Business Environment Reform in Regional Integration through Public and Private sector institutions in Southern and East Africa

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Executive Summary

Regional integration in Southern and Eastern Africa is seen to counteract the threat of being left behind in an increasingly globalizing world economy wherein many African countries are being marginalized. With growing trade liberalization Regional Organizations such as the Southern African Development Community (SADC) and the East African Community (EAC) now play a significant role in business environment reform in Africa, after having embarked on a much larger integration agenda than trade. This paper analyses our experience with Business and Investment Climate (BIC) reform in the context of programs funded by GTZ in these two regions. In Southern Africa the reforms are driven by regional trade and investment agreements set up under the auspices of the SADC Secretariat. In East Africa the private sector plays a pivotal role in the formulation and implementation of reform initiatives.

SADC aims to improve the business environment and competitiveness in its member states, policies are targeted to stimulate domestic savings, to achieve higher growth rates and increase the share of SADC trade in the world market. Equally, the mission of the East African Business Council (EABC) is to be an effective change agent for fostering an enabling business environment within a diversified, competitive, export-led, integrated and sustainable East African economy. The EABC has defined private sector competitiveness as a major area of focus for its activities.

Both SADC and EAC/EABC have undertaken a number of policy measures and lobby initiatives that have contributed to lowering the costs of doing business, hence to enhance competitiveness and economic growth in both regions. Donor funding impact for both SADC and EAC had a positive impact on organisations and their output in terms of business climate improvement.

Lessons learnt:

- Policy making at regional level is an important entry point for governance reform and economic liberalization in times of globalization especially for Africa
- Regional Institutions such as SADC or EAC do not have the institutional strength to enforce policy reform (no executive powers). Regional Institutions are facilitators in a reform process
- Regional Institutions, if they do have the capacity, can play an important role in political agenda setting.
- Pressure from outside through WTO, EPA negotiations, time schedules from protocol implementation are pushing RECs being the driver in reform processes
- Through regional benchmarking they can leverage policy reforms at the regional level.
- Regional Institutions should seek an active partnership with the private sector to back reform
- The support of business associations at the regional level is a cost-effective way of involving representative groups of stakeholders
- Business associations can be an effective and independent watchdog of governance in member states
1. The SADC Secretariat

1.1 SADC secretariat as catalyst for business environment reform in Southern Africa

The Southern African Development Community (SADC), representing 14 Member States, has a variety of policies in place to promote regional economic integration and to enhance the BIC amongst member states, to increase competition, to stimulate savings, to achieve higher growth rates and an increase in the percentage share of SADC trade in the world market. The motivation and outline of these policies is laid out in the Regional Indicative Strategic Development Plan (RISDP), a 15 year plan approved in 2003, while specific commitments are laid out in various protocols. For instance, the SADC Trade Protocol, which is legally binding on member states, sets out the commitment to a Free Trade Area and a Customs Union. The Finance and Investment Protocol (FIP), agreed in 2006, includes a range of commitments to co-operate and harmonize policies in the areas of finance, regional capital and financial market development, investment, taxation and macroeconomic policies. Both protocols together constitute a cornerstone of regional integration aiming for the SADC targets of establishing a Free Trade area by 2008, a Customs Union by 2010, a Common Market by 2015, and a the establishment of a SADC Monetary Union, with a SADC Central Bank by 2016 and a regional currency by 2018. One is aware of the fact that economic instability in one or more countries in the region, as it has been the case historically, has negative economic effects both on the countries themselves and the region more broadly through spillover effects.

1.2 The implementation of the Protocol of Finance and Investment

SADC is facilitating the implementation of the FIP. The outcome will be a favorable regional enabling environment for increasing investment, trade and private sector development. Indicators for this are for example modernized and deeper capital markets, a transparent and harmonized SADC investment policy regime, macroeconomic convergence, harmonized tax systems and a one stop shop for investment. (For impact chain see Annex 2). To achieve the targets of regional economic integration a lot of different policy bodies and technical committees were established. Only with respect to the Protocol on Finance and Investment there are:

- Technical Committees reporting to Minister of Finance to oversee the process
  - Committee of Senior Treasury Officials (CSTO)
  - Committee of Central Bank Governors (CCBG)
- Subcommittees: Investment, Macro economic convergence, Tax
- Working Groups: Exchange controls, Information technology, Legal framework, Payment clearance and settlement systems
- Other Committees to cover specific areas
  - Committee of SADC Stock Exchanges – COSSE (CCBG)
  - Committee of Insurance and Non-banking Associations –CISNA (STO)
  - Banking Supervision (CCBG)

In addition several Memorandums of Understanding are endorsed for example with the aim of Macroeconomic convergence, harmonizing the investment regimes or harmonizing the tax regimes (full list of MoUs see Annex 1).

The progress in these Technical Committees is up to now very slow. This is mainly due to political sensitivities and lacking political commitment on national level in these areas, but also
due to the lack of a functional and independent secretariat and lack of adequate budgeting and human resources in the SADC Secretariat. Also the co-existence of so many committees leads to overlapping and gaps of in specific areas. The respective Sub-Committees are mainly constituted of stakeholders from the government institutions within SADC member states and depend on impulse from the SADC Secretariat. The private sector, which is playing a key role in regional economic integration issues, is not adequate represented although he should be present in most of the Technical Committees.

Channels of interaction between the SADC Secretariat and the SADC Private Sector are supposed to be as shown in Figure 2:

Figure 2: Channels of interaction between the SADC Secretariat and the SADC Private Sector (SBF – SADC Business Forum; RBO – Regional Business Organization; ES – Executive Secretary, DES Deputy Executive Secretary)

Up to now there is no Memorandum of Understanding signed with the SADC Business Forum (SBF) and therefore the SBF is not a legal representative of the private sector. The one voice of the private sector is so far missing. This is seen as the excuse for the Secretariat not to deal efficient with the private sector although few Annexes of the FIP demand the existence of a public private dialogue and the involvement of the private sector. The general interests of the private sector concerning regional items are communicated through the GTZ/ ASCCI (Association of SADC Chambers and Commerce and Industries) Regional Business Climate Survey, coming up yearly since 2003. While the results of the survey are well discussed on private sector side and on national level there is need to bring in the results of the survey in discussions on the Secretariats side.

1.3 The role of SADC Secretariat as facilitator for improving the Business and Investment climate
The SADC Secretariat features several sector specific Directorates and Units. Mainly the directorate for Trade, Industry, Finance and Investment (TIFI) has the task to facilitate the implementation of the Protocol on Trade and of the FIP. This contents an advisory as well as an organizational role.

In respect to the advisory role SADC/TIFI is for example seen:
1. in strategic guidance an expertise on integration issues and the improvement of the business and investment climate
2. drafting policy papers on different topics (e.g. harmonizing policies) which will be brought into several summit and committee meetings.
3. in developing road maps for the implementation agenda
4. in conducting studies analyzing the impact of the implementation of the protocols
5. in advising member states in implementing their regional policies etc.

In respect to the organizational role SADC/TIFI is for example seen:
1. in providing coordination services
2. in drafting the agenda and to organize the different meetings
3. in planning and budgeting the different activities of the road maps
4. in identifying the different stakeholders (public, private, civil society) and act as facilitator in a multi-stakeholder dialogue.

SADC Secretariat has no mandate to implement protocols or agenda items which haven’t been signed or approved by the SADC summit, but SADC Secretariat has key role in influencing the integration process as regards content. But for its influence in improving the BIC, SADC/TIFI is yet not adequate equipped budget wise as well as staff wise. Lack of funding (the SADC Secretariat is to a large extent donor funded), high staff fluctuation and staff with rather different professional backgrounds and expertise than needed are the reality to face. There is low ownership and visibility of the SADC agenda with key stakeholders on national level. Even if national contact points are formal existent, they are mostly not functioning. To some extent SADC also underestimates what it takes to turn intentions into actions.

Despite all these challenges SADC Secretariat is on the right track to handle these challenges. A recent restructuring process has started. Provision has been made to expedite the recruitment process in the SADC priority area economic integration and 12 new positions have been recruited within TIFI in the last weeks. Further positions are being budgeted as well as additional resources were allocated to TIFI which boosts its capacities to become a proactive driver of regional economic integration in the future.

1.4 Recent steps to implement the FIP and to achieve reforms improving the business environment

The SADC Protocol on Finance and Investment was signed by the member states in August 2006. This led to bustling activities in this area. Mainly the annexes of macroeconomic convergence and investment as well as the development of the Project Preparation and Development Fund (PPDF) were supported by the German side.

Macroeconomic stability in the region is seen as key to a good investment climate. In respect to macroeconomic convergence “National macroeconomic convergence reports” detailing their progress towards the agreed targets and related policy issues, were conducted and published on the SADC website as well as on national websites of member states. The findings were discussed
at the macroeconomic sub committee meeting and presented to the ministers of Finance and Investment. The data collected in preparing the studies are edited and provided to the macroeconomic monitoring surveillance and performance unit and the SADC Peer Review Mechanism, which hopefully will start operating beginning of 2008.

Macroeconomic performance of most SADC Countries has improved markedly in recent years. Even if most Member States will achieve the convergence criteria for the first period till 2008, it came up that member countries have to revise their macroeconomic policies to fulfil the relatively strict targets by 2012 and 2016. This includes improved policy formulation and implementation, structural and institutional reforms, greater trade openness, improved trade performance as well as debt relief. Other impacts of the reports were (a) the discussion to review the SADC macroeconomic convergence targets by the end of 2007. (b) need of a more formalised mechanism for the reporting of performance data and for a peer review mechanism (c) need for linking the improved growth rate to a rapid poverty reduction in the region, (d) to improve the domestic revenue generation capacity and (e) thereby reduce donor dependence and vulnerability to changes in aid flows.

Improving the BIC in the SADC region is literally target of the investment sub-committee action plan. The Plan of Action for the Investment Sub-Committee prepared by the Secretariat with support from the GTZ project details activities in three areas of intervention namely: Investment policies, SADC Investment Promotion Agencies (IPAs) and Investment Promotion.

The investment sub-committee, in the area of investment policies, agreed on their meeting on 30 – 31 January 2007 on the following issues:

- Investment policies harmonized;
- Common principles for IPPA platform developed;
- Private sector including SMMEs made aware of the FIP;
- Public private dialog on regional level established and facilitated;
- Framework for PPP on investment developed and implanted;
- Regional investment climate surveys completed;
- Inputs to inform the development of SADC regional competition policy provided;
- Inputs to inform the development of the SADC industry policy and strategy provided;
- Develop a declaration by the Ministers responsible on the promotion of natural resources for investment in a sustainable and environmentally friendly manner including health and safety measures.
- A Comprehensive capacity building program is designed and implemented focusing on investor targeting, policy advocacy, investor aftercare, investor monitoring.

Box 1: Action plan of the investment sub-committee, in the area of investment policies

The Regional Business Climate Survey from the former GTZ ASPB-Project as an instrument for public private dialogue was finally brought into discussion on Secretariats level. A concept note on Public Private Dialogue (PPD) was written and discussed, stakeholders in the private as well as the public sector were identified, capacity building activities and strategic discussions in the area of Public Private Dialogue has been started and will be continued. A FIP implementation workshop involving all stakeholders (all sub-committees and private sector) with the aim to make the private sector aware of the impact of the FIP will be held end of November 2007. A communication strategy for the launch of the FIP in August 2008 taking into consideration the different stakeholders was mapped out.
1.5 Strengthening the Capacity

Due to the fact that SADC Secretariat is lacking capacity to be a proactive player, GTZ interventions aim at strengthening the Secretariat, especially TIFI, in performing its role by conducting capacity building activities such as the introduction and internalization of an SADC management cycle (planning, budgeting, monitoring and reporting) as well as the provision of strategic advice regarding economic integration issues. Strengthening the capacity at the secretariat is key at a time when things start moving and external pressure gets high. The implementation of the protocols but also the EPA negotiations under strict time constraints are challenging for the Secretariat.

Beside activities in supporting the Management circle one intervention aims at developing Toolkits for TIFI which provide the Directorate with useful and user-friendly tools for marketing and communicating TIFI and its activities. Main aim of the toolkit exercise is to create the missing space for strategic discussions about the impact of the Directorate’s activities with regard to the SADC economic integration agenda. Not only does this lead to a better understanding among the staff about how to approach policy makers and suggest certain reforms for a better business and investment climate, but it also results in the identification of indicators for an impact monitoring system. The introduction of the TIFI Toolkit concept was very successful. An impact monitoring system has been finalized, impact chains for TIFI’s five Units and their activities on aggregate level have been developed and there is a better understanding among staff how their activities lead to improved coordination services and policy recommendations at Member State level, and how they, ultimately, contribute to poverty reduction in the SADC region. This change of self-conception led to a qualitative improvement of the interaction of TIFI staff with various technical and political Committees on Member State level, as TIFI takes a more strategic and impact-oriented approach towards servicing meetings of the Committees.

Experience in case of the Macroeconomic Sub-Committee

The impact-oriented approach through the toolkit has helped TIFI to understand how to strategically use the National macroeconomic convergence reports”, rather than feeling to have reached the objective by merely ensuring their existence: The finalized studies will now feed into the SADC macroeconomic Monitoring, Surveillance and Performance Unit (MSPU), which forms the basis for the Member States’ peer review mechanism for macroeconomic convergence. The MSPU is also the custodian for quantitative data held in a macroeconomic database, which is being fed through the studies and annual updates. All this leads to sustainability of the efforts.

Box 2: Toolkit - Experience in case of the Macroeconomic Sub-Committee

What is the GTZ/GFA Program “SADC Governance & Reform Program: Strengthening of the SADC Secretariat” doing in the area of improving the BIC?

- Defining the role of TIFI Directorate as a facilitator. The program helps to identify and to strengthen the role of the TIFI Directorate as facilitator and coordinator of the RISDP targets concerning economic integration
- The program is actively supporting TIFI in preparing technical committee meetings, elaborating working plans for the different sub committee meetings like for example the investment subcommittee action plan. This plan details impact oriented activities in three areas of intervention namely Investment Policies, Investment Promotion Agencies and Investment Promotion
- The program supports in establishing a dialogue with private sector representatives on different levels: A PPD between the public sector (member states) and the private sector and between SADC Secretariat (facilitator) and the private sector. Therefore the Program is using the GTZ/ ASCCI Regional Business Climate Survey, but is also directly in contact with the private sector associations and forums
The program carried out Macroeconomic Convergence studies in all the SADC member countries and brought in the results (harmonize policies, best practices to achieve macroeconomic stability) in discussions on political (ministers of trade and finance) and private sector level as well as into a PPD.

- The program is active in establishing a database (macroeconomic data, trade data) to better evaluate the reform processes.
- The program is actively involved in establishing an impact oriented Monitoring and Evaluation System.
- The program supported the Mid Term Review of the trade protocol as a Monitoring Mechanism.
- The program is involved in the FTA Communication strategy.

Box 3: GTZ Support

2. Private Sector Associations in East Africa

2.1. Regional Integration in East Africa - what is at stake for the private sector?

Historically East African countries have a common cultural heritage (Swahili Culture). In the colonial era East Africa already was set up as an Economic & Monetary Union. In the 70es initiatives to consolidate regional integration ended in a break up due to conflicting political agendas and divergent economic policies. The EAC was revived in 1997 and an ambitious agenda for regional integration has been set (see Table 1: Milestones in Regional Integration). Business Climate Index Surveys carried out in 2005 and 2006 have shown that the business community in East Africa is generally very much interested in speeding up of the regional integration process. As of today many businesses have made cross-border investments in neighboring the EAC member states to reap the benefits of an enlarged market. EAC gives businesses access to an enlarged domestic market (incl. Burundi and Rwanda) with over 116 million people, GDP of US$31.1 billion and an area of 1.820 sq. km as earlier stated. Most corporate members of EABC already have vested interests in at least two other member states. A number of issues, such as the harmonization of tax laws and the free flow of labor, goods and services are perceived as vital for business development.

While the private sector is generally very supportive of regional integration there are also some vested sectoral and national interests that are driven by corporations or national level associations. In the short and medium term the opening of the borders will result in increased competition and consequently crowding out of companies with poor quality, overpriced products and services or low skill base. One example is the tourism industry, where services standards are higher in Kenya due to its superior skill base. Obviously regional integration will result in higher productivity in the long run. As a consequence the private sector is sometimes split between defending protectionist national policies and the support of regional integration.

The introduction of the customs Union has generally been hailed by the private sector. However lobbying of the EABC is often undermined by lobbying of industrial groups in the EAC member states. As a result of the introduction of the Customs Union in 2005 regional trade has substantially grown. However, there are still some disputes, e.g. on the tariff-classification of raw materials versus intermediate products the latter attracting a higher tariff rate. Some products that have been classified as intermediate products by the EAC. Ugandan Manufacturers actively lobby
to categorize them as raw materials since they are being used as inputs. The interest of industry protection runs counter to the interest of strengthening value addition in East Africa. Obviously Ugandan manufacturers prefer to source inputs on the world market rather than buying Kenyan products that are perceived as overpriced and of inferior quality. At the same time Tanzania has been enforcing exemptions for the import of fabrics for the ailing domestic textile industry, an issue perceived to an overriding national interest. EABC has been instrumental in mediating some of these conflicts across borders between sectors.

### 2.2. Management support for making Business associations sustainable - the case of EABC and EAFF

The component of the GTZ-EAC program “Support of the EAC integration process” aims at developing the role of the private sector as a driving force for regional development and competitiveness in East Africa. The project has been established under a cooperation agreement between the East African Community (EAC) and the Federal Republic of Germany. At present, support is focused on the East African Business Council (EABC), based in Arusha, Tanzania. The overall project objective is to increase EABC’s and other regional business associations’ lobbying and policy dialogue capabilities.

EABC represents national associations, such as Employer & Manufacturers associations and Chambers of Commerce in Kenya, Tanzania and Uganda. Currently, EABC has a membership of 20 associations and 45 corporations operating in East Africa.

The program component also cooperates with the East African Farmers Federation. EAFF is the apex organization of national farmers’ organizations of Kenya, Uganda, Tanzania, Rwanda, Burundi and Congo. Its role is to voice the interests of farmers of the region so as to improve their social-economic status, as well as to promote regional integration of the farmers.

The precursor project (SRBO-EA) started in June 2003. The project assisted EABC and EAFF in expanding its activities ([see Annex No. 3 Highlights & Achievements](#)).

### 2.3. Marketing business reform in the region: bottom up and top down approaches

Successful lobbying for business reforms should be based on four pillars (Table 2):

<table>
<thead>
<tr>
<th>PILLAR</th>
<th>WHY</th>
<th>GO FOR…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder Needs</td>
<td>Bottlenecks as perceived by business</td>
<td>Resolve conflicting interests first</td>
</tr>
<tr>
<td>Evidence</td>
<td>Governments want evidence</td>
<td>facts &amp; figures are needed</td>
</tr>
<tr>
<td>Benchmarks</td>
<td>How does our own country perform against nation/region XYZ?</td>
<td>Pick the “best in class”, not the average</td>
</tr>
<tr>
<td>Campaign Work &amp; Policy Action</td>
<td>Surveys &amp; Policy Dialogue will not change the world - action on the ground is needed</td>
<td>Aim at policy changes</td>
</tr>
</tbody>
</table>

Table 2
2.4. From research to governance & policy reform – The Non-Tariff Barriers (NTB) Monitoring mechanism in East Africa

The Business Climate Index survey was not conceived as a stand-alone activity. It is embedded in a cycle from data collection, to launch events and policy action through the Non Tariff Barriers Monitoring Mechanism (see Annex 4).

(1) Surveys as starting point

Solid data are needed to make a case for changing policies. Relevant stakeholders need to be involved in surveys to establish the facts and to build up support. Successful lobbying for business reforms needs to be based on evidence and benchmarks. In a regional integration setting it is important to benchmarks member states against each other. It is vital to find out information on performance in different areas and to compare them, e.g. border crossing time, levels of corruption etc. (see Annex 5 - Overview Results BCI 2006).

The other focus is on getting media attention in the process. Surveys should be made public (“launched”) grand-style, in colourful events involving Ministers, leaders of business associations and the media. The launch events are a beautiful occasion to spark off debates on public sector performance credibility of policy change and private sector role (e.g. in corruption). Again, credibility of the data is key to acceptance by policymakers. The survey should cover a representative sample of the relevant stakeholders (e.g., by size, by sector, by country, respondents at senior level only, etc.). The survey data should allow cross-comparisons. The address data should be kept for publicity and marketing purposes in the follow-up phase.

(2) Policy action as follow up

Careful strategic planning is required to engage policymakers, the private sector and the media in a continuous policy dialogue after the launch. While the survey is needed to gear up the process the momentum can only be kept through policy action on the ground.

First of all the address data should be kept for publicity and marketing purposes in the follow-up phase. Survey respondents need to receive information on launch events and follow up action. For business associations this is the critical moment to approach survey respondents for membership.

Secondly business associations need to drive the changes that are needed to While ministers are quick to proclaim the need for reform in public events it is important to get the commitment of government bureaucrats to enact policy changes in the follow up phase.

(3) Example EABC - NTB’s

EABC has opened a public debate on Non-Tariff Barriers (NTBs) in trans-border trade in a critical moment of the start of Customs Union. On the one hand internal tariffs among the member states were brought down. On the other hand member states did not remove existing NTB’s and even introduced new ones, sometimes seen as “Nationalistic Compensation measures”.

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1 NTBs are defined as “quantitative restrictions and specific limitations that act as obstacles to trade”; they appear in the form of rules, regulations and laws that have a negative impact to trade
The first Business Climate Index Survey has been carried out in 2005, the second in 2006. The second survey involved 504 respondents, broken down into 451 businesses and 53 government agencies (MDAs). The survey focused on two major areas, namely the impact of NTBs and other business climate factors. On NTBs, the survey sought respondents perceptions on six trade-related clusters namely, Customs procedures, Immigration and work permits, Business registration and licensing, Police roadblocks, Weighbridge stations, and Quality standards and export certification.

While the first part of the survey dealt with evidence on problems related to border-crossing the second part focused on perceptions with respect to general business climate such as profitability, infrastructure, access to land etc. Since investment is determined by predictions of the business environment it was important to capture the expectations of business people. This part of the survey also was directed at the media. Perceptions on whether the business environment of a country has improved or not, resp. whether it is expected to improve in the near future is considered as interesting news story by the media. In this context it was important to benchmark countries against each other. The BCI is presented to the public annually through launch events in the three capitals. These events are the right forum to initiate a policy dialogue between politicians and the business community in the presence of the media. The launch events for the chance for quick gains. For example the presentation of the 2006/7 BCI in Kenya highlighted long waiting times at weighbridge stations (see table). It became apparent that Kenya has much longer waiting times than in the neighboring EAC member states. Within a week transporters witnessed that waiting time at a major traffic point was back to normal.

**NTB Monitoring Mechanism**

The NTB Monitoring Mechanism was developed as a joint initiative of the East African Business Council and the East African Community Secretariats. Its objective is to facilitate the process of identifying, reporting and monitoring the elimination of current and future NTBs within the EAC Partner States based on the Business Climate Index Surveys. It was developed through wide consultations with the policy makers, heads of agencies responsible for enforcing trade related requirements, business associations, clearing and forwarding associations and representatives of key businesses that have substantial activities within EAC countries (see Annex 6 - How the mechanism works).

**Example EAFF Sensitization Campaign: bottom up reform approach**

The cooperation with EAFF is given as an example for a cost-effective bottom-up mobilization of stakeholders. In a situation of stakeholders, such as farmers with a low educational background and lack of access to electronic media alternatives to formal surveys need to be taken into consideration. It is more useful to organise meetings in selected geographical areas through local business associations to sensitize stakeholders on problems and to enter into a dialogue on required policy action. The sensitization approach should have the following elements:

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>EXPECTED OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dialogue between high level government officials, local government and local business</td>
<td>Document perception of high level government vs. local leaders</td>
</tr>
<tr>
<td>association</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-----------------------------------------------------------------</td>
</tr>
<tr>
<td>Collect feedback on business environment</td>
<td>Document bottlenecks as perceived by stakeholders</td>
</tr>
<tr>
<td>Synthesize information from local level and channel back to national level</td>
<td>Document key issues</td>
</tr>
<tr>
<td>Training of trainings</td>
<td>Representative coverage of sensitization at national/regional scale</td>
</tr>
<tr>
<td>Action planning &amp; implementation</td>
<td>Enforce policy changes (easy wins/ longer term action)</td>
</tr>
</tbody>
</table>

**Box 6: EAFF Sensitization Approach**

EAFF carried out a sensitization campaign in six districts across East Africa to brief farmers on EAC and identify priority lobbying issues from the grassroots level. As a follow up, EAFF now implements a lobby strategy to liberalize cross-border trade in agricultural commodities for small holder farmers (see Annex 7 – Objectives).

**3. Conclusion and Lessons learnt: Driving enabling environment reform processes at the regional level: how can the private and the public sector be supported in an effective way?**

The examples have shown that regional institutions can effectively leverage business climate reforms. While in SADC the process is more driven by the public sector in EAC the private sector is the dominant player. There is no question that reforms require active contributions of both REC’s and regional business associations.

The business environment, including the regulations governing the activities of private sector enterprises, and laws relating to company operations and investment, is a key area of government decision-making affecting the private sector. The Business Climate Index surveys done in both regions have shown that regulatory issues and their impact on business are not fully recognized by governments. Public-private sector dialogue can help to improve government understanding of business needs, and thereby contribute to effective regulations and procedures.

Strategic lobbying through business associations at the regional level entails research and benchmarking as well as management of policy reform issues through lobby campaigns and through policy dialogue with organs of regional organizations. EABC and SADC have succeeded to identify critical issues and have embarked on joint action plans like the Non Tariff Barriers Monitoring Mechanism.

Policy reforms can be leveraged at the regional level. In macroeconomic policy formulation for example, regional integration should promote economic policy linkages between the member countries and assist in the development of regional benchmarks for economic and governance performance. Similarly, in relation to development expenditure, the pooling of donor funds and the streamlining of member governments’ support for key initiatives represents the opportunity to pursue larger projects and to realize administrative economies of scale.
Lessons learnt:

- Policy making at regional level is an important entry point for Governance Reform and Economic Liberalization in times of globalization especially for Africa
- Regional Institutions such as SADC or EAC do not have the institutional strength to enforce policy reform (no executive powers). Regional Organizations are facilitators in a reform process
- Regional Institutions, if they do have the capacity, can play an important role in political agenda setting.
- Pressure from outside through WTO, EPA negotiations, time schedules from protocol implementation are pushing Regional Institutions being the driver in reform processes
- Through regional benchmarking they can leverage policy reforms at the regional level.
- Regional Institutions should seek an active partnership with the private sector to back reform
- The support of business associations at the regional level is a cost-effective way of involving representative groups of stakeholders
- Business associations can be an effective and independent watchdog of governance in member states
## Annex 1:

### Memorandums of Understanding under the SADC Finance and Investment Protocol

<table>
<thead>
<tr>
<th>MOU</th>
<th>Committee</th>
<th>Key Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>MACRO CONVERGENCE</td>
<td>Macroeconomic</td>
<td>Macro stability and convergence</td>
</tr>
<tr>
<td></td>
<td>Sub-Committee</td>
<td></td>
</tr>
<tr>
<td>DEVELOPMENT FINANCE</td>
<td>DFI Sub-Committee</td>
<td>Co-operation between SADC DFI's</td>
</tr>
<tr>
<td>INVESTMENT</td>
<td>Investment Sub-Committee</td>
<td>Harmonize SADC investment regimes</td>
</tr>
<tr>
<td>TAXATION</td>
<td>Taxation Sub-Committee</td>
<td>Harmonize SADC tax regimes</td>
</tr>
<tr>
<td>INSURANCE &amp; NON BANKING</td>
<td>CISNA</td>
<td>Regulators to co-operate &amp; harmonise</td>
</tr>
<tr>
<td>STOCK EXCHANGE</td>
<td>COSSE</td>
<td>Integrated SADC securities market</td>
</tr>
<tr>
<td>EXCHANGE CONTROLS</td>
<td>CCBG</td>
<td>Co-ordinate exchange control policies</td>
</tr>
<tr>
<td>ICT</td>
<td>CCBG</td>
<td>Co-ordinate ICT solutions for central banks</td>
</tr>
<tr>
<td>LEGAL FRAMEWORKS</td>
<td>CCBG</td>
<td>Harmonize central bank legal regimes</td>
</tr>
<tr>
<td>PAYMENT SYSTEMS</td>
<td>CCBG</td>
<td>Convergence of payment systems</td>
</tr>
<tr>
<td>BANKING SUPERVISION</td>
<td>CCBG</td>
<td>Co-operation in banking supervision</td>
</tr>
<tr>
<td>ANTI-MONEY LAUNDERING</td>
<td>SADC/CSTO</td>
<td>Anti-money laundering in SADC</td>
</tr>
<tr>
<td>PROJECT PREPARATION AND</td>
<td>SADC/CSTO</td>
<td>Identify and fund SADC development projects</td>
</tr>
<tr>
<td>DEVELOPMENT FUND</td>
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</table>

## Annex 2:

### Impact Chain SADC facilitates the implementation of the Finance and Investment Protocol
Impact Chain: TIFI facilitates the implementation of the FIP

Highly aggregate

Impact / Indirect benefits

Attribution Gap

Outcomes / Direct benefity

Use of Output

Outcome

Input / Activities

Core Problem

Poverty reduction
Economic growth

Increasing trade and investment
Increasing job opportunities

A favourable regional (regulatory) enabling environment for increasing, investment, trade and private sector development:
Modernised and deeper capital markets, transparent and harmonised SADC investment policy regime, decrease in cost of capital, accesses to development finance improved, liberalised current and capital accounts, macroeconomic convergence. Tax systems harmonised E.G. Single digit inflation rate, currency convertibility, standard SADC VAT system, one-stop shop for investment

Member States (in Committee of Ministers of Finance and Sub-Committees, CCBG and Sub-Committees) agree on policy measures to implement the FIP:
Harmonisation of investment policies, harmonisation of tax policies and modernisation of tax administrations, harmonisation of macroeconomic policies including convergence of macroeconomic indicators, modernisation and harmonisation of payments clearing and settlement systems, reform of banking and of non-banking financial institutions including supervision and regulation, increasing cooperation between DFIs, modernisation and harmonisation of stock exchanges, harmonisation of Central Bank legal and operation frameworks, E.g.: Interconnection of Payment and Clearing System by 2008, SADC Central Bank established, current account liberalised in MS by 2008 and Tax Treaty network in place

Member States are informed about bottlenecks to regional investment, capital market development (also for development finance) and macroeconomic convergence including tax harmonisation,
Concepts to overcome these are being presented to Member States,
Policy recommendations to Member States are formulated
E.G. SADC Policy on PPP developed and tabled for negotiation, Tax guidelines and Fiscal framework developed by 2008,

TIFI facilitates FIP implementation process by:
Servicing MoF Committee and Sub-Committees: Organisation of meetings (logistics and content)

Coordination

Servicing CCBG and Sub-Committees

Facilitate assessment of bottlenecks to regional investment; capital market development; development finance; and macroeconomic convergence including tax harmonisation.
Facilitate development of concepts to overcome these bottlenecks.
Facilitate formulation of policy recommendations.

Stakeholder workshops and dialogue fora

Current legal, political, institutional and technical framework conditions (may constitute) present bottlenecks to regional investment and capital market development. Divergence in macroeconomic policies leading to negative spillover effects.
ANNEX 3

Programme Activities – Highlights & Achievements

- EABC membership has doubled within 1.5 years; all major associations and corporations operating in East Africa have joined
- Income of EABC has tripled
- A database containing 1400 addresses of business executives was created and is utilized for regular electronic mailings
- EABC organised working groups on Customs Union, non-tariff barriers and labour & employment
- “Top level lobbying”: EABC was able to obtain an audience with the Kenyan president H.E Mwai Kibaki and presented a “Business Manifest” containing demands for an improvement of the business climate in East Africa (see picture on page 1)
- The project conducted a survey on Non-Tariff-Barriers and the Business Climate in east Africa involving 500 companies and 100 government agencies
- A road show in 13 cities has been initiated to inform the private sector on the Customs Union and the new Customs law; more than 1500 business people participated in these meetings so far.
- EABC has instituted an annual business leaders forum on business reform and competitiveness issues
- EAFF carried out a sensitization campaign for farmers on the EAC Regional Integration process and on the Customs Union, in six districts (two in each member state). 1500 farmers, agricultural traders and other agricultural stakeholders participated in the sensitization workshops.
- EAFF whose headquarters is in Nairobi, opened an office, managed by EAFF’s Policy and Advocacy Officer in Arusha to facilitate closer cooperation with EAC.
- GTZ supported the first East African Farmer Congress with over 500 participants

Annex 4: Business Climate Index Survey process
### Annex 5: Overview Results BCI 2006

#### Overview Non-Tariff Barriers (NTB’s) - Business

<table>
<thead>
<tr>
<th>NTB Factors</th>
<th>Uganda</th>
<th>Tanzania</th>
<th>Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty/Taxes</td>
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<td>Corruption</td>
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<td>Licensing</td>
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<td>Police Checks</td>
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<td>Transiting</td>
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<td>Immigration</td>
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<td>Customs</td>
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#### NTB Index (Severity of NTB’s)
Annex 6: How the mechanism works

HOW THE MECHANISM WORKS

- Companies record NTB experienced in cross-border crossing on Monitoring Form
- Form is sent to relevant Line Ministry/ government agency indicated in form with copy to national level Business association/ chamber of commerce
- If no satisfactory solution is given by the line ministry or agency within one calendar month from the date the NTB is reported, the associations/ chambers of commerce will refer the cases to National Monitoring Committee (NMC) and EAC secretariat for monitoring and policy action
- NMCs meets annually to share experiences on the NTBs eliminations process
- EAC Secretariat receives quarterly progress reports from NMCs on resolved or unresolved cases through the EAC Director of Trade.
- EAC Council of Ministers receives quarterly progress reports on NTBs for information purposes and give further guidance on unresolved cases. For any cases that cannot be resolved by the Council, they will be referred to the EAC Trade Remedies Committee, which has the overall mandate on trade disputes resolution and whose decision is final as specified under Article 24 of the EAC Customs Union Protocol
- EABC disseminates information on the NTBs elimination progress and undertakes annual Business Climate Index (BCI) to check on progress
Annex 7: Objectives of the sensitization campaign

1. To improve farmers’ understanding of the East African Customs Union.
2. To create awareness among farmers about the opportunities created by the Customs Union.
3. To introduce to the participants the new EA Agricultural and Rural Development policy.
4. To enable participants know more about EAFF and the role it plays as the voice of the farmers in Eastern Africa.
5. To get feedback on farmers views on regional integration and the perceived challenges of regional agricultural trade.

Box 7: Objectives of the sensitization campaign

Annex 8

References

Kurz, S, Ruf Y. (2007), “Introducing Toolkits to Empower the Intermediary for Monitoring and Improving the Business and Investment Climate”, International Finance Corporation, Smart Lessons in Advisory Services,