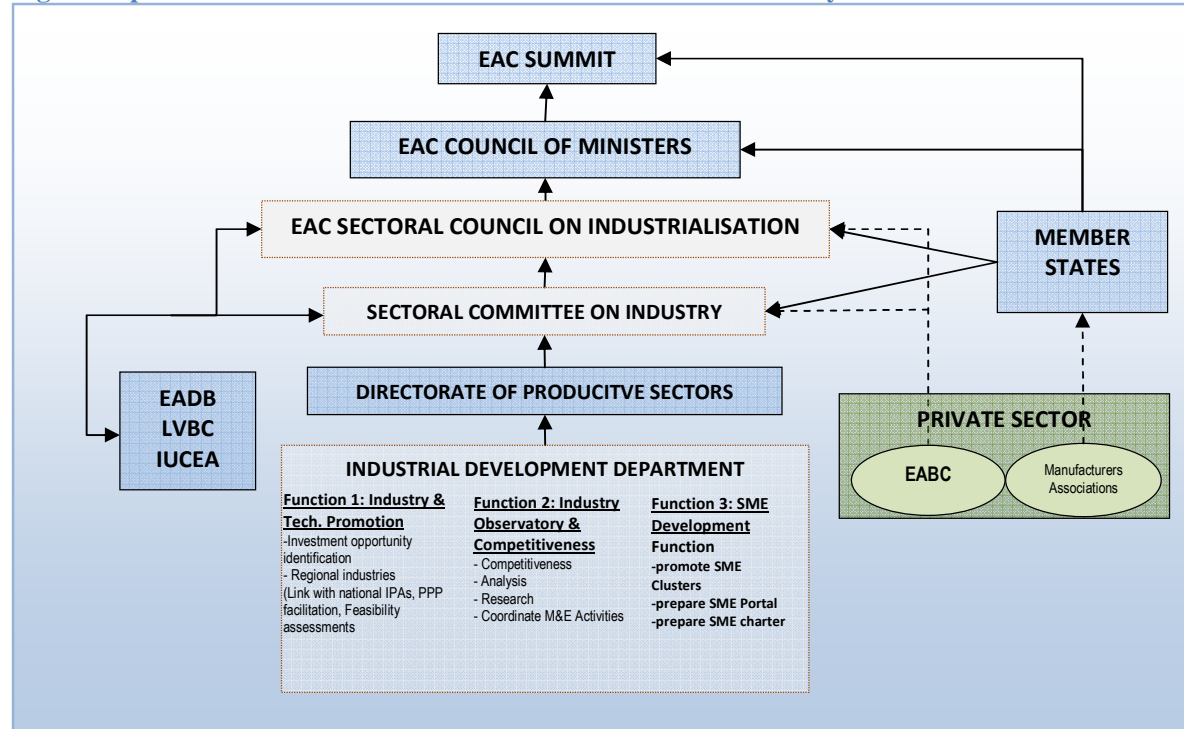
Objective-Output Activity	Activities	Timeframe	Estimated Cost (USD)
	<i>Intensify existing programmes for the promotion of goods made within the EAC</i> 1. Commission a consultancy on how to harmonise and enhance national programmes to promote locally manufactured products	2012 - 2013	100,000

7.0 INSTITUTIONAL FRAMEWORK

A robust institutional framework to coordinate and guide implementation of the industrialisation strategy and policy will be a key success factor. The EAC protocols clearly identify the lead regional institutions responsible for providing oversight, coordination and implementation of key regional policies. The EAC institutional framework will be utilised to ensure effective implementation and monitoring of the regional industrialisation policy and strategy.

7.1 Framework for Industrialisation – Policy Matters

Fig 9: Proposed Institutional Framework for Industrialisation – Policy Matters



7.1.1 EAC Council of Ministers

The Council's lead role with regard to the Industrialisation Policy and Strategy oversight and guidance emanates from Article 44 of the EAC Common Market Protocol (CMP). The Protocol commits Partner States to cooperate on industrial development matters for attaining sustained growth and development of the Community.

7.1.2 EAC Sectoral Council on Industrialisation

It is proposed that in line with the development of the EAC Industrial Policy (2012-2032) and EAC Industrialisation Strategy (2012-2032), the Community establishes a Sectoral Council on Industrialisation to guide implementation of the Industrialisation Policy and Strategy by issuing relevant directives and regulations on:

- implementation of the industrial development policy and strategy including promotion of new technologies and the infrastructure necessary for industrial development;
- improvement of quality and technical and regulatory infrastructure to ensure compliance of industrial products to standards and technical regulations;
- establishment of physical infrastructure for industrial development including industrial parks and special economic zones;

- d) establishment of a regional mechanism for developing human capacity for industrial and technological advancement;
- e) support for regional fora for Public Private Partnership and civil society dialogue;
- f) development of a regional mechanism to provide sustainable and affordable industrial development finance;
- g) support for the development of a regional productive base for capital, intermediate goods, tools and implements; and
- h) any other measures that may be necessary.

7.1.3 Sectoral Council on Industrialization

In order to provide policy direction, support implementation and monitoring of the EAC Industrialisation Policy and Strategy, it is proposed that the Council establishes a Sectoral Council on Industrialization whose mandate will include:

- (i) Providing policy oversight on implementation of EAC Industrialization policy and strategy in consultation with the Council of Ministers;
- (ii) Setting policy guidance and direction for EAC Industrialization taking due regards to international, continental, regional and national industrial development processes;
- (iii) Implementing and following up on decisions of the Council of Ministers and the Summit of Heads of States relating to industrial development;
- (iv) Making and issuing regulations to effect implementation of Article 44 (3) of the Common Market Protocol
- (v) Undertaking any other measures that may be necessary in advancing the course of EAC Industrialization.

The Sectoral Committee will be the technical arm of the Sectoral Council on Industrialization. The proposed Sectoral Committee on Industry will focus on technical aspects of industrialisation including the following:

- a) Provide technical input to the Sectoral Council on matters pertaining to industrial development in the region;
- b) recommend measures to support emergence of a conducive industrial and economic environment and facilitate networking, consultations and negotiations on issues of industrial development among Partner States;
- c) facilitate harmonisation of the legal and regulatory frameworks affecting industrial development including efforts towards definition of common rules and framework conditions relevant to industrial development of Partner States;
- d) submit periodic progress reports to the EAC Sectoral Council on Industrialisation;
- e) assist the EAC Sectoral Council on Industrialization in formulating strategies for the development of industrial subsystems and act as a forum to address the emerging needs and challenges to industrial development;
- f) monitor progress of industrial development and tendencies toward market concentration or other forms of market distortion and recommend appropriate measures; and
- g) act as an intermediary between the regional industries, their strategic consultative groups and the national governments to ensure continuous dialogue and a level playing field for all.

7.1.4 Role of the EAC Secretariat

The Secretariat through the Industrial Development Department (IDD) in the Directorate of Productive Sectors will facilitate and coordinate implementation of various activities and programmes envisaged under the policy and strategy. In particular, the Secretariat through Industrial Development Department will undertake the following among others:

- a) facilitate the work of the Sectoral Council on Industrialization and Sectoral Committee on Industry;
- b) maintain regular communication on industrial development issues with regional and national stakeholders including member states and private sector organisations;
- c) promote the region's industrial development agenda internationally;
- d) promote and facilitate joint regional industrialisation ventures;
- e) conducting regular feasibility surveys and assessments of the industrial sector to identify opportunities for regional investments and to enable progress monitoring;
- f) promote collaboration in industrial Research and Development (R&D) and fostering of synergies/linkages between universities, research centers and the industry; and
- g) provide strategic information to the industrial sector, especially regional industries, SME's and entrepreneurs on markets, new technologies, and the nature of competition.

To enable effective implementation of the policy and strategy, the capacity of the Secretariat will be enhanced to execute the following functions to expedite the industrialisation of the region;

- i. **Industry Competitiveness/Industrial Observatory Function:** Main activities will include: 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); undertaking feasibility and assessments specific to regional industries; undertaking policy review, redesign, monitoring and evaluation; 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, providing 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.
- 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, mobilizing 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.

7.1.5 Role of National Governments

National governments will continue to play a lead role in enabling the regional industrial development agenda. Partner States are expected to ensure that national industrialisation policies and strategies are implemented and that national industrialisation policies continue to be aligned with regional industrialisation initiatives.

National governments are expected to avoid taking actions that counter their obligations and commitments at the regional level. In addition to this, national governments, working with the private

sector, are expected to initiate, implement and monitor national industrial development policy interventions that reinforce regional industrialisation efforts.

National governments, primarily working through their ministries responsible for industrialisation, will take a lead in delivering the following:

- a) promote economic and industrial development by creating a conducive investment climate and co-ordinate and facilitate all industrial development activities taking into consideration participation and input of other stakeholders including, private sector representative organisations, enterprises, donors, institutions, international and regional organisations and others;
- b) co-ordinate industrial development with other EAC Partner States and the EAC Secretariat and play a catalytic role with regard to domestic and foreign investment inflows;
- c) create inter-industry linkages, nature industrial clusters and support development of small scale industries through linkages;
- d) promote fair competition in industrial development by ensuring; macroeconomic stability, good competition and trade policies, updated legal frame work, rule of law, peace and security, eradication of corruption, adequate environment, industrial and safety standards, protection of intellectual property rights, etc;
- e) provide and maintain efficient and accessible infrastructure at reasonable cost to industry and encourage involvement of private sector operators in the provision and management of infrastructure; and
- f) undertake period assessments of industrial performance as the basis for monitoring progress at national and regional levels.

7.1.6 Role of Private Sector

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

The private sector will deliver its input at both national level and at regional levels. Articles 127 and 128 of the Treaty recognise private sector organisations as partners in development and emphasise the need to strengthen the role of the national business organisations or association in the formulation of economic policies and to promote the development of private sector organisations. Some of the roles of the private sector in implementation of the industrialisation policy and strategy are to:

- a) promote linkages at national, regional and international level in accordance with Article 80, 1(b) of the EAC Treaty;
- b) take advantage of and exploit industrial business opportunities at regional; and national level;
- c) interact with regional policy organs and national governments to ensure improvement of the business environment;
- d) aim to build strong and competitive industrial enterprises, based on ethical business principles and practices and able to meet the requirements of local, regional and international markets;
- e) work together through their representative associations and advocate industrial policies and interventions that contribute to emergence of a competitive national and regional industrialisation; and
- f) represent the interests of the private sector in policy making organs at regional level (Sectoral Council and Sectoral Committee).

7.2 Framework for Industrialisation – Technical Matters

7.2.1 Regional Sector Value Chain Coordinating Roundtables

It is proposed that the private sector takes a lead role in implementing the industrialisation policy and strategy through participation in Regional Value Chain Round Tables (RVCRT) meetings. RVCRT will be structured initially around the three priority sectors including extractive and mineral processing industries, agro industry and the pharmaceutical industry.

The Round tables will bring together the private sector representatives from the Partner States who would meet regularly to consult on and discuss technical and policy issues relevant to the implementation of the strategy and policy specific to the relevant subsector. RVCRTs will provide the necessary platform for ensuring private sector participation and leadership with regard to implementation of the industrialisation policy and strategy.

RVCRTs will periodically report to the EAC Sectoral Committee on Industry and their activities and programs would be facilitated by the Competitiveness Unit/Industrial Observatory established under the Industrial Development Department. Additional RVCRTs will be created as necessary.

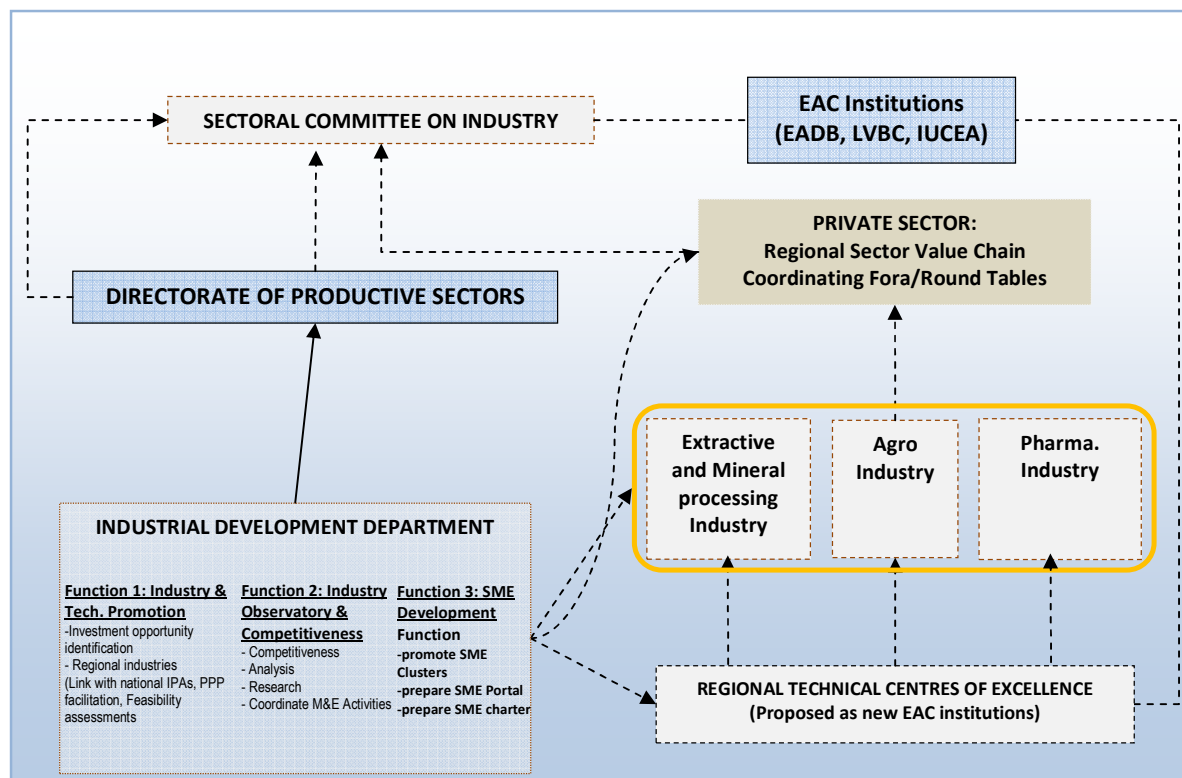
7.2.2 Regional Technical Centers of Excellence

Regional Technical Centres of Excellence (RTCE) will be established to offer technical support to priority subsectors from a regional and international best practice standpoint. Within the framework of industrial priority sectors, the RTCE will conceive and implement activities aimed at strengthening sector competitiveness and the scientific and technological capabilities of EAC Partner States.

RTCEs will aim to transfer scientific knowledge through advanced training; create a bridge bringing together industry and academia, support industrial research and innovation, support development and adoption of environmentally friendly technologies and provide RVCRTs with expertise in science-based technologies.

Figure 11 below presents the institutional framework for industrialisation specific to technical matters.

Fig 10: Proposed Institutional Framework for Industrialisation – Technical Matters



7.3 Framework for Industrialisation – Accompanying Measures

An **Inter-Ministerial Coordinating Forum (IMCF)** will be set up by the Council charged with following up on progress in implementing accompanying measures, both at national and regional level. The deliberations and decisions of the IMCF will be forwarded to the Council for Council for consideration.

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

8.0 RESOURCE MOBILIZATION AND FUNDING THE STRATEGY

The EAC Industrialization Strategy will be financed EAC Partner States, Private Sector, Development Partners, regional financial institutions such as Commercial Banks, and Micro-finance Institutions among others.

The following strategies are proposed to finance implementation:

8.1 Public Private Partnerships (PPPs)

Public Private Partnerships (PPPs) are effective financing mechanisms for both national and regional development activities, especially infrastructure projects. The availability of development finance is considered an important ingredient in ensuring: materialization of such PPP initiatives, developing PPP projects; undertaking financial structuring and packaging of projects and mitigating the risks confronting PPP activities and projects.

PPPs in the EAC Partner States have been used widely and somewhat effectively in the implementation of large public projects thus providing an avenue for implementation of the EAC Industrialisation Strategy. Implementation necessitates the adoption of the following strategies:

- a) Development and harmonisation of existing PPP policies, strategies and regulatory frameworks
- b) Promotion of Public Private Partnerships in the provision of infrastructure and other services
- c) Capacity Building for PPP development

There are several optional arrangements for PPPs in implementation of the EAC Industrialisation Strategy:

- i. Build-Operate-Transfer or Build-Own-Transfer (BOT): A form of concession with an emphasis on construction of new, standalone systems and it comes in several variations.
- ii. Corporatisation: A government entity forms a separate legal corporate entity to manage service provision. These corporate entities often referred to as "utilities," involve partnerships in the sense that government creates a separate, contractual "partner".
- iii. Lease Contracts: A private company rents facilities from a municipality and assumes responsibility for operation and maintenance. The lessee finances working capital and replacement of capital components with limited economic life and fixed assets remain the responsibility of the public partner.
- iv. Concessions: A private company handles operations and maintenance and finance investments in addition to working capital of a public partner. The public partner exercises a regulatory and oversight role and receives a concession fee for this arrangement.

8.2 Foreign Direct Investments and Portfolio Investment

The private investment in the region relatively small ; and as such the region needs to develop efficient and market-seeking foreign direct investment flows to succeed in attracting investments. Attracting and retaining foreign investment in a highly competitive environment requires that the region offers investment opportunities with a relatively higher return given a certain level of risk, or alternatively, a lower risk associated with investments providing a certain rate of return.

Foreign portfolio investment (FPI) would serve as another potential source of finance in the implementation of the EAC Industrialisation Strategy.

8.3 EAC Financial and Capital Markets

Savings and investment are central determinants of the rate and pattern of economic growth. Increasing domestic savings and using the resources in productive investments by the EAC economies will strengthen the region's prospects for accelerated economic growth, poverty eradication and sustainable development.

There is an expected positive impact on the global investments flow to EAC economies through regional and international trade and investment. The privatisation of regional companies through the issuance of share on the national stock exchanges has provided funds for companies to implement their resource intensive regional development programmes. Most of the issued public shares have been oversubscribed indicating the existence of potential investors in development projects.

This provides an opportunity for the regional industries to source for funds from the national economies for the implementation of the industrial development projects through the following channels:

- a) Private Equity and Venture Capital Funds; and
- b) Infrastructure Funds or Bonds; and
- c) Industrial development bonds.

9.0 MONITORING AND EVALUATION

Monitoring and Evaluation of the EAC Industrialisation Strategy will be guided by the Implementation Matrix (see Chapter 8) that outlines the specific interventions/activities and objective variable indicators. From the Implementation Matrix, the IDD of the EAC Secretariat will develop five-year Action Plans, against which the Strategy will be monitored and evaluated periodically.

Monitoring of the EAC Industrialisation Strategy

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

Industrial Surveys will be conducted, first at the endorsement of the Strategy to provide baseline data and subsequently at the end of the every five years of implementing the Strategy to support impact evaluation. As outlined in Chapter 9, the IDD of the EAC Secretariat will take a lead role in monitoring the Strategy, supported by the Sectoral Committee on Industry.

Evaluation of the Strategy

The evaluation of the EAC Industrialisation Strategy will entail planned and periodic assessment of results in key areas (e.g. appropriateness, effectiveness, efficiency, impact and sustainability).

The evaluation will build on the monitoring process by identifying the level of short to medium-term outcomes and longer term impacts achieved; the intended and unintended effects of these achievements; and approaches that worked well and those that did not work well; identifying the reasons for success or failure and learning from both.

Main evaluations that will be carried out in the course of implementation of the EAC Industrialisation Strategy will include (i) Four 5-year Evaluations and (ii) One Terminal Evaluation in 2032.

10.0 COMMUNICATION AND OUTREACH PLAN

The communication and outreach plan has been designed to guide the EAC Secretariat on how to effectively communicate and educate the public about the regional industrialisation initiatives, which are contained in the EAC Industrialisation Strategy.

The EAC Industrialisation Strategy is a policy instrument whose ownership is a requisite in all the five Partner States, particularly among the business community.

It is therefore prudent that appropriate communication channels are instituted, using this communication and outreach plan, to adequately relay the objectives and goals of the Industrialisation Strategy, and subsequently, allow for its adequate implementation.

The communication and outreach plan aims at creating a framework for continuous flow of information between the EAC and public and also act as a feedback mechanism to identify issues impeding industrial development, and ways on how they can be dealt with.

Specifically, the plan will;

- a) Guide the EAC institute an effective communication mechanism with various stakeholders, including promoting public awareness on the region's industrial programmes, comparative advantages of Partner States, and related issues;
- b) Advocate for regional industrial growth through policy reforms; and
- c) Provide avenues on how to enhance competitiveness of the region.

The communication and outreach plan will apply the tools outlined below to disseminate information on industrialisation in the region. Also, once the EAC Strategy is adopted, it is recommended that the Strategy is publicised using the following tools. The tools are:

- i. Websites (EAC, National Private Sector Associations)
- ii. Mini CDs
- iii. Print media/Press releases
- iv. News letters (EAC and Private Sector Associations)
- v. National Assemblies,
- vi. Civil Society Organizations,
- vii. Chanceries,
- viii. Investment Promotion Centers

10.1 Implementation Structure

It's important to note that the media will play a central role in the communication process. In spearheading the objectives of the EAC Industrialisation Strategy, there is need to leverage the media for effective information dissemination.

In this regard, we recommend the appointment of a specific media point person that will coordinate and make arrangements for media to access information on regional industrialisation initiatives. The role of the officer will include liaising with media, coordinating media briefings, and preparing press releases, among others.

11.2 Key Messages

- a) *The EAC Industrialisation Strategy aims to support the establishment of a competitive and efficient industrial sector, able to sufficiently contribute to wealth employment and higher incomes for East Africans*
- b) *Value addition and product diversification are key to regional industrialisation*
- c) *Regional industrialisation will enhance access to larger markets and provide an environment that will bolster the manufacturing sector's capacity to compete in international markets*

10.3 Strategic Objectives

Table 16 outlines the Strategic Objectives, the performance indicators and key outputs of the communication and outreach plan.

Table 7: Strategic Objectives: The Performance Indicators and Key Outputs

Specific Objectives	Performance Indicator	Key output
i. Establish avenues to use to enhance public communication		
ii. Create means of interacting with the media and how to relay educational messages through the media		
Communication to increase flow of information between Secretariat and the public	<ul style="list-style-type: none"> a) Create a framework for continuous flow of information between the EAC and public b) The media : <ul style="list-style-type: none"> i. Better coverage and independent analysis of regional industrialisation initiatives. ii. Numbers of journalists covering regional events on industrialisation 	<ul style="list-style-type: none"> i. Introduce media interaction through regular briefings and workshops ii. Number of media experts assigned to cover the region's industrialisation efforts
Increase public participation in regional industrialisation programmes.	<ul style="list-style-type: none"> a) Better awareness and knowledge of industrialisation efforts at regional level; the key players, their roles and responsibilities; etc. b) Increase in number of media reports and exposures on investor protection matters 	Increase in awareness and knowledge on regional industrialisation programmes

10.4 Monitoring Tools

Table 17 below outlines monitoring tools that will be adopted

Table 8: Monitoring Tool

<i>What to monitor</i>	<i>Information to be collected</i>	<i>Source of information</i>	<i>Use of information</i>
Results of activities	<ul style="list-style-type: none"> a) What has to be done b) What has not been done but was planned to be done c) What problems have been encountered d) How the problems have been addressed e) How the external situation has changed f) Any other information relevant to the programme 	<ul style="list-style-type: none"> a) Regular record of activities b) Periodic reports c) Meetings, workshops with programme partners and sample target audience d) Participants reviews e) Newspapers, radio and other media f) Informal discussions g) Observation h) Surveys 	<ul style="list-style-type: none"> a) Plan future work b) Identify successes c) Identify opportunities to build on strengths d) Identify problems and weaknesses, plan strategy e) Review priorities f) Identify training needs for both implementers and target groups g) Identify need for further information, research
Programme Inputs	<ul style="list-style-type: none"> i. What is needed and where it can be found ii. When it is needed and when it will be available iii. Cost 	<ul style="list-style-type: none"> i. National Institutions ii. Regional Bloc 	<ul style="list-style-type: none"> i. Plan and schedule activities ii. Monitor costs and budget accordingly
Progress of programme according to objectives	<ul style="list-style-type: none"> i. Progress towards achieving objectives ii. Are objectives still relevant 	<ul style="list-style-type: none"> i. Information about key indicators ii. Observation 	<ul style="list-style-type: none"> i. Modify strategy objectives if necessary ii. Feedback iii. Identify need for review or evaluation iv. Identify need for improvements in monitoring system

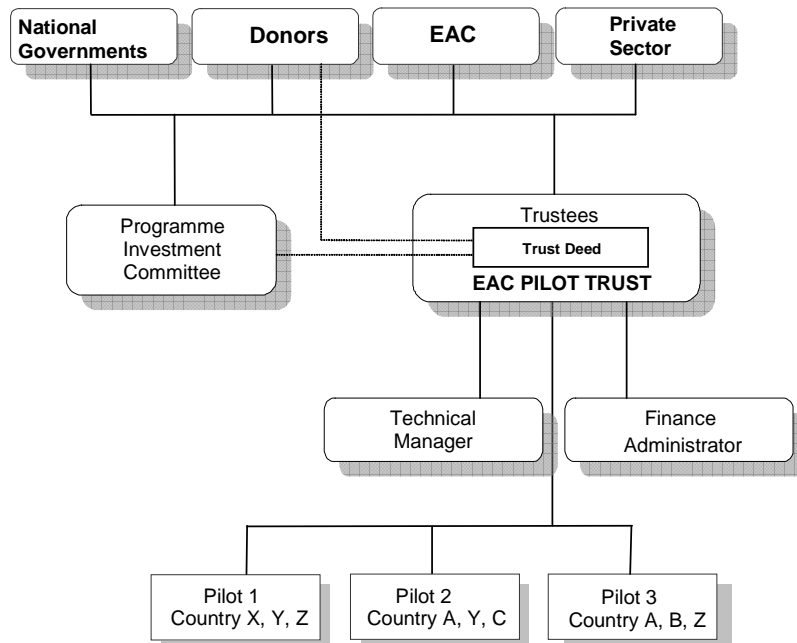
12.0 POTENTIAL REGIONAL PROGRAMMES AND PROJECTS

Piloting industrialisation projects and programmes will give effect to a coordinated region-wide approach to implementation of the Industrialisation Strategy. The intention of piloting selected industrialisation initiatives is to fast track implementation of measures and interventions designed to catalyse faster, better coordinated, and result-driven implementation of the Strategy.

Pilot projects and programs will have a typical life cycle of 3 to 5 years and will leave behind valuable experiences and ensure that there is a greater interaction between the EAC industrialisation team, national institutions and the private sector. This will be a good practical move towards greater regional integration.

The pilot projects should be fully designed by the Industrialisation team at EAC Secretariat after due consultation with relevant stakeholders. The funding for implementation of pilot programs should come from Partner States, EAC and Development Partners. Fig. 9 below illustrates the institutional framework for implementing the pilot projects.

Fig 11: Institutional Framework for Implementing Pilot Projects



12.1 DESCRIPTION OF POTENTIAL REGIONAL PROGRAMMES AND PROJECTS

12.1.1 Development Corridors and Spatial Development Projects

Development Corridors are described as transport (or trade) corridors with under-utilised economic potential in their environs, the development of which would be explored through spatial planning and development projects (SDIs). 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 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 national, regional and international trade of the five EAC Partner States. Below is a highlight of two pilot projects that can be set up along the corridors.

a) Developing an Industrial Park along the Corridors

The Industrial Park can be physically set up as a pilot along any of the two corridors. The physical zone or park can be created close to dry or sea ports on a PPP basis. The occupants of this facility can pay an administrative fee to a newly created Industrial Promotion Centre (IPC) - an institution specifically created at regional level to champion implementation of the parks and zones. This will allow the licensed industries to take advantage of all the benefits deriving from the EAC Common Market Protocol.

More importantly, existing businesses outside the Regional Industrial Parks but with regional ambitions can pay a slightly higher administration fee (as the cost of administering entities outside Industrial Park will be higher) to IPC. The licensed industries outside Regional Industrial Parks can be recognised as Certified Strategic Regional Industries.

The payment of the regional market fees can give them access to:

- i. bonded warehouses, sealed containers for movement of goods within EAC without additional duties and taxes as per the signed EAC protocols;
- ii. advantage of EAC Common Market Protocol – free movement of labour (the work and residence permits to be easily procured by IPC on behalf of the regional industries);
- iii. removal of Non Tariff Barriers (regional SPS certification as well as quality standards certification procured by IPC);
- iv. border facilitation – fast track clearance of goods produced in regional industries at the border, including reducing delays at weighbridges, etc;
- v. dispute resolution – facilitate resolving of transfer pricing disputes or any such dispute with revenue authorities related to movement of goods between two jurisdictions.

It will be important to have an effective and functioning IPC and setting up of such a body under the aegis of EAC with staff drawn from ministries of EAC of every country might be an administratively expensive affair. However, if there is an adequate number of industries participating in the pilot and the cost of the staff is in-built in the Regional Industry Fee, then the pilot will be feasible.

b) Load balancing and intermodal transport for reducing trade costs along the Corridors

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

At present, there is little balance between the head haul and backhaul traffic in the EAC region. Conceptually the transport assets can be better managed if each destination has enough products to fill

up the trucks or railway wagons in both directions. That is the only way the costs will come down.

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

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

12.1.2 Sector Clustering and Agglomeration - Promote Sector Clusters and Sector Value Chains

A key reason why Partner States' intervention in support of industrialisation has often turned out to be a hit-and-miss affair is failure to fully understand divergent factors that influence competitiveness in specific sectors of the economy. The EAC needs to periodically profile the region's economic sectors with special focus on key growth sectors and sectors that hold the greatest potential to grow the regional economy.

Understanding what drives growth in key sectors of the regional economy and designing and implementing agreed policy intervention with the support and active participation of the private sector holds the key to enhanced regional industrialisation. Among other considerations, the industrialisation strategy should be partly predicated on sector cluster strategies. Promoting sector clusters would result in improved productivity through better access to specialised suppliers, skills, information and other variables.

Enhancing industry value chains, targeting sectors that hold the greatest growth potential, should also constitute a core dimension of the EAC industrialisation strategy. For instance, **defining and implementing a competitiveness framework that strengthens agro industry value chains is likely to significantly enhance the EAC's growth and employment potential given the significance of this sector to the regional economy.** Specifically, this intervention would focus on such areas that hold the greatest potential for growth through value addition including: food processing, textiles and clothing, and leather and leather products, among others.

12.1.3 SME Incubators

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

The facility of offering entrepreneurs low cost office space, industrial shop floor space, and services can be beneficial in that it promotes capital conservation of the entrepreneur by affording him with affordable space, and equipment that would be shared with other members of the incubator. However, it is important to have a firm understanding of the market needs, otherwise the occupancy rates will not be high enough to warrant establishment of the facility.

The incubator should aim to:

- a) Help Entrepreneurs overcome constraints to enterprise growth that arise from their macro-economic environment such as regulator barriers, lack of information, and lack of access to capital.

- b) Accelerate the rate at which entrepreneurs learn core elements of business planning by providing informational interchanges, mentors, technical and management assistance, and workshops.
- c) Provide ready access for entrepreneurs to learning resources on design, management, and networking in an incubator environment.
- d) Train in subjects such as business management, environmentally sound technologies and entrepreneurship.
- e) Transfer technology of management tools such as benchmarking, standardisation and best practices, in order to ensure compliance with the guidelines and principles of sustainability.
- f) Provide assistance in gaining access to feasible credit lines for the entrepreneurs.
- g) Support in marketing the enterprise on the international level, as well as setting up local promotional activities.

In addition to these, in order to fully address development difficulties in the EAC's industrial sector, the following would also be included:

- i. Access by members of the incubator to a matching grant fund managed by the incubator, in order to procure the services of private companies in preparing business plans and feasibility studies necessary in acquiring finance.
- ii. Assistance and training in different forms of financing available to the entrepreneur, and help in preparing applications, and preparing for interviews with fund managers and bankers.

In short, the incubator would need to address six critical issues including: business planning, assistance and counselling, financial advisory services, advertising and marketing services, training services, network services and aftercare services.

12.1.4 Addressing the Issue of Lack Access to Capital

The Credit Guarantee Scheme

The objective of the guarantee scheme is to help new and existing SMEs to access credit from the eligible institutions without the hassle of producing collateral security. The eligible institutions (also referred to in this document as Member Lending Institutions) should normally be scheduled commercial banks and selected regional rural banks, etc.

The size of the local currency loan given by these banks under this scheme will need to be capped, and can be an equivalent of USD 100,000 per borrower. The projects will have to be approved and need to fall under the small and medium category.

The approval process, the definition of what constitutes small and medium enterprise and the definition of an eligible borrower should be decided jointly by the Partner States and any other donor agency that will financially back this scheme.

The backbone of this scheme is to set up a Credit Guarantee Fund Trust for Small and Medium Enterprises (CGFT-SME). This fund will have to be set up by Private Sector and Government (PSG) collaboration; and interested donor agencies. The two parties (PSG and donor) will be settlers to the Trust and can appoint a management team to operate the guarantee scheme. PSG and Donor may have to contribute USD 2 million to the co-finance the fund of CGFT-SME in the ratio of 1:1.

CGFT-SME can help make available collateral-free credit to the sector SMEs by mitigating 75% of the credit risk of the eligible lenders (viz. banks) or Member Lending Institutions (MLIs). These MLIs will then sanction credit to eligible borrowers based on the viability of the projects and seek guarantee cover from CGFT-SME against the payment of one time guarantee fee of 2.5% of sanctioned credit

facility and thereafter, annual service fee of 1% on the outstanding credit. The fees can be passed on to the borrower in a transparent fashion.

In the normal course of a five-year credit facility the guarantee fee and service charges payable would work out to around 1% on an annualised basis. However, interest rates cannot exceed 3% over prime lending rate of lender, excluding fees.

The lender can give higher amount loans than USD 100,000, but CGFT-SME only guarantees up to 75% of the credit risk subject to the pre-defined loan caps and guarantee caps per borrower.

Even taking into consideration a high percentage of default of around 20% given that the borrowers will be investing in small & medium scale projects, the corpus fund of USD 2 million can be leveraged to guarantee eligible loans five times the size of the corpus fund. Therefore, almost 100 projects can be launched in this scheme. If the scheme is seen to be successful the corpus can be topped up.

The central bank will have to play a part by declaring that advances guaranteed by CGFT-SME will attract zero risk weight for the guaranteed portion and that in case any advances covered by CGFT-SME guarantee becomes non-performing, no provision needs to be made for the guaranteed portion.

The credit guarantee scheme can be successful if there is a commitment from all government agencies, central bank, commercial banks, donors and above all the private sector. NB: These figures are suggested for illustration purposes without in depth study on what will be the most appropriate amounts in the context of EAC.

12.1.5 Awards and Incentives for Regional Businesses and Businessmen (Regional Industry Promotion Scheme)

In order to promote regional industries and enhance the public–private sector dialogue, awards can be given to best companies that embrace the EAC spirit. This can be a pilot project and the criteria of awards will have to be fully laid out.

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ANNEX 1 DETAILED INDUSTRIAL SECTOR PROFILES IN EAC PARTNER STATES

A. UGANDA

General Information on the Attractiveness of the Sectors in Uganda

Sector	Industry Attractiveness
Manufacture of food products, beverages and tobacco products	<ul style="list-style-type: none"> • In 2010, the food processing, beverage and tobacco sector was the most dominant industry with one third of the selected manufacturing and 52% share of the total employment. It also accounted for 47% of Uganda’s exports. • Uganda is endowed with 19 million hectares of arable land. • Uganda is currently the second largest producer of fresh fruits and vegetable in Sub-Saharan Africa, after Nigeria, producing about 1.1 million MT/yr. In 2004, Uganda’s fruit and vegetable production was equivalent to about 1% of the world’s total production. • Uganda is a significant exporter of coffee, with over \$ 400 million of exports in 2008, the highest in EAC. Fish, tobacco and tea are the other primary exports in Uganda’s top ten exports. • In the beverages sub-sector, exports grew by 150%, from 2005 to 2007. This trend continued to 2008 with values growing by 82% to \$ 44.8 million • Food processing industry is challenged by inadequate infrastructure for value addition processes including marketing, storage and distribution
Manufacture of plastic products	<ul style="list-style-type: none"> • Uganda has over 15 enterprises involved in manufacture of non-biodegradable plastics. • Statistics indicate an average growth rate of 50% in export values and 42% in export volumes over a four year period (2005 – 2008). • The growth in the sector is mainly attributed to improved trade between Uganda and Sudan, and better prices in the markets. Sudan, DRC Congo and Rwanda remained the country’s largest markets for plastic products. • Uganda does not have its own petrochemical industry as yet. • Another point to note is that the difficulties in disposal of polythene bags (<i>buveera</i>) and plastic containers have given rise to serious environmental concerns, including their impacts on aesthetics, the blockage of drainage, suffocation of children and animals, and soil degradation.
Manufacture of paper and packaging products	<ul style="list-style-type: none"> • During the past five years, the packaging industry has boomed, as exports of horticulture and fish have grown. However, the industry meets less than 50% of the domestic requirement, which illustrates its potential. • The basic raw materials for the packaging industries are locally available. There are large deposits of quality silica sand estimated in excess of 20 million metric tonnes along the shores of Lake Victoria;. Feldspar used in the glass industry, is available in the western parts of the country.
Manufacture of fabricated metal products, except machinery and equipment	<ul style="list-style-type: none"> • Growth of Uganda’s iron and steel industry averaged 20% and 30% per annum for imports and exports respectively, between 2002 and 2006, due to the booming housing and construction sector. Also, the 5 year tax incentive offered by the Government on importation of raw materials has enabled the sector to grow. • Presently, there are eight active steel mills which use scrap as their basic raw material. These industries contribute to only 12% of steel consumption in the country.

Sector	Industry Attractiveness
	<ul style="list-style-type: none"> Utilisation level for rolling mills ranges between 55% - 60%. None of the mills are operating on a 24-hr shift. National demand for steel products is estimated at 80,000 metric tonnes per annum. There is potential for establishing integrated steel manufacturing. Hematite of high quality (90-98% Fe₂O₃) occurs in Kabale and Kisoro districts, with total resources in excess of 50 million tonnes, which contain negligible sulphur, phosphorus and titanium
Manufacture of coke and refined petroleum products	<ul style="list-style-type: none"> Uganda's newly discovered 2.5 billion barrels of oil is expected to significantly change Uganda's export base. At least 800 million barrels of reserves have been confirmed, and the Albert Basin is now reported to hold up to two billion barrels of oil (MEMD, 2010). The discoveries can support production of over 100,000 barrels of oil per day for twenty years and are therefore sufficient to implement medium scale refining in the country. A feasibility study for setting up the refinery has been undertaken, and it is envisaged that a refinery will be established within the next 5 years. Investment in the refinery is expected to yield an annual return on investment of between 10 to 15% (MEMD, 2010). Oil revenue will have a significant impact on the country. According to the World Bank, oil production will change Uganda's economic outlook, with a potential of doubling government revenues within 6 – 10 years and constitute about 10 – 15% of GDP. A National Oil and Gas Policy is in place to guide the exploration, development and production of oil
Manufacture of other non-metallic mineral products (Cement)	<ul style="list-style-type: none"> The booming construction industry in the EAC region has contributed significantly to the export growth in the cement sector. Export values grew by 308% in 2008, compared to 223% in 2007.
Manufacture of chemicals and chemical products (petroleum jelly, etc)	<ul style="list-style-type: none"> Uganda's chemical exports constitute 0.11% of the national exports, and about 0.01 of the world exports

Source: Compiled by consultant from various sources and interviews with stakeholders

B RWANDA

General Information on the Attractiveness of Rwanda's Priority Industrial Sectors

Sector	Industry Attractiveness
Manufacture of food products (dairy, vegetable oil, etc), beverages and tobacco products	<ul style="list-style-type: none"> Over 90% of households practice some form of crop cultivation. Agriculture employs nearly 80% of the labour force and accounts for about a third of GDP. Since 2007, annual agriculture sector growth has averaged over 6% and, for the first time since 1994, production during 2009's second harvest was estimated to be sufficient to cover the country's total food requirements. Rwanda's top exports are agro-based; tea was the highest export earner in 2008, growing annually at 29.8% between 2000 and 2008; coffee, the third highest, and grew at 17%, and horticulture (vegetables, etc), the fifth highest, and grew at an average annual rate of 12.83%. Pyrethrum is a new sub-sector, and grew from 0 in 2001 to 1.31% in 2008. Rwanda's agro-based products have experienced relatively high growth in the world

Sector	Industry Attractiveness
	<p>market share; tea exports have grown at an average rate 9.5% between 2000 and 2008. Beverages have grown at an average rate of 10.5% during the same period, while horticulture has grown at 9.2%.</p> <ul style="list-style-type: none"> • Cattle restocking programme, and called the “One Cow per Poor Family” programme, has benefitted over 100,000 households, providing the poor with an asset that allows them to enter the dairy value chain. • The growing tourism industry in Rwanda has opened new markets for local food products, both fresh and processed. However, small scale producers often fail to compete against high quality imported foods because they lack skills and information about market requirements. Supporting producers with market studies and relevant training and technical assistance in food safety and quality would enable them to exploit the existing market opportunities • The food processing sector is constrained by: inadequate processing methods, lack of access to equipment and packaging, weak linkages with producers and poor marketing skills. The sector remains largely unexploited, allowing imported foods to dominate internal markets.
Manufacture of other non-metallic mineral products (Cement)	<ul style="list-style-type: none"> • Rwanda has high potential for cement production, given the increasing ease of doing business in the country, and efforts to improve electricity supply. Cimenterie du Rwanda (Cimerwa) was Rwanda’s only producer of cement. In the first 6 months of 2005, the company’s production declined by 4% because of power shortages and high fuel oil prices (Kakimba, Majyambere, and Nuwamanya, 2005). Nonetheless, with the recently discovered 65 billion cubic meters of methane gas reserves, the country has been able to double its electricity supply, and it will generate 100 MV by 2012, which will ease capacity shortages.
Manufacture of chemicals and chemical products (Fertiliser)	<ul style="list-style-type: none"> • All fertiliser requirements in Rwanda are met through imports because the country has no local production of fertilisers. Fertiliser imports increased from 1,344 tonnes in 1995 to 9,039 tonnes in 2006. • The Government has developed a strategy to develop the fertiliser sector by establishing market-based mechanisms to improve fertiliser distribution systems. The overall goal of the strategy is to increase fertiliser use and application rates from the current average of 8 kilograms per hectare to 25 kilograms per hectare by 2021
Manufacture of textiles (Silk)	<ul style="list-style-type: none"> • Rwanda has fertile volcanic soil and climatic conditions, rainfall over eight months in a year, good to grow mulberry and, rear silk-worms to produce quality cocoons
Manufacture of leather and related products	<ul style="list-style-type: none"> • Rwanda’s hides and skins industry remains largely unexploited and contributed only 0.03% of the world exports in 2008. • The Government of Rwanda’s “One Cow per Poor Family” program will provide the beneficiaries with an asset that will allow them to enter the hides and skins value chain.
Manufacture of fabricated metal products, except machinery and equipment	<ul style="list-style-type: none"> • Base metals are the second highest exporter earner in the country, growing at annual rate of 21%. • Rwanda’s mining sector output grew at 20% in 2008 due to increased export volumes of tungsten, cassiterite and coltan, the country’s three leading minerals. • By the end of October 2008, mineral export revenues had increased to \$89 million compared with \$71.5 million in 2007. Rwanda now aims to increase annual mineral export revenues to \$200 million by 2012 by attracting higher investment, modernising mining methods and expanding exploration. • The Rwanda Steel Industries, which opened in April 2011, employs over 250 individuals and has helped spur small businesses

Source: Compiled by consultant from various sources and interviews with stakeholders

C. TANZANIA

General Information on the Attractiveness of the Sectors in Tanzania

Sector	Industry Attractiveness
Manufacture of chemicals and chemical products (Fertiliser and Chemical)	<ul style="list-style-type: none"> Actual consumption of fertiliser in 2007 was 284,925 MT for 9,500,000 hectare cropland and 111,530 MT in 2008. This consumption is low, and estimated at an average of 9kg/ha of nitrogen fertiliser, compared to Malawi where farmers use 27kg/ha and in Vietnam, the average is 365 kg/ha per year (IIDS; 2025) Several fertiliser investors have expressed interests in nitrogen fertilisers production using natural gas as the raw material.
Manufacture of textiles, wearing apparel(Textile sector)	<ul style="list-style-type: none"> Tanzania is the fourth largest producer of organic cotton lint in the world after India, Turkey and Syria. Between 400,000 and 500,000 small holder farmers grow cotton in farmland. Currently Tanzania has 19 large operational textile and apparel manufacturing firms; together these firms employ about 22,000 workers. In an African context, Tanzania's textile industry is large in terms of number of farmers producing cotton employment by the industry. However, the range of products produced is limited, and the quality of the products is generally low. By comparison with African competitors, such as Lesotho, Swaziland, South Africa, Mauritius, Madagascar, Kenya and Ethiopia, Tanzania's garment manufacturing industry is weak and small, and needs to be upgraded. Since 2000, the textiles industry has shown gradual recovery and now employs 69,000 workers (13 % of manufacturing sector workers) and produced 25 % of manufacturing sector GDP in 2008, but is still fragile.
Manufacture of food products, beverages and tobacco products (Agro-processing)	<ul style="list-style-type: none"> The agro-processing sub-sector represents 55% share of the manufacturing sector, among which beverage and tobacco industries are leading contributors. <p><u>Edible Oil</u></p> <ul style="list-style-type: none"> The country was self-sufficient in edible oil until the 1970s, but currently, 70% of the market is accounted for by imported palm oil from Asia as a result of trade liberalisation. Nonetheless, through grassroots efforts of MOAFC and local NGOs, production of sunflower seed has shown significant recovery since the late 2000s. Entry of small scale entrepreneurs for the oil extraction business is also continuing. <p><u>Cashew nuts</u></p> <ul style="list-style-type: none"> Cashew nuts are an important source of income for 250,000 small holder farmers in Tanzania. Cashew nuts production in Tanzania has made remarkable recovery since the 1980s. Market production rose to 121,207 tonnes in 1991 and has maintained at more or less 100,000 tonnes of annual production. Local processing has considerably increased from 1,274 tonnes in 2000 to 23,219 tonnes in 2008 (weight in cashew nuts with shell), but still 76.5 % of cashew was exported without processing. <p><u>Fruit Processing</u></p> <ul style="list-style-type: none"> It is reported that post-harvest loss of fruits and vegetables is so large that as much as 40% to 60% is wasted. This is due to lack of proper collection systems and processing and preservation facilities <p><u>Milk and Dairy Products</u></p> <ul style="list-style-type: none"> Per capita consumption of milk in Tanzania has been increasing from 20.4 litres per annum in 1995 to 41 litres to date. However, this level of consumption is lower than per capita consumption of Kenya of 80 litres. The performance of the livestock products sub-sector is very poor with negligible volume of meat exports, widespread consumption of unprocessed milk, and large presence of imported dairy products in the market. Promotion of the Meat and Dairy sub-sector would benefit 4.9 million agricultural

Sector	Industry Attractiveness
	<p>households keeping livestock, generate both large and small scale industries in rural areas and add value to a wide variety of livestock products.</p> <ul style="list-style-type: none"> Total milk production in Tanzania has increased from 600 million litres in 1996 to 1,600 million litres in 2008. However, only 4% of milk produced (60 million litres) is processed and marketed and the rest (96%) is consumed at farm level without processing. <p><u>Leather</u></p> <ul style="list-style-type: none"> Tanzania has the third largest population of livestock in Africa, with 19.1 million cattle, 13.1 million goats, and 3.6 million sheep. Hides and skins production is estimated at about 92 million Sq ft per annum. The installed capacity of all existing operating tanneries in Tanzania is about 50.21 million Sq ft per annum while actual capacity utilisation reached 33.086 million Sq ft per annum in 2007.
Manufacture of electrical equipment, machinery and equipment (Light Machinery)	<ul style="list-style-type: none"> In the agricultural sector, only 10% of farmland in Tanzania is cultivated by tractor, 20% by oxen and 70% by direct human labour. The heavy dependence on manual labour limits expansion of agricultural production and keeps land utilisation at only 10% of the arable land in the country. Mechanisation of agriculture is an essential part of a potential Green revolution and the government is keen to introduce power tillers and tractors to mechanise the agriculture Besides the operational tractors, there are 6,000 tractors kept idle due to unavailability of spare parts. Together with the decline of the machinery industry, repairing skills have declined too.
Manufacture of basic metals (Iron and Steel)	<ul style="list-style-type: none"> From 1996 to 2000, Tanzania's production of steel averaged 10,000 tonnes. The production sharply increased to 50,000 tonnes in 2008. Tanzania produced iron ore from the Itewe deposit near Chuuya until 1997. Resources at this deposit were estimated at 50 million MT at a grade of 32% iron. Proven iron ore reserves at Liganga have been estimated at 45 million MT at a grade of 52%.

Source: Compiled by consultant from various sources and interviews with stakeholders

D. KENYA

General Information on the Attractiveness of the Sectors in Kenya

Sector	Industry Attractiveness
Manufacture of basic metals - (Iron and Steel)	<ul style="list-style-type: none"> Employment; 13,583 (2009), MVA in millions of shillings; 10,313 (2009), exports in millions of shillings; 8,356 (2004), and imports in millions of shillings; 17,927. The three basic materials for setting up a steel plant have been identified in the country (iron ore - Meru, Taita, Coast, Eastern, Nyanza Eastern and Rift Valley regions, coal - Mwingi and Kitui districts and limestone - Mutomo, Kajiado, Taita, Pokot, Baringo)
Manufacture of food products, beverages and tobacco products (Agro-processing)	<ul style="list-style-type: none"> Employment; 57,609 (2009), MVA in million of shilling; 71,337 (2009), exports in million of shillings; 8,903 (2004), and imports in million of shillings; 34,290 (2003). Agriculture contributes 24% to Kenya's GDP More than one third of Kenya's agricultural produce is exported and this accounts for 65% of Kenya's total exports Most of the exports are in raw or semi-processed form creating room for more value addition.
Manufacture of straw, wood and cork products,	<ul style="list-style-type: none"> Employments; 5,226 (2009), MVA in million of shillings; 1,601 (2009), exports in million of shillings; 399 (2004), and imports in million of shillings; 343 (2003). Currently there is a ban on logging which has affected the performance of the

Sector	Industry Attractiveness
furniture (Wood and Wood Industries)	<p>industries involved while some have closed down.</p> <ul style="list-style-type: none"> • About 20% of SMEs operate within the furniture industry which generates high employment opportunities. • There is a housing boom in Kenya which has created a market for wood products.
Manufacture of paper and paper products (Paper and Paper Products)	<ul style="list-style-type: none"> • Employment; 7,843 (2009), MVA in million of shillings; 6,831 (2009), exports in million of shillings; 1,026 (2004), and imports in million of shillings; 5,409 (2003). • Kenya has an integrated pulp mill plant producing paper and paperboard from renewable forest products. • Investment opportunities exist in the production of paper from other raw materials such as bagasse, sisal waste, bamboo, papyrus reed, straw and waste paper which are readily available in Kenya.
Manufacture of textiles, wearing apparel (Textile and Clothing)	<ul style="list-style-type: none"> • Employment; 41,955 (2009), MVA in million of shillings; 2,574 (2009), exports in million of shillings; 1,777 (2004), and imports in million of shillings; 2,203 (2003). • Apparel manufacturing is the most vibrant part of the chain at the moment, largely because AGOA permits imports of fabric from low cost producers in any part of the world. AGOA (which Kenya is a beneficiary) provides trade preferences for quota and duty-free entry into the United States for certain goods
Manufacture of leather and related products (Leather and Leather Products, Raw material base, hides and skins, Tanneries, Footwear, and Leather goods manufacturing)	<ul style="list-style-type: none"> • Employment; 1,471 (2009),MVA in million of shillings; 5,392 (2004), exports in million of shillings; 3,860 (2004), and • Imports in million of shillings; 524 (2003). • The Kenyan leather industry is a prime agro-based sector with a high potential for economic development and promotion for employment opportunities
Manufacture of computer, electronic and optical products - (Electrical and Electronic Products)	<ul style="list-style-type: none"> • Employment; 1,877 (2009), MVA in million of shillings; 2,282 (2009), exports in million of shillings; 602 (2004), imports in million of shillings; 17,609 (2003). • The introduction of the fibre optic cable has greatly enhanced communication which in turn shall spur the development of industries within the sector.
Manufacture of basic pharmaceutical products and pharmaceutical preparations (Pharmaceuticals Industry)	<ul style="list-style-type: none"> • Employment; 1,116 (2009), MVA in million of shilling; 3,386 (2009), exports in million of shillings; 2,394 (2004), and imports in million of shillings; 9,728 (2003).
Manufacture of coke and refined petroleum products (Petrochemicals Industry)	<ul style="list-style-type: none"> • Employments; 8,486 (2009) • Availability of the refinery, supplying Kenya, Uganda and other landlocked countries in the region.
Manufacture of other non-metallic mineral products - (Ceramics)	<ul style="list-style-type: none"> • Employment; 7,374 (2009), MVA in millions of shillings- 35,220 • There are three ceramic plants producing various types of products such as crockery, wall tiles and sanitary ware. They include Athi River Mining and Saj Ceramics (both ceramics & cement industries located in Athi River).

Sector	Industry Attractiveness
Industry)	<ul style="list-style-type: none"> • The basic raw materials for ceramics silica such as sand, and kaolin, Kisii Soapstone and quartz are locally available. • The industry still lacks adequate capacity to meet the local demand and there are large imports from Europe, China and India.

Source: Compiled by consultant from various sources and interviews with stakeholders

E. BURUNDI

General Information on the Attractiveness of the Sectors in Burundi

The principal traditional agro-industrial crops are coffee, tea and cotton.

Coffee: Coffee accounts for more than 80% of export revenues and provides employment for 800,000 rural households. Coffee production grew significantly in 2008 with an increase of more than 200% compared to the volume produced in 2007, estimated at about 8,000 tonnes (See Table 11 below).

The process of liberalising the coffee industry has been embarked upon, in order to increase productivity, competitiveness, and the incomes of coffee growers; and to facilitate the privatisation of coffee washing stations and hulling plants.

Further, the establishment of a regulatory authority for coffee activities and the joint-trade organisation including coffee growers represents an important link in the Government's strategy of disengagement from direct participation in the industry. It is anticipated that these reforms will allow Burundi to regain the ability to grow enough coffee to develop greater control over the cyclical nature of the industry and gain access to international markets, particularly in terms of specialty coffees, the competitiveness of which has already been demonstrated.

Table 9: Change in Production, Export Value, and Average Sale Price of Principal Agro-industrial Crops

Year	Product	Coffee	Tea	Cotton
2006	Production (in Tonnes)	29,951	6,338	1,750
	Export (in FBu ¹⁰ Millions)	36,121	10,602	1,211
	Sales Price (Average Kg)	2,236	1,697	200
2007	Production (in Tonnes)	8,089	6,825	2,870
	Export (in FBu Millions)	37,326	10,538	1,470
	Sales Price (Average Kg)	1,970	1,501	230
2008	Production (in Tonnes)	24,700	6,728	2,887
	Export (in FBu Millions)	35,608	16,415	1,216
	Sales Price (Average Kg)	2,946	2,540	230

Source: Annual Report of the Ministry of Agriculture and Livestock; 2008

Tea: Tea production has performed poorly over the last few years primarily due to dry climatic conditions. A liberalisation program is being carried out to improve production yields from the various tea growing entities.

¹⁰ FBu Burundi Francs

Cotton: Despite a slight increase starting in 2006, cotton production shrank considerably in 2008 primarily due to an early dry season. To address these problems, the national cotton company has taken steps to promote renewed production. This involves increasing the producer price granting bonuses to the best producers, and introducing credits for fertilisers and pesticides.

Palm Oil: Palm oil has high growth potential that should be given specific attention in the context of developing regional trade. In 2009, palm oil production increased by 16.2% compared to 2007. Efforts that have been undertaken to promote palm oil production have involved restoring more than 2,300 plantation hectares to improve quality and increase production of this crop.

The amount of oil sold represents 85% of the oil produced and much of it is disposed of on the local market. There is strong sales potential in the neighbouring countries and these possibilities should be developed by significantly improving the quality of the oil.

Sugar: The Moso area, in which the Sugar Company of Moso (SOSUMO) is located, has favourable conditions for sugar production. These conditions include: good soil that is sandy, clay, light and permeable alluvial and suitable for sugarcane cultivation; a fine sunny climate favourable for the growth and smooth maturing of the cane (20 degrees centigrade to 32 degrees centigrade); very good thermal amplitudes facilitating the deposit of saccharin and harvesting in time - The varieties of canes cultivated at Moso are very rich and pure; and no threat of diseases especially viral and fungal diseases which affect the juice. A new sugar factory is to be set up in the near future near the capital Bujumbura.

Manufacture of non-metallic mineral products – Cement: The development of industries producing local construction materials has been renewed. A private entrepreneur opened a cement plant Cibitoke, with an installed capacity of 100,000 tons per year and which could eventually meet 50% of national needs for cement.

Manufacture of fabricated metal products, except machinery and equipment: Mining represents significant potential growth that should be developed by strengthening exploration and paying much needed attention to increased development of national production, which still involves small-scale miners (currently about 2,000 households). Export of minerals grew from less than FBu 1000 million in 2004 to over FBu 7,000 million in 2008.

The Government's action to promote mining activity has involved (i) awareness, information, and training of small-scale miners, (ii) the reorganisation and approval of three small-scale miner associations as agents for exploiting wolframite and gold, (iii) the inventory of pilot sites at Kirundo and Musinga and (iv) geological mapping with veins identified and inventories taken at sites in Marangara, Vumbi, and Kirundo. Important nickel deposits have been identified in Rutana region. More precise explorations are in progress in view of a feasibility study and effective exploitation.