

**DFID  
PROGRAMME MEMORANDUM ANNEXES**

**REGIONAL EAST AFRICA  
INTEGRATION PROGRAMME  
(REAP)**

**OJEU VERSION**

(Establishing the TradeMark East Africa (TMEA) Trust)

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Africa Regional Department (ARD)

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(Approved document)

## ANNEX F TECHNICAL APPRAISAL

### Introduction

This Annex is comprised of two main parts. Part A describes and analyses the context, issues and challenges for the programme, covering the regional economic integration agenda; upgrading transport infrastructure and regulatory frameworks; investment climate; and improving and streamlining trade facilitation arrangements which constrain regional trade. Part B then describes the programme's strategy and component activities for addressing these issues and challenges, under the five major Outputs, as well as the implementation and management arrangements for the programme.

Technical appraisal of the programme has focused on how to help the EAC capitalise upon this supportive environment and maximise the pay-offs and impacts for business, civil society and East African people from the priority elements in the EAC's regional integration and competitiveness agenda, taking full account of the EAC's Development Strategy 2006-2010 and potential synergies with programmes of other donors.

The technical appraisal concluded that over the next 5-6 years, the priority result areas for engagement should be (i) reducing costs and delays at key bottlenecks along the main Northern and Central Corridors through reforming transport policy frameworks and working with other donors to upgrade the region's congested and deteriorating transport infrastructure; (ii) ensuring a full and successful implementation of the EAC customs union by 2010 which delivers major improvements in trade facilitation for the region; (iii) building capacity of the EAC secretariat, Partner States, and the private sector and civil society to support agreement of a full EPA with the EU and a well-supported common market protocol for the EAC; and (iv) galvanizing other donors to scale up and increase the pace of support to regional AFT in East Africa.

### PART A

#### **A1. Regional economic integration in East Africa**

##### Progress and problems with EAC integration schedule

The EAC is a regional economic community (REC) originally comprising Kenya, Uganda and Tanzania, and now including Rwanda and Burundi since their accession in mid 2007. The EAC is one of the RECs in Africa with a great potential for deep integration because the member states have a common history, small size, and similar resource endowment and trade profiles<sup>1</sup>. Compared to other RECs in Africa the EAC has performed well in regional integration and with closer co-operation with the private sector and civil society.

After the re-establishment of the EAC in 1999, the pace of regional integration in East Africa has accelerated. The early results look promising: a 25% increase in intra-

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<sup>1</sup> This is less true in the case of Rwanda and Burundi, but historically these countries have always traded within East Africa.

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regional trade since the staggered launch of the customs union and single customs management legislation in 2004-5; agreement of an interim EPA with the EU in late 2007; and negotiations underway for the establishment of a common market which will now include Rwanda and Burundi following their accession in mid 2007.

Much remains to be done, however. The customs union is being gradually implemented through a transitional period with a target deadline of January 2010, and a revenue sharing agreement has yet to be formulated. There are still major delays at borders and at road blocks along transport corridors (1-2 days is not uncommon), customs procedures and automation systems are still not harmonized; and extensive non-tariff barriers and charges remain costly and burdensome for traders and transporters.

### Non Tariff Barriers

Recent NTB surveys by the East Africa Business Council (EABC) and the Eastern African Farmers Associations have found that multiple police road blocks along transport corridors and national differences amongst EAC members in customs regimes, technical regulations, food safety rules, animal and plant health standards, testing and certification procedures are amongst the biggest problems (e.g. the EABC's 2007 NTB survey reported twenty police checks on the main route from Mombasa to Kigali, inevitably delaying the delivery of goods in transit and pushing up excess costs by increasing rent-seeking opportunities for informal payments).

The EAC Partner States, supported by the Secretariat, have each established National Committees to identify, examine and remove NTB's affecting intra-regional trade. A centralised NTB monitoring system has also been established in the Secretariat with support from the DFID-funded Regional Trade Facilitation Project (RTFP). However, to date the National NTB Committees have not been fully resourced to deliver major results. Consultations during the design of TradeMark East Africa found that there is a requirement for considerable strengthening of the Committees to improve their capacity and performance in responding to NTBs identified by business groups such as the EABC. This is an area the programme will support.

### EAC Development Strategy 2006-10 and fast-tracking integration

In 2005 the EAC Secretariat prepared the EAC *Development Strategy 2006-2010*, which was approved by the EAC Heads of State in November 2006. The Development Strategy articulates the objectives of the integration process and sets the key priority programs and projects that will guide it for the 5-year period. Its overarching goal is to foster economic growth and poverty reduction. It focuses on achieving and consolidating four stages of further East African integration (customs union, common market, monetary union and political federation), and sets goals, priority areas and interventions.

The EAC's integration schedule is ambitious and challenging. There are also debates about the distribution of costs and benefits from deeper regional integration across the Partner States. But political backing at the highest level amongst Partner States is generally high, there is better private sector and civil society engagement than in most other RECs in Africa, and there are signs of a potential scaling up donor engagement. Together, these factors create a supportive reform environment for the

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EAC and past evidence shows that the Community has to the ability to take and implement important decisions for the regional integration process relatively quickly.

### Customs Union

Following the signature of the EAC Treaty, the EAC Customs Union was the next major milestone in the economic integration process in the region. In March 2004, the member states signed a Customs Union (CU) as a tool for the facilitation of regional economic integration and cooperation; and approved a Customs Management Law on December 31, 2004, for a common external tariff and reduction and eventual elimination of internal tariffs to be applied starting from January 1 2005 and to be completed by 1 January 2010. The Customs Union Protocol was concluded and signed in March 2004, ratified by the original three Partner States (Kenya, Uganda and Tanzania) in December of the same year, and came in to effect on 1<sup>st</sup> January 2005. Burundi and Rwanda, who acceded to the EAC in mid 2007, are now in the process of joining the customs union by mid 2009.

Although referred to as a “customs union”, the EAC arrangement does not fit the formal definition of a customs union at present time. Instead, it may be more accurately described as a continuing process towards the establishment of a customs union. Thus, characteristics such as a common external tariff and elimination of internal tariffs are still a work in progress. Internal border and customs procedures, therefore, still apply between EAC countries, albeit primarily for the collection of duties on goods which originate outside the EAC. Without a conventional common external tariff and a clear revenue sharing mechanism, the duties for goods originating outside the EAC are still collected in the destination country and cross multiple borders where they are subject to charges and delays. This implies that East Africa is not reaping the benefits it could under a traditional customs union.

Mechanisms for the improvement of trade flows into and within the EAC region are therefore crucial for overcoming the obstacles to regional trade and development which remain despite the integration efforts to date. In this context, it should be remembered that the Customs Union is a step towards deeper and broader regional integration, and is not an end in itself.

### Revenue Sharing Formula

As partners in a customs union, the EAC member states will eventually levy a common external tariff on imports from non-members and eliminate all import duties on goods traded among themselves. Imports entering the EAC will generally pay customs duties at the first port of entry, regardless of their ultimate destination within the union. Ultimately, goods crossing internal EAC borders between any pair of members will not need to be examined for customs duty purposes. This has the economic benefit of significantly reducing transactions costs on trade within the union, and is one of the primary purposes of any customs union.

One of the main building blocks of a full customs union, therefore, will be the development of a clear revenue sharing system. Given the importance of tariff revenue as a source of overall tax revenue, the revenue sharing system will be of utmost importance to the future of the EAC as a whole. The development of a workable formula will require clear and up to date information on intra-EAC trade flows, as well as trade flows between EAC members and the rest of the world. A

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clear understanding of the revenue impact of the removal of internal tariffs will also be vital. A clear impact assessment of the customs union to date, as well as the effects of moving to a full, traditional customs union will therefore need to be conducted as a first step towards the development of a revenue sharing formula. This will be a major area of programme engagement.

### Common Market

Whereas a customs union involves the harmonization of customs procedures alone, a common market requires the elimination of *all* trade barriers (including quantitative and other non-tariff barriers), as well as the harmonization of trade policy and the free movement of capital and labour.

At this stage, it appears that the EAC member states are pushing ahead with negotiations for the establishment of a Common Market, even though the customs union has not been fully implemented. This places a considerable burden on the team supporting the common market negotiations at the EAC Secretariat, as well as on ministries of EAC Affairs and other ministries and agencies in the five Partner States. There are also differences of opinion as to the depth of the common market protocol, with Tanzania wishing to take a more incremental approach than its partners.

There is a strong need for a coordinated, coherent and properly sequenced plan for implementation of the components of a common market. Special attention should be paid to the potential impact of both the customs union and the common market on the two smallest and newest members of the EAC, Rwanda and Burundi. This is a planned area of programme engagement.

### EPAs and the WTO

Economic Partnership Agreements (EPAs) were developed during the Cotonou Agreement of 2000, as a response to the fact that the EU's preferential arrangements with African Caribbean Pacific countries (which were non-reciprocal and discriminatory) and were not fully in keeping with World Trade Organisation (WTO) rules. As well as the phased removal of discriminatory preferences, therefore, one of the main features of the EPAs is *reciprocity*, under which both the EU and its developing country counterpart(s) engage in the progressive removal of trade barriers. At the same time, the EPAs are expected to include aid components to help developing country partners to reform their trade regimes in a manner best suited to their particular economic constraints and national objectives.

On 27<sup>th</sup> November 2007, the EAC Partner States signed a Framework Economic Partnership Agreement (EPA) with the European Union. In March 2008, the EAC and EC adopted a broad road-map to enable them to conclude negotiations of a Comprehensive EPA by July 2009. In line with this road-map, there was a further meeting in April 2008 at which Rules of Origin, Trade Facilitation, Agriculture, Economic and Development Cooperation, Sanitary and Phytosanitary (SPS) Measures and Technical Barriers to Trade (TBT) were discussed.

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Table F1: Destination of EAC Exports (% of Total)

Destination of EAC Exports	1990-92	2002-04
Intra-Region	7.9	14.7
Extra-Region	92.1	85.3
Rest of Africa	1.5	2.0
USA	5.0	7.4
EU	51.9	35.8
East Asia & Pacific	8.1	8.5
South Asia	7.4	7.1
Rest of the World	18.1	24.5
World	100	100

Source: "Options for Strengthening East African Community's Trade Integration". World Bank, 2007

Table F1 above shows that EAC exports to the EU have declined in the period between 1990-92 and 2002-04 by 16 percentage points. It is likely that a good proportion of this loss is due to preference erosion, the process by which EU preferences under the pre-Cotonou regime are eroded through Most Favoured Nation (MFN) trade liberalisation at the WTO since the conclusion of the Uruguay Round in 1994.

The new Framework EPA between the EU and the EC, therefore, offers an opportunity to make up on lost ground through improved access to European markets, as well as trade capacity building and integration adjustment support from the EC for EAC countries. However, the EAC must be in a position to (a) negotiate strongly and effectively in pursuit of its trade facilitation interests and (b) properly sequence, finance and manage its removal of internal barriers to trade with the EU. This includes developing the EAC's internal capacity to deal with key issues such as Rules of Origin, Agriculture, Economic and Development Cooperation, Sanitary and Phytosanitary (SPS) Measures and Technical Barriers to Trade (TBT).

Support to increase the capacity of the EAC secretariat, as well as country level support within ministries of trade, will be a vital tool in preparing the EAC for deeper negotiations with the EC and ensuring a beneficial, growth promoting outcome for EAC countries. DFID is already providing negotiation support to the EAC and EABC on EAP issues (particularly on Rules of Origin and Services) through RTFP. The rationale for this was the overlap in membership between the EAC, COMESA and SADC (four of the five EAC partner states are also members of COMESA, Tanzania is a member of SADC, and both COMESA and SADC are primary partners for RTFP) as well as the lack of a similar facility dedicated to East Africa. As RTFP is due to terminate in October 2009, support to the EAC on EPA should now be gradually transferred to REAP, under which it can be developed and expanded.

### Open regionalism and global integration

While regional integration is a powerful tool for increasing connectivity and trade, regional and global integration are not substitutes. In Africa more than anywhere, they are complementary activities which need to be pursued in parallel and with equal vigour. Regional integration policies can help to achieve economies of scale and build the supply capacity and competitiveness of Africa through targeted regional infrastructure to interconnect the continent; and reforms to facilitate cross-border trade, investments and financial flows, and migration. Global integration and accompanying policies are essential, first, to scale up demand by securing market access that matches a growing supply capacity. Second, these policies would

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provide access to efficient intermediate goods suppliers, often an important element in improving African countries' international competitiveness.

### Coping with the costs of integration – an East Africa Community Development Fund

Inevitably, deeper regional integration will create winners and losers in East Africa, at least over the short term. Addressing economic imbalances among the EAC partner states and ensuring a fair distribution of benefits are important objectives of EAC integration. But a satisfactory mechanism is yet to be put in place to realize these objectives. The EU has been addressing the issue of divergence in economic conditions among and within its member states through regional and structural funds, as well as other re-distribution mechanisms.

The EAC is now exploring a similar regional policy to ensure the success of its own regional integration process. Although at a conceptual stage, a consultancy report commissioned by the EAC in 2008 has recommended the establishment of an EAC Development Fund, which would raise finance through contributions from tariff revenues, donors and development finance institutions, as well as through international capital market. The consultants propose that the EAC Development Fund be created with two separate windows: one for supporting regional infrastructure projects related to road, rail, port and power and communications, and a second window for supporting fiscal adjustment in the Partner States as the integration process moves forward. The report is now being studied by the EAC and is expected to be shared formally with donor partners during 2008. The Development Fund could be an important initiative, and the programme will investigate potential support to it as a core plank of the evolving approach.

## **A2. Regional transport infrastructure and corridors**

The modernization of regional transport infrastructure and the removal of non tariff barriers to trade constitute the single biggest economic challenge to the success of the EAC agenda. Strong and well-connected infrastructure is crucial for unlocking economies of scale and sharpening competitiveness, especially for landlocked countries. Regional infrastructure facilitates increased intraregional trade as well as exports to the rest of the world, thus strongly supporting Africa's growth agenda. Combined with improved regional economic and political stability, closer economic integration can enhance incentives for both domestic and foreign investment, spurring existing industries and new business start-ups.

Inadequate connectivity (transport and communications infrastructure) and costly and unreliable power are severe constraints to thousands of African enterprises. Although roads are the dominant transport mode in Africa (accounting for 90 percent of inter-urban transport), road density is less than 7 kilometres (km) per 100 square km of land. This figure compares with 12 km in Latin America and 18 km in Asia. Lack of roads is especially constraining for landlocked countries. Rail transport is made difficult by the coexistence of different railway gauges, inhibiting interconnection. For landlocked countries, the overall impact is that transport costs can be as much as 75 percent of the value of exports. These weaknesses in connectivity combined with poor power supplies significantly raise the cost of doing business in Africa, constrain trade, and undermine competitiveness.

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Compounding the challenges due to weak physical infrastructure, webs of "behind-the-border," "on-the-border," and "between-the-border" constraints further handicap private business and trade. These realities undermine efforts to attract private (foreign and domestic) investments, increase scale economies in production, and expand markets to improve competitiveness and expand opportunities to strengthen export performance and economic growth. Constraints include poorly developed financial markets; the absence of cross-border financial instruments; complex and lengthy procedures regulating private business activity; high trade tariffs; complex customs arrangements; and limited regional harmonization of policies, regulations, and procedures. Poor transit systems and numerous informal roadblocks along trade corridors create additional obstacles. Thus, while better regional infrastructure is a basic prerequisite for the strengthening of Africa's global competitiveness, improvements also depend fundamentally on tackling "behind-on-and-between-the-border" constraints to business efficiency and trade. This area will be a core part of the REAP programme approach.

### Northern Corridor<sup>2</sup>

The Northern Corridor is a multimodal corridor (road, rail and pipeline) which provides the main access for the three EAC landlocked countries - Uganda, Rwanda and Burundi - to the port of Mombasa in Kenya. It also links with important trade routes extending to Eastern DRC and Southern Sudan. The transit traffic demand on the Corridor is approximately 3.2 – 3.6 million tonnes for 2006 at current growth levels, mostly to/from Uganda. Kenyan traffic on the route adds another 8-10 million tonnes.

The Northern Corridor rail system operates between the Port of Mombasa and Kampala with a branch to Kisumu on Lake Victoria. It suffers from aging track and rolling stock, underinvestment in maintenance, inefficient operations, and inadequate tracking systems for the optimizing rotation of wagons. While overall traffic to Uganda on the corridor has been increasing 15% a year on average since 2000, rail cargo volume has remained almost steady. Increased traffic along the corridor, therefore, was handled almost entirely by the deteriorating road system.

The trunk road network from Mombasa to Bujumbura via Malaba is 1970km but sections need rehabilitation, especially in Kenya. The Government of Kenya is funding rehabilitation of some sections itself and is seeking donor funding from the EU, World Bank and other donors for additional packages (this includes the World Bank Northern Corridor Project.) Border crossings within the region are characterized by poor infrastructure, inadequate coordination and congestion. The busiest and most congested border on the route is at Malaba between Kenya and Uganda.

Road transport along the Northern Corridor in Kenya averages 2,500 vehicles per day and as much as 5,000 – 10,000 vehicles per day near cities. Delays at the

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<sup>2</sup> A transport corridor is essentially a tract of land in which at least one main line for transport, be it road, rail or canal, has been built. This is then often expanded and built upon over time to become a multi-modal transport corridor, as in the case of the Northern Corridor (road and rail). Due to the lack of alternatives, and trends in economic production and/or political alignments amongst neighbouring countries, the corridor tends to become the main route for long distance transport between countries, regions and ports – i.e. an *ad hoc*, rather than planned, model of transport infrastructure and services development. Because of the opportunities for transient commerce, communities often establish themselves in settlements and businesses along the corridor.

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Malaba border crossing between Kenya and Uganda can be as long as 1-2 days. The EAC has committed to establishing One-Stop Border Posts (OSBPs) throughout the Community with the intention of halving the time spent at borders. A study and business plan for instituting a one-stop border post at Malaba for both road and rail traffic was undertaken by the USAID ECA Trade Hub and the Kenyan Ministry of Transport.

The Northern Corridor is governed by a transit agreement between Kenya, Uganda, Rwanda and Burundi which was signed in 1985, with a secretariat established in Mombasa to drive the implementation of the agreement, the Transit Transport Coordination Authority (TTCA). There is growing evidence, however, that the TTCA as capacity constraints, and that the current system of governing the corridor is not accelerating its development. Ways of reforming the TTCA and/or revising the structure for governing the corridor is therefore a key prerequisite for improving regional transport.

### Mombasa Port

According to the Kenya Port Authority figures, the port of Mombasa handled almost 14.5 million tones of cargo in 2006, with an average annual increase between 2003 and 2006 of around 8% per year. Procedures and physical infrastructure are both lacking at the port. The table below shows that containers spend an average of 12.5 days at the port, making the bulk of the transport delay for goods travelling on the Northern Corridor. An estimated 5% of containers spend more than four weeks at the port before continuing their journey.<sup>3</sup>

Table F2: Transit time for deliveries by road – Northern Corridor

Days	Uganda (Kampala)		Rwanda (Kigali)	
	Average	St. Dev.	Average	St. Dev.
Indicator				
Port Dwell Time	12.5	8.4	13.0	9.2
Land Transport	7.5	6.3	10.0	5.4
Total Transit Time	21.3	10.6	23.5	10.4

Source: "Lessons of Corridor Performance Management". Sub Saharan Africa Transport Policy Program, World Bank

Under the World Bank's "East Africa Trade and Transport Facilitation Project", Kenya has been allocated a US\$120.62 million IDA Credit, which includes a component for improvement of infrastructure and management capacity at Mombasa.

### Central Corridor

The Central Corridor connects the Port of Dar es Salaam with Kampala, and then branches to Kigali and Bujumbura. Tanzania Railways (2,706 km total length) joins the Port of Dar es Salaam to the lake ports of Mwanza on Lake Victoria and Kigoma on Lake Tanganyika. The corridor is managed by the Central Corridor Transit Transport Facilitation Agency (CCTTFA) which was established in September 2006.

The rail system along the corridor is characterized by lack of wagons, poor track conditions, congestion at Kigoma port, time lost in inter-modal transfers and generally poor quality of service. Tanzania's rail system currently handles only 20% of the cargo from the Port of Dar es Salaam, equivalent to about 250,000 tonnes per year. The demand on the Corridor was approximately 1.3 million tonnes in 2006 and is

<sup>3</sup> ECA Hub Highlights eNewsletter, January 2006

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growing by an average of around 10% a year. Improvement of the rail-lake link is vital for the development of the Central Corridor.

An Indian consortium, RITES Ltd, won a 25 year lease of Tanzania Railways Corporation in mid 2007, and now holds 51 percent of the stake of the new Tanzania Railways, (the remainder being held by the Government of Tanzania). The Indian consortium will be responsible for the operation of the railway system. The International Finance Corporation (IFC), is providing funding to partially finance the initial capital investment needed for the first five years of the concession's 25-year lease.

The corridor's road system is a combination of paved and gravel roads that can become impassable during the rainy season. An ambitious program to upgrade the whole road to bitumen standard with donor support is currently underway and includes rehabilitation, construction and routine maintenance.

A recent review of current tariffs in the region indicates that the Central Corridor route to Rwanda and Burundi could potentially be generally cheaper than the Northern Corridor for both containerized and non-containerized cargo.<sup>4</sup> For example, the road cost of a 20 ft import container from Mombasa to Kigali is 60% higher than through Dar es Salaam.

By international standards, however, transit rates for the Central Corridor are still very high. For example, transport of a 20' container from Mombasa to Bujumbura (US\$5,000) is 79% of the total rate for transporting the same container from North Western Europe to Bujumbura. The high rates reflect the costs imposed by lengthy procedures, delays along routes, deteriorated infrastructure, and high vehicle/rail operating costs.

On average, transit activities represent around 20% of activities at the ports of Dar es Salaam and Mombasa. In 2004, transit cargo from Mombasa equalled around 50,000 20-foot containers per year, while from Dar es Salaam the figures was just under 30,000. This represented almost a 200% increase for both ports between 1999 and 2004, with Dar es Salaam experiencing the fastest growth in transit cargo handling.<sup>5</sup> With stagnant capacity for rail, the road network has had to absorb the growth in transit traffic coming from the two ports and along the Northern and Central corridors.

It is important that any DFID support addressing the Northern and Central Corridors looks beyond the currently dominant form of transport (road) and considers the corridors as a multi-modal transport challenge. The largest share of the delay imposed on transiting cargo in East Africa is incurred at the port. It is also clear that (a) road transport is a second-best option for transporting bulk goods and (b) the heavy usage of the road networks for transporting such goods is ultimately unsustainable due to the mismatch between the scale of current and anticipated load demand on the one hand, and the funds available for maintenance and improvement of the road system.

### Road Safety

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<sup>4</sup> "East Africa Trade and Transport Facilitation Project", Africa Development Bank, October 2006.

<sup>5</sup> "Private Sector Participation in Eastern Africa Ports", Olivier Hartmann – Port Management Association of Southern and Eastern Africa

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In line with the work of the Multi Donor Working Group on Road Safety, improving road safety will be an important feature of REAP's work on upgrading road networks on key transport corridors in East Africa.

More widely, there is strong data pointing to the fact that the impact of road traffic accidents in Africa is enormous. More than 1.2 million fatalities worldwide each year; an estimated cost to Africa of around \$10 billion per year. For Kenya, they represent an equivalent loss of 5% GNP. Fatality rates in Ethiopia and Uganda are almost 200 times that of the UK. Road crashes kill on the same scale as malaria and tuberculosis but are growing far faster. It is the vulnerable who are most at risk. While around 70% of road deaths are males, the loss of earnings and the burdens of care are borne disproportionately by women and girls, pushing households into poverty.

Simple interventions can make a huge difference and are very cost effective. A key initial activity will be the collection and collation of baseline data for 2007, and development of a centralised database on transport related-accidents and fatalities along the Northern and Central Corridors in East Africa. REAP will work with other donors, such as the World Bank and ADB, and private sector and civil society organisations such (e.g. Sub-Saharan Africa Transport Policy Programme, Total, Scania, Federation of Southern and East Africa Road Transport Associations, Kenya AA, and the FIA Foundation) to improve road safety on key transport corridors.

### Development Corridors

The concept of "development corridors" originates with NEPAD's "Regionally Integrated Spatial Development Initiatives (RISDI)" concept. This was intended to be a mechanism for promoting economic growth and therefore poverty reduction along a given transport corridor, by effectively linking infrastructure development with large-scale economic and sectoral investments in defined geographic areas - for example, the development of infrastructure and economic activity for people living along a route used to transport minerals from a large mining project. The objective was to promote trade and investment-led economic growth, optimize infrastructure use, encourage value-added processing, and enhance competitiveness. By definition, "development corridors" have a regional scope, since they follow a given transport corridor across multiple borders. Economic potential rather than political borders is the guiding principle for locating development corridors, with the focus on maximizing a corridor's aggregate economic benefit.

Co-ordinated investments in infrastructure (power, transport, and communications) and related upstream and downstream services and industries along the corridor allow the possibility for the development of local industries that capture some of the value-chain for raw goods being transported along the corridor. This also leads to knowledge spill-over effects and cost savings which increase the potential diversification and therefore sustained growth through the growth of businesses which are less and less dependent upon the traffic along the corridor. By focusing scarce resources on coordinated and spatially tied investments, the cost effectiveness of infrastructure is greatly increased through more intensive use. Upgrading infrastructure also provides opportunities for jobs, investments, and diversification beyond those associated with the anchor industry, such as tourism.

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However, the development corridor approach also poses several challenges. Not the least of these relate to its scale and complexity. Equally challenging are the present implementation capabilities of the regional bodies that would take lead roles in coordinating activities regionally to leverage development from the national “anchor” partner. The approach likewise requires robust justification of the proposed anchor investment and associated investments along a development corridor (in relation to the opportunity costs of resources employed—power, for example); strong buy-in from stakeholders; and credible mechanisms to ensure coordination, implementation, and compensation (for countries or regions that will not benefit).

Applying the “development corridor” approach to the Northern or Central Corridors is therefore a major undertaking which requires (a) strong buy-in and credible long-term commitment from countries in the region (b) clear and extensive legal and institutional coordination (c) large-scale donor coordination. Encouragingly, the EAC Secretariat is keen for this approach to be adopted.

The advantage of applying the “development corridor” approach along the Northern or Central Corridors is that they are not dependent upon a single industry or regionalized activity, as was the case with many of the original potential “development corridors” identified by NEPAD. This reduces the dependence of the investment along the corridor on some single large scale operation (a mine for example) and therefore increases the chances of initiating sustainable long-term economic growth for the communities living in the areas traversed by the corridor.

Given the scale and complexity of the “development corridor” concept, it is recommended that a comprehensive scoping study be conducted for both the Northern and Central Corridors - in cooperation with the EAC Secretariat and regional governments - to determine the resource requirements and practical feasibility of such an approach. The study should also be developed in reference to the current development of economic zones by national Governments (e.g. Kenya and Rwanda) in East Africa.

### Air Transport Services

The East African Community is engaged in the liberalization of air transport and harmonization of civil aviation regulations in the region to facilitate establishment of a regional safety and security oversight agency, a search and rescue coordination centre, administration of a unified upper flight information region, and personnel sharing for licensing and airworthiness inspections.

The African Heads of State endorsed the Yamoussoukro Decision on air transport liberalization at a summit in July 2000 in Lome, Togo. The Yamoussoukro Decision aims to gradually liberalize scheduled and non-scheduled intra-African air transport services. The Decision takes precedence over any previous multilateral or bilateral agreements on air services. The EAC Secretariat is in the process of establishing necessary structures for the full implementation of the Decision, and is currently focusing on bringing regulation and safety standards up to international levels. This is a vital first step and will be an important signal for attracting greater numbers of

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international travellers, as well as for developing the region’s role as an international air transport hub.<sup>6</sup>

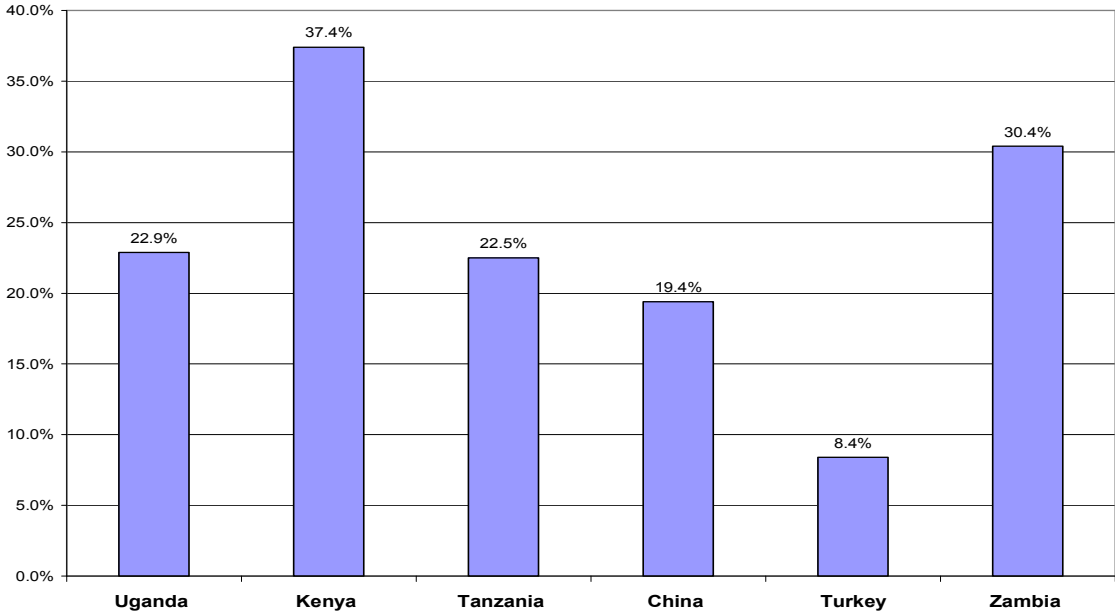
REAP and the proposed TradeMark Southern Africa programme can work through the COMESA-EAC-SADC Joint Task Force and CASSOA to facilitate implementation of the Yamassoukro agreement. This is likely to require significant work on regional safety standards at airports and air traffic control capacity. The World Bank is developing a new programme in this area and should be a potential partner.

**A3. Regional Investment Climate**

One of the major benefits of regional harmonization is the potential for increased Foreign Direct Investment. The EAC has produced a Draft East African Model Investment Code as a basis for harmonization of investment rules within the region. This holds the significant benefit for potential investors of dealing a single set of investment rules and regulations across all five Partner States. One of TradeMark East Africa’s areas of technical support to the EAC will be to develop the Code further, as well as to work with authorities in Partners States on its implementation.

Beyond explicit regulations on inward investment, however, there exist more fundamental hurdles which restrict investment in the region. These include physical infrastructure, services, and wider regulatory barriers. The charts below give a broad picture of the environment faced by potential investors in the EAC. As discussed above, transport infrastructure poses one of the largest barriers, although quality varies between Partner States. Kenya’s transport system shows the lowest level of performance when compared with other large countries in the region. All three of the largest EAC countries also perform badly in wider international comparison.

Chart F1: Percentage of Investment Climate Respondents Evaluating Transport as Major or Very Severe Constraint



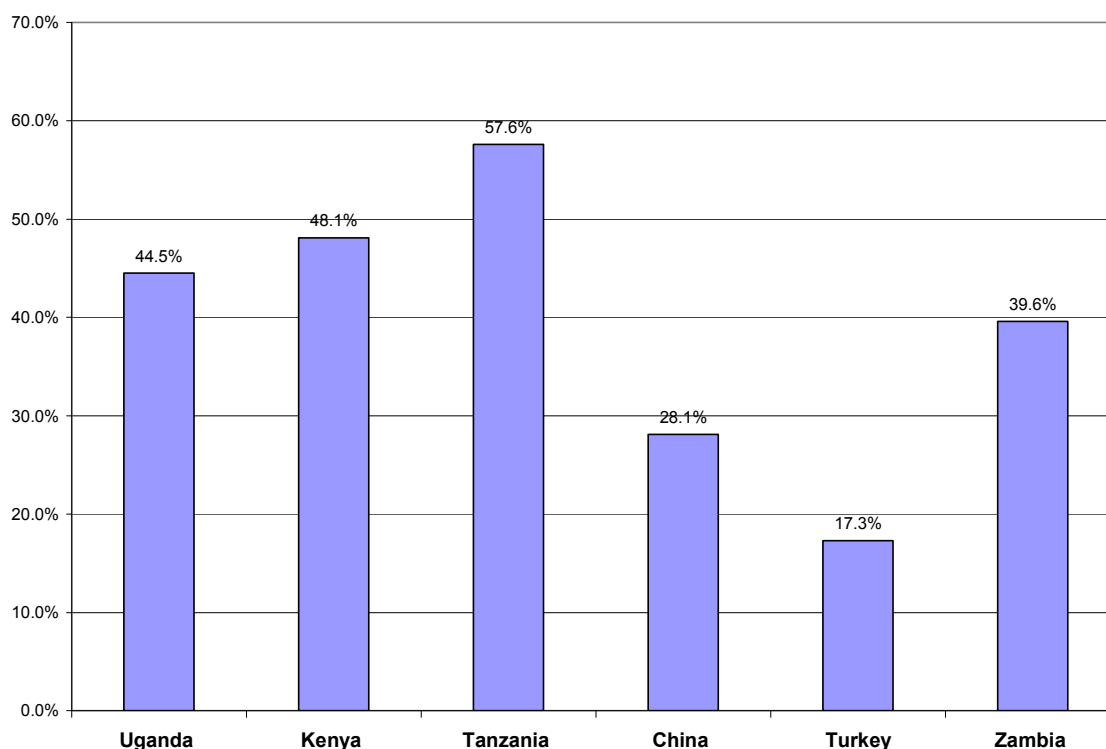
<sup>6</sup> The EAC is the first sub-region in Africa to take such steps towards implementation of the Decision. Several studies have been undertaken for upgrading the civil aviation navigation system to a Global Navigation Satellite System status and for the feasibility of unifying upper-level air control over all five Partner States.

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Source: World Bank FIAS Investment Climate Report – Tanzania 2004

Without reliable and affordably priced electricity services, firms must rely heavily upon diesel generators for their power. With recent fuel price spikes, this imposes a significant additional cost on firms wishing to invest in East Africa. All three of the largest EAC members show lower performance on electricity services than regional and international comparators.

Chart F2: Percentage of Investment Climate Respondents Evaluating Electricity as Major or Very Severe Constraint



Source: World Bank FIAS Investment Climate Report – Tanzania 2004

Access to finance is a major hurdle for small and medium enterprises in Africa. Intra-regional, as well as foreign investment by smaller firms will be extremely disadvantaged unless the EAC as a whole can provide improved financial services which extend beyond just the largest borrowers. While the three largest EAC countries fair better than some other Sub Saharan African countries, access to finance falls well below international standards in all three cases. The EAC Secretariat is developing a framework for regional financial sector harmonization, which may provide the basis for increased competition on financial sector services. The World Bank is preparing work to support regional financial sector harmonization, and has been in communication with DFID regarding cooperation on this issue. Given DFID's experience with the First Initiative, as well as with financial sector deepening work in Kenya, Tanzania, Uganda and Rwanda, it is envisaged that cooperation with the World Bank on this issue be fast-streamed as a matter of priority

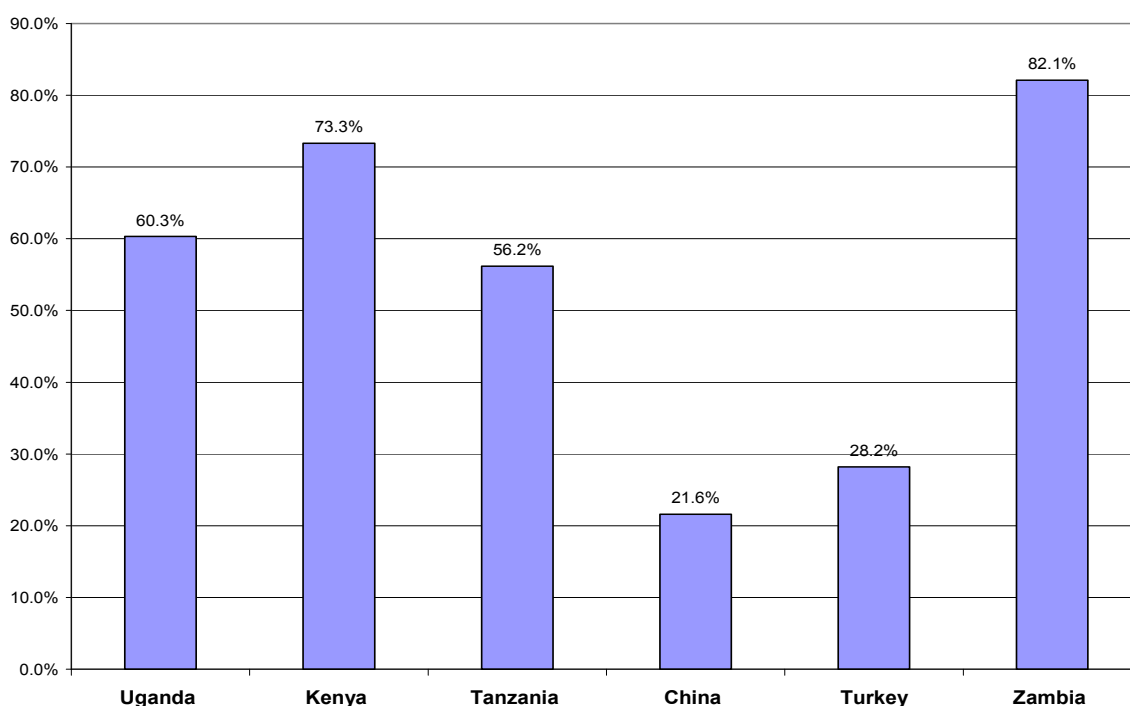
The rapid growth of South African and Nigerian banking groups in Sub Saharan Africa as whole provide another key source of competition and improved access to finance. Unlike OECD-based banking groups, these African organizations have demonstrated an impressive ability to reach borrowers that have traditionally been

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excluded from the market for financial services. Barriers to involvement by non-EAC financial sector investors should therefore be dealt with as a regional priority.

Regional collaboration to develop financial infrastructures also can increase capital mobility, which is vital when national financial systems are small and lack instruments and systems for cross-border transactions. Small financial markets tend to be less competitive and less efficient, often lacking economies of scale, and are less able to diversify investment and operational risks. Likewise, financial regulations in small markets tend to result in higher costs and lower quality than in larger markets. Furthermore, key components of financial infrastructure such as credit information services are likely to be absent in smaller markets.

Chart F3: Percentage of Investment Climate Survey Respondents Evaluating Access to Finance as Major or Very Severe Constraint



Source: World Bank FIAS Investment Climate Report – Tanzania 2004

## **PART B**

### **B1. Programme approach, description and expected results by output**

REAP will provide a significant and strategic response to the challenges of advancing regional integration, improving trade facilitation instruments and infrastructure, and delivering effective regional-level Aid For Trade (AFT) for sustaining rapid, inclusive growth in East Africa. Following a tripartite approach, the programme will significantly increase the capacity of the EAC institutions, the five EAC Partner States (Burundi, Kenya, Tanzania, Rwanda and Uganda), and Private Sector Organisations (PSOs) and Civil Society Organisations (CSOs) to take forward, monitor and realise benefits from their regional trade and economic integration policies and programmes.

There are a number of **strategic principles** which underlie the programme's approach and overall objective of increasing the pace and pay-offs from regional integration for business and poor people in East Africa. First, the approach is centred

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on the objectives, policies and plans set out in the *EAC Development Strategy 2006-2010*. Second, the programme will seek to catalyse greater engagement and leverage additional resources in support of regional integration and AFT in East Africa from key multilateral agencies like the World Bank, AfDB, IFC as well as bilateral donors such as the EC, Denmark, Japan, France, Canada, Germany, USAID and the Netherlands. Third, REAP will take a tripartite approach, using a blend of instruments to work with regional institutions, national governments and the private sector & civil society, to amplify impact and increase benefits from implementation of the EAC's regional integration schedule.

There are **three generic themes** that REAP will aim to deliver. Firstly, work to reduce the costs of doing business and increase trade across East Africa through work on transport corridors, customs reforms, NTBs, EPA negotiations, investment climate harmonisation, climate change and increased competition. Secondly, to improve the capacity of key institutions to implement regional integration initiatives through work primarily with the EAC Secretariat, national governments, and to a lesser extent the private sector and civil society. Third to ensure the benefits of regional integration are well understood, communicated, analysed and debated through support to the private sector and civil society, EAC Secretariat, social protection approaches, gender and trade, and to the emergence of the Development Fund.

Clearly DFID and other DPs need to take a long term perspective in supporting regional integration, meaning that the mechanism used to deliver assistance needs to be long term also. When analysing potential mechanisms for programme delivery the design team developed a number of **implementation selection criteria**: (i) fast responding to needs, (ii) flexible, (iii) durable, (iv) creating long term capacity with many different actors (state, REC and private sector, civil society), and (v) ability to mobilise AFT funds from a range of investors at regional and national levels. The team examined using a traditional project approach, partnering with major regional bodies (the EAC and EADB primarily), and working through the NGO sector. The breadth of REAP's engagement and timeframe envisaged - ranging from engaging with the EAC Secretariat, national governments and the private sector and civil society - meant that no one partner had the clear wish (or mandate) to engage in depth in all areas without their core mission statements and capacity being stretched or distorted heavily. DFID and other investors therefore have chosen an option (forming a programme Trust) that fulfils these criteria, whilst ensuring that the structure has strong accountability to stakeholders in delivering AFT support.

Through establishing the TradeMark East Africa Trust, the programme will also provide much needed capacity and resources to catalyse and co-ordinate a major scaling-up of regional AFT amongst DPs in East Africa, in line with the G8 commitments on AFT and the Enhanced Integrated Framework for Trade Related Assistance to LDCs (EIF), and within the framework of the EAC Development Strategy 2006-2010, the AU/NEPAD initiative for African economic integration and the work of the COMESA-EAC-SADC Joint Task Force launched in 2007.

The overall **Goal** of the programme is "Increased growth and poverty reduction in East Africa". The Purpose of the programme is "Greater regional integration and trade competitiveness in East Africa". At the Goal level, the target indicators for the programme are as follows:

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- Improved growth rates to 7% real GDP growth per annum or higher (DFID DSO Target) in EAC region and in Partner States by EoP;
- Reduction in number of women and men living on less than USD 1 per day in East Africa reduced from by EoP in line with MDG 2015 target from 1990 baseline;

At the **Purpose** level, the target indicators for the programme by EoP are:

- Increase of 5% above 2005-2009 trend in export values from EAC countries from COMTRADE 2007 baseline;
- Reduction of at least 5% in average trade transport costs (USD 2,182 trade weighted average in 2008) in East Africa. (Note: this is the target for the low-impact scenario for the programme. In the medium impact scenario, the target reduction is 10% and in the high impact scenario, the target reduction is 15%);
- Increase of 25% in the share of intra-regional trade above 2005-2009 trend from COMTRADE 2007 baseline;
- 50% of priorities identified under each national NTB monitoring and elimination plan actioned;
- Harmonization of Rules of Origin, standards and transport regulations across COMESA-EAC-SADC substantially completed.

The programme will deliver five main **Outputs** as follows:

- Increased efficiency and safety of regional transport corridors and trade facilitation.
- Improved efficiency & effectiveness of the EAC regional institutions, policies and programmes.
- Strengthened national capacity for policymaking, negotiating, and implementation for EAC regional integration reforms.
- Strengthened civil society & private sector inputs, analysis and monitoring of East African regional integration.
- Improved monitoring and evaluation systems and knowledge management for regional trade and integration.

The **key stakeholders** for the programme are the EAC Secretariat; the COMESA-EAC-SADC Joint Task Force; the Ministries responsible for EAC Affairs and responsible line Ministries in Burundi, Kenya, Rwanda, Tanzania and Uganda; as well as PSOs/CSO engaging on the regional trade and integration agenda in East Africa, such as the East Africa Business Council (EABC), freight forwarder and transport corridor associations, East Africa Lawyers Society (EALS), the East Africa Centre for Constitutional Development *Kituo Cha Katiba* (KCK), East Africa Regional Office of Society for International Development (SID) and EAC Civil Society Forum.

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Other East African regional institutions (such as the East African Legislative Assembly, East African Court of Justice for example) may also benefit from the programme.

Under REAP, funds will be used for grant contributions to the EAC Partnership Fund, the World Bank, FIAS and IoM; diagnostic/preparatory work for transport corridors and small-scale improvements to trade facilitation infrastructure; technical co-operation, consultancy, and training for EAC Secretariat and government agencies in Partner States; co-financing of grants for research, advocacy and impact monitoring to PSOs/CSOs engaged on the regional integration agenda; and programme management, monitoring and evaluation costs.

### **Output 1: Increased efficiency and safety of regional transport infrastructure and trade facilitation.**

The proposed approach for this Output, working closely with the EAC Secretariat and major stakeholders, will initially focus on working with the undertaking diagnostic work and development of GIS application modelling for the Northern and Central Corridors which connect East Africa countries to the ports of Mombassa and Dar es Salaam. It is vitally important to have a concise, common framework for targeting and sequencing investment projects along transport corridors to realise maximum benefits for regional trade and operationalise economic integration effectively. The diagnostic work will be based on methodologies and software, developed by the DFID Regional Trade Facilitation Programme since 2007, and will take account of the state of existing infrastructure, current trade facilitation bottlenecks at borders, ports and along the corridors, evolving trade flows, trends in international shipping and freight, and forecast changes in demand and supply for different transport modes along the selected corridors. Key partners will be the Infrastructure & Planning Division of the EAC, transport and infrastructure ministries of Partner States, transport corridor authorities, and other donors such as USAID, World Bank, Japan and AfDB. An initial conference to draw together partners and agree a common approach is planned for December 2008.

Following completion of the diagnostic work in 2009, proposed activities will focus on convening donors and blending finance for a co-ordinated, multi-donor/partner approach to undertaking economic and technical feasibility studies; detailed project appraisals; social-environmental impact assessments; and financial packaging; for the priority infrastructure upgrades and investments. Small scale infrastructure works to upgrade trade facilitation infrastructure can also be undertaken through the programme, blending with larger investments from governments and donors such as World Bank, AfDB, the EC-EIB Africa Infrastructure Trust Fund as well as other Infrastructure Consortium for Africa members such as China, Japan, the US, Italy, France, Germany and Arab countries.<sup>7</sup> A full time transport infrastructure and regulation specialist will be recruited by the Trust in Year 1 of the programme and will oversee the implementation of this work stream.

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<sup>7</sup> The Kuwait Fund, Saudi Fund, Arab Bank, OPEC Fund and Islamic Bank have all committed funding for transport infrastructure in the region in 2007. China is a major financier and investor in African infrastructure and is setting up a regional hub in Zambia. China is helping with upgrading ICT backbone infrastructure along transport corridors, and India may also be interested in investing in that initiative.

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A further area of work that will be explored under this Output will be the establishment of up to five One Stop Border Posts (OSBPs) in East Africa, which have already attracted considerable interest within the region. Under the current form of the EAC Customs Union, trade taxes on goods from outside the EAC are collected at the final destination, rather than at a common border. Further, although internal tariffs are in the process of being eliminated, they still apply to a wide range of intra-EAC trade. Border posts therefore remain necessary and improving their operation and infrastructure is of the utmost importance. The World Bank, USAID and JICA have all placed an emphasis on the support of OSBPs as a means of greatly reducing the time and cost of transporting along the Northern and Central corridors in East Africa.

The proposed approach will be to first examine the results of the transport corridor diagnostic work, as well as related transport infrastructure diagnostic work by the World Bank and other donors, to determine the relative pay-offs from different interventions in reducing costs and delays. Where appropriate, the programme will then seek to scale-up the innovative work by DFID Southern Africa's RTFP in establishing OSBPs. DFID's role in supporting OSBPs in Southern Africa has focused on coordinating between partner governments on issues such as common customs and transit procedures, as well as internal coordination between customs, immigration and law-enforcement authorities within countries.

DFID has also played a central role in coordinating and planning the development of OSBP procedures and infrastructure. Given the scale of necessary work among the five EAC Partner States on streamlining border procedures, therefore, TradeMark East Africa will add greatest value by focusing on the planning and coordination aspects of OSBP development, as well as providing technical support and assistance to customs, revenue and other relevant authorities, both at the EAC Secretariat and national government levels. DFID will also complement its technical assistance work by investing in infrastructure to support the process (through its CDEL facility). A key benefit of the proposed regional transport corridor diagnostic and GIS modelling is that it allows the prioritization and sequencing of OSBP development.

The programme approach will be to concentrate on key strategic border posts in East Africa and will adopt a strategic, catalytic multi-donor approach seeking to build capacity, tools and expertise within the EAC Secretariat and amongst regional partners and donors so that OSBPs can be rolled out across the region more quickly, cheaply and successfully. The approach will also work closely with the EAC Secretariat under Output 2 by supporting the EAC Secretariat's Infrastructure team with technical assistance (as requested) and the Trade Team with work on customs reforms and a revenue sharing formula.

The **main expected results from Output 1** during programme implementation will be:

- Development of comprehensive GIS and integrated, sequenced infrastructure development plans for Northern and Central corridors;
- Leveraging of new and pipeline investments (target £100m) from donors and private sector to financial closure stage in EAC priority transport projects by EoP;

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- Reduction (15% estimated) in average transport times in East Africa along the Northern and Central Corridors by EoP through improved border and corridor management; and
- Improved road safety along Northern and Southern Corridors with significant reduction in road accidents and deaths by EoP from available 2007 baseline data.

**Output 2: Improved efficiency & effectiveness of EAC regional integration institutions, policies and programmes**

Under Output 2, support will mainly be provided to the EAC Secretariat with a blend of technical assistance and grant contributions through the EAC Partnership Fund (EAC-PF) with other development partners, guided by an output-based approach for high priority elements within the regional integration agenda. Based on requested areas of additional technical assistance from REAP will be concentrated on the following areas:

- a) In addition to existing support on Rules of Origin and Services negotiations delivered through DFID's Regional Trade Facilitation Programme in Southern Africa, more support (as required) will be made available to the negotiations of the EAC EPA with the EU and subsequent implementation. Support for EPA negotiations on services trade liberalisation will be co-ordinated with DFID Trade Policy Unit (TPU) funding for ILEAP.<sup>8</sup>;
- b) Assistance to implementation of the customs union – technical assistance to support the Trade & Customs Directorate in customs reforms and development of a revenue sharing agreement;
- c) Support to the completion and subsequent completion of the common market negotiations;
- d) Support to building the EAC's fiduciary management capacity / systems and to a functional review of the EAC's structure to deliver results;
- e) Support to the Infrastructure & Planning Directorate To facilitate development of the region's transport corridors;
- f) Technical support as required outside of the EAC-PF on monetary union and regional climate change approaches; and
- g) Technical assistance to develop further regional investment climate harmonisation and competition policy jointly with FIAS).

These areas of support will be formally agreed – with annual work plans and associated terms of reference - during the initial six months of the programme. In addition a flexible pool of fast responding technical assistance will be made available to supporting the EAC Secretariat in achieving its objectives. This will be co-ordinated with other major technical assistance providers such as GTZ, AfDB and the World Bank. The structure of Output 2 will support the results of other parts of the intended programme.

Under Output 2, technical support will also be provided through the World Bank, International Finance Corporation (IFC) and the Foreign Investment Advisory Service (FIAS) to expand their programmes with the EAC on eliminating NTBs, accelerating investment climate harmonisation, barriers to labour mobility, and strengthening monitoring and evaluation capacities for EAC programmes in the EAC Secretariat and in Partner States. Finance will also be provided to support the International Organisation for Migration (IoM) to establish a labour migration desk in partnership with the EAC Secretariat.

Since late 2004, discussions have been ongoing on ways to improve donor coordination and increase the effectiveness of aid to the EAC Secretariat, leading to

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<sup>8</sup> International Lawyers and Economists Against Poverty (ILEAP), is an international NGO based in Toronto, Canada, but focused on providing research and training on international trade negotiations for African and Caribbean countries.

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the setting up of the EAC-PF, endorsed by all main donors including Germany, Finland, SIDA, Norway and the World Bank. The establishment of the EAC-PF is a major step forward, and its enhanced performance has resulted in more investment from DPs. Its objective is to channel extra-budgetary support from donors to the EAC Secretariat, based on an annual agreed priority programme and specific set of management regulations, thus alleviating the administrative burden on the Secretariat. A dedicated management unit for the EAC-PF was set up during 2007 with funding from Finland and Germany, and 5 officials have been hired to staff the unit. The management unit is integrated within the EAC Secretariat, and is in charge of preparing projects, handling the funds of the EAC-PF, and carrying out monitoring and evaluation for EAC-PF financed projects. Longer term the best practice established through the EAC-PF will be mainstreamed across the EAC Secretariat. DFID's fiduciary risk assessment and the EU Institutional Audits completed in August 2008 suggest that DFID and other DPs should support the EAC-PF in developing multi-year budgets, and in moving towards creating joint sector and general budget support approaches. DFID remains keen to support these recommendations based on performance against a draft fiduciary management plan (FMAP).

Whilst the main focus will be on strengthening the Secretariat, support may also be provided to the other central organs of the EAC, in particular the East African Legislative Assembly (EALA) and the East African Court of Justice (the Court). EALA oversees the Secretariat and, by holding it to account, could improve its effectiveness. As integration progresses, the Court can be expected to play an increasingly important role, as a means of redress for non-compliance with the Treaty and the growing body of law which defines how it should be implemented. The Assembly and the Court are important mechanisms by which the private sector and civil society can exert influence. As the programme progresses, dialogue will be maintained with EALA and the Court, and their capacity building needs (which cannot more readily be met from elsewhere) will be considered. If a case for supporting them emerges, support will be designed and incorporated into the annual work programme.

The main **expected results from Output 2** during programme implementation will be:

- Detailed implementation plan and results-framework produced for 5 year EAC Development Strategy and aligned with prioritised forward work programme for the Partnership Fund by June 2009;
- EAC secretariat corporate management systems strengthened in line with 2008 fiduciary risk assessment to allow signature of EC-EAC contribution agreement by 2011;
- Analysis of the implications of the Common Market, especially in relation to labour mobility, investment climate harmonization, social protection and gender equality, produced by June 2009;
- Implementation of 65% of Joint Task Force roadmap action points and declarations on harmonisation and integration across COMESA-EAC-SADC by EoP; and
- Regional Climate Change strategy facilitated, support to regional approaches to social protection and gender issues produced by end of Year 2 ..

**Output 3: Strengthened national capacities for EAC policymaking and implementation**

Output 3 of the programme will focus on building capacity at national level for taking forward the negotiation and implementation of the EAC's regional integration agenda. This area is widely acknowledged as critically important for the success of the regional integration process, but has been under-funded by governments and donors so far. A summary of envisaged activities at a national level is given in Annex H, based on extensive fieldwork.

REAP will scale up from the success of the DFID pilot projects with the Ministry of EAC Affairs in Uganda and Burundi, and meet demand for similar technical assistance projects from Kenya, Tanzania, Rwanda and Burundi over the 5 years of the programme. The programme will target Ministries responsible for East African Co-operation as these have the lead co-ordinating role for EAC matters and regional integration negotiations and implementation. Building the capacity of these relatively new and under-resourced ministries can quickly improve the quality of the debate in the EAC and increases accountability. This is potentially a strategically important 'quick win' across the region.

As part of its strategy, REAP will also seek to increase the engagement of state offices (within Offices of Presidents and Prime Ministers), key line ministers and senior policymakers from ministries such as finance, revenue authorities, transport, agriculture, labour, environment within the regional integration agenda, in key areas such as implementation of the customs union and agreement of a revenue sharing formula; negotiation of the EPA with the EC and the common market protocol; removing non-tariff barriers affecting regional trade; and upgrading transport and trade facilitation infrastructure and regulatory frameworks along key road and rail corridors for the region. To support the work streams under this Output, Country Programme Managers will be recruited by the TradeMark East Africa Trust and placed in capitals of each of the five EAC Partner States, and in Arusha. Particular emphasis will be placed on capacity building at national level for Rwanda and Burundi, as the two newest members of the EAC. DFID and other DPs' Country Offices will be consulted on REAP's national level activities extensively during programme implementation. An outline of areas that REAP will support under Output 3 is outlined in Annex H. The areas cover many of the programme's thematic areas and reinforce work especially on Output 2. Each country programme will be elaborated in detail during the initial six months of the programme, and the EAC Secretariat will be involved in prioritising areas of national support.

In addition to providing technical support for national level capacity building on EAC policymaking and implementation, REAP will seek to leverage the capacity of DFID and other donors' country offices in East Africa for policy dialogue with national governments around regional integration agenda. In Uganda, Tanzania and Rwanda, for example, DFID is a major bilateral donor and provider of budget support and it can play a very important role in ensuring that issues such as resourcing national participation in the EAC regional integration process and planning for the revenue impacts of the EAC customs union are properly discussed and taken into account with public expenditure frameworks. To facilitate the engagement of DFID country offices, a series of round-table discussions ('*Arusha Roundtables*') will be arranged during programme implementation with top management from the EAC Secretariat,

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ARD in London and Heads of Office together with Finance ministers and other senior government representatives and policy makers from EAC partner states.

The main expected results from Output 3 during programme implementation will be:

- National regional integration management strategies with social development and gender chapters designed, resourced and under implementation for all EAC Partner States by 2010;
- Full EAC Economic Partnership Agreement negotiated and finalised with the EU by 2010 (*link to Output 2*);
- EAC Partner states agree a customs union revenue sharing agreement & implementation plans by 2010 (*link to Output 2*);
- EAC Partner States agree a full common market protocol and commence ratification and implementation by 2012 (*link to Output 2*); and
- Full accession & adoption of key EAC legislation of Rwanda by 2009 and Burundi by 2011.

### **Output 4: Strengthened civil society & private sector awareness, inputs, analysis and monitoring of East African regional integration**

In East Africa, regional private sector organisations (PSOs) and civil Society Organisations (CSOs) have a key role to play in contributing to policy dialogue, providing information, and monitoring all aspects of policymaking and programming for regional trade and economic integration. These include the East Africa Business Council (EABC), East African Lawyers Society (EALS), (KCK): the East Africa Centre for Constitutional Development *Kituo Cha Katiba* (KCK) and East Africa Regional Office of Sustainable International Development (SID), all of whom have either formal observer status in the EAC, and/or contribute regularly to policy discussions with officials from the EAC secretariat and Partner states. Other important PSOs/CSOs include road transporters associations, ports operators, railways operators, freight forwarder associations, employers' federations, chambers of commerce, and industry associations.

Under this Output, the programme will work collaboratively with other key donors, such as GTZ and SIDA (see Annex G for a list of major DP activities), who have established programmes supporting PSOs/CSOs on the regional integration agenda, and will draw on best practices from DFID-funded business advocacy programmes in Tanzania and Kenya. The programme will be based on an extensive survey of the existing institutional capacities, technical financial resources of key PSOs and CSOs, together with analysis of strengths and weaknesses of different assistance modalities used by donors in supporting these organisations. A joint design process will start from late 2008 to design this aspect of the programme, concentrating assistance around the three themes of the programme. The result of this work will be the development of best practice guidelines and streamlined modalities (e.g. a basket funding arrangement) for donors in supporting PSOs/CSOs on key aspects of the regional growth and trade agenda.

Under Output 4, the programme will provide separate demand-driven facilities for issues-based grants, advocacy and technical support to PSOs and CSOs in the region to ensure a fuller, more inclusive debate of key issues on the regional trade

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and integration agenda for Southern Africa affecting poor people, communities, institutions and business.

The approach taken under Output 4 in Year 1 will be primarily based on agreeing long term technical and/or financial support to the East Africa Business Council, East African Lawyers Society, and East Africa Regional Office of Sustainable International Development (SID). In addition, the TradeMark East Africa will establish a demand-driven facility for issues-based grants and technical support to other PSOs/CSOs in the region to ensure a fuller, more inclusive debate of key issues on the regional trade and integration agenda for East Africa affecting poor people, communities, institutions and business. With PSOs, emphasis will be placed on building the capacity of East Africa business associations to engage within the EAC regional-level process. A key over-arching regional CSO initiative for the programme to support will be the EAC Civil Society Forum. Partnerships with the media are also envisaged.

As well as grant funding, TradeMark East Africa will also provide technical support for capacity building to EABC, EALS, and other PSOs and CSOs in the region through two part-time Technical Specialists in the Trust (one on Private Sector Development & PSOs and one on Social Development/Governance & CSO capacity building). The Technical Specialists will provide technical advice to PSOs/CSOs on strategy and operations; facilitate grant applications from PSOs/CSOs; and direct/monitor the Trust's operations under Output 4. They will also be able to enable PSO/CSOs to make effective linkages and information sharing with work under other Outputs of TradeMark East Africa (e.g. the proposed co-financing under Output 2 of the Institute International Organisation for Migration's work on labour mobility in the region).

The programme's activities under this output will co-ordinate with, and complement funding from, other existing donors, particularly SIDA (for support to EALS), GTZ (for support to EABC and PSOs) and the EC (for support to Institute of Migration). Linkages with the DFID-funded BEST-AC business advocacy programme in Tanzania will also be developed, as there is a particular need to address ambivalence and concerns about regional integration on the part of the Tanzanian private sector.

The main expected results from Output 4 during programme implementation will be:

- Common guidelines and best practices agreed for supporting PSOs/CSOs by TradeMark East Africa, GTZ and other donors by 2010;
- Multi-donor grant fund established and operational for providing financial support to PSOs/CSOs on regional integration by 2010, with specific window on social development and gender dimensions of regional integration;
- 4 major issue campaigns on EPA and regional integration topics, including social development and gender dimensions, successfully researched, developed, implemented and advocated by EABC, SID, EALS and other PSOs/CSOs by 2012;
- Improved communication of benefits of regional integration through private sector, media & civil society leads to a 50% improvement in understanding by East Africans by EoP and outreach of 60% of populations by EoP from 2007 baseline; and

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- 500 EAC businesses briefed, trained and can comply with EPA export regulations and procedures for the EU market by EoP, with targeted training aimed at women-owned businesses and exporters.

### **Output 5: Improved M&E systems and knowledge management on regional trade & economic integration.**

Under this Output, REAP will seek to enhance significantly the quality and coverage of existing monitoring and evaluation frameworks for supporting regional integration in East Africa. These frameworks are of key importance in helping policymakers in regional institutions and governments, as well as actors from the private sector and civil society, to chart progress and identify bottlenecks for key reforms and programmes in the regional integration agenda. In particular, technical support will be provided to the EAC Secretariat to develop a results-framework and set of targeted key indicators to under-pin its 5 year Development Strategy and the projects under the Partnership Fund. Activities under this work stream will be co-ordinated closely with planned World Bank support to the EAC Secretariat on improving monitoring and evaluation capacities.

A major planned work stream under this Output will be assessing the impact of regional integration on economic growth, trade performance, social development and the environment, as well as attributing the programme's contribution where possible. Regional integration is a critically important area for both the EAC and for donors like DFID, but to date there is little guidance on measuring impact and no widely accepted set of regional integration indicators. As part of this work stream, overseen by the full time M&E Specialist to be recruited by the Trust, over years 1 and 2, the programme will seek to elaborate a results based methodology for impact assessment incorporating gender disaggregated data sets and reporting where appropriate; collate baseline information where available and commission baseline studies where necessary. The programme will work closely with the World Bank on these agendas. From year 3 onwards, the Trust will commission work from independent consultants to look at longitudinal programme impact, with gender disaggregated analysis, using the methodological framework, indicators and datasets produced.

A further major work stream under this Output will be development of a knowledge management and communications strategy for the TradeMark East Africa Trust. Intensive effort and investment will be made by the Trust to document, distil, and disseminate the lessons learned and achievements made under the programme's four main Outputs. This can improve TradeMark East Africa's strategic influence with other donors and partners, including the private sector, and extend its reach within the region and beyond.

The main expected results from Output 5 during programme implementation will be:

- EAC monitoring systems improved and results-based framework established by 2010 (including EPA monitoring), feeding into improved planning and policy formulation;
- National monitoring systems within member states' Ministries of East African Integration significantly improved and producing good quality reports with gender disaggregation by 2011;

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- Support to private sector/civil society monitoring of regional integration outcomes through NTB & border posts surveys in 2009 and 2012; and
- Longitudinal independent impact assessment with gender disaggregated data and analysis, commissioned by 2009 to be complete in 2013, and results to improve implementation.

### **Cross Cutting Activity - TradeMark Trust Fellowship Scheme**

As a cross-cutting activity, the programme will provide co-financing together with the proposed TradeMark Southern Africa programme for an innovative Fellowship Scheme. The purpose of the scheme will be to increase the cadre of qualified and experienced young professionals working on the regional trade and economic integration agenda in East Africa. The TradeMark East Africa Trust will fund a target of 50 Fellowships across the four principal Output areas of the programme. Subject to agreement and requests from partners, TradeMark Fellows will be placed in the EAC Secretariat within in Arusha; ministries and agencies responsible for EAC affairs, regional trade, infrastructure, customs, finance, labour or within central banks in the 5 EAC Partner States; key PSOs/CSOs engaged on the regional trade and integration agenda for East Africa.

The Fellowships will provide a bursary and work attachment to one of the programme partners for periods of 12 to 24 months. The scheme will be administered by the TradeMark East Africa Trust and overseen by a Selection Committee (convened by the Trust and including the EAC Secretariat) and a Patron. The Fellowships are aimed at East African graduate students from economics, engineering, business, finance, law and social science disciplines. ODI Fellows who have completed an ODI Fellowship in the EAC region in the preceding 12 months would also be eligible.

## **B2. Implementation & Programme Management Structure**

### **Options and criteria for implementation and management arrangements**

During design and appraisal, a number of options for implementation arrangements and programme management were considered including (i) appointment of a contractor; (ii) granting all programme funds to the EAC Partnership Fund or to a regional governmental or non-governmental organization such as the EAC Secretariat; (iii) establishing a dedicated trust fund with a single, key multilateral partner and (iv) establishment of a Trust. As part of the design and appraisal process, it was determined that the implementation and management arrangements for the programme must be able to meet the following specifications:

- a) Have strong human resource capacity in each of the technical focus areas and extensive experience within the East African regional context – recruit and retain high quality expertise from the region (particularly) and internationally;
- b) Provide technical assistance to stakeholders that cannot currently access relevant skills and support;
- c) Create long term capacity with many different actors (state, REC and private sector, civil society),
- d) Appropriate for long term engagement and strategic relationships ('durable');
- e) Capable of significant scaling-up and using toolkit of aid instruments;

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- f) Supported and owned by tripartite partners in the region with a distinctive and valued independent “brand” for technical assistance on regional integration and trade issues;
- g) Ability to mobilise and absorb AFT funds from a range of investors at regional and national levels and to attract multi-donor financing and leverage multilaterals;
- h) Increase effectiveness and partner capacity at acceptable transaction cost;
- i) Provide effective fiduciary oversight and be consistent with Paris Declaration principles and UK/EU legislation and policy directives covering aid; and
- j) Be innovative, strategic, flexible, fast-acting and effective.

Programme appraisal considered the advantages and disadvantages of four main types of implementation and management arrangements.<sup>9</sup> Based on the above criteria, appraisal concluded that the most effective option would be the establishment of a multi-donor Trust as a legal entity to implement REAP. The breadth of REAP’s engagement and timeframe envisaged - ranging from engaging with the EAC Secretariat, national governments and the private sector and civil society – meant that no one partner had the clear wish (or mandate) to engage in depth in all areas without their core mission statements and capacity being stretched or distorted heavily. A Trust will provide a durable, cost effective regional implementation capacity for the programme, and provide a platform for future scaling-up of AFT support from DFID and other donors, including a regional-foothold for the EIF working in East African LDCs). The structure has strong accountability to stakeholders in delivering AFT support in areas such as trade-related infrastructure, regional investment climate harmonisation, export development, trade facilitation and coping with the social and environmental adjustment costs of deeper integration and rapid export-led growth, potentially leveraged through the EAC’s proposed Development Fund which is currently only at a conceptual stage.<sup>10</sup>

From an analysis of the current portfolio of Trusts established by DFID programmes, and DFID’s recent internal audit report on Trusts, it is proposed that the TradeMark East Africa Trust be structured in a similar way to the Financial Sector Deepening (FSD) Trusts in Kenya and Tanzania that have been operating successfully for almost 5 years. Assuming that legal due diligence work confirms that this remains the most appropriate legal structure, current FSD Trust documentation will be used as a concrete guide, as at this stage the headquarters of the TradeMark East Africa Trust is envisaged to be established in Nairobi. This recommendation is based on considerable operational experience of DFID-supported Trusts, but the model will be reviewed as part of the confirmatory legal due diligence, establishment and start-up

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<sup>9</sup> The advantages and disadvantages of each implementation and management option considered during programme appraisal are extensively analyzed in a submission by the DFID Regional Growth, Trade and Investment Adviser for East Africa to DFID-PGRAG in September 2008 seeking provisional clearance for establishing the Trust.

<sup>10</sup> DFID has had a deep history of working with Trusts in East Africa. The Financial Sector Deepening Trusts in both Kenya and Tanzania have proved that the model is cost effective and a useful long term and focused approach to a development challenge. They have also proved to be excellent vehicles for joint funding of large scale programmes with an outlook of 15 years or more. They have attracted investment from the World Bank, EU, Danida, the Netherlands, France, Sida, CIDA and Norway. Both Trusts have had extensive audit and reviews that show that their impact is likely to be greater than traditional stand alone bilateral or multilateral programmes.

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process that has been proposed by Crown Agents Legal Services. Work is due to commence on the design of the TMEA Trust in November 2008.

### Establishment of a Trust and appointment of a Trustee

The TradeMark East Africa Trust will be established by signature of a Trust Deed between DFID and a Trustee (expected to be a limited company established in Nairobi). The Trustee for the Trust will be selected through an international competitive tender organized by DFID upon approval of the programme. A bidding pack of tender documents, including the programme memorandum and a draft Trust Deed, will be provided to bidders. The role of the Trustee is to ensure a high standard of fiduciary oversight and value for money. The Trustee is not involved in the overall investment decisions of the Trust, rather ensuring that systems and processes are being adhered to. This concentration has the merit of allowing the programme management to concentrate on the technical tasks.

Establishment of the trust will involve preparation of draft trust deed, appointment of a Trustee by DFID, formal registration and clearance of the trust's tax status in Kenya; definition of the terms of reference, selection and appointment for the governance structures; and preparation of job descriptions and profiles for trust staff. An interim Programme Director should be appointed immediately following approval of the Programme Memorandum by DFID. Models for all of these documents already exist, and can be tailor made to fit TradeMark East Africa's goals at low transaction costs.

### Governance of the TradeMark East Africa Trust

In addition to the Trustee, the Trust will have a distinctive and robust governance structure as explained below. A diagram outlining the structure and functions of the proposed TradeMark East Africa Trust is summarised in Figure 1 overleaf.

#### *TradeMark Advisory Group (TAG)*

In addition to the PIC, a TradeMark Advisory Group will be established to provide strategic direction and policy advice within a coherent, co-ordinated overall framework to the TradeMark East Africa and TradeMark Southern Africa programmes (the latter programme is still at design stage). The TAG will be comprised of representatives from the EAC Secretariat and potentially also those from the Secretariats of the Joint Task Force (COMESA and SADC), with other stakeholder representatives from the private sector/civil society, key national ministries and agencies and other non-contributing development partners. Representatives of other regional organizations could be invited as observers.

The TAG will meet at least twice annually and these could be co-ordinated with meetings of the COMESA-EAC-SADC Joint Task Force. Its main task is to advise the programme on strategy and the impact of its work. The key benefit is to ensure that the programme meets the needs and priorities of the key stakeholders and partners and fits within an overall coherent, integrated framework for achieving substantive impacts from support to regional integration and effective AFT. Preparation of Terms of Reference and selection of members for the TAG will be undertaken during the start-up phase.

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### *Programmes Implementation Committee (PIC)*

It is envisaged at this stage that the Trust will be steered by a Programmes Implementation Committee (PIC), chaired by DFID for an initial two-year period, together with other investors. External stakeholders could be invited to join meetings of the PIC in an advisory capacity if required. The Trustee will be a non-voting member of the PIC, as will the TradeMark East Africa Trust Programmes Director and Financial Director, and the Director of the TradeMark Strategy Unit (see below). The size of the PIC will be kept at around 7-9 people and it will give its 'no objection' for any material decision to be ratified for the Trust, ensuring the ownership from the investors is not lost.

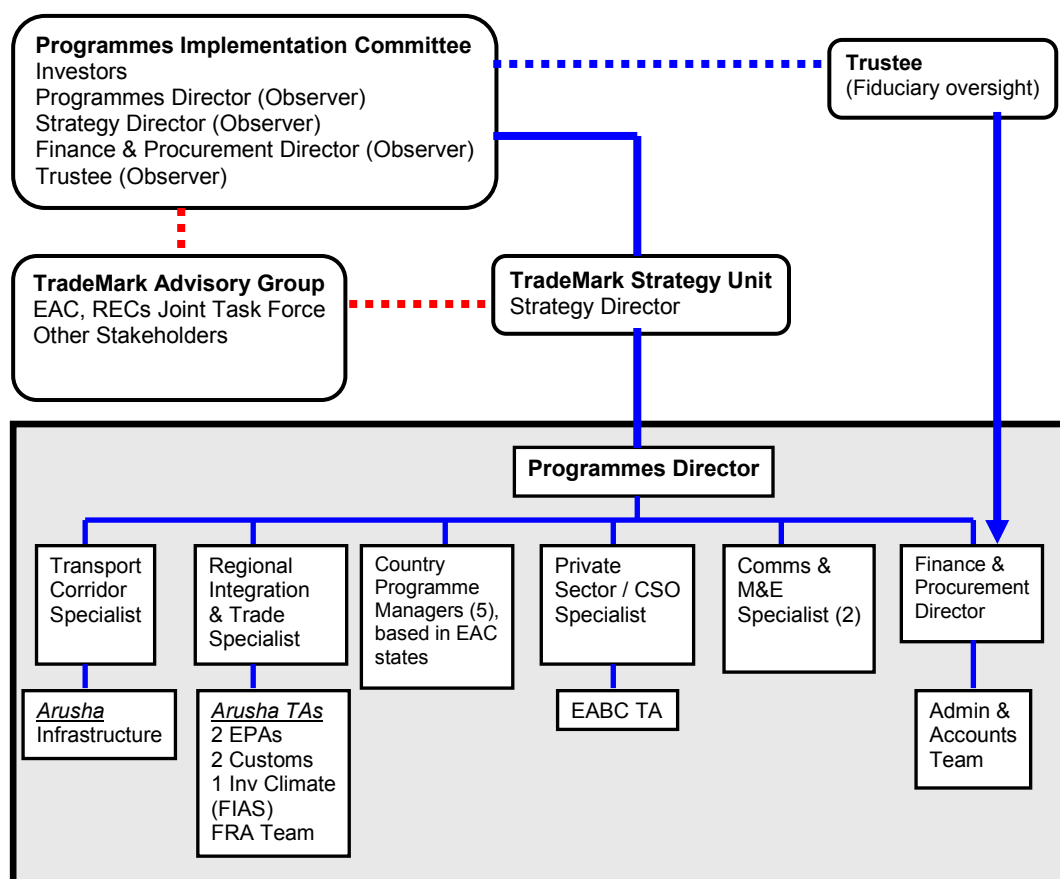
The PIC's main functions will be to approve overall strategy and resource planning for the Trust, as well as reviewing/approving annual work plans, strategic partnerships and progress reports. The financial probity and efficiency of the Trust is very carefully overseen at much reduced transaction costs. This is the modality that guides the FSD Trusts in East Africa very successfully. The PIC is expected to meet at least quarterly. Preparation of Terms of Reference and selection of members for the PIC will be undertaken during the start-up phase.

### *TradeMark Strategy Unit (TSU)*

To provide effective input support for the TAG, and co-ordination with partner governments, donors, the private sector and civil society, as well as with AU, RECs and the COMESA-EAC- SADC Task Force, a small TradeMark Strategy Unit will be established, led by a TradeMark Strategy Director. The TSU will ensure the work plans and activities of the Trust are based on extensive consultation and discussion with these stakeholder groups, and reflect a strategic, integrated programme approach fully co-ordinated with other AFT initiatives in the Eastern & Southern Africa region, including the proposed TradeMark Southern Africa programme. Preparation of Terms of Reference and recruitment of staff for the TSU will be undertaken during the start-up phase.

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Figure 1: Organizational structure for Trademark East Africa Trust



### Location, Resources and Operations of the TradeMark East Africa Trust

It is expected that the TradeMark East Africa Trust will have its HQ in Nairobi, Kenya as well as a major EAC office in Arusha, Tanzania and smaller country offices in the five EAC partner states (locations will be reviewed during the start up phase). The Trustee will provide financial management, procurement legal services, and administrative/logistical support to the Trust. The Trust will be staffed by a Programmes Director, Five Country Managers, and a complement of full time or part time technical specialists in the areas of Trade Infrastructure; Regional Trade & Integration; Private Sector Development & PSOs; Social Development/Governance & CSOs; and Monitoring & Evaluation.

The draft Trust Deed for the Trust will set out procurement, contracting and grant making policies in line with international good practice and applicable EU procurement directives.<sup>11</sup> Procurement by the Trust will be fully un-tied, allowing competitive global sourcing of goods and services. Upon appointment, the Trustee will then develop a detailed set of guidelines for contracting, procurement and grant making for “no objection” by the PIC, in line with the policies set out in the Trust Deed. Staff engaged by the Trust will be appointed by the Trustee, with the “no objection” of the PIC, either on consultancy contracts or fixed term employment contracts.

<sup>11</sup> For example, FSD Trust in Kenya is registered as an official OJEU agent.

Process and timetable for establishing the Trust

The process of establishing the trust is expected to be complete by July 2009, with staff being recruited by around the middle of 2009. Following approval of the programme by DFID, consultants will be engaged to prepare the Trust Deed and bidding pack for a competitive tender for the Trustee in April 2009, with the aim of establishing the Trust.

This work will be undertaken by the design team consultants, supported by Crown Agents Legal Services, and working under the direction of the advisers and programme manager in Growth, Trade & Investment team in DFID Kenya..

Synergies with TradeMark Southern Africa programme

As noted above, the programme will be implemented in parallel with the proposed new TradeMark Southern Africa programme planned to commence in 2009. This approach offers considerable benefits for achieving greater impacts and unlocking Africa's economic spaces, and supports the decision in Kampala to gradually bring together the RECs in Eastern and Southern Africa. The design of both programmes has been synchronised during mid 2008, and strong synergies can be achieved in work on transport corridors and regional infrastructure; harmonising regional integration systems across the overlapping existing REC groupings through the AU and the COMESA-EAC-SADC Joint Task Force initiatives; as well as in programme management and implementation; communications and knowledge generation.

The work of the two programmes is inherently inter-related due to overlapping memberships of regional economic groupings, plans for bringing them together, as well as the flows of regional trade and investment along cross-regional transport corridors and economic spaces in East and Southern Africa. In addition, both programmes will need to work alongside the joint regional economic community Task Force<sup>12</sup> to link the work of the three RECs. This follows the Africa Union's vision of reducing overlap, increasing harmonization of trade rules, and encouraging these organisations to gradually converge over time. Already, DFID Regional Advisers are working closely on growth and trade, and in the medium run DFID needs to support the strategic coming together of RECs in Africa by creating a management link between the two programmes. This is especially the case given the complexity of issues covered and the shortage of skills to do so.

Design is not yet completed for the proposed TradeMark Southern Africa programme, but the option of establishing a similar Trust is also being considered. If a Trust is established, there is excellent potential for synergies and an over-arching link between the two Trusts through a combined TradeMark Advisory Group and shared TradeMark Strategy Unit. Each Trust would have similar missions supporting priority objectives in partners' regional AFT agenda, but would work within different geographic regions in Eastern and Southern Africa. This could be formalised by signature of a co-operation agreement between the two Trusts. Establishment of an inter-linked TradeMark Trust structure probably provides the best platform for

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<sup>12</sup> Composed of the East and Southern African regional blocs – Common Market for East & Southern Africa (COMESA), East African Community (EAC), and the Southern African Development Community (SADC).

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facilitating joined up working and capturing synergies between DFID's new regional integration and AFT programmes in Africa.

### Interim arrangements for Year 1 fast-track activities

In Year 1 of the programme, the East Africa Growth, Trade and Investment Team in DFID Kenya & Somalia will be responsible for administration of fast track technical assistance activities under Output 1 and 4, as well as the programme's grant contributions to the EAC Secretariat Partnership Fund, World Bank, FIAS and the International Organisation for Migration (IoM) under Output 2. DFID is investigating creating outsourced contracts to manage major activities, such as under Output 3 of the programme for Year 1. DFID country offices will also be partly responsible for administration and management of fast track technical assistance.

With the formal establishment and staffing of the Trust, these arrangements will be reviewed and transferred by DFID and the Trust in Year 2 of the programme (FY 2009/10). Country level work is laid out in Annex H.

Table F3: Summary of TradeMark East Africa Year 1 Fast Track Activities & Management Arrangement

Output	Activity	Management Arrangement
1	Start up of transport corridor diagnostic study	East Africa Growth, Trade and Investment Team in DFID Kenya
2	Administration of 2008/9 Contribution to EAC Partnership Fund	East Africa Growth, Trade and Investment Team in DFID Kenya
2	Labour Mobility Impact Study for EAC	East Africa Growth, Trade and Investment Team in DFID Kenya
2	Procurement of support to the EAC's Financial Management Action Plan & Functional Review with other DPs	East Africa Growth, Trade and Investment Team in DFID Kenya
2	Procurement of 2 EPA technical advisers to EAC Secretariat Customs & Trade Division	East Africa Growth, Trade and Investment Team in DFID Kenya (Contracted via PASS) assisted by RTFP-PMU
2	Procurement of 2 customs technical advisers (IT and training) to EAC Secretariat Customs & Trade Division	East Africa Growth, Trade and Investment Team in DFID Kenya (Contracted via PASS)
2 and 5	Results Framework for EAC Development Strategy & Functional Review	East Africa Growth, Trade and Investment Team in DFID Kenya
2	Procurement of 3 financial and corporate management systems experts for EAC Secretariat strengthening	East Africa Growth, Trade and Investment Team in DFID Kenya (Contracted via PASS)
2	Agreement of MoUs with World Bank, FIAS and IoM	East Africa Growth, Trade and Investment Team in DFID Kenya
3	Phase 1 technical support for institutional diagnostic and strategy on EAC co-operation for governments of Tanzania and Kenya	East Africa Growth, Trade and Investment Team in DFID Kenya
3	Support to establishment of the Burundi Revenue Authority & regional integration institutions in	East Africa Growth, Trade and Investment Team in DFID Kenya

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	Burundi	
3	Phase 1 technical support for institutional diagnostic and strategy on EAC co-operation for governments of Rwanda and Burundi	East Africa Growth, Trade and Investment Team in DFID Kenya, DFID Burundi and DFID Rwanda
3	Phase 3 technical support to Ministry of EAC in Uganda	East Africa Growth, Trade and Investment Team in DFID Kenya, DFID Uganda
4	Fast track EPA negotiations technical support to EABC	East Africa Growth, Trade and Investment Team in DFID Kenya assisted by RTFP-PMU (Contracted via PASS)
	Consultancy support for development of DFID-GTZ joint strategy for support to PSOs & CSOs	East Africa Growth, Trade and Investment Team in DFID Kenya
4	Agreement of Accountable Grants with EALS and SID	East Africa Growth, Trade and Investment Team in DFID Kenya with SIDA
<b>Overall</b>	Establishment of Trust – legal design, OJEU for trustees, completion of initial 5 year strategy, hiring of staff	Crown Agents Legal Services, East Africa Growth, Trade and Investment Team in DFID Kenya Trustees

## ANNEX G SUMMARY OF REGIONAL DEVELOPMENT PARTNER INITIATIVES IN EAST AFRICA

This short annex lays out the key regional activities that other development partners or relevant institutions are undertaking in East Africa in the form of a matrix (see Table F4 below). This includes current and planned programmes. The list indicates potential linkages with REAP and progress to date on co-operation, and a brief strategy for taking forward co-operation. The list also indicates potential funding partners and an action plan for leveraging and influencing further investment from others.

As is evident from Table F4 below, there are broadly three types of partnership envisaged, which are not altogether exclusive. First there are a number of potential co-investors in the TradeMark East Africa Trust – including those that have potentially firm commitments (Holland, Denmark, Belgium and the African Development Bank). The TradeMark East Africa Trust provides many of these agencies with an AFT vehicle which is currently absent at both regional and country levels. The core strategy will be to attract investment from these like-minded agencies. Second there are the larger multilaterals that are core partners with REAP – the World Bank, ADB and the EC. USAID and Germany will also be important players. REAP has a coherent strategy of engagement with these institutions and plans to focus on joint working or co-investment, with a particular emphasis with the EU on the 10<sup>th</sup> EDF. Third there are other agencies (EIB, JICA, JBIC for example) whose primary interest is to invest in transport corridor and infrastructure projects that flow from the diagnostics. These players have a vital role to play in making physical investments and REAP will aim for a strategy of assisting to facilitate programme preparatory work through the ICA or directly. An emphasis will also be placed on including new actors such as China, India and Brazil, especially as part of the transport corridor analysis.

### Mapping of major regional interventions & REAP/TradeMark East Africa Trust strategy for co-operation

Development Partner	Programme	Core Focus	Co-operation with REAP/TradeMark East Africa Trust	Potential plans & Co-ordination Strategy
<b>African Development Bank (ADB)</b>	National Infrastructure projects & evolving approaches to transport corridors	Infrastructure development and evolving transport corridor approaches	Joint analysis of transport corridors agreed.	Interest in co-financing TradeMark East Africa DFID central plans to build capacity could be grounded in East Africa through one dedicated adviser from Trademark East and Southern Africa ICA leverage for national infrastructure projects
	East African Trade & Transportation Project (ongoing – with World Bank)	Road upgrading element of joint programme with World Bank	Joint analysis of transport corridors agreed. Planned augmentation of activities at borders (Gatuna, Malaba, Namanga) & links on work with Transport Authorities.	Due to limited resources there may be a rationale to top up the programme in relation to co-finance through CDEL & influence in terms of better implementation
<b>Belgian Government</b>	New Partnership Fund donor	Main focus on Burundi	Strong interest in co-financing of TradeMark East Africa Trust activities in Burundi especially	Strong interest in co-financing TradeMark East Africa
<b>Brazil</b>	Regional agricultural exchange programmes & bio-fuel	Bio fuel & agriculture	Potential links on bio-fuel development, climate change	Aim to link up with work streams on climate change to examine effects of bio-fuel development for East

	innovation		and carbon credits	Africa
<b>Canada (CIDA)</b>	REACH programme  Potential Partnership Fund donor	Health programme funded through EAC Secretariat	Interest in co-financing TradeMark East Africa Trust – especially on private sector & civil society engagement	Potential co-financier of TradeMark East Africa
<b>China</b>	Railway development between Rwanda & Tanzania High levels of national transport investment	Infrastructure, energy & raw materials extraction	Willing to join joint analysis of transport corridors	Leveraging in of infrastructure investment behind regional priorities Railway development in particular Tracking of further Energy & business investment
<b>Danida</b>	Partnership Fund donor  Interested in extending regional programme	Transport corridor interventions	Interest in co-investing in TradeMark East Africa Trust & taking part in transport corridor analysis – especially in relation to links to rural roads	Interest in co-financing TradeMark East Africa & in joint regional staff hub
<b>European Investment Bank (EIB)</b>	Infrastructure Investments	EIB want to develop a portfolio of infrastructure approaches to developing Dar Port	Partner in transport corridor analysis – willing to invest in project generated	Core infrastructure partner for transport corridors Facilitate ICA feasibility studies Leverage influence through DFID secondee (Alistair Wray)
<b>European Union</b>	RISP programme through IRCC & COMESA (9 <sup>th</sup> EDF)  10 <sup>th</sup> EDF Fund	Technical assistance & support on standards, IT development & small arms, financial management  Unsure as yet – likely to focus on regional economic integration, infrastructure and peace / security	Co-financing of financial management action plan to strengthen PFM aspects of the EAC Secretariat Joint support to Development Fund TradeMark East Africa Trust could be a major conduit for the EU under the 10 <sup>th</sup> EDF	Aim to develop joint approach to East African Integration – strategic partnership to unlock potential of 10 <sup>th</sup> EDF 10 <sup>th</sup> EDF could be major co-financier of TradeMark East Africa Trust
<b>Finland</b>	Partnership Fund donor	Partnership Fund	Through Partnership Fund	Potential co-financier of TradeMark East Africa
<b>France (including AFD)</b>	New Partnership Fund donor  Technical Adviser post for Rwanda & Burundi	Programme under development to place a French adviser (at the EAC secretariat) to help with accession and language issues for Rwanda & Burundi	Strong co-ordination on Rwanda & Burundi – already joint mission completed in Burundi	Concerns about France pushing for French interests in Rwanda & (especially) Burundi
<b>Germany (including GTZ)</b>	Regional Integration Programme in East Africa	TA programme to support East African Integration New HQ building for EAC Secretariat	Strong co-operation and joint missions in Rwanda & Burundi already in place GTZ to potentially implement Output 4 with DFID & German Government finance Joint funding of financial management action plan to strengthen PFM aspects of the EAC Secretariat	Strategic partnership with Germany – co-implementation of programmes likely- already agreed on Output 4 Understanding of EAC Secretariat by GTZ is a strong & DFID flexibility should compliment German approaches
<b>Holland</b>	None at present – in development	EU 10 <sup>th</sup> EDF programme Strong interest in co-financing TradeMark East Africa	Strong interest in co-financing TradeMark East Africa Trust	Core partner and co-financier of TradeMark East Africa & possibly in regional staff hub

<b>India</b>	Railway operation in Tanzania Business Investment	Infrastructure, railways, business investment	Willing to join joint analysis of transport corridors	Leveraging in of infrastructure investment behind regional priorities Tracking of further ICT, pharmaceuticals & business investment
<b>Japan (including JICA, JBIC &amp; JETRO)</b>	JICA technical adviser on infrastructure in EAC Secretariat Support to EAC Railways Masterplan & review of Central Corridor One Stop Border Post (OSBP) programme	Focus on technical support to EAC Secretariat on M&E monitoring systems in infrastructure Technical inputs by TA into railways Masterplan & quick analysis of the Central Corridor Wider OSBP programme planned across Africa but uncertain as to sites chosen	Agreed to use Japanese analysis of central corridor in joint transport corridor analysis  Full inclusion of Japan on transport corridor group & analysis but being careful as to experience of RTFP in Chirundu	Leverage Japanese involvement in infrastructure finance (ICA & JBIC) Engage with Japan on OSBPs but learn negative lessons from Chirundu & not view as core partner
<b>Norway</b>	Support to East African Legislative Assembly (EALA)  Partnership Fund donor (current chair)	Finance & capacity building to EALA	Possible co-strengthening of EALA financial oversight role of EAC Secretariat Possible finance to EALA committees on economic growth	Potential co-financier of TradeMark East Africa Potential co-finance of EALA support through Norway
<b>Sweden (Sida)</b>	Support to East African Lawyers Society (EALS) Support to Society for International Development (SID)	Support to development of EALS 5 year plan Support to SID for specific sub-programmes	Co-finance Sida plan for EALS in Years 1-2 Core support to SID co-ordinated with Sida	Potential co-financier of TradeMark East Africa
<b>USAID (&amp;MCC)</b>	East Africa Hub Programme (closing soon)	Development of Transport Bond, system to link ASYCUDA & SIMBA customs systems & streamlining of Malaba customs post (Uganda & Kenya)	Take-up and roll out of transport work jointly with REAP  Joint development of Malaba into a full OSBP	Ensure lesson learning is fully integrated into REAP work streams Engage MCC on hardware investment behind corridor approach
	RATES programme (closing soon)	Development of key agricultural sectors in East Africa	None at this stage as programme is finishing	Lesson learning form RATES reports
	COMPETE programme (planned)	Replacement to RATES with emphasis on agriculture & transport corridor sub-arteries important to agriculture	Joint transport corridor analysis and formation of transport corridor inter-DP and Government group – initial meeting in early November 2008	Facilitate USAID joining PF group to improve their co-ordination Ensure that USAID propriety approach to transport corridors is more harmonised with others Ensure that corridor work is housed in EAC not COMESA
<b>World Bank</b>	IDF Capacity Building Grant to EAC	Support to EAC Secretariat financial systems, outcome monitoring & records management	Joint implementation of financial & outcome streams. Additional finance for outcome work at a national level through REAP Trust Fund with World Bank	World Bank cannot co-finance Partnership Fund so programme to extend outcome analysis to link with TradeMark East Africa M&E system through TradeMark East Africa Trust Fund with World Bank

	Non Tariff Barrier Analytics	Analysis of NTBs in East Africa	Joint implementation of recommendations to boost capacity of national NTB committees through REAP Trust Fund with World Bank	Possible secondment of NTB analyst to TradeMark East Africa Joint finance with World Bank of NTB work streams through REAP Trust Fund with World Bank
	East African Trade & Transportation Project (ongoing – with ADB) & national infrastructure projects	Customs reform, support to transport authorities, customs automation, railways support	Joint analysis of transport corridors agreed. Planned augmentation of activities at borders (Gatuna, Malaba, Namanga) & links on work with Transport Authorities.	Due to limited resources there may be a rationale to top up the programme in relation to co-finance through CDEL & influence in terms of better implementation
	Study on Core Strategic Transport Network for Eastern & Southern Africa Regional Transport Priority (proposed for funding to DFID-SA)	Analytical work on transport corridor network	Link to Output 1 diagnostic work on Northern and Central corridors	Information sharing with TradeMark East Africa Trade Infrastructure Specialist Provision of improved M&E baseline data sets
	East African Communications Programme (ongoing – with ADB)	Support to development & Special Purpose Vehicle (SPV) to develop the East African Submarine Cable (EASSY) & landing sites	Links to private sector investment in distribution networks, monitoring of costs, & adequate regulation	TradeMark East Africa Trust will monitor implementation to ensure outcomes are positive & cartels not formed (through Output 4)
	East African Civil Aviation Project (in preparation)	Support to air safety to allow for flights from N America, extension of free skies policy & improve training of pilots	Possible co-finance of preparation through envisaged REAP Trust Fund with World Bank	Ensure focus is on air safety & support to growth & competition of air transport
	East African Transport Project (in preparation)	Extension of current transport corridor network to include S. Sudan and link to Ethiopia.	Joint analysis of transport corridors agreed & possible co-finance of project preparation through envisaged REAP Trust Fund with World Bank	Influence work to improve key corridors – core partner on transport corridor analysis  Possible co-finance through CDEL as shortage of IDA
	East African Power Pool Programme (in preparation)	Support to development of East African Power Pool through hardware links between Uganda, Kenya and Tanzania	Link to strengthening of Infrastructure Unit in EAC & development of PPP units in each country  Possible links in later programming	Push for links to Rwanda & Burundi  Possible co-finance through CDEL as shortage of IDA

### ANNEX H: PROPOSED COUNTRY LEVEL PROGRAMME ACTIVITIES

This Annex lays out the key focal activities for each country under REAP. The activities envisaged have been prioritised as a result of work in each country over the previous two years that has highlighted key national priorities relating to regional integration. Much of the work is generic but some is specific, for example in Rwanda and Burundi, where the greatest reforms are required as new EAC members.

	<b>Burundi</b>	<b>Rwanda</b>	<b>Uganda</b>	<b>Tanzania</b>	<b>Kenya</b>
<b>Tax &amp; Revenue</b>	Support to establishment of Revenue Authority & customs systems establishment Introduction of VAT & Common External Tariff (CET) Tax harmonisation Revenue sharing formula	Customs systems development Support to anti-smuggling efforts  Tax harmonisation Revenue sharing formula	Customs systems development  Tax harmonisation Revenue sharing formula	Customs systems development  Tax harmonisation Revenue sharing formula	Customs systems development  Tax harmonisation Revenue sharing formula
<b>Ministries of Finance &amp; Central Banks</b>	Regional budget year & planning introduced Regional issues planned into MTEF Monetary union feasibility Financial sector harmonisation	Regional budget year & planning introduced Regional issues planned into MTEF Monetary union feasibility Financial sector harmonisation	Regional issues planned into MTEF Monetary union feasibility Financial sector harmonisation	Regional issues planned into MTEF Monetary union feasibility Financial sector harmonisation	Regional issues planned into MTEF Monetary union feasibility Financial sector harmonisation
<b>One Stop Borders</b>	One Border – to be identified	Gatuna and/or Rusumo or border with DRC	Malaba (with USAID) and one other to be identified	One Border – to be identified (with Zambia)	One Border – to be identified (Malaba with Uganda?)
<b>Non Tariff Barriers</b>	Support to development of NTB Committee & private sector monitoring mechanisms in each country Studies examining the impact of NTBs on costs of trading across borders				
<b>Strategic Regional Integration (RI) inputs</b>	Adviser to 2nd Vice President	Adviser to Head of Regional Integration Committee (RIC)	RI Adviser in Ministry of Finance	Adviser at a senior level	Advisory support to Prime Minister's Office
<b>Common Market (CM) negotiations</b>	Support to CM committee & negotiation team	Support to RIC on CM & negotiation team	Support to CM Secretariat & negotiation team	Analytical inputs to CM team, & negotiation team	Analytical inputs to & negotiation team
<b>Ministries of Commerce</b>	Support on list of excluded goods Competitiveness Review	Support on EPA implementation	Support on EPA implementation	Support on EPA implementation	Support on EPA implementation
<b>Customs Union implementation</b>	Support to implementation of key CU related reforms	Support to review of Customs Management Act Streamlining of customs procedures	Streamlining of customs procedures	Streamlining of customs procedures	Streamlining of customs procedures
<b>Support to Ministries of EAC</b>	Core support to strategy & implementation TradeMark Fellow	Core support to strategy & implementation TradeMark Fellow	Core support to implementation TradeMark Fellow	Core support to strategy & implementation TradeMark Fellow	Core support to strategy & implementation TradeMark Fellow placement

	placement Analytical Support	placement Analytical Support	placement Analytical Support	placement Analytical support	Analytical support
<b>Private Sector &amp; Civil Society, Media</b>	Support to Private sector & civil society on core themes of programme. Support for analysis, communications, advocacy and debate. Facility to be design within first six months of commencement with other DPs & EAC Secretariat.				

**ANNEX I ECONOMIC APPRAISAL****1. Overview of economic and trade situation in East Africa**

The EAC has a combined GDP of \$38.7 billion and an average per capita income of \$274, indicating a small domestic market and low purchasing power insufficient to sustain rapid, inclusive growth in the region. The recent economic performance of East Africa has been encouraging, with growth rates of 6.2% in Uganda and 7.3% in Tanzania between 2006-07. East Africa, has enjoyed strong economic growth episodes in the past, however, but poverty levels remain high, and as a whole East Africa is off track to meet MDG 1 on income poverty. The key issue is sustaining high rates of economic growth in East Africa and ensuring that this growth is inclusive and as broadly based as possible.

Due to the small market size and low purchasing power, expanding trade and deepening regional integration are central to sustaining rapid growth and poverty reduction in East Africa. Yet, the EAC's share of world exports fell from 0.066% in 1992 to 0.059 in 2004, indicating the challenge faced by the region in taking advantage of the opportunities from globalization since the 1980s. Exports from the EAC are highly concentrated (5 or fewer products account for at least 50% of total exports) and the composition of exports has not changed in an important way – primary goods still constitute over 80% of total exports.

The region has considerable potential for export development and value-addition in tourism, minerals and agricultural value chains such as coffee, tea, cotton, and fresh fruit and vegetables. East African regional integration has the potential to generate significant poverty reduction, improve trade, incomes, and create jobs for more than 124 million East Africans. But realising this potential will mean driving forward a package of investments and reforms to bring down the very high costs of trading and doing business in East Africa: transport costs in the region are on average 80% higher than the USA and Europe. Many of the poorest East Africans live in landlocked countries (Burundi, Rwanda, and Uganda) and this makes trading harder, more expensive and riskier, as goods have to be transported through multiple borders across long distances.

Kenya is the largest economy in the EAC, followed by Tanzania and Uganda. Rwanda and Burundi trail well behind and also have the weakest GDP growth rates in the EAC (see table G1). Kenya is also the largest exporter among the EAC Partner States, with 26% of its GDP accounted for by exports of goods and non-factor services (GNFS).

Agriculture constitutes the largest proportion of GDP in Tanzania and Rwanda, while in Kenya, Uganda and Burundi, services account for the lion's share of GDP. Industrial production lies in between these two sectors in all five EAC countries. It is immediately notable that exports as a share of GDP are significantly lower in the three landlocked countries of Uganda, Rwanda and Burundi than in Kenya or Tanzania, which are home to the key ports of Mombasa (Kenya) and Dar Es Salaam (Tanzania).

Table G1: Key Economic Variables for East African Community Countries

	Kenya	Tanzania	Uganda	Rwanda	Burundi
GDP (current mil. \$)	16,522	11,238	7,264	1,891	6,86
GDP growth (%)	2.4	4.2	6.4	1.9	0.6
GNP pc (\$)	480	320	253	213	93
Exports GNFS <sup>13</sup> /GDP (%)	26	18	13	10	9
Imports GNFS/GDP (%)	32	27	27	29	32
<b>Composition of GDP (%)</b>					
	Kenya	Tanzania	Uganda	Rwanda	Burundi
Agriculture	28	45	32	42	38
Industry	18	17	22	21	19
Services	54	38	46	37	43

Source: "Options for Strengthening East African Community's Trade Integration". World Bank, 2007  
Selected Variables (2002-06 averages).

Table G2: Intra-EAC Trade Flows (% of total regional exports)

	Exporting Countries				
	Burundi	Rwanda	Kenya	Uganda	Tanzania
Burundi		50.27%	4.29%	18.75%	34.33%
Rwanda	96.45%		10.49%	46.42%	10.06%
Kenya	1.29%	9.19%		21.81%	35.45%
Uganda	0.97%	36.76%	56.44%		20.16%
Tanzania	1.29%	3.78%	28.78%	13.02%	
	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Adapted from "Options for Strengthening East African Community's Trade Integration". World Bank, 2007

Table G2 further demonstrates the difficulties faced by the landlocked countries of the EAC. While Kenya constitutes the largest single market in the EAC, just over 96% of Burundi's exports go to neighbouring Rwanda. Rwanda, likewise, exports go primarily to neighbouring Rwanda and Uganda. Even though Uganda borders Kenya, and despite the size of the Kenyan market, the largest single export destination in the EAC for Ugandan goods is Rwanda. The geographical distance between the main border Uganda/Kenya border cross at Malaba, and the main cities of Kenya is almost certainly a contributing factor to this trade pattern. Improving transport networks and border procedures in the EAC is therefore a fundamental prerequisite for developing trade capacity within the EAC, and between the EAC and the rest of the world.

Trade theory, as well as empirical evidence, supports the principle that regional economic integration (especially between developing countries) produces the greatest benefits when it takes the form of "open integration". That is, at the same time as reducing trade barriers amongst themselves, members of a regional integration arrangement (RIA) must also reduce barriers to trade with the rest of the world. As discussed below, this minimizes the "trade diversion" effects of an RIA and maximizes the net "trade creation" effects. The EAC therefore must also deal with significant barriers to trade with the rest of the world in order to ensure that its integration is beneficial for all members and generates maximum growth and poverty reduction benefits.

To this end, priority must be given to technical support efforts must be made to assist the EAC in its negotiations with the European Union on a comprehensive Economic Partnership Agreement. This holds the potential for significant reductions in barriers

<sup>13</sup> GNFS = Goods and Non-Factor Services

to trade between the two RECs, and greater integration of the EAC in to the world economy.

Regional integration, especially involving formerly fragmented regions with small countries, often have the benefit of increasing the region's attractiveness to FDI. However, in order to ensure that this becomes the case of the EAC, special attention must be paid to the determinants of the investment climate in the EAC. This involves, but is not exclusive to, transport (across all modes), energy, telecommunications, regulatory transparency/standards/procedures, corruption and law & order. In particular, through REAP, DFID will work with other donors already engaged on this agenda, such as the World Bank, IFC and FIAS, to facilitate the speedy and comprehensive improvement of the investment climate across the EAC countries.

## **2. Problems of landlocked countries**

East Africa's landlocked countries (Rwanda, Uganda and Burundi) are linked to the main port of Mombasa by the Northern Corridor (NC) and to Dar Es Salaam by the Central Corridor (CC). In both cases, Uganda acts as a conduit for goods going from Mombasa to Rwanda and Burundi. Transport on both corridors is predominantly by road, although there is limited rail transport on the NC and some rail and lake transport on the CC on the way to Rwanda and Burundi. All the three landlocked countries are therefore fully dependent on the quality and efficiency of Kenya and Tanzania's road and rail networks, with Rwanda and Burundi additionally constrained by the quality and extent of available transport on Lake Victoria.

The time taken for a container to get from the port of Mombasa to Kampala, for example, has been estimated at up to 31 days<sup>14</sup> while shipments to Kigali take up to 33 days. The additional cost incurred by such delays can reach US\$1,000 per container, per trip.

The problem of poor roads and rail links is exacerbated by burdensome procedures at the key border posts (the busiest on the Northern Corridor is the Malaba border post between Kenya and Uganda – and therefore a gateway for goods travelling on the Northern Corridor to Rwanda and Burundi). The delays at the border are due to a combination of poor physical infrastructure (badly designed border infrastructure which causes bottlenecks and log-jams, leading to lengthy tail-backs affecting traffic long before it even reaches the actual border post), as well as excessive bureaucracy, inefficient and repetitive border control operations, multiple and often overlapping border organizations, corruption on the part of officials and price gouging by clearing agents, who can charge in the region of US\$500 for clearing a single container.

Improvement of both the physical infrastructure along the corridors and at key border posts, combined with reform and streamlining of border procedures using a One Stop Border System are therefore vital to reducing the cost of trading for Uganda, Rwanda and Burundi.

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<sup>14</sup> World Bank SSATP Annual Report, 2007.

Table G3: Trade Impact of Being Landlocked

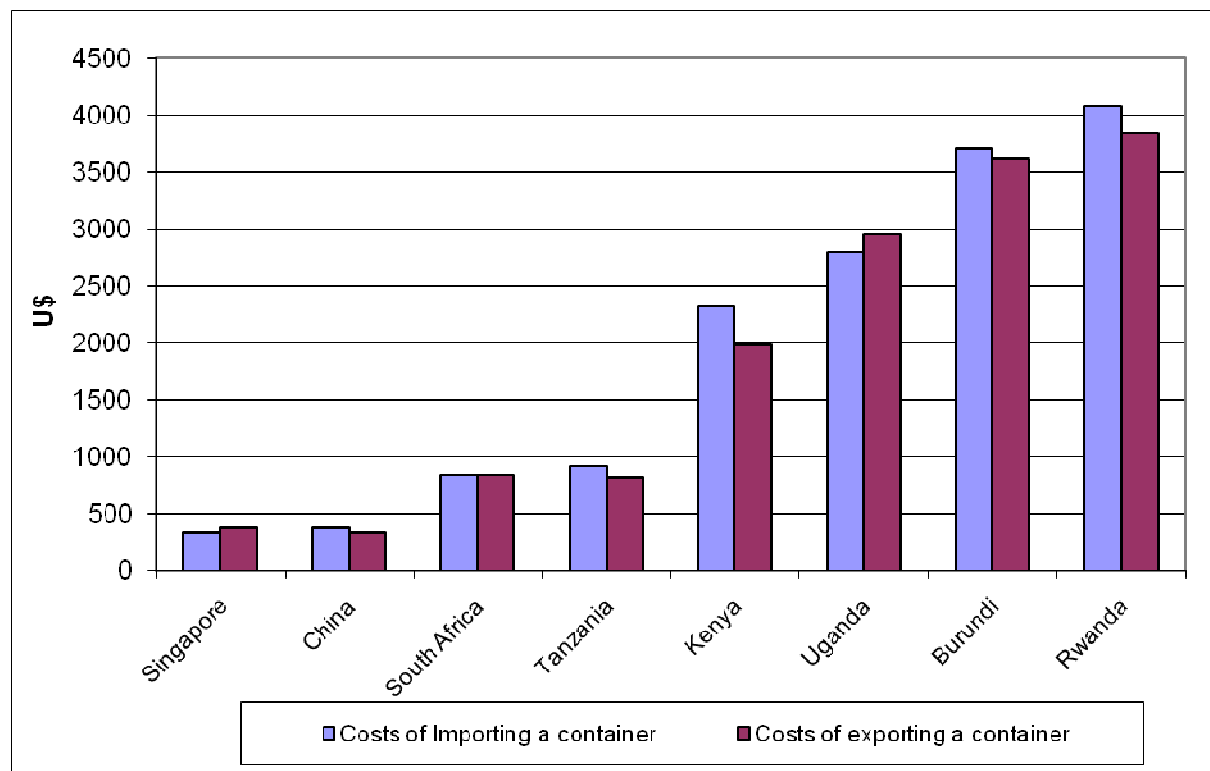
	Exports as % of GDP	
	2005	2006
Burundi	11.4	10.9
Rwanda	10.6	11.7
Uganda	13.2	14.9
Tanzania	23.5	24.3
Kenya	27.9	26.2
Average of Landlocked	31.4	31.6
Average Coastal	39.7	41.6

Source: Adapted from World Bank World Development Indicators

Table G3 above offers a striking example of the trade cost of being landlocked. Exports as a percentage of GDP were a full 10% higher for coastal countries in Sub-Saharan Africa than for landlocked countries during 2006. Among the EAC membership, the trend is no less striking, with Uganda’s exports to GDP ratio just over 9% lower than Tanzania and just over 11% lower than Kenya, with Rwanda and Burundi’s figures trailing even further behind.

Chart G1 also shows that the cost of importing and exporting containers from Rwanda, Burundi and Uganda well exceeds the cost of doing so from Kenya or Tanzania. The cost of importing and exporting is also clearly higher for all East African countries than for international comparators, almost twelve times that of Singapore for Rwanda and Burundi, making it very hard to compete on exports.

Chart G1: Costs of Importing and Exporting a Container



### 3. Why Integration Matters for Growth and Trade

The fragmentation of Sub Saharan Africa is perhaps the most compelling reason behind the need for increased regional integration. The region consists of 47 small economies, with an average GDP of US\$4 billion, and a combined GDP equal to that of Belgium (or 50% of the GDP of Spain).

The small domestic markets, combined with generally high production costs and deficient investment climates result in limited investment flows (Africa attracts less than 2% of global foreign direct investment), and poor economic growth. Combining these economies under one regional umbrella helps to overcome many of the problems associated with small, and especially land-locked, economies.

#### Rationale for regional integration arrangements<sup>15</sup>

- *Increased returns and increased competition.*

Enlarging markets through integration of small economies (a) promotes possibilities to achieve economies of scale, (b) improves efficiencies, and (c) increases competition, leading to lower prices and expanded supply.

- *Trade and location effects.*

Preferential reductions in tariffs within regional agreements can induce shifts in both demand and supplies. Net effects on national income depend on costs of alternative supply and trade policies toward non-member countries.

- *Investments.*

Regional cooperation and established agreements can attract more FDI by (a) enlarging markets (particularly for “lumpy” investment viable only above a certain size) and (b) reducing distortion and lowering marginal cost of production.

- *Coordination and collective bargaining power.*

Regional integration agreements may enable countries to coordinate negotiating positions in international fora, thus raising visibility and possibly leveraging bargaining power.

- *Management of shared natural resources.*

Many watersheds, mineral deposits, fisheries, and sensitive natural environments are shared among countries. No country acting alone can ensure sustainable management, which depends on collaboration.

- *Management of “regional commons.”*

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<sup>15</sup> Taken from the World Bank’s “Regional Integration Assistance Strategy for Sub Saharan Africa”, April 2008.

Effective action to combat migratory diseases, such as HIV/AIDS and malaria, and vulnerabilities arising from climate change depend on collaborative efforts among groups of countries.

- *Policy lock-in and commitment mechanism.*

Regional agreements can provide a “commitment mechanism” for countries’ domestic trade and other policy reforms, reducing the likelihood of policy reversals. Such mechanisms apply to political as well as economic reforms.

- *Insurance.*

Integration agreements provide insurance to members against exogenous shocks (terms of trade shocks, conflict, protectionism in developed countries, and impacts from climate change).

- *Security.*

Risks of conflict are perceived to be lowered through integration agreements as a result of improved intraregional confidence and trust, common defence arrangements, and interdependence in key aspects of countries’ national development.

#### Potential costs of regional integration

- *Trade diversion.*

Displacement of low-cost products from non-members by higher cost products from countries within a regional integration arrangement has been a major problem with several regional integration arrangements. Welfare gains are realized if trade creation dominates trade diversion, but this outcome cannot be ensured in advance.

- *Revenue loss.*

Trade integration agreements reduce governments’ tariff revenues, both directly through tariff cuts and indirectly through shifts away from imports subject to tariffs from non-members. Net costs depend on how much new trade is generated from the integration agreement but can be high when trade facilitation is difficult.

- *Indirect costs.*

Arising from the freer movement of people and capital across national borders (capital flight and losses of skilled human resources, for example) and the extra vigilance required to prevent cross-border crime.

## **4. Cost-Benefit Analysis**

### Background

Through DFID interventions in Southern Africa under the RTFP program, the *minimum* expected reduction in waiting times at the Chirundu border post between Zambia and Zimbabwe was set at 10% by the end of 2008. The actual percentage

reduction is expected to be well in excess of 10%. This reflects the nature of delays and costs along Africa's major transport corridors. They are often cumulative and concentrated at certain identifiable bottlenecks. Indeed, a large proportion of transport costs are incurred long before goods reach the ports of Mombasa or Dar as Salaam. For example, on the spot surveys conducted by the design mission at the Namanga border post (between Kenya and Tanzania) revealed that drivers were paying upwards of US\$500 per truck for the services of forwarding agents. Through accumulation of costs along the corridors, a recent USAID report estimated that excess (i.e. avoidable) costs for transporting a 20-foot container along the Northern Corridor through Malaba could be in the region of US\$1,000.

By targeting these bottlenecks all the way along the corridor, dramatic reductions in transport cost can be achieved through relatively low cost interventions. The established precedent of RTFP can be used as a basis for estimating savings which could be achieved via REAP's proposed interventions along the Northern and Central Corridor.

### Assumptions

RTFP set a 10% target for reduction in time delays through the Chirundu border post and is expected to well exceed that figure. Based on this precedent, the following assumptions are made:

- Time delays are at least proportional to the dollar cost they impose. Because of their cumulative effects, it is possible to assume that reductions in time delays have a more than proportional impact on dollar costs;
- Time delays at border posts are only part of the total delay experienced by transit cargo travelling along the Northern and Central Corridors. REAP will be addressing a wide range of bottlenecks, which impose cumulative costs on regional transport;
- According to the World Bank Doing Business 2008 indicators, the trade-weighted average cost for exporting a 20-foot container in the EAC region was US\$2,182;
- Based on these assumptions and precedents, a target can be set for overall cost savings (i.e. by addressing multiple bottlenecks along each corridor, both directly and through cooperation with other donors, leveraging of private sector investment etc) along the Northern and Central Corridors of a minimum of 5% by the end of the fifth year of REAP's activities. (This figure represents the low-impact scenario target for the programme in the Logical Framework, with a target of 10% in the medium-impact scenario and 15% in the high-impact scenario).
- Finally, starting figures are assumed of 80,000 20-foot containers of transit traffic a year, of which 50,000 travel along the Northern Corridor, and 30,000 containers per year along the Central Corridor<sup>16</sup>. Based on a survey

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<sup>16</sup> Figures drawn from Kenya Port Authority Website and USAID/EAC "Northern Corridor Case Study - Malaba OSBP", March 2007

of the relevant literature, a flat growth rate for container traffic of 5% annually is assumed throughout the analysis.

### Regional Export Growth

The overall aim of REAP is to facilitate the growth of regional and international trade in East Africa, thereby fuelling economic growth and poverty reduction. REAP's activities are all primarily geared towards this aim. A cost benefit analysis of the programme can therefore be presented by looking what can be reasonably expected from regional increases in export value.

Table G4 shows current data for exports of goods and non-factor services from the East African Community members. To get a benchmark for what kinds of overall export increases could be expected from REAP's interventions over the lifetime of the programme, the following parameters are used:

- a) Estimates of the impact of transport cost reductions on trade flows, as developed by Limao and Venables<sup>17</sup>. Limao and Venables find that Africa's trade flows are largely constrained by infrastructure and transport costs. They find that there is a high responsiveness of trade flows to reductions in transport costs, with a 10% increase in transport costs typically reducing trade volumes by 20%.
- b) The estimated impact of EPA agreements on the SADC region as a proxy for the kinds of impacts that can be expected from the successful conclusion of the EAC EPA. Facilitation of the regional EPA agreements is a key pillar of REAP's work in East Africa. According to analysis conducted by the United Nations Economic Commission for Africa, a successful conclusion of EPA negotiations could yield increased exports from SADC to the EU of up to 11% of total exports from the region.

These two studies give a useful idea of the scale of impact that can be expected from interventions that have a significant impact on regional transport costs as well as policy openness to trade and investment. These potential changes in trade flows are used as a guide to what constitutes a reasonable scale of export growth, following the kinds of interventions envisaged for REAP. Since it is not possible to precisely model the expected impacts of the programme, a conservative assumption is used in the CBA that the combined impacts of REAP's interventions over five years will increase exports value annually across the region by at least an additional 2% over trend growth (the actual target in the Logical Framework for the programme is an increase of 5% above trend growth). This includes **all** project activities, not just regional transport and support on EPA negotiations.

Table G4: Exports and GDP in EAC Countries

Table G4:	Kenya	Tanzania	Uganda	Rwanda	Burundi
GDP (current mil. US\$)	17259	11352	7414	1976	717
Exports GNFS/GDP (%)	26	18	13	10	9
Exports GNFS (mil US\$)	4487.34	2043.36	963.82	197.6	64.53

<sup>17</sup> "Infrastructure, Geographical Disadvantage, and Transport Costs". Nuno Limão & Anthony J. Venables. December 1999, World Bank Policy Research Working Paper No. 2257

<b>Aggregate Current Regional Exports (mil US\$)</b>	7756.65
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Source: WDI Database. 2006 figures.

**Table G5: Overall Cost Benefit Analysis Table**

Year	Project Outlay (US\$ 000s)	Annual Container Volume (000s)	Container Transport Cost Savings (US\$ 000s)	Total EAC Exports (mil US\$)	Additional Exports (mil US\$)	Additional Profits (US\$ 000s)	Net Benefit (US\$ 000s)	Cumulative Net Benefit (US\$ 000s)
1	- 6,997	80.0		7,757			- 6,997	- 6,997
2	- 10,251	84.0		8,145			- 10,251	- 17,248
3	- 10,251	88.2		8,552			- 10,251	- 27,499
4	- 10,251	92.6		8,980			- 10,251	- 37,750
5	- 10,251	97.2		9,429			- 10,251	- 48,001
6		102.1	11,139	9,900	198.0	4,950	17,093	- 31,912
7		107.2	11,696	10,395	207.9	5,198	17,947	- 15,018
8		112.6	12,281	10,915	218.3	5,457	18,845	2,721
9		118.2	12,895	11,461	229.2	5,730	19,787	21,377
10		124.1	13,540	12,034	240.7	6,016	20,776	40,934

Looking at the figures in tables G4 and G5 within the framework of a net present value and internal rate of return analysis, the results more than justify the proposed investment of funds in the programme. For REAP to have an IRR in excess of the 12% DFID hurdle rate the project must (i) reduce transport costs of containers by 5%; (ii) increase exports by 2% over trend growth, assuming a 2.5% profit margin from these export activities. With these assumptions the IRR is 13.3%.

The above savings and growth figures are considered conservative and are likely to be a lot higher. This is based on experience from RTFP in targeting greater reduction in transport delays and costs (10%) and from a comparison of levels of trade in other free trade areas.

#### Benefits/costs which have not been quantified in the CBA

##### *Economies of scale*

In small markets, there may be a trade-off between the pursuit of economies of scale the development of competition. Both have their benefits for economic growth, and the need to choose between them in a small market is clearly detrimental to economic diversification and productivity growth. Enlargement of the market through RIA removes this trade off and increases the scope for (i) larger firms with greater productive efficiency for any industry with the potential for economies of scale and (ii) increased competition which encourages lower prices, increased sales and the reduction of internal inefficiencies (the latter having important knock-on effects for technological advancement and productivity growth in the economy as a whole).

##### *More attractive for investment*

Regional integration may also attract FDI both from within and outside the RIA as a result of (i) market enlargement (especially for “lumpy” investments that might only be viable above a certain size) and (ii) increased scope for product rationalization. The latter is where international firms take advantage of the specialization of productive

capacity across countries (e.g. a firm locates labour intensive aspects of its production in Tanzania, and capital intensive aspects production in Rwanda, both for export to a third market).

### *Expanded Factor Markets*

Increased economic integration allows for the freer movement of factors of production between countries. This provides the scope for a more efficient allocation of resources within the larger economic space. Labour and capital can be reallocated to activities which maximise returns and outputs that would otherwise have been out of reach. Workers for whom opportunities have been lost in a particular industry or region are now faced with a much larger market in which to sell their skills. New opportunities also encourage workers to retrain or redevelop their skills in order to access new parts of the labour market. The improved flow of capital within the region also allows lenders and borrowers to meet in a new, larger market place where capital can be put to more productive uses and yielding the greater returns. The overall outcome for the region is increased economic productivity and growth.

### *Adjustment costs*

Key among these is the adjustment costs generated by increased economic openness – both within East Africa and with the rest of the world. As tariffs are reduced, for example, import competing firms may reduce production and therefore lay-off workers. Searching for new jobs, retraining and maintenance of themselves and their families during this transition generates costs which will require mitigating interventions by government.

The loss of tariff revenue is an important concern in countries where trade taxes are a major source of government revenue. Given the considerable difficulty of raising revenue through alternative taxation, tariff reductions can have a major impact on public finances. This is especially true for small economies like Rwanda and Burundi, where trade taxes form a far higher proportion of overall tax revenue than in the far larger economies of Kenya, Tanzania and Uganda. However preliminary analysis carried out in both countries indicates no substantial loss of revenue if major tariffs are converted into levies, especially on oil and petroleum products. At present, the full impact of the EAC customs union is not fully understood.. REAP will support improved impact analysis of the customs union, especially with respect to Rwanda and Burundi. This will be vital for the development of strategies for the redistribution of the regional gains from integration, thereby helping to mitigate adjustment costs (see [Annex F](#) Technical Appraisal for discussion on EAC Revenue Sharing Formula and the proposed EAC Development Fund).

Harmonisation and implementation costs are also likely to be an issue. The less developed a country's public and administrative structures are, the greater the cost of bringing them up to a regional or international standard. Among the EAC countries, Burundi in particular will require considerable technical support and capacity building assistance in this area.

### *Impact of investments by other Development Partners*

There are currently a number of ongoing projects supported by the World Bank, AfDB, USAID, Japan, EIB and Infrastructure Consortium for Africa members which

aim to facilitate trade and transportation at regional or national level in East Africa which REAP will complement. Co-operation with other development partners engaged in the EAC region could lead to further positive results from REAP or a potential decrease in REAP's costs in achieving its targeted results.

The most substantial current project in the region is the World Bank's East African Trade and Transportation Facilitation Project, which is projected to end its ground operations by May 2010. A list of key Development Partner activities in the region can be found in Annex G.

### *Winners and Losers*

The welfare gains from regional integration *do not* occur uniformly across members states. The larger producers within a region will often have a trade surplus with their smaller fellow members, and produce goods which have previously had to compete with imports from the rest of the world, but which are now sold to fellow members free of tariffs. At the same time, the smaller members (who tend to be net importers) will lose tariff revenues on goods from member countries and (if tariffs on goods from the rest of the world remain high – i.e. if there is little or no “open integration”) will only receive a small reduction in the overall price of imports.

Benefits from integration will therefore flow from the smaller to the larger economies within the group. It is therefore vital that (i) clear and credible methods for redistributing benefits among countries are established as part of the regional integration agreement (see Annex F Technical Appraisal for discussion on EAC Revenue Sharing Formula and the proposed EAC Development Fund) and (ii) small countries focus on reducing barriers to trade with the rest of the world.

**ANNEX J INSTITUTIONAL APPRAISAL****1. Introduction**

This Annex examines the institutional framework underpinning the regional integration process in East Africa. There are four major elements of the institutional framework: the EAC secretariat and other organs of the EAC; (ii) national ministries and government agencies of the Partner States; (iii) the private sector and (iv) civil society. Each of these elements is discussed in turn below.

**2. The EAC Secretariat**

The EAC Secretariat is the executive organ of the Community in charge of leading the integration process, by proposing initiatives, drafting protocols and agreements, and monitoring implementation of the Development Strategy. The secretariat is a small and young organisation with a broad mandate, and a number of earlier institutional assessment studies of the EAC institutions have highlighted specific capacity challenges.

The Secretariat has made commendable progress in the last 12 months in strengthening its operating capabilities, including the recruitment of about 50 new staff, for a total of about 87 professional staff. However, a fiduciary risk assessment commissioned by DFID and the EU Institutional Audit carried out in July-August 2008 found that challenges remain in financial management systems, human resources and procurement capacities.

In the first year of the programme, DFID will therefore need to support a technical support package to strengthen the Secretariat's corporate systems and mitigate DFID's fiduciary risk in relation to investments in the EAC-PF. The package is summarised in the Table I1 overleaf.

Table 11: **Draft Joint Financial Management Action Plan**

Key Functional Areas Requiring Support	Sequencing	Target Results	Staffing requirements EAC over the next year to assure sustainability	Timetable	Suggested Activities
<b>Internal Audit</b>	To start immediately with inputs. Priority 1	New risk-based internal Audit system implemented with adequate staffing levels and capacity by end of 2009	1 qualified internal auditor with experience in systems based audit	To change immediately from pre-audit to systems audits. Need to recruit immediately	(i) developing internal audit unit and training staff to carry out systems based audit (ii) Design and develop Risk Based Audit Framework, Risk register, Internal Audit Charter, Audit programmes, etc (iii) Ensure internal audit manual is operationalised. Train existing staff and support recruitment <i>Suggested Regional East African TA resident for one year to train staff on the job.</i>
<b>Financial Systems</b>	To start immediately- various inputs to be sequenced based on design. Priority 2=	Fully operational Sun systems and financial manual. Reporting system fully rolled out and linked to M&E system by end of 2009. Updated financial rules and regulations by end of 2009.	1 qualified (ACCA) senior level project accountant, two/three accounts assistants (project focused). Qualified and experienced staff with Sun Systems experience	Immediately if possible	(i) Fully develop Sun Systems and GFS compliant chart of accounts (integrated financial management information system) (ii) Strengthen, redesign and streamline procedures & implement financial accounting manual. Train staff across Directorate and across organisation. Roll out reporting package (Vision) across directorates to ensure budget management. Develop standardised financial reporting systems to integrate with M&E & planning departments. (iii) Update and implement Financial Rules and Regulations to reflect changes. <i>Suggested Regional East African TA resident for one year to train staff on the job</i>

Key Functional Areas Requiring Support	Sequencing	Target Results	Staffing requirements EAC over the next year to assure sustainability	Timetable	Suggested Support Modalities
<b>Financial systems- Partnership Fund Procurement</b>	Immediately on recruitment Priority 2=	Extra accountant hired to support Partnership Fund	EAC hires additional accounting assistant	Immediately if possible	1 assistant accountant recruited with assistance from DPs for financial management support to PF & other donor projects for 1 year.
	To start when staff recruited. Priority 3	Fully operational procurement system that is integrated with Sun Systems by end of 2009	2 procurement staff as a minimum. One clerk one senior person to develop and implement procurement manual. Train staff.	Immediately if possible - essential to have procurement manual procedures operating within 3 months.	Finish and implement procurement manual and train staff across organisation. Ensure Sun Systems is integrated into procurement area. Procurement team trained in Sun (need to buy more licences for rollout). <i>Suggested Regional East African TA resident for one year to train staff on the job</i>
<b>Human Resource Management (HRM)</b>	Plan according to short-term needs- within 3 months Priority 4	HR payroll plan, manual, system (Inspiro), and strategy in place and fully operational by end of 2009. All staff have job descriptions & performance management system by end of 2009.	Series of HR inputs- experience in HRM systems and training- job descriptions, PB systems.	Immediate if possible - Implement Inspiro across the organisation immediately.	(i) Develop HRM plan and design HR manual and train staff in HR and systems- including Inspiro system. (ii) Develop job descriptions and performance based management systems (iii) Implement payroll system. <i>Suggested Regional East African TA resident for one year to train staff on the job</i>

Key Functional Areas Requiring Support	Sequencing	Target Results	Staffing requirements EAC over the next year to assure sustainability	Timetable	Suggested Support Modalities
<b>Functional Review &amp; Corporate Governance</b>	Sequencing based on Corporate Governance review and functional review. 2 or 3 elements of support need to be planned. Priority 5=	Functional review completed by June 2009. Corporate governance framework developed and fully implemented by end of 2009. Updated Development Strategy with clear targets produced by end of 2009. MTEF process upgraded by end of 2009.	None	Within 2-3 months of start of action plan	<ul style="list-style-type: none"> <li>(i) Lead on functional review and strategy as requested by SG in September 2008</li> <li>(ii) Develop corporate governance plan and framework and manage implementation of inputs across organisation.</li> <li>(iii) Review Treaty and Financial Rules and Regulations.</li> <li>(iv) Design and implementation of Oversight Commission-ensure full operation</li> <li>(v) Review need for MTEF in the light of capacity issues. Work with Budget Department to improve budget processes and implement MTEF.</li> <li>(vi) Undertake capacity building in governance issues across organisation.</li> </ul> <p><i>Suggested temporary Expatriate TA Adviser to act as overall team leader for action plan</i></p>
<b>Planning</b>	Immediately on recruitment Priority 5=	Robust planning processes and tools developed & implemented by end of 2009.	1 full time regional planning officer to be recruited through Partnership Fund as EAC staff member	Within 2-3 months of start of action plan in tandem with functional review	<ul style="list-style-type: none"> <li>(i) To develop planning function within the organisation</li> <li>(ii) To develop full range of planning tools across the organisation and engage in capacity building of Secretariat staff.</li> <li>(iii) Ensure seamless operation of budget/planning/projects management/M&amp;E and financial reporting across organisation</li> </ul>

<b>Key Functional Areas Requiring Support</b>	<b>Sequencing</b>	<b>Target Results</b>	<b>Staffing requirements EAC over the next year to assure sustainability</b>	<b>Timetable</b>	<b>Suggested Support Modalities</b>
<b>External Audit</b>	Not immediate TA support.  Priority 6	External commissioned 2008/9	audit for D-SG to take forward action	At year end - external audit to be commissioned.	Commission annual external audits from professional firms. Consider TA from professional firm to advise Audit Commission team and develop capacity.

### 3. National ministries and government agencies of Partner States

At a national level many government ministries and institutions charged with responsibilities for regional integration, transport development, and trade facilitation have capacity challenges, particularly in the four LDCs in the EAC. A complex web of government stakeholders are required to participate in policymaking, negotiating and implementation for the EAC's regional integration protocols and programmes. These include Presidents' offices, ministries of finance, trade, infrastructure, economic planning, education, agriculture, labour as well as central banks, revenue authorities and social protection agencies.

In the public sector, the Ministry of EAC Affairs typically co-ordinates regional integration policy making and implementation, but many issues cut across the boundaries of other Ministries such as Finance, Industry and Agriculture, and other quasi-governmental agencies. For REAP, some of the main public sector agencies at the national level are as follows:

- Ministries of Finance;
- Ministries of Trade and Commerce;
- Ministries of EAC Affairs;
- Ministries of Trade and Industry;
- Customs administrations;
- Standards agencies;
- Trade promotion organisations;
- Tax administrations.

Whilst it was not feasible during programme design and appraisal to complete a thorough institutional analysis of all of these agencies in each of the countries of the EAC region, it is possible at this stage to describe some of the main institutional features, strengths and weaknesses features typical of the principal trade-related public sector agencies in the region which will be involved with REAP.

REAP will adopt a strategy of working *across* Government, analysing the key drivers of change, building capacity for core RI functions in Ministries of RI<sup>18</sup>, Commerce, Infrastructure, Finance, and Revenue Authorities, and supporting champions of RI in Presidents' offices and Ministries of Finance. REAP will also work closely with DFID Country Offices and FCO posts in East Africa to leverage their expertise in planning and delivering REAP support for RI reforms at the national level, especially in Rwanda and Burundi. This is reflected in envisaged activities for each country, outlined in Annex H. REAP will also undertake a deepening of its regional drivers of change study that was undertaken in 2006 by ODI to look at the dynamics of political integration at a national level. This will further spotlight requirements for support, and identify the drivers of change to engage with over the initial five years of REAP.

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<sup>18</sup> Ministries for EAC Integration are new and are still in the process of establishing their remit, staffing, and operations. Whilst significant results were achieved from DFID pilot projects with Ministries of EAC Integration in Uganda and Burundi, the approach taken will look much wider than just these Ministries.

### Offices of the President and/or Prime Minister

In many of the EAC member states the Offices of the President and/or Prime Minister have a broad understanding of the importance of regional integration and a high level role in negotiating regional agreements, but generally lack resources (financial and technical) to fully understand the ramifications of decisions. In countries like Rwanda and Burundi, due to the importance of accession, resources have been established at the level of the Presidents and Vice Presidents to drive the regional agenda. In both cases they have asked REAP to supplement their resources with technical expertise, and this is also very likely in Kenya and other member states. REAP will also use drivers of change analysis to support greater political support for regional integration.

### Ministries of EAC Affairs

Ministries EAC Affairs have been established in all of the Partner States (with the exception of Burundi where EAC affairs comes within the remit of the Ministry of Regional Integration and EAC) to lead the co-ordination of EAC policy across government, but these are new and are still in the process of establishing their remit, staffing, and operations. However, the pilot national level capacity building project initiated by DFID in Uganda in early 2008 shows that significant improvements can be made quickly, although a long term, whole-of-government approach will be important to ensure fully implementation of regional integration reforms at the national level, especially in Rwanda and Burundi.

### Ministries of Trade & Industry

Whilst there are some notable exceptions in the more developed countries (e.g. Kenya), Trade ministries and related agencies (e.g. Tariff Commissions) in the East Africa are challenged to undertake evidence-based trade policy formulation and implementation. Information systems in Trade ministries often require upgrading. Staff in trade ministries are generally poorly paid relative to the private commercial sector; need more technical knowledge and skills training in trade policy. In some countries in the region, organisational structures and resource allocation within Trade ministries reflect an emphasis on day-to-day regulation rather than facilitation of international trade (e.g. departments dedicated to administering import and export licenses).

In much of the region, Trade ministries are not always well integrated into national economic policy making processes.. There is a lack of analysis of the impact of trade policies on poor people or the environment, and poor producers or small traders and enterprises are generally not always represented in national level trade policy dialogue. Likewise, government ministries and agencies in charge of social policy, poverty reduction strategies and environmental policy are generally not engaged in debates around national trade policy.

In some countries, Trade ministries have been ambivalent about implementing regional or multilateral trade agreements, often because of pressure from domestic lobby groups. In other cases, whilst political will has existed to pursue trade reforms and remove regional barriers to trade, policy makers have struggled to ensure that decisions taken at political level filter down to trade officials (either within the Trade

ministry itself or in specialist agencies such as Customs or standards bodies) with responsibility for implementing those decisions on the ground.

More positively, whilst many Trade ministries in the region face some or all of the above institutional challenges, a number of donors, including DFID, USAID, EC, WTO and UNCTAD and GTZ have given higher priority to building capacity in this aspect of public policy and the public service. Typical interventions have included training, technical assistance, support for trade policy analysis and dialogue programmes, and provision of IT resources. Most countries in the region have benefited from one or more such donor programmes, which are likely to continue over the short to medium term with the continuation of a number of important regional and multilateral trade negotiations.

### Customs administrations

Customs administrations performance is improving across East Africa (e.g. Rwanda). In most countries in the region (except Burundi), governments have integrated Customs administrations within relatively newly established Revenue Authorities (para-statal bodies run on business lines and staffed by non-civil service working on short-term, revenue target-driven contracts). As a result many aspects of Customs management and efficiency have improved under the new Revenue Authority (RA) bodies operating in the region. The performance has been positive but some RAs have tended to focus on maximising revenue collections rather than facilitating trade fully.

Some of the institutional challenges in Customs administrations in the EAC region impinge directly upon regional integration trade facilitation. Those of relevance to REAP include:

- Paucity of technically trained staff competent in the range of Customs-related legislation, regulations and procedures (covering tariffs, rules of origin, standards) applicable under trade arrangements with different trading partners;
- Variable management systems, sometimes without clear performance targets and monitoring systems for key objectives such as consignment release times;
- Legal frameworks do not always reflect modern international trading requirements or best practice in customs administration (e.g. risk-based inspection systems);
- Under-developed information systems and IT resources;
- Variable transparency in regulations, procedures, charges and provision for administrative review of rulings; and
- Corruption and sometimes problems of customs integrity.

A number of donor-funded programmes are operating in the area of Customs modernisation within the region. Typically such programmes aim at a comprehensive overhaul of the national Customs system, including provision of long-term technical assistance, out-sourcing inspection to international firms, computerising information

systems, streamlining import valuation procedures by using trader invoices, accepting international standards of certification, and adopting risk-based inspection systems. Output 3 of REAP addresses this issue by looking at ways of ensuring that regional trade regulations are harmonized and streamlined in a way which supports and facilitates regional trade flows.

### Standards agencies

A range of public sector agencies are involved at national level in the setting and assessment of product standards, technical regulations (Technical Barriers to Trade or TBT) and Sanitary and Phyto-Sanitary (SPS) measures. SPS controls and issues are particularly important for agricultural trade (which is the sector where most of the rural poor are employed or have their livelihoods) and institutionally these functions typically fall under the joint jurisdiction of Ministries of Health and Ministries of Agriculture or, in some cases, provincial and local authorities.

In general, the existing institutional arrangements in many countries in the region are inconsistent or unclear, and present disincentives for traders through imposing additional costs and risks. In some countries there is ambiguity around the demarcation of the responsibilities of various supervisory departments and ministries. A common concern is the complexity of requirements of the various public institutions. To date, there are no “one-stop shops” where traders can get quick and efficient clearance for their trade transactions.

Most national public sector standards-related agencies in the region have limited technical capacity to manage a wide range of TBT, SPS and food safety matters. Typically, essential facilities like laboratories are not adequately resourced, scientific equipment is outdated for the requisite tests, and there is little systematic collection and storage of records. In general, the cadre of officers, who are competent in assessing risk, and interpreting SPS and TBT regulatory requirements, is small.

A significant portion of the institutional weaknesses of standards agencies in many countries in the region relate under-developed information systems and access to at the national level. In most instances, the national notification authorities, respective notification pathways and responsible public institutions and officials are unclear. National “enquiry points”, who are tasked with receiving and transmitting information on the WTO SPS and TBT Committees notifications, and similarly the “contact points” in the case of Codex Alimentarius notifications frequently do not transmit information to the critical operational levels such as private traders and border post personnel. In some country situations the enquiry and notification points do not have basic support services required such as computers, e-mail and Internet access.

A further challenge within the institutional framework for standards regulation in most countries in East Africa are border controls. In some cases, customs officials with inadequate training and knowledge of specific TBT, SPS and food safety requirements for entry and exit of goods are the only available adjudicators. In addition, most border posts do not have testing equipment such as sampling and measuring instruments to allow for routine testing for compliance. Few countries have alternate arrangements to facilitate the movement of small consignments, such as seed and food items and this presents a large hurdle for small-scale cross-border informal traders.

Given low levels of public expenditure in standards bodies, the focus of REAP will be to look at rationalisation of national level institutional frameworks for policy formulation and implementation; cost-recovery models; and feasibility for involving the private sector more in delivery of information, testing and regulatory services. Deepening regional co-operation in standards through regional structures will also be supported under REAP, as strategies such as resource sharing can provide opportunities for increased networking and mutual recognition while minimizing the costs of duplication. This approach will complement, and is consistent with, support being provided by USAID, UNIDO and the EC through on-going regional programmes in the area of standards.

### Trade promotion organisations

All the governments of the region have either departments within their Trade and Industry ministries, or parastatal agencies under those ministries, with a specific trade promotion function. As a minimum, this involves the organisation of government trade missions and exhibitions and the compilation for exporters of information on export requirements, such as information on preference schemes and documentary requirements in different markets. In most countries there are also matching grant schemes available to assist exporters to investigate new markets or exhibit products. Separately from Trade and Industry, several governments also finance export credit guarantee schemes, normally via their central banks.

Generally speaking these departments and agencies have not impacted on the export performance of the countries concerned significantly. This is partly because the major exporting companies have not required the support offered; but it also reflects challenges in institutional capacity and low government commitment to trade promotion through the mechanisms described above. In some countries, for example, trade promotion is linked to investment promotion within government and much higher priority is accorded to providing incentives and removing obstacles to foreign investors. Furthermore, in terms of targeting government support to potential exporting firms, government have favoured direct grant and technical assistance to firms, particularly to small enterprises in product and market development, via small business development corporations.

The consequence of typically low levels of funding, lack of clarity of purpose and low impact of support measures has been a general decline in confidence - by government and business itself - in trade promotion organisations across the region. However, the function of trade promotion as a policy instrument for trade development remains a high priority for countries seeking to diversify their economies, to support entrepreneurship and to compete with trading partners whose exporters receive much more effective support from their governments.

The central issue is how to establish more effective institutional forms of trade promotion which do not depend upon the expertise of under-resourced civil servants with limited expertise in business requirements. A further issue is how better trade promotion services can be delivered to small scale traders and poor producers, who currently lack access to mainstream trade promotion organisations in most of the region.

### Tax administrations

Tax administration includes the collection of direct taxes such as personal and corporate income taxes as well as indirect taxes such as VAT (on retail sales) and Excise duties (normally imposed at the point of manufacture), as compared to Customs administration that includes the imposition of trade control measures such as the imposition of import duties and the enforcement of laws regarding prohibited and restricted items. In some countries in the region, direct and indirect taxes remain within the jurisdiction of government departments and in others, the Revenue Authority model is followed. Revenue Authorities are put in place to *administer* the tax (i.e. to carry out efficiently and effectively tax collection functions), they normally encompass both Customs and Tax administration – although lines of demarcation (typically Customs & Excise/Direct Tax/Indirect Tax) often persists.

Generally, tax administrations in the region which come under government departments are perceived as lacking in technical capacity, subject to weak management, operating under outdated legal frameworks which do not reflect best practice, suffering poor resources including IT, and demonstrating a lack of transparency in the application of the law and policy.. In most countries where Revenue Authorities have been put in place (all except Burundi), they are generally viewed as a success. Many of the ills that previously affected tax administration are reduced and increases in net revenue (largely as a result of the use of contracted specialists driven to meet revenue targets) are typically achieved. Also the technical and managerial capacity of the incumbents has been greatly enhanced.

On the other hand the culture that results from revenue targets being the prime driver is, understandably, not always pro- business and especially not pro-small business. A further issue is that the drain of capacity within Ministries of Finance as a result of an exodus of staff to fill (better) jobs in the Revenue Authority can leave shortfalls both in terms of expertise and institutional memory. This may have had the unintended consequence in some jurisdictions of not only passing the administrative collection function to the Revenue Authority but also *de facto* the policy expertise and institutional memory to the Revenue Authority. A number of countries in the region are seeking to (re) build capacity in Ministries of Finance to deliver this function, and these institutions may be well placed to drive pro-poor and pro-business tax compliance initiatives because of their wider view of economic policy objectives. REAP should support the development of further tax harmonisation, but given the work carried out by GTZ in this area already, it will not be a high priority of the REAP programme.

#### **4. The EAC and the Private Sector**

The East African Community (EAC) re-established under its Treaty in 1999 has as one of its basic tenets the importance of the private sector. It acknowledges that the private sector, driven by the profit motive requires enabling policies which enhance the opportunities for attractive returns on investments. It accepts that by putting in place an incentive framework which facilitates and promotes the private sector it enables the Community to achieve its overall goals of accelerated growth, poverty reduction and an improvement in the quality of life for the peoples of East Africa. This commitment to regional development based on people-centred, private sector driven and an internationally competition strategy has been key to all the activities of the EAC. This was again highlighted at their 2008 annual Head of State summit where the President of Rwanda used as the theme of his speech the need to ensure that the private sector fully participates in the debate on implementation of all activities in

the EAC where improving the business environment, encouraging investment and opening up the regional market via increased trade are key objectives.

At the regional level a very good relationship has been developed between the EAC Secretariat in Arusha and the regional apex private sector organization – the East African Business Council (EABC). This provides an integrated and effective way by which the private sector can fully participate at the very centre of the regional integration process. This relationship needs to be further strengthened and developed. At the national level, Tanzania, Uganda and Rwanda well funded Private Sector Foundations exist because of a programme funded mainly by the World Bank. In Burundi the PSOs are only recently starting a re-activation and re-building phase centred around an agreed acceptance of the Burundian Chamber of Commerce and Industry as the lead umbrella organization. In Kenya a number of PSOs are already strong and vibrant organizations which have achieved a high degree of autonomy based on membership subscription and own sources of income e.g. the Kenya Association of Manufacturers (KAM) and the Kenyan Private Sector Alliance (KEPSA). In some cases the private sector organisations in some partner state face capacity challenges in actively participating in effective lobbying activities. Equally problematic is the fact that in some of the member states there is overlap in the role and mandate of various PSOs which means they duplicate efforts and, in the worse case scenario, actually conflict in terms of their advocacy and lobbying positions.

The critical role of the EABC at the hub of regional integration needs to be recognized and further supported. This regional body already has a good system of linkages to the national network of private sector organizations with designated contract points in each of the partner states. However, this interaction process especially in the collection and sharing of information needs to be further developed. As the regional body, the EABC needs to cultivate a greater understanding of the possible differential requirements of the private sector in the five states and the fact that there may be some negative impacts for enterprises in some of the partner states. Equally, cognizance must also be taken of the potential resistances which already exist in some member states to fuller regional integration, these are based on genuine concerns about a range of issues (e.g. land ownership for commercial and industrial development and free movement of labour) which need to be better analyzed, openly discussed, publicly debated and disseminated to the general public across the community.

The importance of national negotiating positions in the integration exercise leading to the Common Market and the reality that some sub-sectors have distinct and specific needs means that both national umbrella organizations and individual sub-sector specific private sector organizations and associations will be needed. These PSOs will also need to be strengthened via targeted capacity building and institutional building. Some industry based organizations have already realized the importance of regional co-operation on key issues and have recently formed regional level bodies to share experience and adopt beneficial common positions in terms of advocacy and lobbying. One such example is the establishment of a regional grouping of organizations representing fruit and horticultural products and flower exporters. This trend should also be encouraged and supported.

A mission to define the mechanisms for support is planned for both the private sector and civil society by the end of the first quarter of 2009.

East African Business Council (EABC)

EABC was established in November 1997 as the apex body of the original three members partner states – its main objective was to be a policy advocacy institution so the private sector could have a unified and co-ordinated East African voice in the promotion of an improved enabling environment for business so as to increase investment and enhance trade. EABC has as its members national associations of employers and manufacturers, Chambers of Commerce and Industry as well as major corporation operating in the region. Its membership has grown significantly since it started and it now covers all 5 partner states. This growth in membership demonstrates the fact that it is considered both representative and useful. In 2005 there were 54 members and 63 in 2006. In mid 2007 there were 80 members of which 22 were regionally based associations and 48 were corporations operating in East Africa. Membership drives in the 2 new accession states of Rwanda and Burundi and the targeting of banks and financial institutions has seen membership grow from to over 100 in less than a year – the target for year end is 150.

The EABC has a very small staff of only 4 professionals plus support staff and the increasing membership have seen income grow from US\$ 95,000 to US\$ 170,000 giving the organisation its first positive cash flow in its history. The Council has set up four working groups on Trade and Industry; Investment promotion; Labour and Employment; Banking and Finance. EABC now runs an annual survey on the Business Climate Indicators (BCI) in East Africa which also collects information on non-tariff-barriers. This survey collects information from 500 companies and 100 government agencies. It has recently held road shows in 13 cities on the Customs Union and the new Customs Law and sends out informative monthly newsletters to 2500 business persons in East Africa.

EABC currently receives programme support from the German Government (BMZ) through the GTZ under a programme called “Support of the EAC integration Process”. The support totals € 410,000 euros and funds two professional staff to EABC and programme activities. In addition GTZ provides funds for a long-term resident advisor and short term consultancies. This programme has run since 2003 and in 2006 was extended to up until the end of 2009. REAP is in a good position to provide support to the EABC beyond this period of support, but with the aim of helping EABC cover the costs of its core activities through its income streams. There will be a mission to conclude on a package of assistance to EABC in late 2008.

The EABC functions regionally through 5 partner organisations which represent the contact or national focal point between the Council and National PSOs – most are national Apex organisation for the private sector in their respective countries. They include:

- Tanzanian Private Sector Foundation (TSPF)
- Private Sector Foundation Uganda (PSFU)
- Rwanda Private Sector Federation (RPSF)
- Kenyan Association of Manufacturers (KAM)
- Burundian Chamber of Commerce and Industry (BCCI)

The first three are all funded by the World Bank and engage in a number of private sector development projects other than only being a representative body. The Tanzanian PSF is the recipient of World Bank funds under their Private Sector

Competitiveness Programme. DFID provides £7 million under their Cluster Competitive Programme and the organisation has received capacity building under the BEST AC programme. In Uganda PSFU implements the Second Private Sector Competitiveness Project, a 5 year World Bank / Government of Uganda project.

In Rwanda the PSF was established in 1999 taking over from the Chamber of Commerce and Industry which was very much influenced by Government. Initially the Federation grouped together 23 associations representing 17 sector specific business associations. They reorganised in 2006 into an organisation with 9 chambers, representing specific sectors. They occupy their own modern building and have a staff of 67 and a couple of their projects include the development of an 18ha city site to be used as an International Trade Fair and Exhibition area. . Funding comes from the World Bank, the EU program which has funded 9 Business Development Centres across the country (and will fund a further 9) and the African Capacity Building Fund (ACBF). Donor funding currently represents 67% of total expenditure and they are hoping to lower that to 30% by 2010.

When originally formed in 1923, the Burundian Chamber of Commerce and Industry was named the Chamber of Commerce, Industry, Agriculture and Handicraft of Burundi and previously was a sort of federation as it represented and organised other Associations. More recently the organisation – know as its shortened form BCC generally only accepted companies as members. At that time the organisation received considerable support from the French Assistance program. During the conflict period the BCC had relatively strong competition from two other organisations - OCI (the organisation of manufacturers) and ACOBO (the association of traders) and at that time most donor assistance switched their financial support to the massive humanitarian effort required during and after the period of 'crisis' when massive parts of the population was displaced. The Government of Burundi has formed a national chamber merging other institutions. The revised structure of the new agreed umbrella organisation will comprise sections for the Associations of enterprises in Banking, Insurance, Transporters, Fuel Importers, General Importers, Industrial and Mining – special provision will also be made for the Womens' association and Agriculture. Individual corporate memberships will be accepted and encouraged.

Despite the re-structuring BCCI has still not received any direct support as an apex body representing the private sector. Small grant in assistance given by the Government has been suspended and the organisations finances are in a fairly parlous state. Membership contributions are still insufficient to sustain the organisation and often senior members of the organisation are forced to directly fund any participation in the regional seminars and meetings – the organisation could not send representatives to the recent Kigali Summit or to attend the Investment Conference held at the same time. One of the organisation's most sustainable sources of funding was a commercial radio station and one of their main funding requests is for them to receive resources to refurbish and expand their network into rural areas.

## **5. The EAC and Civil Society**

### Overview

As with the private sector, the EAC Treaty recognizes the fundamentally important role of civil society organisations in the regional integration process. However, capacity within civil society in East Africa to engage on the regional agenda substantively is limited. Kenya, and to a lesser extent Uganda and Tanzania, have some well-organized CSOs, but institutions are not as well developed in Rwanda and Burundi. There is a major requirement and strong case for capacity building and grant support.

An embryonic framework of apex CSOs engaging on EAC regional integration has begun to emerge. These include the East African Law Society (EALS), the East Africa Centre for Constitutional Development *Kituo Cha Katiba* (KCK) and the East Africa Regional Office of Society for International Development (SID), all of whom have either formal observer status in the EAC, and/or contribute regularly to policy discussions with officials from the EAC secretariat and Partner states.

In 2006 and 2007, two civil society Fora were held in Arusha, organized by the East African Law Society and the Society for International Development regional office in Kenya. During the 2006 meeting, a steering committee was elected in order to support the national processes of organizing civil society in the EAC Partner States. This is a positive step forward, and it is clear that REAP is in a good position to support civil society development in East Africa. A mission to define the mechanisms for support is planned for both the private sector and civil society by the end of the first quarter of 2009.

#### Situation of CSOs in each EAC Partner State<sup>19</sup>

##### *Burundi*

Burundian civil society is relatively young. The first independent organizations were founded at the beginning of the 1990s. While their number was around 32 in 1992, they increased very quickly and reached one thousand in 2001. Nowadays, they are around 3.000. Most of them were created to deal with consequences of the political crisis in 1993 and the war that followed. Very quickly this quantitative growth transformed into qualitative growth giving a more vibrant civil society which is developing in different fields: economic development, religious associations, research and training, solidarity, civil and human rights, culture and sports, humanitarian, youth and women associations, media and press, etc.

Burundian civil society plays an important role in the peace process, the denunciation of human rights abuses, lobbying and advocacy initiatives and as a counter weight and watchdog of governmental action. A recent study divided Burundian associations into three groups depending on their strengths and efficiency. Group A, representing around 5% of CSOs, is characterized by reliable organization with a clear profile and substantial financial support. Group B, covering 10% to 20% is made up of good working organizations but which get almost no substantial funding. This implies a lack of visibility and lack of access to information. Group C is composed of 'quasi non-working' organizations without a clear profile and without access to external financial funds.

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<sup>19</sup> This sections draws heavily on a recent study of CSOs working on regional integration in East Africa commissioned by GTZ in 2007.

Some Burundian CSOs have gained experience in networking. They have put in place some umbrella organizations (for instance for women, trade unions and advocacy) and have developed links with external networks. Their main weaknesses are their dependence on external funding and a lack of constituency at the grassroots level.

### *Kenya*

Kenyan civil society is perhaps the oldest and best organized in the region. Trade unions, cultural as well as ethnic associations and indigenous religious organizations have been active in the advocacy for rights and equality since the colonial days and the earliest organizations date back to the 1930s. After independence in 1964, some international NGOs established programs in Kenya, giving impetus to the formation of many local associations and NGOs. The Kitu Cha Sheria, established in 1972 is the oldest legal and human rights NGO in East Africa.

The 1980s saw a large growth of NGOs, religious organizations and grassroots CSOs whose numbers multiplied substantially after 1990 and the advent of multiparty politics in Kenya. A large number of international NGOs and donor agencies are also represented in Kenya. It is estimated that there are now more than 3,000 national and regional, well organized and funded NGOs and over 20,000 CSOs in the country. Additionally, given the long history of insecurity in the Horn of Africa and Great Lakes region, many NGOs working on Somalia, Sudan, Congo, Ethiopia and Eritrea are headquartered in Nairobi as an administrative and logistical base.

Kenyan civil society also comprises of hundreds of Christian church denominations, Muslim organizations, over 25 active trade unions, several business associations, media organizations and hundreds of farmers cooperatives and women organizations and grassroots associations involved in local level income generation projects, capacity building, local resource mobilization and advocacy and lobbying. Kenya also has a large NGO community committed to governance and human rights monitoring, election monitoring and anti-corruption activities.

Kenyan NGOs are organised under a statutory umbrella of the National Council of NGOs that is presently very weak due to internal wrangling and lack of clear focus. The NGOs Council is a self-governing agency established under the NGO Act, 1990.

### *Rwanda*

Rwanda has a great number of CSOs and CSOs, many of them have been created before the genocide in 1994. They are active in different fields such as human rights, development, environment, peace building, justice, trade and business, media, etc. Some others were born after the genocide to deal with its consequences or help in the reconstruction efforts. Rwandan civil society is structured into umbrella organizations covering at least 15 sectors. Thus, the main strength of the Rwandan CSOs is that a great number are active in the whole country and are members of national and sometimes regional and international networks and umbrella organizations. Some visible CSOs have various donors, mainly Western bilateral cooperation agencies and international NGOs.

Weaknesses result either from their short existence or from limited human and financial resources, from a lack of expertise and experience and from the

dependence on external funding. But the most important weakness is due to the relatively narrow space of expression and action they have compared to their neighbours. For instance, even though many organizations focus on human rights, no CSO publishes a human rights report and there is no group working on such themes.

### *Tanzania*

The Tanzanian civil society has in its history seen long phases of restrictions. They started with the British legal control of the upcoming mass movements in the late 40s, followed by the institutionalization of the one-party-system after independence, where only religious, relief and charity groups were allowed to practice. The mushrooming of the CSOs since the 90s, when the state provided a more enabling environment for the CSOs and the donor agencies supported the CSOs strongly in order to develop a third force, is recently reducing related to a decreasing financial aid. Government would often prefer the CSOs to act mainly as service deliverers and project implementers.

During recent years CSOs have been taking more active role in influencing state policies, budgeting and monitoring through a number of national planning committees and other platforms. On the other hand, the possibilities to influence are often hampered due to restrictions in participation and lack of appropriate information provided to CSOs.

### *Uganda*

Uganda has a long history of citizen participation in CSOs which appears to be very extensive. To a great extent this is because rural life is often accompanied by membership in various forms of community and other mutual help groups, which are rather socially inclusive, and to which church-linked organizations can be added. Thus, volunteering and other forms of community action appear to be prevalent. However, for reasons often linked to the country's history of civil strife, such participation does not necessarily mean an 'activist' political involvement.

The legal environment for civil society is also judged by some CSOs in Uganda to be increasingly constrained through cumbersome registration procedures for CSOs, a poor tax environment and the Government's ambivalent attitude on what constitutes allowable advocacy activities for CSOs.

The overall picture that emerges is one of intense CSO activity in service delivery and citizens' economic and social empowerment, rather than other forms of engagement, such as policy advocacy work or holding Government and private corporations accountable.

**ANNEX K SOCIAL APPRAISAL****1. Introduction**

Despite recent positive GDP growth performance in many African countries, the continent has registered slow progress in the fight against poverty. Due to a variety of historical and present-day causes, human deprivation is still acutely felt in many parts of East Africa. An overwhelming majority of East Africans are caught in a vicious circle of poverty, unemployment and social exclusion. These adversities combine in a destructive manner to further complicate other social problems. Addressing these social challenges is necessary for achieving internationally agreed development goals, including the Millennium Development Goals, and bringing prosperity to the population of East Africa.

These social challenges do not only have a high human cost, but also incur significant economic losses for the region. Uncertainty and instability discourages private investment. High poverty and inequality result in small domestic markets, with insufficient demand to foster growth and economic development. Addressing East Africa's social development is therefore an urgent priority. Ministries of Social Development, Labour and Social Security, and other related Ministries in each of the East African countries are working towards this at the national level. However, the benefits of cooperating at the regional level have been generally overlooked.

By supporting regional integration in East Africa, the Trade Mark East Africa program will be contributing to the fulfilment of a need which has gone unmet for too long in the region – a truly regional approach to economic growth and poverty reduction.

**2. Key Social Development Issues For Regional Integration & Trade**

The development of a common market for the East African Community (EAC) will require free movement of labour and factors of production. This will be done by implementing Article 104 of the EAC treaty. Article 104 seeks to legislate the free movement of persons, labour and services as well as secure the right to establishment and residence. The EAC countries are currently negotiating a protocol towards implementing Article 104.

These negotiations, fast tracked for completion in December 2008, have sometimes generated high levels of sensitivity amongst portions of society in the 5 EAC Partner States regarding the impact of the common market on some social and political issues including poverty and income distribution, economic migration/movement of labour and ownership of land across the region.

It may be necessary to resolve internal issues including inequality and claims to land first before creating a common market<sup>20</sup>. On the other hand, it appears that there are significant existing socio-economic trends in regional integration in terms of widespread cultural, social, academic and business exchanges within the East Africa

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<sup>20</sup> Dr Joy Kiiru, Social Scientist, Kenya Institute of Policy Research and Analysis described different work and business ethics as sub cultures that along with other material issues could cause conflict if poorly managed.

region. Therefore, it can be argued that the formal process of implementing the customs union and a establishing a common market has an existing regionalism from which to successfully take off.

### Poverty and inequality

Poverty and inequality is the central social policy issue underlying all others in the development and integration agenda for East Africa. In 2005, 44% of the total regional population (excluding Burundi) lived below the poverty line. Additionally, inequality is rising in all East African countries. Between 1990 and 2001, Uganda and Tanzania have reduced the proportion of people living below the poverty line. In contrast, Kenya's proportion of the poor increased during that period. However, Uganda's success in reducing its population living under the poverty line from 56% to 39% between 1992 and 2003 has been accompanied by a Gini coefficient rise from 36 to 43<sup>21</sup>. In 1999, Kenya's Gini coefficient was the highest in the region at 57. No current data is available for Burundi or Rwanda. However, given recent developments, it is highly likely that their levels of inequality are as high, if not higher, than other countries in the region.

The EAC customs union simulations on welfare impacts indicate a positive effect for Kenyan consumers with reduced protection on Kenyan manufacturers. There is an anticipated negative impact through reduced access to world imports, for Ugandan consumers, for products that compete with those from Kenya. However, the scale of these effects is uncertain as import duties comprise only a small proportion of the value of goods. Informal trade across borders may not benefits as taxes are fixed separately by countries and other non tariff barriers continue to be enforced e.g. on food security grounds. There are also potential marginal gains of Tanzanian exports with a new tariff structure. A common market, with its free cross border movement, will significantly benefit food producers and consumers on both sides of the border.<sup>22</sup>

However, business leaders view benefits in the long term projecting bigger markets and more efficient chains of production. This could result in more jobs as production is increased and better services and reduced prices for consumers. However East African economies, as indicated earlier on labour, comprise large informal sectors that are poorly integrated with the formal economy and large business. More investments in infrastructure, natural resources and agriculture are likely to have the most significant impacts on poverty. Infrastructure development is a top priority for the political leadership particularly to demonstrate early tangible benefits of integration<sup>23</sup>.

The overall concern is that, without policy intervention, benefits from regional integration could flow from the smaller to the larger economies within the EAC group

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<sup>21</sup> The Gini coefficient measures the inequality of income distribution within a country. It varies from zero which indicates perfect quality, with every household earning exactly the same, to one (in this case, one hundred) which implies perfect inequality, with a single household earning a country's entire income.

<sup>22</sup> ODI, ESRF, EPRC and IPAR, "East African integration: How can it contribute to East African development?", Briefing, February 2007.

<sup>23</sup> Comments by Secretary General Juma Mwapachu and Deputy Secretary General Ambassador Onen, June, 2008

over the short term. It is therefore vital that (i) clear and credible methods for redistributing benefits among countries are established as part of the regional integration agreement (see Annex F Technical Appraisal for discussion on EAC Revenue Sharing Formula and the proposed EAC Development Fund) and (ii) small countries focus on reducing barriers to trade with the rest of the world.

### Movement of labour

The availability of skilled labour in East Africa is skewed, favouring Kenya and Uganda. The informal sector is the most important source of non agricultural jobs and livelihoods in the Tanzania, Kenya and Uganda, and its growth is linked very closely to the rate of urbanization in these countries. The unemployment rates vary widely among the EAC countries from 3.2% in Uganda to 23% in Kenya. Although employment in agriculture is not growing as fast as that in services, it remains the most significant in the region. It accounted for over 85% of employment in Tanzania (2001) and Rwanda (2002), approximately 77% in Uganda (1997) and 94% in Burundi (2004)<sup>24</sup>.

These demographics are eliciting some concerns about the establishment of a common market with no restrictions on the movement of labour. One concern voiced during programme appraisal is that skilled Kenyan workers will dominate the formal labour market in Tanzania. This concern, regarding Kenyan skilled workers, is also expressed in Uganda but with reduced sensitivity. In Uganda, the concern is more about what is believed to be a results-oriented Kenyan work ethic that is seen to be lacking among Ugandans.

The informal labour market structure elicits concern of illegal and unplanned worker migration in all countries. Kenyans fear the already large slums, particularly in Nairobi, could get even bigger with an EAC common market. Tanzania is concerned about the introduction of large slums into its cities with potentially high level of crime. Tanzania is also concerned with the displacement of its less skilled artisans like carpenters and electricians to more skilled ones including from Kenya.

Labour diagnostic work planned under REAP will examine the human resource stock in the region against market needs. This diagnostic work will also match the market's labour demand against the supply provided by training institutions. Partner states will be in a position to open up their labour markets accordingly, including with derogations on the protocol were deemed necessary. TradeMark East Africa could also work to leverage investments in education and training to meet skills shortfalls where this is required.

Youth are a significant population when examining unemployment, labour and inequality in East Africa. Young people under 15 make up 50% of East Africans. The majority of the unemployed are young people. It is particularly important that regional integration provides tangible benefits for young people in East Africa. Regional integration should be perceived by young people as an expansion of opportunity rather than a constriction of their limited space for a good education and gainful employment. Some of the initiatives which could be directed towards delivering benefits from regional integration for young people in East Africa include roll-out of the EAC passport to facilitate travel; regional sports and cultural exchanges and

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<sup>24</sup> Society for International Development, The State of East Africa Report, 2006

events; and facilitating the transfer of credits from one regional educational institute to another as well as enabling access to institutional facilities such as libraries, distant learning centres. Young people should also feature as an important target audience and in marketing and communications campaigns for the EAC.

### Ownership of land and natural resources

While REAP is not in a position to directly deal with land allocation issues, these play an important role in the region and reviewing them here gives a useful view of the context in which the programme will operate.

Tanzania is the largest EAC country comprising over 50% of the region. It has the largest protected land area at 15.6% of its land mass. Uganda comprises 12% of the land mass of the region but has 39% of EAC agricultural land. Tanzania and Kenya have between them 27% of agricultural land. Rwanda occupies only 1% of the region's land but has the highest agricultural labour intensity in the region at 2.99 workers per hectare. Burundi agriculture labour intensity follows closely at 2.4 workers per hectare. These statistics raise concerns amongst some Tanzanians that, with the establishment of the EAC common market, the country may be swamped by big and small investors from the region, in agriculture and natural resources, at the expense of livelihood and territorial rights of its citizens.

These concerns have recently reached a critical stage for Tanzania. The Tanzania delegation did not attend the April 2008 negotiations on the EAC common market protocols in Kigali, and have resisted free rights of establishment. Instead it later sent comments on the positions taken by the other delegations. Tanzania's weakening engagement and hard line has raised concerns amongst some other EAC Partner States. The land issue is sensitive and wording on land issues in the common market protocol has been left to the guidance of the Council of Ministers.

Land reform will continue to be a key national and regional integration issue in East Africa, with pressures intensified by the returning refugees in Burundi for example. It is encouraging that legislators of the East African Legislative Assembly are visiting

### **The People Who Are Not Afraid of East Africa**

While the official process of integration has generated some concerns, many East Africans are already operating as though they belong to one big country. These are the people who are not afraid of East Africa. They include tens of thousands of Kenyans who spend over \$34m per year on education in Uganda. The private Kampala International University is popularly known as the 'Kenya' International University and even has a popular 'Miss Kenya' pageant.

When the mobile phone company Celtel launched its regional roaming facility, at the price of a local call in September 2006, it gained 700,000 new subscribers in just 3 months. This figure and the one of the Safaricom-Vodacom-MTN network could crudely be referred to as the 'East African Community'. These digital networks are likely to take integration to unprecedented levels when money transfers can be done through mobile phones across the region.

There has also been an exchange in skills, sports, culture and the arts. The most dominant of this has been among young musicians. East Africa TV and the FM stations have turned musicians like Uganda's Chameleone, Kenya's Nameless and Tanzania's TID into household names in East Africa. These musicians sing in Kiswahili, the common language of East Africa. There are also exchanges with the common calendar for circumcision among the Bagisu and the Luhya along the Uganda/Kenya border. The King of the Iteso is just as welcome at home among the Iteso of Kenya as among the Iteso kingdom of Uganda. Many Rwandans have resided in Kericho since the colonial era providing labour in the tea.

*Source: Charles Onyango-Obbo, "The People Who Aren't Afraid of East Africa", State of East Africa, Society for International Development, 2007*

land's ministries in the respective countries. Mutual appreciation of the policy realities by these political actors, coupled with additional evidence-based research, can go a considerable way in strengthening the EAC common market negotiations and regional integration process.

### 3. Linkages between Trade and Poverty

As primarily an Aid for Trade programme, REAP will focus on addressing the constraints facing access to markets and therefore contribute to solving one of the primary barriers to poverty reduction in East Africa – geographical isolation and disconnection from the world economy and the opportunities it offers. In this sense the program is therefore dealing with the core transmission mechanism between international trade and poverty reduction.

International trade reforms and complementary policies which facilitate the flow of international trade can impact on poverty through a variety of mechanisms.

- *Price of goods and services:*  
One of the primary effects of increased openness to international trade is change in prices of traded goods and services. This can lead to increased welfare for those who are net consumers of goods and services that become cheaper as a result of trade liberalisation. Producers of goods and services which increase in price can also experience a net benefit from increased openness to trade. However, the scenarios can sometimes be reversed (consumers facing higher prices and producers facing reduced prices). The liberalisation of agricultural trade, for example, has contributed to increased food costs for net importers of food over recent years. This illustrates the central point that the benefits and costs of international trade do not occur uniformly. There are both winners *and* losers.
- *The demand for, and returns to, factors of production that the poor have to offer, notably unskilled labour:*  
This follows from the point above. Where trade leads to an increase in the price of labour-intensive products and services, the poor are more likely to benefit from trade through increased income.
- *Government revenue:*  
The poor often rely heavily on public funds for healthcare, education, and subsidies on essential products and services<sup>25</sup>. Like many developing countries, East African countries rely heavily on trade taxes for public revenue. In the absence of alternative sources of public funds, the reduction of trade taxes during trade liberalisation can have a significant impact on the provision of services for the poor as well as the resources available to government for the promotion of growth and poverty reduction.
- *Economic volatility:*  
As barriers to trade are reduced, countries can become more exposed to the volatilities of international markets. This can particularly affect agricultural producers who are reliant on a narrow range of crops with low and/or volatile international prices. However, the development of the trade sector can also

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<sup>25</sup> This is not universally the case, for example in Burundi.

lead to diversification and a move away from reliance on a narrow set of primary products. Trade facilitating interventions can also help producers in developing countries to move up the value chain of production, again reducing their reliance on primary products with volatile prices.

The net impact of increased openness to trade, both regionally and multilaterally, is a complex issue for which few generalisations are possible. However, the critical role of markets in determining the poverty impacts of trade and other liberalizations is uncontroversial. Trade policy changes and international shocks are transmitted via prices. Where conditions for the poor have improved this has usually been associated with the better performance of and access to markets. Where they have worsened, faulty markets are generally to blame and in the extreme cases, the problem is often missing markets.

#### **4. Mainstreaming Social Development Objectives in REAP**

REAP will seek to build on existing DFID experience (for example, DFID Southern Africa's RTFP) to support a direct link between its regional and international trade facilitation activities and progress towards poverty reduction and other social development objectives in East Africa. This can be achieved through a number of focus areas and work streams working across the various outputs of the programme.

##### *a) Social Sector Harmonisation in Regional Integration*

REAP will support the implementation of the East African Common Market. Initially it will fund a labour mobility study that will examine the key effects of labour mobility on the region in terms of the social aspects and economics. It will provide support, through Output 2 contributions to the EAC Partnership Fund to support the Common Market, to the Social Sector Unit in the EAC Secretariat. The Social Sector Unit particularly supports the inclusion of gender and decent work issues into the common market protocols and associated laws. Furthermore Output 4 will fund civil society and the private sector to analyse, examine and debate the issue of labour mobility across East Africa. Particular attention will be given to the effects on, and opportunities for, women. The staffing of the TMEA Trust will include a social development and civil society professional, with strong gender credentials.

In addition to these activities, the programme will also fund focused research on the social, gender and community level impacts of regional integration (to be conducted in cooperation with DFID's Trade Policy Unit (TPU) in London. Research questions will focus on unravelling the detailed interactions between regional integration and poverty reduction at household and community levels, and disaggregating the effects on women and men. Where the research reveals specific actions areas, REAP (in cooperation with other donors, DFID country offices, civil society and national/regional authorities) will be able to develop and implement targeted follow-up activities to inform policymakers and contribute to social policy dialogues in the region.

Linked to these strands of work, REAP will support the establishment and further scoping (if required) of the EAC's Development Fund. The Fund aims to create a window to compensate member states for any potential losses in revenue or adjustment costs required. This will include social and economic costs, and could provide a source of funds for social safety nets and support to women. If the

Development Fund is a suitable vehicle for these types of transfers, the programme will look to leverage in further investment and participation from the EU's 10<sup>th</sup> EDF funds to create a substantial fund capable of addressing countries that gain less initially from regional integration.

*b) Social Protection*

REAP's approach explicitly recognises the fact that regional integration necessarily generates a wide range of costs and benefits across the region as well as within countries and income groups. A key tool for dealing with these adjustment costs will be the presence of properly functioning social protection policies and mechanisms at national level within the five EAC partner countries.

REAP will fund research, technical assistance and policy dialogue to look at harmonising East African Government's work on social safety nets and social protection and adjusting existing social protection policies to reflect the regional integration process. This will build on the groundbreaking work taking place across the region by national Governments, often supported by DFID. Inputs from the Trust's social sector specialist and DFID Kenya & Somalia Livelihoods adviser will be given in supporting this strand of work. The work will link with the protocols being discussed on the common market, and be co-ordinated by the Social Sector Unit at the EAC Secretariat.

*c) Reducing trade barriers to promote inclusive growth and trade*

REAP will support carefully sequenced and well organized reductions in barriers to trade in East Africa. Through policy support to the EAC secretariat on regional trade liberalization as well on EPA agreements with the European Union, REAP will work to increase the region's openness to trade as well as its access to developed country markets. This is essential for growth in exports, the development and growth of economic sectors, the encouragement of increased efficiency and productivity and the attraction of foreign direct investment to the region, all of which are vital for sustainable high levels of economic growth, increased employment and poverty reduction. DFID's Growth Step Change Paper in 2007 cites research arguing that 80% of poverty reduction in developing countries in recent decades can be attributed to accelerating economic growth.

*d) Reducing geographical isolation of communities*

Nearly 40% of the East African population live in land-locked countries, while all the countries of the EAC are net food importers. Transport costs therefore have a significant impact on the prices of basic imported commodities, especially for Rwanda, Burundi and Uganda.

Net food imports in East Africa

Country	Net food imports as % of total imports
Rwanda	7.6
Burundi	15.2
Kenya	21
Tanzania	15
Uganda	28.3

Source: "Who Are the Net Food Importing Countries?" Francis Ng & M. Ataman Aksoy. World Bank Policy Research Working Paper 4457.

By addressing the causes of high transport costs along the Northern and Central corridors, REAP will help to reduce the prices of commodities which form an import part of the poorest communities' consumption baskets. Addressing the geographical isolation of East African communities will also help to increase jobs by increasing the growth potential of the export sector. As demonstrated in Southern Africa's RTFP program, and USAID's Regional Agricultural Trade Expansion Program (RATES), the growth of the export sector can provide major new marketing opportunities for rural and agricultural communities who'd otherwise face a stagnant domestic market for their output.

e) *Realising women's economic potential*

The gender dimensions of trade are now given full recognition in international trade fora. According to the WTO:

*'Aid for Trade should be rendered in a coherent manner taking full account, inter alia, of the gender perspective and of the overall goal of sustainable development.'*

The EU takes this further and asks for specific action:

*'Special efforts should be made to integrate gender into the activities at country level to strengthen trade capacity and to facilitate economic empowerment of women'<sup>26</sup>*

It is important to recognize that not all individuals benefit from trade liberalization equally. How much an individual benefits depends, among other things, on whether he or she works in an expanding sector or is able to switch to one, on his or her skills, and on whether there is discrimination in the labour market. Gender analysis is therefore important to evaluate the potential effects of trade liberalization on the population because men and women commonly work in different sectors, have different skills and different access to economic resources.

By recognizing these differences, we can see gender issues as another aspect of the "winners and losers" story of international trade. In the same way that economic gains, losses and exclusion from trade can be modelled for different industries and geographical areas, the potential gains, losses and exclusion of women (stemming from the above mentioned differences in resources and economic activities) can be defined, modelled and addressed through directed economic and social policies.

<sup>26</sup> Council of the European Union, 2006

With this perspective in mind, the development and analysis of trade policy, regulation, trade-related physical infrastructure, building of productive capacity, and accompanying measures for trade related adjustment can all be enhanced to include clear and targeted, clear and quantifiable gender analysis which informs and guides national and regional trade related policy. Such policies have the potential to encompass the concerns of women as entrepreneurs, workers and producers, and for mitigating the costs of trade on women as well as men.

REAP will support the mainstreaming of gender as a key component of support to the EAC and regional government's trade related policy making structures. Gender mainstreaming has received significant attention in most countries of the EAC. The EAC Secretariat is working at ensuring the same policy standards at the national level, on gender, are reflected and even improved upon with integration. All countries perhaps with the exception on Burundi (for conflict reasons) have a gender policy. Special seats are available for women in legislatures of all countries. Tanzania has gender focal points in all government ministries while Uganda has representatives of the women's council engaging at all levels of government. Kenya has a Commission on Gender and Development as a fully fledged department. All countries regularly report to the UN on implementation of the Convention on the Elimination of Discrimination Against Women (CEDAW).

The EAC has had various discussions that have culminated in a Gender and Community Development Framework<sup>27</sup>. The framework provides strategic direction to the newly formed office of Gender and Community Development. The objectives of the framework involve mainstreaming gender in the EAC structures and programmes as well as participatory planning and implementation of the integration agenda. Such programs provide a clear platform from which REAP can work to better mainstream the linkages between trade and gender issues. In addition, through contributions to the EAC Partnership Fund, REAP can support the newly created gender office in the EAC Secretariat to identify priority work streams including those related to regional trade and investment.

f) *Mainstreaming HIV/AIDS*

Findings of international studies of the HIV/AIDS strongly indicate that the transport sector is a major vector for the disease. People working in the transport sector are mobile, they spend weeks and months away from their families, often forming multiple concurrent partnerships. Border posts and rest stops are also common places for sex workers to congregate. These factors combine to transform transport routes to critical links in the propagation of HIV/AIDS. International studies also suggest that long haul truck drivers are the highest risk group in the road sector.

As well as understanding the role of transport in transmission and prevention of HIV/AIDS, the increased availability of anti-retroviral treatments, as well as "Daily Observed Treatment" for TB, raises the issue of "health-seeking behaviour". As transport workers with HIV/AIDS move along the corridors, they need uninterrupted access to sources of healthcare in order to maintain their treatment programs.

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<sup>27</sup> Gender and Community Development Framework, East African Community, November 2006

It is vital, therefore, that any program which aims to work on transport links in Eastern Africa bears in mind the possibility of unintended consequences of increased freedom of movement, especially the spread of HIV/AIDS and TB. Programmes should include mechanisms for Monitoring and mitigating the potential impact of their operations on the spread of HIV/AIDS and TB.

A key example of this is the development of Wellness Centres at major border posts under DFID-SA's RTFP. This was a major step towards implementation of a comprehensive "do no harm" policy on DFID's transport related work, and has provided important lessons which need to be taken linked coherently within REAP's work on transport corridors. Given that the Central corridor runs through Tanzania and shares certain nodes with the North-South corridor, there is clear scope for developing connections between RTFP based in DFID Southern Africa and REAP. Addressing HIV/AIDS and TB through a joint program approach will (a) prevent unnecessary duplication, (b) recognize that combating the spread of HIV/AIDS and TB in Africa is a cross regional issue and thereby address the matter accordingly. REAP's work with the EAC/SADC/COMESA Task Force will also provide a good opportunity to ensure that HIV/AIDS and TB are properly addressed within the framework of regional integration agreements and policies across the region.

g) *Trading for Peace*

A strong feature of REAP is that it has the flexibility and scope to interact with and learn from other DFID programs with which it shares common issues, aims and areas of intervention. A notable example here is the *Trading for Peace* initiative developed by DFID in cooperation with USAID and the COMESA secretariat.

The initiative works on the premise that, since natural resource exploitation is at the heart of much of Sub Saharan Africa's conflict problems, increasing and supporting the means for legitimate trade in key natural resources will help to pave the way for these resources to become a means of poverty reduction rather than a source of conflict. There are clear synergies with REAP, since *Trading For Peace* seeks to strengthen the formal pathways for trade, such as governance, customs and trade-related infrastructure.

Regional integration and trade has been used as a means of securing lasting peace in regions which have failed to achieve this in any other way - from the EU to ASEAN, political stability has been as much a motivator of regional integration as economic benefit. Given the history of regional conflict in Southern Africa, building linkages with initiatives like Trading for Peace has clear and long-lasting benefits for the stability and economic growth of the East African region. The team taking forward Trading for Peace will offer avenues for taking forward these areas of work with REAP during the initial six months of the programme.

Summary of Programme Outputs and Social Development Linkages

Outputs	Social Development Linkages
1) Increased efficiency and safety of regional transport corridors and trade facilitation.	Lower transport costs increase economic opportunities for poorer communities, both by expanding direct regional trading opportunities and by improving the domestic economic environment, thereby increasing employment. Increased efficiency of transport networks helps lower the prices of goods and services which are relied on by the poor for basic consumption.
2) Improved efficiency & effectiveness of EAC regional integration institutions, policies and programmes.	Regional integration comes with wide ranging adjustment costs. The different effects of deeper regional integration on poor people, rural and urban populations, vulnerable groups, women and men will be better understood. Regional authorities will have greater capacity to address regional disparities caused by integration, and provide a lead for national level policy makers on addressing adjustment issues at the local level. Regional authorities will also be better able to tailor private sector development policies to target small and medium sized enterprises, ensuring that the benefits of regionalism reach all sectors of society.
3) Strengthened national capacity for policymaking, negotiating, and implementation for EAC regional integration reforms	National governments will be better able to represent the specific interests of their constituents at the regional level. They will also be better able to develop targeted policies which help the poorest and most vulnerable to benefit from regionalism and deal effectively with adjustment costs.
4) Strengthened civil society & private sector awareness, inputs, analysis and monitoring of East African regional integration	Civil society and the private sector will be better able to lobby and inform national and regional authorities on their interests and how these are affected by regional integration plans. This will be fundamental for the development of regional policies which are informed and led from the ground-up and which represent and further the interests of local communities. Increasing the capacity of civil society and business associations is also key to increasing accountability of governments and regional institutions.
5) Improved monitoring and evaluation systems and knowledge management for regional trade and integration	Regional and national authorities will have the capacity to keep track of the economic and social impacts of regional integration. This will be essential for the developing regional integration policy in a well informed and iterative manner, adjusting to the needs of national electorates and local communities as it goes.

## ANNEX L RISK APPRAISAL

REAP is rated as medium risk. . The principal risks are the fiduciary capacity challenges faced by the EAC Secretariat and EABC, as well as national level ministries and agencies involved in EAC policymaking and implementation; commitment of development partners to improving co-ordination and delivery of regional AFT; and the potential influence of vested interest groups in slowing key regional integration reforms.

Other risks are external: ebbs in political support and member states' financing for regional integration, conflict within or between EAC partner states and the resurgence in political instability in the region (Kenya, Burundi), the knock-on impacts of instability in eastern Congo or southern Sudan, and global exogenous shocks.

The table below analyses each principal risk, impact, probability and mitigating. This should be read together with the analysis of political risk.<sup>28</sup> A cross-cutting mitigating factor of many of the principal risks identified is the in-built flexibility with the programme design. This will allow the programme to be pro-active in managing risk in particular work areas or countries within the region during implementation.

Risk Description	Impact / Probability	REAP Risk Mitigation Strategies & Significant Non Programme Factors
<p><b><i>EAC &amp; EABC institutional capacity</i></b></p> <p>Taking forward the development and implementation of the regional integration agenda requires a strong and able EAC secretariat.</p> <p>The EABC must also have the ability to properly represent private sector interests as an <i>independent</i> counterpart to the EAC.</p>	<p>Medium / Medium</p>	<p><b><i>TA strengthening commitment and management buy in because of contribution agreement</i></b></p> <p>There is strong agreement amongst, the EAC Secretariat's senior management, the donor community, and regional governments that the EAC secretariat must be supported in order fulfil its role of leading the regional integration agenda. This will involve a functional review to ensure its delivery against key outputs.</p> <p>The strengthening of the EAC secretariat's fiduciary management systems under Output 2 and in line with the fiduciary risk assessment conducted &amp; EU Institutional Audit in August 2008 reflects the commitment of EAC leadership to strengthening the institution.</p> <p>REAP's support to the development of the EABC will provide a strong boost to the organisation's capacity and independence during the lifetime of the project.</p>
<p><b><i>Political commitment and conflict</i></b></p> <p>The progress of the EAC agenda to date has been largely due to the strength of political support in the region. Maintenance of that support is therefore vital to the future of regional integration in East Africa.</p>	<p>High / Low</p>	<p><b><i>Delivering tangible benefits, helping "Losers"</i></b></p> <p>Emphasis on delivery of tangible benefits for business and society (e.g. removal of NTBs) through REAP will demonstrate the pay-offs from RI. REAP's support for establishment of EAC Development Fund will be key to re-dress distributional losses from integration.</p>

<sup>28</sup> Available as a stand alone document (restricted to HMG).

<p>The region has also been subject to political and military unrest of varying degrees in recent years, and neighbours volatile regions such as Sudan and DRC.</p>		<p><b><i>High levels of political commitment through summits</i></b></p> <p>Political commitment to the integration agenda remains strong throughout the region. This is evidenced by the member states' leaning towards the EAC rather than COMESA on issues such as the customs union.</p> <p>Although there is evidence of Tanzanian indecision between commitments to EAC vs. SADC, the accession of Rwanda and Burundi demonstrate the appeal of the EAC grouping over alternative regional integration arrangements. The further the EAC agenda progresses, the more lock-in there will be among the member states and lower the likelihood and impact of reduced political commitment.</p> <p><b><i>Strong EALA</i></b></p> <p>The demonstrated strength of the East African Legislative Assembly provides a firm basis for the development and implementation of an effective framework for regional integration. The strength of such a body will help to an efficient and workable structure for regional integration, dealing with sources of friction and making the EAC grouping a yet more attractive option for member states.</p> <p><b><i>Lobbying potential of CSOs/PSOs</i></b></p> <p>Strength of private sector and civil society lobbying will also be targeted by REAP under Output 4. REAP's investments in increased research and advocacy capacity of CSOs/PSOs on RI agenda will strengthen political accountability of governments in the region. Such groups can help to highlight the benefits of regional integration and thereby place pressure on government to ensure that the process moves forward.</p> <p><b><i>HMG Regional Conflict Prevention Strategy</i></b></p>
<p><b><i>Weak implementation of EAC protocols and programmes at national level and implementation shocks</i></b></p>	<p>High / Medium</p>	<p><b><i>Output 3 and potential scale-up of national level support from DFID Country offices</i></b></p> <p>In all Partner States, Ministries of EAC Affairs have been created to ensure compliance with EAC regional integration protocols and co-ordinate increased participation across government in negotiations linked to the EAC regional integration agenda. Under Output 3, will seek to build the capacity of these new ministries to increase their effectiveness, and increase engagement by other key ministries and agencies (e.g. ministries of finance, trade, transport, central banks, labour and revenue authorities).</p> <p>Country Managers in each of the 5 EAC partner states will spotlight weakness and be early warning system for the programme. DFID country offices will also be encouraged to increase their engagement on technical assistance and policy dialogue around budget support and the impact of regional integration on the medium term public expenditure frameworks in Uganda,</p>

		Tanzania, and Rwanda.
<i>Vested interest groups block implementation of regional integration reforms and investments</i>	Medium / Medium	<p>Programme will invest in drivers of change studies at national level and analysis of political economy of regional integration in key sectors (e.g. road transport).</p> <p>Programme will support champions of change in national governments, private sector and civil society.</p>
<p>Exogenous shocks (eg oil prices)</p> <p>Exogenous shocks are a risk for all open economies, but especially for underdeveloped economies with a narrow export base and a heavy dependence on imports. Rwanda and Burundi are at particular risk. Strong exogenous shocks could further push apart the EAC economies, place heavy burdens on shared revenues and jeopardise the regional integration agenda.</p>	Medium / Medium	<p><i>Program as a whole aims to mitigate the risk of exogenous shocks.</i></p> <p>The advancement of the regional agenda itself is a mitigation of the risks posed by exogenous shocks. The smaller and less diverse an economy is the greater its vulnerability. Opening up regional trade, improving the environment for private sector growth (and therefore productive diversification), lowering the costs of regional transport and therefore improving the competitiveness of East African exports – all of these targets of REAP will be fundamental components of a more resilient East African economy. Historically, it should be noted that the region has also benefited from positive commodity shocks, such as the high coffee prices experienced in the late 1990s and early 2000s.</p>
<i>Donor co-ordination and effectiveness</i>	Medium / Medium	<p><i>Consensus-building and greater co-ordination amongst donors following entry by DFID as key player</i></p> <p>A key strategic principle behind REAP's approach is increasing development effectiveness and donor co-ordination on regional AFT. Through the establishment of the TradeMark East Africa Trust, REAP will create a solid multi-donor platform to provide much needed capacity for working at regional level on AFT in East Africa. The Trust will have offices in Nairobi, Arusha and in all partner states capitals to ensure a visible presence and profile.</p> <p>REAP will provide co-financing for the World Bank, IoM, FIAS and IFC and will work closely with GTZ and SIDA in supporting PSOs/CSOs. REAP will also invest in the EAC-PF and promote dialogue on the evolution of the PF mechanism, including the potential for an EAC Development Fund in the future.</p>