



**EAST AFRICAN COMMUNITY  
EAST AFRICAN LEGISLATIVE ASSEMBLY**

**REPORT OF THE COMMITTEE ON  
COMMUNICATIONS, TRADE AND INVESTMENTS  
ON INVESTMENT PROMOTION AND INDUSTRIALIZATION  
POLICIES AND STRATEGIES IN EAC REGION**

August 28<sup>th</sup> - 31<sup>st</sup>, 2012

UMUBANO Hotel, Kigali - RWANDA

**Clerk's Chambers  
5<sup>th</sup> Floor, Ngorongoro Wing  
AICC Building  
Arusha, TANZANIA**

**September 2012**

## **1.0 INTRODUCTION**

**Rt. Hon. Speaker,** The Treaty for the establishment of the East African Community emphasizes a people centered, market driven and private sector led integration process through investment promotion. It also provides for cooperation in industrial development to attain sustainable growth and development of the Partner States by promotion of a more balanced and self-sustaining industrial growth in the region.

The Partner States undertook to improve the competitiveness of the industrial sector to enhance the expansion of trade in industrial/manufactured goods within the region guided by the Industrialization Strategy. In this regard, the EALA CTI Committee organized a workshop on investments and industrialization in the EAC from 29th -31<sup>st</sup>, August 2012 in Kigali, Rwanda.

### **1.1 Objectives of the Workshop**

- (i) To inform Members on the status of the investment and industrialization policies and strategies in the Community;
- (ii) To identify associated opportunities and challenges;
- (iii) To come up with recommendations for the EAC region.

### **1.2 Output of the Workshop**

**Madam Speaker,** The workshop provided a platform for the Committee members to understand what has been done and the current activities in terms of policies and strategies to improve the investment climate and promote industrial development including the associated opportunities and challenges in the EAC region.

### **1.3 Participation**

The Workshop was attended by the Committee members, public and private sector stakeholders and these included; Partner States Ministries of EAC Affairs and Trade, Private Sector Federations, Investment Promotion Authorities, National Parliaments, East African Business Council and EAC Secretariat.

#### **1.4 Welcoming Remarks by Hon. Angela Charles Kizigha, Chairperson of the EALA CTI Committee**

The Committee Chairperson highlighted that the importance of investment promotion and Industrial development is critical for the socio-economic transformation of the peoples of East Africa, and thus, EAC Secretariat and Partner States are undertaking strategies to improve the business environment and promote industrial trade and investment in the region.

She noted that the workshop was a timely intervention as it comes when the world is facing critical challenges such as the global economic crisis, high cost of energy, poverty, and environmental sustainability. She therefore hoped that the discussions from the platform would play a significant contribution to the regional policy formulation and implementation in the Community.

#### **1.5 Opening Remarks by Hon. Monique Mukaruliza, Minister for East African Community Affairs, the Republic of Rwanda.**

In her opening remarks, the Minister underscored that integration significantly boosts inflow and intra investments in the region business through proactive national and regional strategies as the region is overflowing with potential ranging from agriculture, mining, tourism, Energy. To this, Partner States must act to elevate the East Africa's profile as an investment hotspot.

She re-affirmed that the EAC integration through the Common Market freedoms and the implementation of EAC Industrialization Policy and Strategy would pave way for structural transformation and industrialization in the Member States.

Hon. Mukaruliza stressed that the implementation of the EAC Competition Policy and Law can enable the Community's competitiveness at the international level, once the region's competition constraints are addressed within Partner States and at a regional level.

She hoped that the workshop will reinforce the recently developed strategies and policies and come up with innovative solutions to enhance regional investments and industrialization development.

## **2.0 PRESENTATIONS AT THE WORKSHOP**

At the workshop, a number of papers were presented with respect to investments and industrialisation in the region, and these include the following:-

### **2.1 Presentation on “Investment Promotion and Private Sector Development in the Region”, by Mr. Frederick Owiti, Principal Economist in the EAC Secretariat**

Mr. Owiti pointed out that Article 80 of the Treaty establishing the EAC prioritizes the harmonization and rationalization of investment initiatives and incentives aimed at promoting the Community as a single investment area.

To actualize the treaty provisions on investment promotion, the EAC Development Strategies emphasizes the need to implement programmes and initiatives aimed at improving the business environment in the region if it is to attract the foreign investments.

EAC has developed a Model Investment Code; however it is soft instrument which is not binding. This code is aimed at guiding Partner States interventions in investment promotion. Compared to other regional investment facilitation and promotion mechanisms therefore, it is limited in scope, coverage and capacity.

He highlighted on the activities the Secretariat currently undertakes:-

- (i) Studies with the aim of coming up with a legal framework in consonant with the Treaty and the Protocols on Customs Union and Common Market;
- (ii) Holding of EAC annual Investment Conference and also establishment of a Sectoral Committee to spearhead Investment Promotion matters;
- (iii) EAC Business Guide and the 1<sup>st</sup> EAC Investment Report will be produced which will give an outlook on investment flows and volumes among Regional investors;
- (iv) Develop an EAC Private Sector Development Policy and Strategy (PSDS-2012-2016);

- (v) Develop an EAC Public-Private Partnership (PPP) framework assisted by the World Bank Group. A PPP diagnostic study was undertaken to examine the regional approaches and solutions to PPP investments. The Draft final report validated by stakeholders will be tabled to the multi-sectoral council for guidance scheduled for October, 2012.
- (vi) Develop a dialogue framework for Private Sector engagement and other interest groups in the EAC Integration agenda.

In spite of the above initiatives, the Secretariat faces the following challenges:-

- (i) Human and Financial Capacity;
- (ii) Getting Partner States to agree on legal binding matters;
- (iii) There is cut-throat competition for scarce investment resources; this becomes worse when Partner States offer non-fiscal incentives like providing free land, unlimited tax holidays and government subsidies.
- (iv) The EAC Investment Code is a soft instrument that is not binding.

The Presenter appealed to EALA as follows:-

- (i) To give support at all levels, the initiatives of promoting EAC as one-market-one investment destination such as EAC Investment Conference.
- (ii) To enact regional laws pertaining to investment promotion and private sector development.

## **2.2 Presentation on the “Effect of East Africa Customs Union on the Regional Investments”, by Mr. Micheal Lugaiya, Directorate of Trade and Customs, EAC Secretariat**

Mr. Lugaiya highlighted on the objectives of the EAC Customs Union which include; promote efficient production, investments, economic development and diversification in industrialisation in the Community. The EAC Customs Union requires Partner States to liberalise trade, simplify and harmonize the Customs Administrative procedures.

He noted that the effect of the Customs Union on Regional Investment can be seen through the implementation of Customs Laws and Programmes by Partner States. However, Partner States have not yet fully domesticated the customs laws, duty remission schemes and the implementation of the Common

External Tariff and yet, there is already an increase in cross border trade and investment.

### **2.2.1 Challenges facing the Custom Union Implementation:**

- (i) Counterfeiting;
- (ii) Cost of producing and doing business in East Africa is high due to poor infrastructure and high cost of energy;
- (iii) Un harmonized customs policies in the Partner States and it is worse with the introduction of EAC Common Market;
- (iv) A number of NTBs have been removed while others introduced.

### **2.3 Presentation on the “Success of the Regulatory Reforms for Economic Growth. Rwanda’s Experience (Ease of Doing Business)” by Mr. Karim Tushabe, Rwanda Development Board**

In his presentation Mr. Tushabe stressed that effective reform requires clear vision, committed leadership and capable institutions reinforcing rather than undermining each other.

He noted that Rwanda is one the global reformers that have excelled in the ease of doing business not only regionally but also in the World. For Rwanda to achieve this, all the country’s reforms were guided by its clear vision 2020, strong zeal and commitment at all levels.

He mentioned that Rwanda has achieved the following through the *Doing Business Reforms*:

- (i) Reduced time frame for Company registration, increased employment and savings through social security registration;
- (ii) Commercial courts established;
- (iii) Key services online ( e-registration of companies, collaterals, cases, land, construction permits , portal and payments);
- (iv) Overall; the business environment improved.

Rwanda has a number of lessons in doing business and investment reforms to share with the rest of EAC Member States:-

- (i) High level support is critical;

- (ii) Reform boldly and broadly;
- (iii) Develop automated systems for greater efficiency;
- (iv) Private sector engagement is key;
- (v) Reforms should benefit all (non- business as well);
- (vi) Learn best practices from others and Strong commitment for self improvement.

Mr. Tushabe observed that although the business environment has improved in Rwanda; it still faces a number of challenges. These include;

- (i) Enhancing entrepreneurship and innovation to sustain businesses;
- (ii) Expanding access to credit and reducing rates to borrowing;
- (iii) Addressing skills and capacity gaps;
- (iv) Modernizing electronic transactions payment systems;
- (v) Addressing infrastructure bottle necks( Energy, transport, ICT to cut down high costs; and
- (vi) Addressing non-tariff barriers beyond our borders.

#### **2.4 Presentation on “Adoption of Common Policies, Rules and Practices in the East African Region” by Mr. Andrew Kagwa Luzze, EABC**

In his presentation Mr. Andrew Kagwa remarked that the adoption of common investment policies, rules and practices will provide legal and regulatory framework for investments within the EAC. This will enable the region to operate effectively and efficiently to access economies of scale in preparation to compete at multilateral level.

The analysis of the investment regimes in East Africa shows:-

- (i) Variation in the National Blueprints/visions where Kenya has vision 2030, Tanzania has vision 2025, Rwanda has vision 2020, Burundi has vision 2025 and Uganda has vision 2040;
- (ii) Lack of comprehensive investment policies because numerous policies related to investment are scattered in different documents;
- (iii) Variation in Entry requirements and procedures – Eg. Differing minimum capital investment thresholds;
- (iv) Differing Incentive Regimes – different fiscal and financial incentives offered to investors by Partner States;

- (v) Differing Tax Systems;
- (vi) Un harmonized implementation of Investment related trade measures such as market access restriction and export promotion Zones (EPZs);
- (vii) Non-existence of competition regulatory measures in some Partner States and non-implementation of the EAC competition Act;
- (viii) Un harmonized capital market regulatory regimes – differing Withholding Tax rates on dividends and compensation of investors.

He emphasized that there is need for harmonization of laws of the EAC Partner States with a focus to make the region respond to the new international business trends in terms of cross-border exchanges of capital and trade flows.

He highlighted on the priority areas for investment policy harmonization as transfer pricing; a dispute settlement mechanism; taxation (Avoidance of double taxation and relief from double taxation); Competition regulation; investment related trade measures such as market access restriction and export promotion devices.

## **2.5 Presentation on “The Overview of the EAC Industrialization Strategies and Policies”, by Mr. George Ndira, Principal Industrial Economist, EAC Secretariat.**

Mr. Ndira stated that EAC Industrial Policy and Strategy have been prepared and approved by the Summit and Implementation Action Plan awaits approval by Sectoral Council on Trade, Investment, Finance and Industries.

The EAC Industrialization Policy looks at harmonization of sectoral policies aiming at avoiding harmful competition among industries, ensure economies of scale attain balanced growth among Partner States; fostering of linkages and integrating production and achieve regional competitiveness.

The Policy has strategic regional industrial Sectors i.e Pharmaceutical; Energy and Bio-fuel; Petro-Chemicals and gas processing; Fertilizers, agro-chemicals and firm implements; Agro-processing; Extractive, Mineral processing, Iron & Steel.



The EAC Industrialization Policy and Strategy has the following policy action areas for implementation:-

- (i) On **Development of Strategic Regional Industries (STIs)**, The policy action areas are to prepare protocol for harmonious and coordinated development of SRIs; Prepare Action Plan/frameworks for each SRIs; Center for the development of SRIs to be established; A regional incentive framework to be established
- (ii) On **Industrial Financing**, The Policy intervention is to establish/strengthen regional industrial development banks and credit guarantee scheme to provide term financing for SMEs and other industrial projects.
- (iii) On **Regional Industrial Data and Information Systems**, The Policy intervention is to harmonise and institutionalize industrial data collection and dissemination through establishment of regional and national industrial observatories, industrial information portal and resource centres.
- (iv) On **Facilitation of SME Development**, The policy interventions include; establishment of a regional information portal on SMEs; Formulating a Regional SME policy and Charter; Facilitating the development of SME clusters and business linkages for rapid growth of start ups and transition to formal business entities; Preparation of a web-based directory of SMEs containing information on business support services available.
- (v) On **Industrial Research, Technology and Innovation**, the policy focuses on preparation of an inventory of EAC successful technologies and innovations and organizing a regional technology and innovations Expos; Review of EAC intellectual property regimes and prepare a harmonized and regional IPR Protection Enforcement mechanism; Review of EAC Research and technology infrastructure, Setting up research and technology development fund as provided for under the Treaty.
- (vi) On **Expanding Intra-regional Trade in Manufactures**, the policy aims at; formulation of regional quality policy and certification systems to enhance intra-regional trade of goods manufactured in the region; development of the capacity of regional industries to meet international standards and quality certification requirements for the targeted markets; enactment of regional anti-counterfeiting legislation and institutional mechanisms for surveillance

and monitoring of counterfeits within and from third parties; development of industrial raw materials and inputs information systems; and formulation of regional export award scheme to recognize industrialists promoting intra-industry trade.

Mr. Ndira highlighted on the challenges in the implementation of the Industrialization Policy and Strategy as; Funding and Capacity Constraints, counterfeiting, second hand goods and dumping, Growing list of exceptions, Energy and infrastructure bottlenecks.

He called upon **EALA to play the following roles in industrial development:** to champion the advocacy for Industrial development and provide for the budget allocation to activities related to industrial development; set up a dedicated committee on Industrialization to facilitate more focused discussions on Industry and SME matters and Fast-tracking enactment of required new pieces of legislation or reforms in the existing legal frameworks to ensure smooth operation of industries.

## **2.6 Presentation on “Industrialization for Social-Economic Transformation in EAC”, by Mr. Paul Edwin Mhede, Ministry of Industry and Trade, the United Republic of Tanzania.**

In his presentation, Mr. Mhede underscored that Industrialization can foster social-economic transformation through technology-led productivity growth accompanied with rapid capital accumulation, Agricultural Development led Industrialization. He identified other indirect opportunities within industrialization that have a pull effect on other sectors such as, banking, communication, transport etc which are critical in poverty eradication and employment generation.

The presenter acknowledged that EAC has several advantages for Industrial growth such as political and social stability to attract FDIs, rich agricultural potential, and natural resources. However, there are challenges facing Industrialization: these include;-

- (i) Gaps in the Legal, Regulatory and Governance Frameworks manifested by lack of systems, coherent laws and regulations, to guide the

industrialisation efforts;

- (ii) Shortages of Essential Industrial Skills portrayed by inadequacies in institutional capabilities to provide support services needed to backstop the process of industrialization;
- (iii) Poor Infrastructure which have significantly constrained accelerated development in all EAC Partner States;
- (iv) Insufficient research and development resulting into inappropriate industrial technology;
- (v) Limited access to Affordable Finance.

## **2.7 Presentation on “How East Africa can boost support to SME’s: Lessons from emerging Economies”, by Ms Yvonne Munabi, Uganda investment authority.**

Ms. Munabi noted in her paper that emerging economies are nations with social or business activity in the process of rapid growth and industrialization. The big emerging and developing economies by GDP are Brazil, China, Egypt, India, Indonesia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, and Turkey.

She briefly listed the **advantages** of SMEs in an economy as follows:

- (i) Support supply value chains e.g in Singapore, 99% of the enterprises are SMEs;
- (ii) They employ high percentage of the labour force and contribute to the Economy’s GDP;
- (iii) SMEs fill in the “missing middle” in the global value chains, and make it cost effective for players in the economies;
- (iv) Operate mainly in manufacturing, services;
- (v) They are flexible, innovative and less risky on failure.

However, she indicated that generally SMEs face **challenges** as well, and these include:

- (i) No structure or system, they are normally family owned;
- (ii) Limited specialization and knowledge;
- (iii) Lack of Capital; and
- (iv) Small market access.

### **2.7.1 Lessons learnt from emerging Economies:**

- (i) **Define Key performance Drivers for SME's:** innovation and technology adoption; Human Capital Development; Access to financing; market access to their goods; legal and regulatory environment; and infrastructure.
- (ii) **Strive for Sustainability and Longevity** by acknowledging the power of a shared vision at all levels, Update the vision whenever there is change, recognise the value of family and gender roles, recognise importance of the environment, avoid waste, recycle everything possible, constant research, innovation and learning and be financially conservative.
- (iii) **Having strategies that Boost SMEs growth:** Cluster based development approach, Government purchase of SME products rather than importing products from China or elsewhere which may be of less quality compared to the one made in the region; Business Linkages and National Branding.

### **2.7.2 How East Africa can Boost SMEs:**

East African countries may adopt the lessons learnt from emerging economies and boost SMEs in the region through:-

- (i) Providing support opportunities for SME's such as outsource, franchise or license and also provide market for their products – reserve a percentage of government procurement for SMEs,
- (ii) Attract FDI with a high potential to create business linkages and opportunities for SMEs e.g oil, gas, metal, and industrial services;
- (iii) Improve infrastructure such as energy, transport, communications to support business activities at minimal cost;
- (iv) Define strategically competitive sectors and invest in human capital with respect to those sectors without duplication;
- (v) Encourage Brand Development “made in East Africa” and commercialise the traditional products.

## **3.0 OBSERVATIONS**

**Madam Speaker,** from the presentations made, participants noted quite a number of observations on investment promotion and industrial development in the EAC region, these include:-

### **3.1 Investment promotion:**

- (i) Lack of seriousness and commitment on the issue of timeline for implementation of the activities and programs,
- (ii) Reluctance on enforcement of laws of the Community.
- (iii) The EAC Model Investment Code needs to be transformed into legally binding instrument that incorporate the existing principles of the Community laws.
- (iv) The other EAC Partner States should emulate the Rwanda's Model on doing business and investment reforms to reach the aspirations of Integration.
- (v) There is a need to harmonize and regulate tax and tax incentives given to FDIs as there is huge sum of money lost on tax holidays i.e Tax holidays, Custom duty exemptions.
- (vi) Need for a mechanism to empower institutions like EAC Secretariat and Embassies of Partner States to create awareness, sensitize and attract investors to East Africa.
- (vii) Extractive Industries is an area that needs to be explored by promoting investment and improve the countries capacity in negotiating fare deals.
- (viii) Harmonization of investment laws is necessary as investors look at a larger market and also a harmonized vision for East Africa which is quantifiable, time-bound and achievable.
- (ix) The EAC Competition Law is not implemented.

### **3.2 Industrialisation:**

- (i) Energy Master Plan needs to be implemented to cater for the regional needs.
- (ii) Coordination is required in the Research & Development (R&D) Sector as there is a number of overlapping R& D institutions in the Region.
- (iii) Man power survey is necessary to identify the skills gaps vis a vis mobility of specialists in the region.
- (iv) Laws on consumer protection need to be looked at, to identify the quality of goods put on the market.
- (v) Governments should support and promote industries and SMEs in the

region through buying/procuring products from the local industries in the Region.

- (vi) The Members of EALA and Heads of States should have a strong political will and shared vision in the implementation of the strategies and recommendations suggested by the presenters.
- (vii) Un harmonized Visions for EAC Member States i.e Kenya vision 2030, Tanzania Vision 2025, Rwanda Vision 2020, Burundi Vision 2025 and Uganda vision 2040.

#### **4.0 RECOMMENDATIONS**

**Hon. Speaker,** The Committee recommends as follows:-

- (i) The EAC Investment code should be upgraded to a Law which is more binding to discipline investment promotion in the Community;
- (ii) Partner States should align their policies in accordance with the regional industrialization policy framework;
- (iii) Effective implementation of Customs Union and the Common Market Protocol should be undertaken;
- (iv) The Industrial Policy and Strategy should be implemented at both regional and national level;
- (v) Members of EALA should be at the fore front in championing the industrial development and investment promotion matters;
- (vi) Encourage local and strategic industries by supporting and promoting them through incentives so as to promote industrial development in the region;
- (vii) Energy Master Plan should be implemented and mobilize resources for its implementation;
- (viii) A uniform Industrial protection policy should be developed and dispute settlement mechanism be developed to deal with potential disputes;
- (ix) Implementation of the EAC Competition and the SQMT Acts should be undertaken;
- (x) A Regional Investment Promotion Authority to oversee and help the national investments should be established;
- (xi) Harmonize the capital markets and all various tax rates related to capital

- markets as well as capital threshold requirements;
- (xii) Develop a harmonized Vision for EAC which is SMART;
  - (xiii) Develop the strategy to boost SMEs;
  - (xiv) EAC Secretary and Embassies of Partner States should be empowered to create awareness, sensitize and attract investors to East Africa.

## **5.0 CONCLUSION**

**Hon. Speaker,** The CTI Committee concludes that successful regional investments and industrialization for socio-economic transformation will depend on the; -

- (i) EAC relentless focus on high Prioritization of impact areas;
- (ii) the implementation of investments and industrialization policies and strategies;
- (iii) A strong, stable and predictable political and macro-economic framework;
- (iv) Adherence to principles of governance particularly zero tolerance to corruption, but above all;
- (v) A complete change (whether drastic or gradual) of the mind-set in the way of doing things in necessary, and the regional specificity to exploit its natural riches and emerging opportunities is key to shaping industrialization and socioeconomic transformation of East Africa.

## **6.0 ACKNOWLEDGEMENTS**

- (i) The CTI Committee extends thanks and appreciation to RT. Hon. Speaker for yet another opportunity accorded to the committee to hold this important workshop on these critical areas of keen interest for EAC integration.
- (ii) Special thanks go to National Assemblies for their representation and participation in the workshop and look forward to the continued cooperation on many more platforms of this nature on areas of interest for the region.
- (iii) The Committee is indebted to participants particularly those from Partner States Ministries of EAC Affairs, Trade and Industry, Investment Promotion Authorities, EABC and EAC Secretariat for their effective

participation and knowledge sharing they exhibited at the workshop.

- (iv) The Committee is so grateful to the facilitators for their wonderful presentations which successfully fulfilled the objectives of the workshop with regard to investments and industrialisation policies and strategies in the East African Community.

**Madam Speaker, I beg to move**



**MEMBERS OF THE COMMITTEE ON COMMUNICATIONS, TRADE AND  
INVESTMENT**

**(Report on the Investments and Industrialization Workshop)**

*August 28<sup>th</sup> – 31<sup>st</sup> 2012, UMUBANO Hotel, Kigali, Rwanda*

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	<b>Name</b>		<b>Signature</b>
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2.	Hon. Yves Nsabimana	-	-----
3.	Hon. Dr. James Ndahiro	-	-----
4.	Hon. Frederic Ngenzebuhoro	-	-----
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14.	Hon. Nancy Abisai	-	-----
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